

the later years of service, and to secure, in the event of death, an annuity to the widow and allowances to each of the children under age 14.

11. The main benefit is a pension based on "final" salary and the number of years' service. This and subsidiary benefits are specifically set out in Table II of the Appendix.

12. Membership in the fund is optional in respect of the existing staff, but compulsory for all new entrants.

13. The cost of the scheme is borne jointly by the employee, the local authority (employer), and the State. The State bears 20 per cent. of the total cost, the employee contributes a percentage of his salary (the amount of such percentage varying with the age at joining the fund), and the local authority makes up the balance. The ratio of the contribution cost to the employer and employee depends on the incidence of the ages at entry into the fund, and consequently may show fluctuation not only between one local authority and another, but also in the same local authority at various stages of its existence. At the valuation date the proportion of the total cost of the benefits borne by the local authorities and their employees was approximately 50 per cent. and 30 per cent. respectively.

14. The scheme is noteworthy in many respects, but two features call for special mention, namely—

(1) The actuarial basis of the scheme: In calculating contributions for final-salary pension schemes it is usual to fix a salary percentage (varying with the entry age) based on an estimated average salary at each age. While this is the most practical way of dealing with the problem in the usual type of scheme, where only the employer and the employee are concerned, difficulties arise when a third party (the State) also contributes to the cost of the scheme without having any voice in the service conditions or in the assessment of the salaries, which are fixed by a number of diverse local authorities and accordingly are hardly likely to be homogeneous. Under the circumstances, it was considered that it would not be sound for the State to speculate upon a salary scale, and it was decided that each contributor, with the assistance of his employer and the State, should pay in on the average for the benefits that he will receive, without any addition to or diminution of the burden of any other contributor. This was effected by basing the contribution for pension on present salary and prospective service to the normal pension age (or prior breakdown), and calculating as they emerge the contributions for the additional pension due to subsequent salary-increases. This method of dealing with the actual instead of the speculative salary-increases involves a series of adjustments at fairly regular intervals, but the additional labour is more than compensated as far as the State is concerned by the increased stability of the scheme.

(2) The period over which the contributions are spread: In view of the intention to include in the scheme all employees irrespective of their attained age and to allow back service to count, it was decided that to make contributions cease at retirement would throw too heavy an initial strain on the State and the local authority in respect of old employees. The liability of the State and the local authority was accordingly spread over the lifetime of the employee, the latter's contribution terminating at retirement.

#### APPROVED-FRIENDLY-SOCIETIES SCHEME.

15. Under the Act approved friendly societies may become contributors to the fund on behalf of any of their members, to secure for them, on attainment of age 60, a weekly pension of 10s., 20s., 30s., or 40s. on special terms.

16. The tables of contributions are set out in Table 1 of the Appendix. The low contributions charged to members are due to (1) the payment into the fund by the friendly society of a sum equivalent to its release from specified sickness benefits after members' attainment of age 60; (2) the increase of the State subsidy under this section to 50 per cent. of the contributions.

17. In addition to the aforementioned subsidy to each section of contributors, the State bears the whole expenses of administration, provides by an annual parliamentary grant a maternity benefit of £6 on the birth of a contributor's child or children (conditional on the parents' joint annual income not exceeding £300), and guarantees the scheme by agreeing to pay into the fund such further amounts as are deemed necessary in accordance with the Actuary's report.

18. The income and outgo during the three years were as follows:—

#### Consolidated Revenue Account of the National Provident Fund from 1st January, 1920, to 31st December, 1922.

| Income.                                 |          |    |    | Outgo.                                            |          |    |    |
|-----------------------------------------|----------|----|----|---------------------------------------------------|----------|----|----|
|                                         | £        | s. | d. |                                                   | £        | s. | d. |
| Amount of fund, 1st January, 1920       | 338,729  | 1  | 2  | Maternity allowances                              | 109,410  | 0  | 0  |
| Contributions                           | 371,491  | 0  | 0  | Retirement                                        | 12,719   | 11 | 6  |
| State subsidy                           | 94,455   | 2  | 3  | Incapacity                                        | 3,445    | 19 | 0  |
| Interest                                | 81,669   | 0  | 10 | Death                                             | 11,866   | 10 | 10 |
| Fines                                   | 2,070    | 1  | 10 | Refund of contributions—                          |          |    |    |
| Refund by State of maternity allowances | 109,410  | 0  | 0  | Withdrawals and lapses                            | 63,638   | 5  | 10 |
| Benefits refunded on exit               | 142      | 13 | 0  | Death                                             | 3,684    | 4  | 4  |
| Contributions overpaid                  | 69       | 6  | 4  | Refund of contributions overpaid on exit          | 70       | 3  | 4  |
|                                         |          |    |    | Refund of contributions unclaimed or<br>impounded | 57       | 12 | 9  |
|                                         |          |    |    | Amount of fund, 31st December, 1922               | 793,143  | 17 | 10 |
|                                         | £998,036 | 5  | 5  |                                                   | £998,036 | 5  | 5  |