

SESS. II.—1897.
NEW ZEALAND.

OLD-AGE PENSIONS.

PAPER READ BY MR. JAMES PULLAR, F.F.A., AT THE MONTHLY MEETING OF THE INSURANCE INSTITUTE OF VICTORIA, HELD ON THE 9TH SEPTEMBER, 1896.

[Reprinted from the *Australasian Insurance and Banking Record* of 19th October, 1896.]

Laid on the Table by the Rt. Hon. R. J. Seddon, with the Leave of the House.

OLD-AGE PENSIONS.

THERE appears to be a very strong probability of this subject being brought up in the Legislative Houses of this colony at no distant date, and it is one which involves so many principles of action, and is capable of influencing so largely the financial operations of the future, that it is desirable that we, as members of the Insurance Institute, should endeavour to form intelligent and sound views on the subject. I do not think any apology is necessary for bringing up what some may possibly consider a semi-political subject, because the contingencies involved are in many respects analogous to those relating to the business of granting life assurance and annuities.

My aim in this paper will be to point out the various principles which come into operation, and to discuss their probable action. This plan is more calculated to interest the bulk of our members, who are not disposed to revel in the algebraic formulæ for the various benefits involved. It may also be stated that until data has been collected which have a direct bearing on the nature of the problems, and until it has been settled pretty fairly what the scope of the scheme should be, any elaborate series of calculations would probably be useless. I shall, however, endeavour to present such a combination of facts, arguments, and probable cost of benefits as will enable a fair judgment to be formed.

EXISTING SCHEMES.

To sketch with any degree of precision and detail the schemes which have been proposed would alone entail a very voluminous paper, but I think a brief reference to these will be advisable. Various references will be found later on in connection with the discussion of particular principles.

GERMAN SCHEME.

This is very complex, and contains an enormous mass of minute regulations. I can only outline the main provisions.

Scope of Scheme: All wage-earners over sixteen years of age whose annual wages do not exceed £100 are included. The law gives a right to a pension, and to this a man becomes entitled on attaining age seventy without proving incapacity for work, but such proof is required for a claim before that age. A person may be deemed unfit for work when unable to earn one-sixth of the average standard wages of those in similar employment, but when unfitness has been brought on by himself no claim is recognised.

Contributions: To secure a right to an invalid's pension a man must have paid for at least five years, and thirty years for an old-age allowance. Forty-seven weeks are reckoned a contributory year (to allow for those not in regular employment), and periods of illness are free from contribution. The contributions are based on the annual wages, and the annual wage is generally reckoned at 300 times the daily wage. There are four classes, with four average wages standards—Class I., £15; Class II., £25; Class III., £36; Class IV., £48. The contributions have been fixed for the first ten years at so much per week, according to the class under which the wages fall, and the whole is paid by the employer, who deducts half from the insured, Class I. being rated at 1½d. per week, Class II. at 2d., Class III. at 2½d., and Class IV. at 3d. The contributions are paid by affixing to cards stamps of appropriate value obtained from the post-office.

Benefits: The lowest allowance for invalidity for Class I. after five years is £5 14s. 8½d. per annum, and the highest for Class IV. after fifty years £20 15s. 6d. Should death occur after five years' contributions have been paid the widow or children receive a refund of half the amount paid.

State Subsidy: It was estimated at the inauguration of the scheme that this would amount to £320,000 in the first year, and gradually increase to £3,450,000 in the eightieth year.

Management: There is a central insurance department, but various institutes throughout German territory manage the business locally. Many of the positions on the various Boards are honorary, yet, notwithstanding the use of the post-office organization for the sale of contribution stamps, the cost of administration has been estimated at £600,000 a year.

SCHEME PROPOSED FOR BRITAIN BY COMMITTEE OF WHICH MR. J. CHAMBERLAIN WAS CHAIRMAN.

Contributions: Annual grant by Parliament. Local rates. Direct payments by the future pensioners.

Conditions: Optional to join scheme or not. Nothing to prevent well-to-do people joining in the scheme and participating in the advantage of the Government subsidy. Pension alimentary, not assignable, and protected from all process for debt. No provision made for those over fifty years of age in the existing population.

Benefit: Virtually a Government grant of £4 a year to those who could prove that they themselves paid for the right to one of £9 a year.

SCHEME PROPOSED BY MR. CHARLES BOOTH FOR BRITAIN.

That the State provide a universal pension of 5s. a week, to all after the attainment of age sixty-five.

This gentleman saw so many flaws of a serious character in other schemes that he proposed to make the pension universal.

OLD-AGE PENSIONS IN DENMARK.

The law came into force on the 1st January, 1892, being framed for the express purpose of discriminating between the deserving and the undeserving poor. According to the previous law both classes had either to starve or don the parish dress and pass their days in a workhouse, away from human sympathies and the interests of life. For the benefit of the respectable poor a law with an appalling name was passed—the “Alderdomsunderstottelse” law. These are now in a class apart, and under quite a different *régime*. What they receive is not given as a charity, but as a *pension*, due for the work which they have done. The age when the pension takes effect is sixty, subject to the individual being unable to provide himself and those dependent on him with the necessities of life, and the claimant must have supported himself during the previous ten years.

This scheme, more than any other that I have examined, commends itself to my judgment as being suitable as a guide for this colony.

NEW ZEALAND SCHEME.

The Government Bill is intituled “An Act to provide for Old-age Pensions.” The preamble reads: “Whereas it is expedient that all persons who during the prime of life have helped to bear the public burdens of the colony by the payment of taxes, and to open up its resources by their labour and skill, should in old age be protected by the colony against the risk of want: Be it therefore enacted,” &c.

