

I have to report, therefore, that in addition to the annual subsidy of £48,000 now being paid, further subsidies of £12,000, £18,000, and £25,000 will be required for the years 1914, 1915, and 1916 respectively, or an average of about £18,000 per annum.

11. The subsidies paid to the fund so far have in reality been old payments in a new guise, taking the place of compensation for loss of office and gratuities; for while the Government's total contribution to the fund for the six years has been £156,500, the compensation the pensioners would have been entitled to if they had not accepted pensions was £149,554. This sum is computed only to the date these pensioners joined the fund, whereas if there had been no fund there would have been further compensation from that date to the date of retirement, bringing the sum in excess of the actual subsidy. There has also been a great saving in gratuities, for while these amounted to £26,210 for the five years prior to the establishment of the fund, for the next succeeding five years they only amounted to £6,065, or a decrease of over £20,000.

#### PROPOSED ALTERATIONS AND AMENDMENTS TO THE SCHEME.

12. One of the principal amendments that has been suggested is to alter the form of the Government subsidy to a fixed percentage of the annual salary. The present subsidy is based on the pensions paid in excess of those that the contributions will produce, an amount which for many years will be an increasing one. Every increase in the subsidy appears to involve new legislation, with its consequent delay, and a more automatic method of obtaining the necessary vote is much to be desired. A subsidy based on the annual salaries of contributors would, as long as new entrants are admitted, provide a yearly payment increasing with the growth of the service, and would pay the deficiency of the contributions in the case of new entrants, and also provide a certain amount which could be placed against the liability for the older members. If ever the fund were closed for new entrants, however, the present method would have to be reverted to, or some other means found of meeting the deficiency. The Government guarantee of the solvency of the fund should therefore be retained in addition to the subsidy.

13. The annual salaries of the contributors at 31st December, 1913, were £1,820,379 per annum, and 3½ per cent. would produce £63,713, increasing at the rate of about £5,000 per annum, as compared with the estimated subsidies of £60,000, £66,000, and £73,000 for the years 1914, 1915, and 1916 respectively.

The subsidy required increases rather faster than 3½ per cent. on the salaries, and I would recommend that 4 per cent. be paid. As far as can be seen at present a 4-per-cent. subsidy would provide for the deficiency in the contributions for future service and gradually liquidate the liability for the pensions for back service.

14. I may say that in the schemes approved under the Local Authorities Superannuation Act, 1908 (the contributions and benefits under which are identical with those of the Public Service scheme, save that pensions for back service are not payable out of the fund), the least subsidy paid is equivalent to 4 per cent. of salaries. The schemes and subsidies are as follows:—

Wellington Harbour Board: Subsidy 65 per cent. of the members' contributions, equivalent to 5 per cent. of the salaries.

Auckland Harbour Board: Subsidy 60 per cent. of the members' contributions, equivalent to 4 per cent. of the salaries.

Buller County Council: Subsidy 80 per cent. of the members' contributions, equivalent to 7 per cent. of the salaries.

As already stated, in these schemes pensions are not payable out of the fund for back service. The Act, however, gives power to pay them out of the ordinary revenues of the local authority, and in addition to the subsidies mentioned the Wellington Harbour Board pays full pensions, and the Buller County Council half-pensions, for back service, thus greatly increasing the nominal subsidies and thereby actually placing the funds in a stronger position than the Public Service scheme.

15. *Increasing the Allowance to Widows under Section 42 of the Act.*—In this connection I have been asked to make a computation (1) of the effect of increasing the widow's allowance to £52 per annum by (a) a reduction of the contributor's retiring-allowance if he survives, (b) increased contributions; the election of the contributor to the proposed reduction of his retiring-allowance to be made not less than three years prior to his retirement: (2) what amount of annual contribution would be required from the Consolidated Fund to make the above increase without (a) reduction of the contributor's retiring-allowance or (b) increased contributions.

16. If an equivalent reduction is made in the contributor's retiring-allowance an increased allowance could be given to his widow without extra cost to the fund, provided it is sufficiently guarded against adverse selection. It is quite clear, however, that the fund would not be sufficiently protected by the selection being made "not less than three years before retirement," and a strict medical examination would be absolutely necessary before allowing any transfer of pension. For example, an officer in bad health would risk very little by giving up part of his pension for the benefit of his widow, even if the selection had to be made (say) five years before death or retirement, for if he died before retirement his widow would be no worse off than under the old arrangement; while if he lived to retire, by sacrificing a part of his pension when by reason of his bad health his pension would only be worth a few years' purchase (if any), he would have secured a substantial annuity for his wife. The fund, in fact, would have everything to lose and nothing to gain.

I see no particular objection, however, to a pensioner able to pass a medical examination being allowed to surrender a certain portion of his pension to purchase an annuity payable to his present wife if she survives him, the calculation to be based on the ages of the pensioner and his wife at the date of the surrender. The present allowance is payable to the contributor's