

It will be seen that, if the Fund were put into liquidation on the basis of treating existing pensioners, widows, &c., as preference shareholders with a prior right of having their claims satisfied before the existing contributors shared in the assets, the former would receive only 28·23 per cent. (5s. 8d. in the pound) of their pensions or allowances, thus suffering a cut of 71·77 per cent. (14s. 4d. in the pound), while contributors still in the Service would be unable to recover any contributions paid into the Fund.

If, on the other hand, the Fund were liquidated on the basis of terminating all pensions and of dividing the accumulated funds amongst the existing contributors the total capital available would pay them only 68·84 per cent. (13s. 9d. in the pound) of their past contributions (without interest) equivalent to the forfeiture of 31·16 per cent. (6s. 3d. in the pound).

How far the Fund has retrogressed will be seen by comparing the above position on hypothetical liquidation with similar figures taken out in connection with the last statutory valuation, and shown on page 25 of the report of the Parliamentary Committee set up in 1932 to consider the proposed Government Superannuation Funds Bill.

The figures are important if for no other reason than to show why the Fund should receive an adequate subsidy in the future.

39. As this will probably be the last occasion on which I shall have the privilege of making an actuarial report on the Government Railways Superannuation Fund, I submit in Table VIII of the Appendix a consolidated Revenue Account of the Fund since its inception.

I have also prepared the following concise summary of the position of the Fund at the successive dates of actuarial valuation. It will be seen that for illustrative purposes, the accumulated funds have been regarded as applicable to a hypothetical pensioners' account and the balance to a contributors' account. This strips the problem of all technicalities and throws the position of the Fund into clear perspective. The table should convince any thoughtful person that reconstruction is urgently needed, unless Government is able and willing to shoulder the enormous liability shown therein.

40. The causes of the present large deficiency in the Fund may briefly be summarized as follows:—

- (a) The accumulation at interest of the unredeemed amount of the initial deficiency caused by the gift, in respect of service prior to the inception of the Fund, of free pensions for each year of such "back service" at the same rate as for future contributory service.

The State definitely incurred this liability in making a gift of that portion of the pension based on service prior to the establishment of the Fund, and the soundest plan would have been to take steps to pay the full capital sum into the Fund, or, alternatively, to provide for its redemption within a reasonable period of from twenty to thirty years, and to make a small additional annual subsidy to assist the contributions of new entrants.

A lot of nonsense is uttered from time to time that the Government Railways Superannuation Fund was never intended to be on an actuarial basis. The repetition of this shibboleth is equivalent to the action of the ostrich in hiding its head in the sand, as it cannot obscure the fundamental principle that the granting of benefits in excess of those provided by the contributions can end only in disaster. Those who favour the "non-actuarial" basis will find it difficult to explain why the Fund only ran for eight years before it was found necessary to be subsidized by £25,000 per annum, and that the annual subsidies thereafter increased to £75,000 per annum from 1920, and to £170,000 per annum from 1926, and in the two years following the present valuation to over £250,000 per annum. It would be better for both the State and the contributors if the annual subsidies were fixed at an adequate percentage of the pay-roll, having regard to the actuarial requirements, than to be faced with having to provide an amount progressing by leaps and bounds, and eventually reaching a figure that may be beyond the capacity of the Working Railways Account or the State to support.

- (b) The burden thrown on the Fund as the result of the practice followed, particularly from 1919 onwards, in compulsorily retiring men with forty years' service irrespective of their attained ages or their own wishes and the extensive use of the extended provisions in the Act for retirement after thirty-five years.
- (c) The great increase in pension liability due to the effect of the War on salary levels and to the inclusion of house allowance as salary for the purpose of computing pensions. At the most a contributor would only contribute on his increased salary for his future service whereas he would obtain the same pension benefit as if he had been in receipt of such a salary for the whole period of his service. Some idea of the increased pension liability can be obtained from the fact that between 1913 and 1927 the average salary of contributors aged fifty and over increased by £125 in respect of the First Division and £100 in respect of the Second Division.
- (d) Additional concessions granted to contributors from time to time, as for example, the options to contribute on salaries prior to the cuts of 1921–22, 1931, and 1932 or to accept refunds of contributions on excess payments.
- (e) Inadequate contribution scales.