Scope: Every person attaining age sixty-five or upwards shall be entitled to a pension of 10s. a week for the rest of life if he is, and has been for twenty years, residing in that colony, continuously for the preceding three years, and not more than eighteen months absent in the ten years preceding application.

Funds are to be provided by the State from taxation to be derived from alternative sources—primary duties, increase of excise duties, land-taxes, death duties, and stamp duties, tax on mortgages, ticket-tax on entertainments, &c.

RUSSIA.

I have not the details of the scheme in existence there, but it is said that workmen employed in the Crown mines qualify for a pension after thirty-five years of service, irrespective of age attained, and for a shorter period of service on a graduated scale.

France and Italy are said to have been legislating in this direction recently, but I have been unable to ascertain the details.

New South Wales: A special committee has recently been appointed, and has completed the taking of evidence bearing on this question; but the inquiry was particularly directed to the practicability of establishing an outdoor system of relief for the deserving poor.

OLD AGE.

Before plunging into the pension question it would be well to consider the subject of old age. This has been left a very open question in the Friendly Societies Act, which defines it as “any age after fifty.” The wisdom of so comprehensive a definition is appreciated when the question is studied.

I do not think I can do better than to submit some of the points brought forward by Sir J. C. Browne in an address on “Old Age” delivered at the opening of the Yorkshire Medical Department a few years ago.

The increased vitality of the nation, as evidenced by comparative ratios of mortality, when investigated, is shown to be mainly amongst infants, children, and young persons. After age forty-five the decline was insignificant, and from sixty-five to seventy-five there had actually been an increase in the death rate. Premature old age is held to be accountable for this.

“Certain groups of diseases which must be mainly traced to the excessive wear-and-tear of modern life were the cause. While increasing mortality from degenerative diseases diminished the prospect of enjoying a ripe old age, the increasing prevalence of minor degenerative changes enhanced the probability that men and women would be plunged into a premature old age, and become decrepit, while still in what used to be considered the prime of life.

“Men and women were growing old before their time. Old age was encroaching on the strength of manhood, and the infirmities associated with it were stealthily taking possession of the system some years earlier than they were wont to do in former generations. Deaths due simply to old age were now reported between forty-five and fifty-five years of age, and in large numbers between fifty-five and sixty; and there had been a reduction in the age at which atrophy and debility killed those who had passed middle life. Senile insanity, due to atrophy of the brain, or exaggerated dotage, was far more common than it ever was, and, on the average, declared itself at an earlier age than formerly.”

The preceding quotations are a heavy indictment against the restless spirit of the age, and, while it is held to be quite beyond the power of medical science to promote a typical old age on a large

scale, we can all give our support to movements which have for their basis the betterment of the race. It has been strongly maintained—and with good warrant, I believe—that one of the most important factors in averting madness and in prolonging life was the great life-insurance movement of the present century. We must, however, admit that this has not been so successfully brought into touch with the poorer classes of the community in this colony as in Britain; and the whole tendency of the old-age-pension movement would undoubtedly be towards an increase of that tranquillity of mind which a guarantee of a provision in old age would be certain to induce.

One of the first questions to be inquired into is as to whether there is a demand for old-age pensions. Any one conversant with the details of life-assurance business here and throughout the world is aware that there is no demand whatever for a benefit *in this particular form*. But care is necessary to avoid jumping to conclusions too rapidly, as has frequently been done from consideration of this one fact. We know that any one who takes out an endowment assurance policy has a double object in view—i.e., the protection of his family in the event of his premature death, coupled with a provision for his own benefit at a period of life ranging between forty-five and sixty-five. We know that this form of policy has been a very popular one in recent years; in fact, the increase of such policies has been one of the most marked features in life-assurance business. For instance, according to the British office returns, on the basis of which interesting summaries are annually laid before Parliament, the endowment assurances, as per blue-book issued in year 1888, amounted to £26,341,526, being 5·96 per cent. of the whole assurances, while for the year 1895 the amount was £68,982,280, being 13·10 per cent. of the whole. The whole increase in insurance business during these seven years was £83,775,431, of which £42,590,754, or 50·84 per cent., was represented by endowment assurances.

Approximately, the sum assured by life offices on persons resident in Victoria under endowment assurances is over £8,000,000, and the average sum assured is a little over £200.

The investment of the amount of the policy at a time of life when matured experience must count for something should yield a return which would in some degree fill the place of a pension. It must, too, be remembered that all forms of thrift tend towards the same end; as, for instance, the acquisition of dwellings, through building societies or otherwise, by residents in towns or cities; the securing of land by selection, and the gradual payment for the same to the Government, on the part of those following agricultural or pastoral pursuits.

You will, I am sure, readily perceive that to those who are in the position of being able to exercise thrift in any of the ways I have referred to, and who voluntarily do exercise such thrift, there is no need for any scheme of State pensions. The great difficulty which has beset all voluntary schemes is that of convincing the unthrifty that they would be gainers by making provision for their old age.

Those engaged in the life-assurance business have many reasons for believing that one of the great difficulties in the way of procuring new business is that “men think all men mortal but themselves,” and it would appear to be the logical result of such a general feeling that men would naturally look forward to an old age in their own case, and recognise the necessity for making some provision for it. That such, however, is not the case is very well illustrated by Mr. Neisson at a recent meeting of the Institute of Actuaries. He said members of friendly societies would not hear of an annuity at sixty-five in lieu of sickness pay, their answer being generally, “‘Why, we shall never live to sixty-five.’” An extraordinary instance of this came under his knowledge some few years ago, when he had to address a meeting of members of friendly societies. He asked the chairman if he would kindly put the question, ‘How many of those present thought they would be able to participate in the benefit at sixty-five?’ There was a large audience of some two thousand, and a man with the reputation of being an intelligent man got up and made the statement that he thought twenty would. Another equally great authority stood up and said he thought perhaps there would be fifteen. The proper answer was about one thousand. That exemplified the want of grasp which members in the majority of cases had.”

