

26. As regards the first-mentioned source of valuation loss, it is scarcely necessary to point out that if a fund is in deficiency at one valuation, the amount of the deficiency at the succeeding valuation will, in the absence of profit and loss from other sources, increase at compound interest, since, in addition to the shortage in capital, the Fund is deprived of the interest which that capital would have earned during the valuation period.

Reference has been made in previous valuation reports to the serious drain on the Fund due to early retirements from causes other than medical unfitness.

27. The importance of the ascertainment of the state of the Fund in the form given in paragraph 24 lies in the fact that the deficiency to be made good by the State—viz., £6,483,816—is equivalent to an annual interest income (at $4\frac{1}{2}$ per cent.) of £291,772. It follows that if any less annual sum than £291,772 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 £291,772 per annum in respect of present contributors alone. If, however, any annual amount in excess of £291,772 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 £291,772 does not cease with the lifetime of the present members but is a perpetuity. Furthermore, it does not include any subsidy to new entrants.

ASCERTAINMENT OF STATE SUBSIDY.

28. The Act, however, does not provide that the subsidy is to be determined from the foregoing actuarial ascertainment required by section 111 (2). The same section 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 within the ensuing three years without affecting or having recourse to the actuarial reserve appertaining to the contributors’ contributions.” As the contributions are insufficient to provide the full benefits for service after joining the Fund, my interpretation of 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 1934–35, 1935–36, and 1936–37, the amounts provided by the contributions, and the subsidies payable on the basis indicated by the Act, to be as follow :—

	1934–35.	1935–36.	1936–37.
	£	£	£
Estimated pensions	304,283	308,197	313,723
Amount provided by contributions	107,118	110,354	114,306
Amount due to be paid by the State in respect of the three years mentioned (but see also next paragraph)	197,165	197,843	199,417

29. The above figures would give for the years 1934–35, 1935–36, and 1936–37 an average subsidy of approximately £198,000 per annum, or £155,000 more per annum than the total of the present statutory subsidy of £43,000.

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 subsidy payments into the Fund to the 31st January, 1934, as will be seen from Table X of the Appendix, being short by £1,340,084 of the amounts recommended. After making allowance for interest, I consider that at least £66,000 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 investment commission 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 111 (2) of the Act is that expenses amounting to, say, £2,000 per annum should form part of the subsidy.

30. I have, therefore, to report that in accordance with the system prescribed by the Act the annual subsidy required for each year of the period ending 31st January, 1937, is as follows :—

	£
Subsidy now being paid by State	43,000
Further annual subsidy required—	£
Paragraph 29	155,000
Paragraph 29 (a)	66,000
Paragraph 29 (b)	2,000
	—223,000
Annual subsidy required for the years 1934–35, 1935–36, and 1936–37	£266,000

31. I have indicated above that section 111 of the Act specifically sets out that an Actuary shall be appointed by the Governor-General to furnish “a report which shall be so prepared as to show . . . the probable annual sums required by the Fund to provide the retiring and other