

Secondly, contributions of new contributors are paid on the salary received through the whole period of service—that is, practically, on an average-salary basis—whereas pensions are determined by the salary only of the last three years. The correlation, therefore, between the values of contributions and pensions is so low as to be almost non-existent. This is not confined to the Public Service Superannuation Fund, but is common to nearly all pension schemes based on terminal salary, and supplies one of the reasons why an employer's subsidy to such a scheme is an essential. In individual cases large salary-increases during the latter period of service give pensions out of all proportion to contributions, but they are too few in number to be of material moment as regards extra subsidy, and even this could be minimized, if desired, by extending the final period on which pensions are based from three to, say, five or seven years. If, however, through economic inflation or other causes, there is a general increase in the salaries of practically the whole Service, the necessity for a substantial subsidy, particularly in respect of back service, becomes apparent.

The amount of the subsidy required is also dependent on the use made of the option to retire after forty years' service irrespective of age. Many officers join the Service round about age 15, and it must be obvious that it is very costly to cause, or even allow, them to retire on the maximum rate of pension at as early an age as 55 when, in many cases, their ability and experience are of most value to the State. Not only is it one of the objects of a good superannuation scheme to retain men of outstanding ability, but from the financial point of view alone it would be preferable if the employee had no option to retire before age 65, and certainly not before age 60. This, of course, refers only to the employee's option to voluntarily retire, and must not be interpreted as in any way questioning his right to a pension if he were compulsorily retired after forty years' service through no fault of his own. In other words, the State alone should have the power to decide whether a man was to be retired in the interests of efficiency before age 65.

18. The importance of the ascertainment of the state of the fund in the form given in paragraph 15 lies in the fact that the shortage in the fund to be made good by the State—viz., £6,659,770—is equivalent to an annual interest income (at $4\frac{1}{2}$ per cent.) of £299,690. It follows that if any less sum than £299,690 is paid in by the State as subsidy the total deficiency will increase, and the subsidy must accordingly by way of compensation rise later on to a much higher figure than £299,690 per annum in respect of present contributors alone. If, however, any annual amount in excess of £299,690 is paid in, the fund would in respect of present members attain solvency within a definite period of time. It should be clearly understood that this amount of £299,690 is a perpetuity and does not cease with the lifetime of the present members, nor does it include any subsidy to new entrants.

ASCERTAINMENT OF STATE SUBSIDY.

19. The Act, however, does not provide that the subsidy should be determined from the foregoing actuarial ascertainment. It directs the Actuary to show in his report "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." I take this to mean that as the contributions are insufficient to provide the full benefits for service after joining the fund, the principle underlying the section is that the State shall postpone till it emerges the liability for pensions arising out of service before joining the fund, and for such part of the pensions arising out of subsequent service as is not covered by the contributors' contributions.

I estimate the pensions falling due during the financial years 1927–28, 1928–29, and 1929–30, the amounts provided by the contributions, and the subsidies payable on the basis laid down by the Act, to be as follows:—

	1927–28.	1928–29.	1929–30.
	£	£	£
Estimated pensions	330,661	337,788	347,115
Amount provided by contributions	100,823	107,020	114,939
Amount due to be paid by the State in respect of the three years mentioned (but see also next paragraph)	229,838	230,768	232,176

20. The above figures would give for the years 1927–28, 1928–29, and 1929–30 an average subsidy of approximately £231,000 per annum, or £145,000 more per annum than is at present being paid. The following considerations, however, must be taken into account:—

- (a) The actuarial recommendations made in the past in pursuance of the Act have not been fully carried out, the actual payments into the fund to the 31st March, 1927, being short by £804,000 of the amounts recommended. From Table X of the Appendix it will be seen that this shortage, accumulated at $4\frac{1}{2}$ per cent. interest to the end of this year, amounts to £1,060,325, and I consider that at least £50,000 per annum will require to be added to the future subsidies on this account.
- (b) The State subsidy should also provide year by year the amount charged to the Superannuation Fund in administration expenses, less possibly the amount of commission due in connection with investments which might be regarded as a deduction from interest. The payment of expenses from the fund is a definite departure from the original scope of the superannuation scheme, and my interpretation of section 48 (2) of the Act is that expenses amounting to, say, £4,000 per annum should form part of the subsidy.