As the probabilities of attaining to old age are rather under-estimated than over-estimated, I submit the following table, showing the probabilities of survivorship to age sixty-five, and other older ages, at various present ages. These probabilities are based on the general mortality experience of this colony:—

TABLE showing the PROBABLE PROPORTION of the LIVES EXISTING at VARIOUS AGES SURVIVING to the AGES STATED.

Age at present.	Percentage of Males of the Age in First Column who may be expected to attain the Age of				
	65.	70.	75.	80.	85.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
20	52	41	27	14	5
25	53	42	28	14	6
30	55	44	29	15	6
35	57	45	30	16	6
40	60	48	32	16	6
45	64	50	34	17	7
50	69	55	36	19	7
55	76	60	40	21	8

The above table would read thus: Out of a hundred men of the age of thirty-five, fifty-seven would attain age sixty-five, forty-five would attain seventy, thirty would attain seventy-five, and so on.

These figures show that the prospects of survival to old age are much greater than one would be at all inclined to fancy from a superficial consideration of the question.

In order that a fair idea may be obtained of the number of persons who would be affected by a scheme of old-age pensions, I have calculated the number alive at various ages over sixty, sixty-five, &c., at the present time, and at intervals of five and ten years hence.

TABLE showing the NUMBER ALIVE in VICTORIA, at AGES over those under mentioned, at the CENSUSES of 1881 and 1891, and the ESTIMATED NUMBER over SIMILAR AGES at 1896, 1901, and 1906.

I.—Males.

Date.	Number alive over the Age of				
	60.	65.	70.	75.	80.
Census, April, 1881	24,769	12,723	6,567	2,881	1,099
" " 1891	43,848	23,625	12,480	5,233	2,025
Calculated at April, 1896	51,279	31,760	14,922	6,523	2,117
" " 1901	54,786	36,746	20,516	7,853	2,724
" " 1906	54,234	38,136	23,138	10,964	3,265

II.—Females.

Date.	Number alive over the Age of				
	60.	65.	70.	75.	80.
Census, April, 1881	15,390	8,382	4,581	2,057	842
" " 1891	28,674	15,753	8,571	3,768	1,501
Calculated at April, 1896	36,232	21,559	10,545	5,052	1,814
" " 1901	43,234	27,088	14,594	6,177	2,468
" " 1906	47,456	31,946	18,212	8,672	2,995

It will, of course, depend on the scope of the pension scheme what proportion of the above numbers would come under its provisions. Some schemes which have been advocated are universal in character, and would thus embrace the whole numbers given. Others, again, embrace only those who are in destitute circumstances.

The latter is the most practical, and possesses altogether a better *raison d'être*. But we are, unfortunately, in comparative ignorance of the numbers or proportions of destitute old men and women, and will probably have to assume, in the meantime, that the proportion in this colony will correspond with that shown to exist in Britain.

In Britain it has been tolerably well established, through the operations of the poor-law and benevolent and charitable organizations, that about 40 per cent. of those who die after reaching the age of sixty-five will have received parochial relief in some form during the concluding years of their life. If the wage-earning class alone be taken it is estimated that the proportion is at least 50 per cent.

If sixty-five be assumed to be a fair age at which pensions should commence, and 40 per cent. fairly represent the proportion which will permanently require this aid, then the numbers in receipt of aid will be approximately those shown in the following table:—

TABLE showing, on the Basis stated, the NUMBER of PERSONS who would be in RECEIPT of AID at VARIOUS DATES.

Date.	Males.	Females.	Total.
At April, 1896	12,704	8,624	21,328
" " 1901	14,698	10,835	25,533
" " 1906	15,254	12,778	28,032

The capital cost of an annuity of 5s. per week for the numbers stated would be: At April, 1896, about £2,100,000; at April, 1901, about £2,450,000.

THE AGE AT WHICH THE PENSION SHOULD COMMENCE.

Two considerations are important: (1) As to whether the recipients contribute to its cost; or (2) whether it is to be paid by the State. If the first case hold, then the age of sixty-five would probably be a fair approximation to the period when the pension should be assumed to commence.

It should, however, be determined at the outset whether invalidity will establish a claim to a pension without reference to age; also, whether age will determine the right irrespective of invalidity. On a general consideration of the objects of a pension scheme I think it will be admitted that, to make it comprehensive, invalidity should establish a claim. The extra *direct* cost would not be much, but I have no doubt that the question of occupation will have a considerable influence on the matter. I have found, from the actual experience of superannuation funds of ministers, that the average age at superannuation is about sixty-five; but only a slight knowledge of the question is sufficient to enable one to perceive that the occupations of miner and agricultural labourer render the value to be attached to a prospective pension totally different. For instance, the miner is not a long liver. He is exceptionally subject to the risk of death by accident, and to diseases of the respiratory organs. Comparatively few would live to the pension age, and those who did live would not long enjoy it. The experience among those following agricultural pursuits is the reverse. They are exceptionally long-lived, and would probably outlast the proverbial annuitant. I have referred to these two occupations because each embraces an important section of the Victorian population, and they indicate the necessity for a distinction being made in the case of any scheme involving contributions. If once the question of pension depend on invalidity, and not on age only, a wide field is presented for the exercise of management. It has been recognised by private societies that the greatest care and circumspection is necessary to prevent imposition and malingering for the sake of a pension; and, notwithstanding all the trouble taken, it is held to be proved that no amount of care can altogether prevent the funds from being improperly used in that way. To make pensions payable on invalidity must add, therefore, enormously to the expense of management.

