PUBLIC SERVICE SUPERANNUATION BILL, 1907

(REPORT OF THE ACTUARY ON).

Wellington, 12th November, 1907.

The Right Hon. the Prime Minister, Wellington.

1. In obedience to your verbal instructions of last Friday I have the honour to report briefly upon the new Public Service Superannuation Bill for the information of the Public Accounts Committee. My former report (dated the 3rd July) on the Bill of last year dealt exhaustively with the matter in most of its bearings, and it will be convenient to refer to and quote from that report.

2. The present Bill differs from the former one in the following important respects:—

(*a.*) The scale of contributions between ages thirty and fifty is increased from 5, 5, 6, and 7 per cent. to 6, 7, 8, and 9 per cent.

(*b.*) Provision is made for a yearly subsidy of £20,000.

(*c.*) A triennial investigation and suitable form of actuarial report thereon are provided for.

(*d.*) The pensions are based on the average salary of the last three years instead of on the final salary.

(*e.*) Widows and orphans' annuities are payable in the case of contributors dying after (as well as before) becoming superannuated, and the balance of compensation not received by way of pension is included in the optional capital payment.

(*f.*) The preliminary period of eleven months during which no pensions were to be payable has been eliminated.

There are also some alterations in details, but none of them have any bearing on the financial aspect.

The general result is that the Bill is very much stronger from an actuarial point of view than the one of last year, while it cannot fail to give general satisfaction to the Public Service.

3. My investigation of the matter in the early part of this year was principally devoted to ascertaining in what way the fund could be most conveniently made actuarially sound with a *minimum* strain on the public purse by way of financial assistance. I considered that would be done most effectively by making the subsidy as small as possible at first, and subject to a comparatively small and practically regular increase so long as it should be necessary. In order to understand fully the conclusions I arrived at it is necessary to read a portion of my former report, particularly paragraphs 12 to 18, inclusive, and 21 to 23, inclusive, having reference to the nature of different liabilities and their proper treatment, and the proposed manner of meeting the liability involved in the Bill.

4. The *minimum* requirements upon which, in my opinion, a Government scheme of pensions to employees may be started on a sound footing are as follows: The scale of pensions and other benefits having been settled,—

(*a.*) The full rates of contribution necessary at different ages to provide the benefits for the years of future service should be ascertained. (This has been done.)

(*b.*) The proportion of these rates which shall be contributed in future by the members should be decided by the Government. (This also has been done.)

(*c.*) The sums so contributed should be used only for the purpose of meeting the portions of the current and future liabilities for which they were intended.

(*d.*) That part of the contributions intended to meet a portion of the future liability should be accumulated at interest, and not used for any other purpose: these accumulated contributions are afterwards referred to as "the contributed fund."

(*e.*) The remainder of the current and future liabilities not provided for by the contributions should be discharged year by year, as they emerge, by the Government of the day, *and no portion whatever of "the contributed fund" should be used for that purpose.*

(*f.*) An actuarial investigation of the fund should be made triennially in order to test the sufficiency of "the contributed fund," and to ascertain the probable extent of the presently emerging liability which will have to be met by the Government during the succeeding three years.

5. The essence of these proposals is that the portion of the liabilities which will be met by the members' contributions shall be dealt with strictly in an actuarial manner, while no actuarial accumulations shall be made on account of the remainder of the liabilities not so provided for, which shall be met, as they actually fall in from year to year, by the Government of the day. I am satisfied that a scheme so managed, while giving the minimum of assistance that can safely be given, and in an automatic manner, will be on a sound financial basis and at all times satisfy actuarial scrutiny.

6. In order that effect might be given to these proposals I submitted draft clauses to the Law Office counsel. One clause, providing for actuarial investigation and report, has been embodied in the Bill—section 32, (2)—but I regret that the even more important clause relating