

I should state here that in arriving at these results it has been assumed that retirement is compulsory at age 65 only, and that on the earlier attainment of forty years' service it is merely optional to the employee. This system has latterly been departed from to the extent of compelling a considerable number of retirements at the end of forty years' service irrespective of age. If this marks a permanent change in policy, a very considerable addition to the liabilities will have to be allowed for.

ASCERTAINMENT OF STATE SUBSIDY.

9. But the Act does not provide that the subsidy should be determined from the foregoing actuarial ascertainment. Instead, it goes on to say that the Actuary's report should show "the probable annual sums required by the fund to provide the retiring and other allowances falling due in the ensuing three years without affecting or having recourse to the actuarial reserves appertaining to the contributors' contributions." This is taken to mean that the Actuary should indicate what portion of the ensuing three-years outgo is not provided for by the actuarial accumulations; and by inference this is to constitute the amount of the State subsidy. I proceed to comply with the directions of the Act, and to make the required estimate accordingly.

The estimated pensions falling due during the financial years 1924-25, 1925-26, and 1926-27, the portions provided by the contributions, and the portions to be paid by subsidies, are as follows:—

	1924-25.	1925-26.	1926-27.
	£	£	£
Estimated pensions	262,799	267,423	274,490
Deduct amount provided by contributions ..	70,747	75,006	80,333
Amount due to be paid by the State in respect of the three years mentioned (but see also next paragraph)	<u>£192,052</u>	<u>£192,417</u>	<u>£194,157</u>

10. The above figures give an average subsidy requirement of £193,000 per annum for each of the above years. In addition to this amount, however, the State will require to make provision for redeeming the arrears detailed in Table X appended. As will be seen from this table, these arrears (up to the 31st March, 1925) accumulated with interest at 4 per cent. to the 30th June, 1926, amount to £528,588, and I consider that at least £27,000 per annum will require to be added to the future subsidies on this account. To this must be added a further sum of, say, £12,000 per annum in respect of unexpected forced retirements in the past not provided for in the Actuary's past estimates of outgo. If the same policy regarding retirements is to be maintained during the next three years a still further sum should be added on this score. The State should also refund year by year the amount spent out of the Superannuation Fund in staff salaries and office expenses: this clearly cannot be properly charged against a fund which is in itself insufficient (without the help of a subsidy) to carry out its engagements in the way of pensions, &c.

I accordingly have to report that according to the system laid down in the Act the minimum annual subsidy required for the three financial years 1924-25, 1925-26, and 1926-27 is £232,000 per annum, plus the annual appropriation for staff salaries and other office expenditure. This sum has been calculated on the assumption that each year's subsidy will be paid during the year it falls due, so that in the event of the payments not being made on the due date it will be necessary to add interest at 4 per cent. to the date of payment. A further sum should be added on account of the additional liabilities falling upon the fund by reason of section 29 of the Finance Act, 1925, which provides for the inclusion of house allowance, &c., as salary for superannuation purposes. It is not practicable to estimate this at the present time in the absence of complete data. These additional liabilities have not been taken into account in making the valuation.

REMARKS UPON METHOD OF ARRIVING AT STATE SUBSIDY.

11. As indicated in the preceding paragraph, the Act appears to lay down a certain method of arriving at the State's subsidy, the principle being that while members contribute upon the basis of paying their share of the liabilities as they are incurred, the State pays only as they mature. That is to say, the State subsidy is based on the principle of deferring payment to the last possible moment, and in the past the State has even lagged behind this low standard.

I have sufficiently indicated that, apart from any addition to the liabilities due to possible continuance of a policy of compulsory retirements at the end of forty years' service, and without reckoning the additional liabilities due to the inclusion of house allowance, &c., the State's liability in respect of present members is (at 4 per cent.) equal to a subsidy of £221,367 per annum in perpetuity (see paragraph 8). The subsidy for the next three years ascertained under the directions of the Act is £232,000. As the Act aims at extinguishing the liability for present members during their life-times, the subsidy thereunder will clearly have to amount to a higher figure than £232,000 before long, and it is certain that, with the present deliberative method of fixing the subsidy, trouble will constantly arise.

12. In my opinion the subsidy should be placed upon an automatic basis—as, for example, a percentage of the contributions made by the members. In this connection I would recommend as a commencement the figure of 110 per cent. of members' contributions, which would give a subsidy for the year ended 31st March, 1925, of £255,000. The modern tendency in these schemes is to apportion the cost equally between the employer and employees, and the foregoing suggestion virtually proceeds on this basis, with some allowance for arrears on the part of the State. It would amount to about $6\frac{1}{2}$ per cent. of the salaries, a not unreasonable amount to pay.