I am of opinion that the best results are likely to be obtained by making the amount of the pension vary to some extent with the age at which it is claimed, and that the true basis should be,—

(a.) That every person should be encouraged to work and earn enough for his own support so long as the physical or mental capacity exist.

(b.) That to stimulate the feeling of self-interest it would be desirable to increase the amount of pension to be drawn in such a manner that a man entering upon a pension at, say, age seventy, would receive considerably more than one entering at age sixty-five or any younger age. One would be inclined to think that so long as, say, 20s. per week could be earned as wages few would be tempted to procure retirement on a sum not greater than one-half that amount; but it is probable that the few to whom the ease of retirement would prove a temptation would be all the better of having a hope held out before them of a larger pension by persevering in work for some years longer. The question of selection, which those in the life branch of the insurance business have forcibly brought home to them in many aspects, would have a powerful effect in a matter of this kind. On the average, people may be trusted to select what is the best for their financial interests where any sort of opinion is available; and the difficulty of deciding when a man is invalided from a medical point of view makes an incentive of this nature all the more valuable.

(c.) That in the event of invalidity commencing at a much earlier age than the probable average of sixty-five—say, for instance, fifty—the amount of the pension be practically the same as an ordinary one commencing at age sixty-five, provided the invalidity is not brought about by some accident, but is the outcome of a degenerative disease. This would not hold if the basis of the pension be the contributions paid, as in the one case these would cease fifteen years earlier than in the other, but would only apply if the State take upon itself, either in part or whole, the burden of the provision.

The following table will give a fair indication of the relative values of a pension commencing at different ages. The contribution rates are based on the Carlisle mortality at 3 per cent. interest, with no margin for expenses.

Contributions in column (a) provide for no benefit being payable in the event of the death of the contributor prior to age stated, while those in (b) provide for the return of the whole of the contributions paid.

TABLE I.—TABLE of ANNUAL CONTRIBUTIONS as above for PENSION of 5s. per WEEK.

Present Age.	Pension to commence at the Age of							
	60.		65.		70.		75.	
	(a.)	(b.)	(a.)	(b.)	(a.)	(b.)	(a.)	(b.)
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
20 ...	1 5 6	1 11 10	0 15 0	1 0 0	0 8 2	0 11 7	0 3 10	0 10 10
30 ...	2 3 6	2 13 3	1 4 11	1 13 1	0 13 3	0 19 1	0 6 2	0 16 5
40 ...	4 3 9	4 18 8	2 5 5	2 18 10	1 3 4	1 13 5	0 10 7	1 7 2
50 ...	10 14 7	11 18 8	4 18 9	6 2 0	2 6 8	3 4 8	1 0 2	2 11 11

As illustrative of the increased pension which would be properly granted on account of the recipient postponing the date of his retirement, the following table is given:—

TABLE II.—TABLE showing, on the BASIS of the CONTRIBUTION required for 5s. per WEEK, to commence at AGE SIXTY-FIVE, what PENSION would be secured by the same CONTRIBUTION if the PENSION do not commence till AGE SEVENTY or SEVENTY-FIVE. (Columns (a) and (b) of same signification as in preceding table.)

Present Age.	Yearly Contribution Basis.		Weekly Pension to commence at Age of					
			65.		70.		75.	
	(a)	(b.)	(a.)	(b.)	(a.)	(b.)	(a)	(b.)
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
20 ...	0 15 0	1 0 0	0 5 0	0 5 0	0 9 3	0 8 8	0 19 9	0 9 3
30 ...	1 4 11	1 13 1	0 5 0	0 5 0	0 9 5	0 8 8	1 0 4	0 10 1
40 ...	2 5 5	2 18 10	0 5 0	0 5 0	0 9 9	0 8 10	1 1 6	0 10 10
50 ...	4 18 9	6 2 0	0 5 0	0 5 0	0 10 7	0 9 5	1 4 6	0 11 9

OPTIONAL OR COMPULSORY.

One of the main features of any *contribution* scheme must be the question as to whether it be optional or compulsory. The German scheme is compulsory. That proposed by Mr. J. Chamberlain for Britain was optional.

The German scheme has been very adversely criticized in the German Imperial Diet. It is complained that the machinery is cumbersome and costly, and that it requires radical revision. The moderate critics advocate the voluntary principle instead of the compulsory, whereas the Government, while admitting that the scheme is not faultless, and contending that they are prepared to remove all real blemishes, will on no account allow the compulsory principle to be tampered with.

The strongest objections to Mr. J. Chamberlain's scheme are, in my opinion, based on its optional character, which would, after a considerable cost to the community, leave a large number outside its scope, and that composed of the very class which is most likely to require a provision of some kind in old age. It requires a person to have saved a lump-sum of £5 by the age of twenty-five, and then go on paying for forty years afterwards a sum of £1 per annum, the only inducement held out being a Government subsidy to increase the pension. No such scheme would be possible for the poorest classes of any community.

It seems clear that any scheme, if it lack compulsion, must only be partial in its effects. Some other organization would be required to meet the case of the outsiders, and these would probably be the wasteful and improvident, the vicious and uneducated, so that the main object of an old-age scheme would be lost, and the expense of the scheme would be all the more burdensome from the knowledge that it was incomplete, and subsidised many who, without its aid, would have provided for themselves in some other way, and at no expense to the State.

THE AMOUNT OF THE PENSION.

