21. I have accordingly to report that according to the system laid down by the Act the annual subsidy required for each year of the period ending 31st March, 1930, is as follows :—

		£
Subsidy now being paid		86,000
Further annual subsidy required—	£	
Paragraph 20	145,000	
Paragraph 20 (*a*) above	50,000	
Paragraph 20 (*b*) above	4,000	
		199,000
Annual subsidy required for the years 1927–28, 1928–29, 1929–30 ..		£285,000

When making provision for this annual subsidy it is important to see that it is back-dated to 1927, and that interest of 4½ per cent. is added to any portion paid late.

Remarks upon Method of Arriving at State Subsidy.

22. As indicated in the preceding paragraph, the Act appears to lay down a certain method of arriving at the State's subsidy, the principle being that members contribute upon the basis of paying their share of the liabilities during their period of service, and the State pays its share of the pensions as they mature. This principle of deferring payment is defensible on broad economic grounds and is quite sound financially, but it suffers to some extent from the practical defect that it will mean for many years to come a rapidly increasing subsidy. This is almost self-evident from the fact that in a young fund the number of pensioners increases year by year, and in the Public Service Superannuation Fund the bulk of such pensioners have only contributed for portion of their service.

The actual facts are shown in the following table :—

Valuation Date.	Average Annual Subsidy required for Triennium succeeding Valuation Date. Normal (for Pensions only).	Average Annual Subsidy required for Triennium succeeding Valuation Date. Actual (allowing for Past Shortages in the State Subsidy).
	£	£
31st December, 1919	110,000	125,000
31st March, 1924	193,000	240,000
31st March, 1927	231,000	285,000

It is true that the above-mentioned periods have had to bear the brunt of economic and other forces not likely to recur in the near future, and, while the subsidy must keep on rising, the rate of future increase will not be so rapid.

23. In order to assist to the best of my ability, I have given careful consideration to the possibility of minimizing, as far as can be done, the rate of increase of future subsidies, by devising an automatic basis that will proceed by more gradual steps. Any such method would necessarily require increased State payments at the outset, but this would be more than offset by the considerable gain in steadiness in regard to future subsidies as well as in point of ease of working. I accordingly recommend for consideration a subsidy of 8 per cent. of the salary roll, which would give a commencing subsidy of about £350,000 per annum.

This may appear at first sight to be a large sum, but in order to create comparisons with standards elsewhere, I submit the following extracts, the first from the report of a Commission on the pension funds of the City of New York, and the second by the late Mr. H. W. Manly, F.I.A., a world authority on pension funds :—

(i) "The Commission has made a broad review of existing pension systems in operation, both in the United States and abroad, on which it was able to secure information. This inquiry has brought out the fact that the development of pension measures as a result of an experience of over a hundred years is in the direction of equal division of cost between the employer and the employed, and that this tendency applies equally to systems for public employees and for industrial workers."

(ii) "If he [the employer] makes a proper contribution to the fund, in addition to guaranteeing a good rate of interest, he secures efficiency in the service by superannuating his servants with a reasonable pension when they are no longer useful. His salary list is a good 5 per cent.—I am inclined to think in many cases nearer 10 per cent.—less than it would be if there were no fund, and I do not think, therefore, that he can reasonably object to subscribe 5 or 6 per cent. of salaries to the fund."

24. My recommendation for the State subsidy to be 8 per cent. of the salary roll does not differ very much from apportioning the cost equally between the employer and the employees when account is taken of the initial deficiency when the fund was established, and the subsidy payments shown