(including subsidy), and it is extremely difficult to forecast salary conditions thirty or forty years hence. The late war furnishes an outstanding instance of the effect of the terminal salary method on pensions. Salary levels of Government servants at 1927 were approximately £100 higher than in 1913, and, accordingly, in prospective pension rights each employee stood to receive for his whole period of service the full benefit of such increase, whereas the effect of the increased salary scale on contribution income to the Fund is limited only to his future service. It follows that the stability of a pension fund, if not assisted by an adequate employer's subsidy, increases as the base on which pensions are granted is lengthened. I am convinced, having regard to all the factors, that the pensions in a Government superannuation scheme should have a direct correlation to the contributions paid, and accordingly be based over the whole period of service. This would not necessarily mean reducing the average pensions of officers, as the present rate of one-sixtieth for each year of service would, in an average salary pension scheme, be increased, say, to one-fiftieth or even to one-fortieth. As, however, the Commission did not consider the substitution of a new scheme, but rather the modification of the present scheme, I am in agreement with their proposal to lengthen the base from three years to seven or ten years. The Bill provides for ten years, and as this will give greater financial stability than a seven-year period, I support it.

Paragraph 1448 (Sections 16, 26, and 38 of the Bill).

The suggestion is for the Government to guarantee a net effective interest yield of 5 per cent. per annum on the funds. As indicated by the Commission, the recommendation is suggested primarily to allow future actuarial valuations to be made at 5 per cent. in order to bring the subsidy into closer relation to the actual facts than now exist. At the present time the valuation is made at 4½ per cent., and it follows that if the subsidy is based on the results brought out from such a valuation basis, and interest in excess of 4½ per cent. is earned in the future, the subsidy paid will be higher than is required, all other things being equal. By valuing at 5 per cent., the estimated liabilities are reduced and a smaller immediate subsidy is determined, and only if and when interest falls below 5 per cent. will an additional subsidy require to be paid. An analysis of the annual interest rates earned by the funds from the year 1924–25 to the latest valuation date shows that in the Public Service Superannuation Fund the range was from £5 14s. 2d. per cent. to £5 18s. 6d. per cent.; in the Teachers' Superannuation Fund, from £5 19s. 4d. per cent. to £6 2s. 1d. per cent.; and in the Railways Fund, from £5 7s. 11d. per cent. to £5 12s. 10d. per cent. It is therefore not expected that the adoption of this recommendation will throw any immediate liability on the Government, and I recommend its adoption.

Paragraph 1449 (Sections 14, 25, and 36 of the Bill).

The suggestion is for the Government to pay a pound-for-pound subsidy of employees' contributions. The basis of an equal division of cost between employer and employee is very common in the superannuation schemes of other Governments, and is a favourite in schemes of private employers. This matter was fully dealt with in my statutory examination of the Teachers' Superannuation Fund as at the 31st January, 1927 (*vide* paragraph 31), in which the Government Superannuation Funds of South Africa and Australia and the Local Government Superannuation Fund of the Imperial Government were instanced. I may add that, with the exception of Mr. Morris Fox, every Actuary who has valued the New Zealand Government Superannuation schemes has advocated an automatic subsidy based either on the salary roll or on members' contributions, and reference to the various actuarial reports will show that had such a scheme been instituted at the beginning a subsidy of considerably less than £1 for £1 would have been sufficient to have kept the funds stable, even including the gift of free pensions for back service prior to the inception of the funds. It will be seen, therefore, that the present suggestion of a pound-for-pound subsidy does not mean that new contributors will only be asked to pay for one-half of their benefits, since the suggested subsidy is not a true subsidy, but the bulk of it is merely the equivalent of such sum in perpetuity as is necessary to redeem the deficiency caused by the failure of the State to carry out its contractual subsidy obligations in the past.

In order to enable members of the Select Committee to visualize what is involved in a pound-for-pound subsidy, the following table is submitted in connection with the Public Service and Teachers' Funds. The Railways Fund already receives £28,000 per annum more than a pound-for-pound subsidy.

Fund.	Pound-for-pound Subsidy.	Present Subsidy.
	£	£
Public Service	242,000	86,000
Teachers'	129,000	43,000
	£371,000	£129,000

It will be seen from the above that the additional amount to be provided by the State as employer would be £242,000 per annum. It is important to bear in mind, however, that this would not all fall on the Consolidated Fund, as it is estimated that the Post Office and the trading Departments of the Public Service Superannuation Fund would, in respect of their employees, provide about £110,000 per annum, leaving the Consolidated Fund to find £132,000 in addition to what is at present being paid.

It is not my function to express any opinion as to the ability of the Consolidated Fund to find this additional amount this year, but as it only represents 1 per cent. of the salary bill it is not anticipated that it will present an insuperable difficulty.