In the German scheme there are four classes, on the basis of wages :—

Class I.	£ s. d.	per annum of pension.
Class II.	...	...	...	...	5 6 5
Class III.	...	...	...	...	6 14 7
Class IV.	...	...	...	...	8 2 10
					9 11 0	

Experience has proved that the pension is very frequently insufficient, as has been evidenced by the Berlin poor-law administration, where 88 out of 449 holders of pensions were in receipt of poor-relief in addition to their pensions. This proportion is about one-fifth. It has been stated, however, that the Act never intended the pension to be sufficient for an independent livelihood, but simply as an augmentation of what could otherwise be obtained. In Mr. J. Chamberlain's scheme the pension aimed at was 5s. per week, while in the New Zealand Government scheme it is 10s. per week.

It must be admitted that the conditions of life in different countries should influence the amount of pension, but I venture to say that the amount aimed at by the New Zealand scheme is on a higher scale, taking all local conditions into account, than either of the previous schemes referred to.

Whatever the amount may be, the principles on which it should be fixed are somewhat these : That it should be a minimum living pension, so as not to call for a larger contribution or higher taxation than is absolutely necessary. That it should leave some incentive to exertion to augment the comforts of life. Experience has proved this to be desirable. For instance, a large benefit society in Britain which grants a pension of 4s. a week for invalidity allows the recipient to earn up to 12s. per week without interfering with his right to the full pension.

In the Danish system this question of amount appears to be settled in a very sensible manner. It is not fixed, but as the benefits are in the first place paid for out of the local rates—the half of which may, under certain circumstances, be reimbursed from a State fund—there is a tolerably strong inducement to keep the payment on an economical basis. The protection of the pensioner lies in the alternative which he possesses of claiming relief under the poor-relief provisions, so that a minimum is thus practically introduced. Happily, it has not hitherto been

found necessary to cope with the distress of the poor on a national scale by means of a poor-law in this colony, so that we have no basis of that kind to refer to.

It may, however, help towards an idea of the amount which the pension should be, so as to provide a minimum only, if the following points be stated:—

(1.) The provision of friendly societies operating in the colony. The sick-allowance, valued by the Actuary to Friendly Societies, was (for the G.U.O.F.) 5s. per week after the first year's sickness until the seventieth year of age, and £6 8s. per annum (about 2s. 6d. per week) after the seventieth year was taken as equivalent to future sick-claims.

I think these rates of sick-pay are worth noting as a fair sample of what men who are asked to pay for what they receive are inclined to deem sufficient.

(2.) Cost of maintenance at the Immigrants' Aid Society, which had, in the words of its honorary secretary, "developed into a benevolent asylum, a convalescent home, and a poor-house." At the last annual meeting the honorary treasurer showed that the gross cost of maintenance was £8 17s. 9d. per annum per inmate, and the net cost £8 6s. 5d., or 3s. 2½d. per head per week.

The above examples would appear to indicate that 10s. per week would be too much for this colony. If 5s., proposed under the British scheme, be deemed to err on the other side, probably a mean of 7s. 6d. would not be far off the mark.

Even in the case of a modest amount of that kind the experience of the British poor-law should not be lost sight of in the following respect: About the beginning of the present century outdoor relief, which generally took the form of grants in aid of wages, replaced indoor relief. This became immensely popular, so much so that the cost to the taxpayers increased from £4,000,000 in 1801 to about £8,000,000 after an interval of twenty years. One of the effects was that those in receipt of such relief were preferred by employers of labour, as they were prepared to work for lower wages than those who had no such addition to their wages. This led to the enunciation of the principle that the condition of the pauper must be below the level of the independent labourer, any other principle being held to be a premium on indolence and vice.

In any scheme of old-age pensions this experience must be fully borne in mind, as it shows the economic effect of any injudicious laws, which would place the independent man in a worse position than the dependent. It will necessitate very careful regulations in connection with the period when a pension would be claimable, and the amount of earnings which would afterwards be permitted to supplement it. The New Zealand scheme appears to me to be particularly faulty in the aspect referred to. Section 38 (1) of the Bill reads, "No pension shall be payable for any period during which the pensioner is either in prison or out of the colony, or possesses an income (*exclusive* of his personal earnings and his pension) at the rate of not less than £50 per year"; while in the schedule of declarations for a pension claim head 5 reads, "That my present means of support (including my personal earnings) do not exceed the rate of £50 per year." The income of £50 is to be exclusive of personal earnings in the main Bill (in two places), but inclusive in the declarations for claiming a pension. This is an incongruity which will no doubt be remedied, but is it not likely to open up the same serious questions as arose in Britain? Take the case of men working at a wage of less than £1 9s. a week. A pensioner would be at perfect liberty to undersell the labour of those men to the extent of 10s. a week, and still be as well off as they were, owing to the pension. As there must be a large number of men earning no more than £1 9s. a week, this bids fair to be a serious evil if the Bill becomes law in its present form. In the case of a private society making rules for the benefit of its own members it can well be understood that permission may be given to earn up to a certain figure without interfering with a right to a pension. In such a case the pension has been paid for, and there appears to be no pressing necessity for considering its effect on other workers, so long as the members of the particular society are benefited. But the principles are different for a State granting a pension of that kind, especially one for which no direct and specific contributions have been exacted. It ought to consider the effect on the whole population, and it would be very hard on taxpayers to be thrown out of work by the competition of pensioners. The problem is similar to that to which reference is frequently made in this city—the question of the competition of prison labour with outside workers, and that of Government servants and pensioners with outsiders in connection with positions to which emoluments attach.

