Government Actuary's Office,
Wellington, 8th November, 1932.

MEMORANDUM FOR THE CHAIRMAN, SUPERANNUATION BILLS COMMITTEE, HOUSE OF REPRESENTATIVES.

WITH reference to questions raised regarding subsidy "shortages" in the Government Railways Superannuation Fund, the following table may be of interest:—

Year ending 31st March	Subsidy recommended by Actuary.	Subsidy actually paid.	Year ending 31st March.	Subsidy recommended by Actuary.	Subsidy actually paid.
	£	£		£	£
1903	*	Nil			
1904	*	Nil	1920	170,000	75,000
1905	*	Nil	1921	170,000	75,000
1906	*	Nil	1922	170,000	75,000
1907	*	Nil	1923	170,000	75,000
1908	*	Nil	1924	170,000	125,000
1909	*	Nil	1925	170,000	105,000
1910	*	Nil	1926	170,000	170,000
1911	*	25,000	1927	170,000	170,000
1912	*	25,000			
1913	50,000	25,000	1928	340,000	170,000
1914	50,000	25,000	1929	340,000	170,000
1915	50,000	50,000	1930	340,000	170,000
1916	50,000	25,000	1931	340,000	170,000
1917	50,000	25,000	1932	340,000	170,000
1918	50,000	25,000			
1919	50,000	25,000			

* No actuarial valuation was made prior to 1912.

I should, however, like to amplify what I stated in evidence before the Committee—*i.e.*, that the difference between the annual subsidies recommended in actuarial reports on the Railways Fund and those actually paid into the fund are not "arrears" in the same sense as in the Public Service and the Teachers' Funds.

In the Public Service and the Teachers' Funds the subsidy recommended by the Actuary is in accordance with the provisions of the statute (sections 49 and 111 of the Act), and is merely the amount necessary to cover the liability of the State year by year in respect of current pensions. It has no connection with the actual deficiency in the funds.

In the Railways Fund there is no similar provision for a statutory subsidy, nor does the Act require an actuarial valuation.

As set out in my memorandum of the 2nd instant (page 13) the first actuarial examination of the Railways Fund, as at 31st March, 1912, disclosed a deficiency of £1,776,851, and the Actuary stated that an annual subsidy of £50,000 was necessary in respect merely of pensions and allowances in possession or accruing within the ensuing three years. This was on the lines of the subsidy method prescribed for the Public Service and the Teachers' Funds.

No subsidy was paid to the Railways Fund for the years 1903–10, inclusive, and with the exception of one year, 1915, when £50,000 was paid, an annual subsidy of only £25,000 from 1911 to 1919 was paid. Accordingly, for the seven years ended 31st March, 1919—the period covered by the second actuarial investigation—the fund received £150,000 less than was recommended, and also lost the benefit of interest accretions on that amount.

It is clear that, had this amount been paid, the deficiency disclosed at the second valuation would have been less by £150,000 (and interest thereon) than the amount of £3,959,455 shown in the actuarial report.

As the Actuary was dealing only with the actual facts, and not with the position as it might have been, and as he was not limited by any statutory provision as in the case of the other funds, the recommendation that the future annual subsidy be £170,000 (made up of £158,378 to cover interest at 4 per cent. on the deficiency and £11,622 to provide for the ultimate redemption of the deficiency over a long period of years) had the effect of blotting out the past and starting with a clean sheet from 1920.

Similarly, the difference of £490,000 between the subsidy recommended of £1,360,000 (that is, eight times the annual rate of £170,000) and the amount of £870,000 actually received for the period 1919–27 was reflected to the extent of that amount and interest thereon in the deficiency of £6,810,204 disclosed at the third valuation as at the 31st March, 1927. The Actuary's recommendation that the future annual subsidy be equal to 10 per cent. of the pay-roll (equivalent to £306,459, being interest at 4½ per cent. on the deficiency and an amount, commencing at about £33,541, to gradually redeem the deficiency and make some provision for new entrants) would, under present conditions, if given effect to, provide for all time and would automatically counteract the shortcomings of the past.

In the five years that have elapsed since the last valuation the fund has received £850,000 less than the amount recommended, and unless the Working Railways Account makes a substantial increase before the next valuation the deficiency then disclosed will show a corresponding increase, and a still higher subsidy will be required in the future.

Summing up, it will be seen that the Actuary reporting on the Government Railways Fund is given a free hand in making recommendations, and by basing his computation of future subsidies on the deficiency shown by valuation he is able to make adjustments for previous years. This aspect is very important when comparing the subsidies to the Railways Fund with those to the Public Service and the Teachers' Funds. In each of the latter funds the subsidy bears no relation to the actual deficiency disclosed by valuation (*vide* pages 8 to 10 of my memorandum of the 2nd instant), but is the amount merely to cover the State's current liability year by year in respect of the pension outgo of the three years succeeding the valuation date.

It will also be seen that, while the subsidy recommended for the Railways Fund will, if given effect to, definitely check and ultimately extinguish the deficiency, the statutory method at present prescribed in connection with the Public Service and the Teachers' Funds will, for many years to come, be powerless to prevent the deficiency from increasing, and that any failure to keep up with the weak standard provided in the Act will only accelerate the growth of the deficiency.

I trust the above explanation will eliminate any possibility of confusion between the "actual deficiency" in the Superannuation Funds and the "subsidy arrears" of the State to these funds, and will make it clear that the terms are not synonymous, as would appear to be the impression in some quarters.