in dwelling on this is to point out that the effect of decreasing the rates of contribution at the younger ages is not to increase the liability accruing during the earlier years of the scheme, but to throw an additional liability on to future years, and this I hope will be done (*i.e.*, that the lower contributions in the Bill will be adopted), although, as I have already stated, the point to be decided is not an actuarial one. As the rates of contribution remain the same after age 50—viz., 10 per cent.—it is clear that the Government's liability emerging during the next ten years will remain unaltered in this respect, or practically so, and the increase after ten years will be a gradual one, commencing at a low figure.

Proposed Manner of meeting Liability.

21. Although the inevitable liability incurred in starting a scheme of this nature might be met either by a present payment of a huge capital sum or the yearly interest on it (*e.g.*, in the scheme of the Bill, by a payment of £1,816,719, or a yearly payment of £72,669, being 4 per cent. interest thereon) it will have been seen that I do not advocate either course. The first would be impracticable; the second, while not absolutely impracticable, would involve much larger initial payments than I consider are equitably required. In my opinion, the back-service liability should be met year by year as it accrues; in regard to the liability for future service, it having been ascertained what are the full contributions which would be necessary to provide the benefits, such proportion of those contributions as may be thought proper should be demanded from the members and accumulated to meet the same proportion of the future liabilities as they fall due. The remaining future liabilities not provided for by members' contributions should be met year by year, as they accrue, by the Government of the day. In order to give effect to this arrangement it will be necessary to have a periodical actuarial investigation of the fund to ascertain the amounts which will be required from time to time to meet the balance of current outgo without trenching on "the contributed fund" connected with the contributions.

22. The essence of my proposals is that the portion of the liabilities which will be met by the members' contributions shall be dealt with actuarially, while no actuarial accumulation shall be made on account of the remainder of the liabilities not so provided for, which shall be met, as they actually accrue from year to year, by the Government of the day. I am satisfied that a scheme so managed will be on a sound financial basis, while requiring the minimum of assistance that can safely be given.

Liability accruing during First Three Years.

23. In advising as to the probable outgo of the first three years of the scheme I am in a very different position from that I shall occupy at the first triennial investigation in regard to the second three years, because there is at present no experience whatever of members respecting retirements and withdrawals. The bulk of the outgo will result from the payment of pensions to those entitled to retire immediately. If they all went on the fund at the outset the claims on their account would amount to approximately £27,800 in the first year, £26,600 in the second, and £25,300 in the third year—this outgo decreasing yearly. On the other hand, the pensions which will become due to those now aged 57, 58, and 59 (or 47, 48, and 49 in the case of women), who may become pensioners during the triennium, though small at first, will be of an increasing nature, and the contributions of these members will not have had time to accumulate to an appreciable amount. Taking everything into consideration, I think that a yearly subsidy of £30,000 will be sufficient for the first three years. As I have said, however, I am quite unable to estimate the relief to the fund which will be experienced through members abstaining from retiring immediately they have the right to do so, nor am I able to estimate the strain upon the fund which will result from members under the pension-ages being retired on pension owing to ill health. This disadvantage will apply with less force at each successive triennial investigation in consequence of the accumulation of statistics of the actual experience of members in these respects. But, as I have said, I think a yearly grant of £30,000 will supply all that will be required during the first three years. I may also point out that it would not be necessary to increase this grant whether the scheme in the Bill or any of the modified schemes be adopted (nor even if effect be given to Mr. George Allport's suggestion*, that members' contributions should be returned to their widows in addition to the small annuities at present proposed), because so very trifling a proportion of the additional liability can fall in the first three years.

Reduced Pensions not advocated for Back Service.

24. One of the principal suggestions that have been made for reducing the cost of superannuation is to grant half-pensions only for back service—that is to say, for the period between the entry into the service of present members and the date when the scheme comes into operation. The result would be that the pensions of all those now over 60 (women, 50) would be reduced by one-half, and the pensions of the older members now in the service under 60 (women, 50) would be greatly reduced. The expedient would *apparently* have the effect of reducing the present initial annual cost to the Government from £30,000 to £15,000, a yearly saving which would disappear with back service itself in course of time. I take it that this anticipated saving in the present cost is the only reason why half back service is advocated. On looking into the matter, however, I find the strongest reasons to believe that the immediate outlay would be seriously *increased* by the adoption of these reduced pensions for back service; and I will explain the cause of this paradoxical result.

25. To begin with, I will again take an illustration. A man now aged 68 has been in the service 29 years, and his salary is £400. He is entitled to retire on pension at once; the full pension would be £193 6s. 8d., the half-pension £96 13s. 4d. Rights to compensation already accrued being very properly safeguarded in the Bill, he has also the option of taking instead his compensation under section 12 of "The Civil Service Act, 1866"; the compensation for 29 years'

* *Vide* Report of Public Accounts Committee (I.-11, 1906, Sess. II). I recommend the *partial* adoption of this suggestion (par. 28).