Then, again, in the New Zealand scheme there is ample scope for ingenuity in getting the better of the State. For instance, there is nothing to prevent a man during his income-earning days spending a large portion of his income for an assurance payable at his death, the premiums to cease at age sixty-five. When he died, after enjoying a pension, his heirs might enter into the enjoyment of a large sum, quite out of proportion to what may have devolved on the heirs of a man in similar circumstances who never was a beneficiary under the pension scheme. There is also nothing to prevent a man from making over by gift the whole of his property to his wife or children, in order to come within the scope of the scheme. These points are specifically provided for in the Danish scheme, and, in my opinion, constitute a blot on the proposals of the New Zealand scheme.

THE METHOD OF COLLECTING CONTRIBUTIONS.

If a scheme requires contributions from the future recipients of pensions it is evident that a gigantic organization becomes necessary. The German scheme provides for yearly cards, to which stamps of certain value must be affixed for each of forty-seven weeks in the year. These must all be handed in to a central district organization, and form the basis of the after determination of a man's right to a pension, and the amount thereof. This system has, no doubt, some merits, but we need not be surprised to hear of it being referred to in Germany as "the stamp-sticking nuisance." Whole buildings are already stored with cards from top to bottom; and, as the scheme embraces over twelve million contributors, and a card for each year requires to be kept as a permanent record, its cumbersomeness can readily be conceived, and the future of the scheme itself may possibly be jeopardized from its unwieldiness in this particular.

It is a very difficult problem to manage the details for a large population, because a scheme will often be prejudiced unless it work smoothly in minor matters. In Germany it is found that the investigation of a person's claim takes so long that the claimant has in many cases to fall back on the poor-relief organizations to provide for pressing necessities. For Victoria this question of detail is hardly ripe for serious consideration.

THE NATURE OF THE PROVISION TO BE PAID FOR.

It has been recognised as hopeless to expect the population for whom such a scheme is mainly necessary to approve of paying something for a possible nothing, even although all the chances had been duly discounted in the payment asked for. Experience shows that those who assure for a contingency which is not certain—as, for instance, an annuity to commence at some deferred period—almost invariably do so subject to the conditions that, in the event of death prior to the enjoyment of the annuity being entered upon, all the premiums paid will be returned to the assured's heirs. There is little doubt that all drawbacks of that kind would bulk largely in the eyes of those asked to contribute. Mr. J. Chamberlain's scheme endeavoured to get over that difficulty by making grants to wife, children, or heirs in the event of the prior death of the insured; but, of course, it is obvious that these subsidiary advantages have to be paid for either by an increase in the contributions or a decrease in that pension which, without such benefits, the contributions would be capable of providing.

A consideration of meeting the popular prejudice against contributing to a pension, and possibly losing the benefit either through inability to keep up the requisite payments or by early death, brings out the following points:—

(1.) That it is just as important—in fact, more so—that a man should provide for those dependent upon him—for instance, his wife and children—as for his own old age. Both are moral obligations, and there does not appear to be any better reason for the State making a legislative enactment to make compulsory the one more than the other, or, in fact, making the one in any way preferential to the other. But it is particularly the lower-paid workman who neglects to make adequate or any provision for those dependent on him. To draw contributions from the poorer classes to meet the cost of a pension must very materially affect the power to make any provision for wife and family. The problem presents seemingly endless ramifications.

(2.) That there should be some means by which the pension could be made non-forfeitable by reason of inability to pay the contributions as they fall due. For instance, in life assurance we are all familiar with certain schemes of assurance whereby each premium paid protects a proportionate part of the sum assured. It would appear that a somewhat similar plan would be suitable for a pension scheme, especially when so many of the contributors would be periodically out of work. It would be quite feasible to state the amount of pension which would be guaranteed by each payment of, say, £1 made in each year of life, so that the sum of all the amounts thus paid for would be the pension to which the contributor would become entitled. It would only be necessary to see that the principle of compulsion was not allowed to drop out of sight owing to a temporary inability to sustain the payment, but that these should be resumed as soon as the ability to pay recommenced.

SOME GENERAL PRINCIPLES OF A CONTRIBUTION SCHEME.

In addition to the complicated machinery required for the collection of contributions, and which would probably take the form, as in Germany, of employers being compelled to deduct the necessary sums from their employes, and account for the same to a State Insurance Department, there is the very serious question of the investment of the funds so created. These funds would require to be invested to yield interest, and the security would require to be first class. In all probability the investment of the funds would be confined to the Government debentures or inscribed stock, and as these at present yield only about 3 per cent. it is clear that the advent of a new regular purchaser (and a compulsory one) would soon have the effect of raising the market price of the stock. Look at the position in Britain, where a large portion of the public debt is in the hands of Government departments on behalf of savings-banks, &c., and where low-interest-bearing Consols are practically the only variety in the market for general investment. Out of a total of £561,000,000 at the 31st March, 1894, about £116,000,000 was held by public departments, and the amount thus held was increasing at a rapid rate. The latter being removed from the market left only £445,000,000, which, being largely in the hands of trustees, left only a small margin for open market purposes. In these circumstances it need occasion no surprise to see 2½-per-cent. stock at a premium.

The German scheme was based on 3½-per-cent. interest being realised, which is almost certain to prove an over-estimate.

There is little doubt that a scheme involving the creation of a huge capital fund would have a very powerful effect on market prices of investments, and would enable stock to be held by capitalists until a very high premium was obtained. The probability is that an amount of over £10,000,000, even for the present population, would accumulate.

In consideration of the certain difficulties which would attend the satisfactory investment of the enormous accumulated funds, the complicated machinery which would be necessary to compel every one within its scope to contribute, and continue to contribute, and the watchful supervision required to prevent fraud and imposition, many able thinkers have come to the conclusion that a scheme of this kind is unworkable, and must be rejected from a business standpoint.

NON-CONTRIBUTION OR GENERAL LEVY SCHEME.

