

34. The causes of the present large deficiency in the Fund may briefly be summarized as follows:—

(a) The accumulation at interest of the unredeemed amount of the initial deficiency caused by the gift, in respect of service prior to the inception of the Fund, of free pensions for each year of such "back service" at the same rate as for future contributory service.

When the cost of the proposed scheme was originally investigated, it was estimated that the initial deficiency would be £1,816,220. It has to be pointed out, however, that this estimate was based on data supplied giving the number of persons eligible to join the proposed Superannuation Fund, whereas it was found subsequently that many of those eligible did not elect to join the Fund, while, on the other hand, a large number of Civil servants were afterwards brought within the scope of the Bill. It can safely be said, however, that the initial deficiency was not less than one and a half million sterling, and this amount would require to be increased in proportion to the increase of salary levels on retirement over and above the levels operating when the scheme was established.

The State not only incurred this liability in making a gift of that portion of the pension based on service prior to the establishment of the Fund, but was also aware of the cost involved, and the obvious plan would have been to take steps to pay the full capital sum into the Fund, or, alternatively, to provide for its redemption within a reasonable period of from twenty to thirty years, and to make a small additional annual subsidy to assist the contributions of new entrants.

(b) The failure of successive Governments since 1919 to honour their statutory obligations as to subsidy. The amount of the statutory annual subsidy has no relation to the actuarial position of the Fund, but is merely a proportion, actuarially calculated, of the pensions and allowances actually emerging. Pensions are, in effect, divided into two parts:—

- (i) That portion provided by the contributors;
- (ii) The balance, which is to be met by the State.

It will be seen, therefore, that the principle underlying the Act is that members are to contribute upon the basis of paying their share of the liabilities during their service, while the State is to defer payment of its share until officers are retired. It does not appear to be sufficiently appreciated that the longer a financial liability is deferred the greater is the amount of money that will ultimately have to be provided by reason of the operation of interest. It has also to be remembered that, under the plan of basing subsidies on pensions, the annual subsidies themselves tend to increase rapidly for a number of years by reason of the number of new pensioners annually coming on to the Fund. Reference to Table XI of the Appendix shows a shortage at 31st March, 1934, of £2,104,067 (exclusive of interest) in the subsidies actually paid by the State as compared with those prescribed by the Act.

(c) The burden thrown on the Fund as the result of the practice followed, particularly from 1922 onwards, of compulsorily retiring men with forty years' service irrespective of their attained ages or their own wishes, and the extensive use of the extended provisions in the Act for retirement after thirty-five years, &c. The extent to which the extended provisions of the Act have been abused is shown by the fact previously referred to in this report that 39·3 per cent., or two out of every five existing male pensioners, have been granted their pensions without completing forty years' service or attaining age sixty-five.

(d) The great increase in pension liability due to the effect of the war on salary levels and to the inclusion of house allowance as salary for the purpose of computing pensions. At the most a contributor would contribute on his increased salary only for his future service, whereas he would obtain the same pension benefit as if he had been in receipt of such a salary for the whole period of his service. Some idea of the increased pension liability can be obtained from the fact that between 1913 and 1927 the average salary of contributors aged fifty and over increased by £123 in respect of males and £127 in respect of females.

(e) Additional concessions granted to contributors from time to time, as, for example the options to contribute on salaries prior to the cuts of 1921–22, 1931, and 1932, or to accept refunds of contributions on excess payments.

(f) Inadequate contribution scales, particularly in respect of female officers.

GENERAL REMARKS.

35. It is not my function to comment on policy matters, but I would be lacking in my responsibility if I did not enunciate the general principle that any additional financial strain on the Superannuation Fund due to policy measures of Government should be a charge on the Consolidated Fund by way of special subsidy.

Such a method, I may mention, is followed in the South African Public Service Superannuation scheme, where, if an officer is forced to retire on pension due to a retrenchment scheme or other policy measures, all pension payments up to the date of his attaining the normal pension age are paid out of public revenue, and not out of the Superannuation Fund.