This discards all question of contributions and accumulated funds, and proceeds on the principle of levying by taxation such a sum as will be sufficient for the year's requirements for

pensions. But while getting rid of the troublesome questions which arise in any scheme for collecting the contributions, and also in connection with the investment of the funds, it opens up various other questions, such as:—

- (1.) Whether the law would not be too great a tax on posterity?
- (2.) Whether the voting-power in a democratic community would not be too strong for the maintenance of only a bare living pension?
- (3.) The effect of such an inducement on the encouragement of the immigration at advanced ages of future beneficiaries.

As to (1), that is a serious matter, and would tend to make it desirable that the right to a pension should be very restricted in character. As to (2), there would be no grave objection to the suspension of the franchise in the case of all recipients of a pension. If the amount of the pension were to be the subject of an annual vote it might not always be an easy matter to resist pressure for an increase when brought to bear by the legislative representatives of the pensioners. As to (3), that must remain largely a matter of detail in legislation, and it should not be forgotten that this subject of old-age pensions has now been legislated for by so many countries that, unless a mistake be made in granting too large a pension, the inducements to immigrants will not bulk very largely.

On a review of this method, I am convinced that it is more feasible than the contribution plan.

The question of raising the necessary funds is largely a question for the Treasurer of the colony. But the probability is that the main sum necessary for the purpose could be provided most economically by a graduated scale of death duties on the estates (without exception) of deceased colonists. From an economic point of view this would probably be the best method of raising the necessary funds, and it would appear to be tolerably evident that such a method would, at any rate, obtain the ready approval of a majority of the voters. In Denmark the aid is paid for in the first place by Municipalities, which impose local rates, and the State gives a grant to those Municipalities according to the amount paid out—not to exceed one-half; but the amount to be granted is to be based on beer duties, which may or may not be sufficient to pay the full half. They were not sufficient for that purpose a few years back, so that the Municipalities would in that case bear more than half the local burden (a direct incentive to economy). Probably the allocation of this particular tax to aid a pension scheme was due to a consideration of the fact that the consumption of the beer was an important cause of the pauperism which required relief. In Germany about a third part of the charge is contributed by the State. In the New Zealand proposals the State provides the whole amount.

A PRACTICABLE SCHEME.

The statement of the various phases of pension schemes has, I am afraid, already wearied you, but I think it would be satisfactory to you if, before concluding, I state the result of my personal consideration of this question. It will of necessity be brief, and will proceed on these lines:—

(1.) That, as a first step, the State should take advantage of every opportunity to promote and encourage thrift in the community.

(2.) That, in so far as the preceding action is inadequate, the aged poor be dealt with in two classes:—

(a.) The Deserving Poor: These would require to have lived a stated time, say fifteen or twenty years, in the colony, and have a good record in every way; amongst others, that he or she has not been sentenced for dishonourable conduct by the law-courts of the colony, nor poor through extravagant living, nor by depriving himself or herself for the benefit of others, nor guilty of begging or vagrancy. That for these there should be provided some form of outdoor relief of the nature of a pension, such to be borne by taxation levied for that purpose either by local authority or by the State. That no stigma be cast on the recipients, although there might be some provision sufficient to distinguish the man who has been able to provide for his old age from the pensioner. This would be desirable, so as to bring the support of parents by children able to do so more under the compulsion or suasion of public opinion. Probably the withdrawal of the franchise from pensioners would fit the case.

(b.) The Undeserving Poor: These, when separated from the deserving poor, can be more adequately dealt with. Their very separation would have a salutary effect on the social strata from which their ranks would be chiefly recruited. There would be no sentiment wasted on them, and the constitution of the poor-house or indoor system in its most rigorous forms is clearly pointed out. It is reported that all sections of the Danish population are satisfied with the working of their laws on this basis except the section about whose opinions no one cares much. Danish loafers are said to be dead against it, as they do not relish being separated from the company of their more deserving brethren. The effect of an indoor system being worked alongside the outdoor system would enable a wholesome discipline to be exercised over the latter, and the appropriate punishment for misbehaviour would obviously be the transfer of the recipient to the indoor department.

1.—ENCOURAGEMENT OF THRIFT.

Legislation and practical effort towards this end are capable of exerting a considerable influence. It would, however, be unwise to interfere in any unnecessary degree with the business of any of the societies or institutions which exist for that purpose—such as life assurance institutions and friendly societies.

Most of us are so familiar with the figures relating to life assurance business, its extent, &c., that I will not burden this paper with the figures. I may say, however, that these institutions are eminently sound, and are conducted on lines of caution and on the basis of carefully-tabulated experience. The friendly societies we are not so familiar with, and I think it may interest you to have a short statement of their position. The data is taken from the latest reports of the Government Statist in connection with friendly societies.

Average number of effective members, year 1883, 46,830; 1892, 73,163; 1894, 67,735. Total funds possessed at end of year 1894, £1,080,028. Receipts, year 1894, £297,139; payments, £271,735. Position as regards solvency: At first valuation the deficiency of capital was over £285,000; second, £228,000; third and last, £198,000. The extent of the deficiency is best appreciated by the ratio of its amount to the liabilities. The capital at first valuation represented about 11s. 5d. in the pound of liability; second, 14s. 1d.; third, 16s. These are group deficiencies, some of the societies having a surplus, so that there are societies where the insolvency is greater than is represented by these ratios.

The duration of sickness was in 1892 fifty-four days per sick members, in 1893 fifty days, in 1894 fifty-six days; while for the seventeen years 1878–94 it was forty-six days. This appears to indicate that the advancing age of members is becoming felt, and that any system of old-age pensions supported by the State would have a salutary effect on the financial experience of these societies in that particular aspect of the question. Considering the decreasing rate of interest obtainable for investments, and the greater skill required to finance successfully, it will not be surprising if a rapid decrease in the rate of interest realised by these societies will be observable in the near future. Already the rate has fallen $\frac{3}{4}$ per cent. in the two years 1892 to 1894 (from 5·02 per cent. to 4·29 per cent.), so that the prospect of clearing off all deficiencies unaided is not so hopeful as when interest rates were higher.

In order not to engage the active hostility of the powerful friendly societies in Britain, it was proposed in Mr. J. Chamberlain's scheme to grant similar privileges in the way of State bonuses, or additions to pension, to the members of friendly societies who contributed for a similar benefit in their own society. The leading men in connection with these societies have expressed disapprobation of any scheme involving State aid to the societies, on the ground that State aid implies State control and interference. Probably a similar feeling would prevail here, and it would be desirable to aid them (if at all) in some other way.

A consideration of the returns of friendly societies points strongly to the desirability of some simple way of providing a safe and immediate investment of the funds as they accumulate. In many branches the rate of interest earned is nil, and in numerous others it ranges from $\frac{1}{2}$ per cent. to less than 3 per cent. There are, of course, instances where the rate is high, one going as high as 11 $\frac{3}{4}$ d. per cent. for a quinquennium; but I think you will agree with me that the freedom of investment which would permit such a rate to be earned is as bad in principal as the inability to earn any rate at all. The plan of granting a somewhat higher rate of interest than would be paid to the public creditor for all moneys lodged with the State by these societies would give a stability to their operations which would be very valuable, and would probably prove to be a wise policy. It would no doubt be of the nature of a subsidy, but sound reasons could be advanced for its desirability as an encouragement to thrift.

As regards life insurance institutions, their main desire is to be left alone by legislation, as they feel able to work out their contracts with fidelity and profit to their members. But a plea may very fairly be urged for such treatment, at times when fresh taxation is being imposed, as will leave them exempt, and thus all the better fitted for that active propaganda among the population which is conducive to the formation of habits of thrift and of careful provision for dependents.

It would be beyond the limits of this paper to go into details regarding the subject of thrift; but as a sample of what has been proposed in Britain by a life assurance society may be instanced the following:—

For a payment of 3d. a week by school-children, to be collected by the school management, a pension is guaranteed to commence at age sixty-five, and in the event of previous death an assurance is granted of the following amount:—

	£	s.	d.
At death before age of fifteen	1	0	0
At death between ages fifteen and twenty-one	2	10	0
At death after age twenty-one	5	0	0

Pension Benefits.

Age of Child subscribing.	Amount of Pension per Annum.
	£ s. d.
Not exceeding five	11 4 11
Between nine and ten	9 10 11
Between twelve and thirteen	8 10 6

And so on.

Considering the fact that no school-fees are payable in our State schools, it would appear quite possible for the State, by making use of the machinery of the Savings-bank, to inaugurate something of a similar character without in any way trenching on the ground occupied by other organizations. The advantages of commencing the payments early are that a smaller weekly payment will suffice, and the habit of thrift is implanted.

If the subject, "What encouragement can be given to thrift by legislation?" were to be carefully investigated, I feel certain that many avenues would be discovered which are at present neglected.

I do not desire to enlarge upon the method of State provision for the destitute aged in what I consider a practicable scheme. Much can be written on the ethical side of the question, and I leave that side for an abler pen than mine. I have attempted to tackle the subject in its monetary and statistical aspects merely. The need for a State scheme is admitted by the provision in the estimates of State expenditure of a sum of £100,000 to charitable institutions. The necessity for grappling with the subject in a comprehensive form is likely to be forced upon the early attention of the Government.

I feel that I have devoted a good deal of space to the setting-forth and elaboration of details in connection with points which I have altogether discarded in the statement of my own conclusions on the subject. Yet I think that a consideration of such details is desirable, and is calculated to have a sobering effect on the mind. This is not a subject on which we should be led by enthusiastic social reformers, but is one for which there is need of patience and wise delay before committal to any particular scheme. Serious difficulties will no doubt always present themselves for solution when one sets oneself the task of controverting the truism that the poor shall be always in our midst. We have considered several schemes having that object in view, and fortunate will be the State which is able to devise a scheme which will discard all the objectionable features and retain only the good. A State scheme of old-age pensions is calculated to bring into play many complicated forces the effect of which on the body politic it is very difficult to foresee and provide for. And while our sympathies are no doubt in favour of the creation of some comprehensive scheme for the kindly and considerate treatment of the aged and deserving poor—a want which is sadly felt in our midst at present—it would become us as an insurance institute to insist as strongly as possible that every effort should be made to encourage the making of a suitable provision, by means of the insurance societies existing in our midst for the purpose, or in any other ways which would come under the category of “thrift.” It has been a matter of pride in the colonies that various departures have been made from the beaten track in legislation that have been recognised by other countries as worthy of imitation; and it is our hope that when the Legislatures come to deal with this question they will do justice to their best reputations. The New Zealand proposal is, in my opinion, a great improvement on any elaborate system involving individual contributions and the building up of huge reserves; but I believe it to be unsound in the directions I have already indicated, affecting the amount granted and the conditions attaching to the grant.

Considering that my subject is “Old-age Pensions,” you will, I imagine, have come to the conclusion that, on the whole, I have condemned them. But it has been held to be sometimes as useful to prove a negative as to establish an affirmative, and in this view I hope my criticism of the various schemes may be of some service.

Approximate Cost of Paper.—Preparation, not given; printing (1,475 copies), £7 3s.

By Authority: JOHN MACKAY, Government Printer, Wellington.—1897.

Price 6d.]

