25. I have shown above that to keep the Fund solvent the annual State subsidy must be fixed at some amount greater than £306,459, exclusive of such additional amount as is necessary to cover salaries and expenses charged to the Superannuation Fund. I also made it clear that this minimum amount only represents interest, and accordingly will not redeem the deficiency, but merely prevents it from increasing, nor does it include any subsidy in respect of new entrants. It will therefore be apparent that subject to future salary and other conditions remaining as at present, the payment of such minimum subsidy will mean that at each succeeding valuation of the Fund an increase in the annual subsidy will be required by reason of the number of new employees enrolled in the Fund at rates of contributions which in general are less than adequate to provide the benefits. In order to avoid large increases in the subsidy at intervals of, say, seven or eight years, it would be advisable to adopt an automatic basis that will provide a gradually increasing subsidy and reflect salary fluctuations, and accordingly I recommend for consideration an annual subsidy of 10 per cent., of the salary roll, which would give a commencing subsidy of about £340,000 per annum.

26. It may be asked whether, judged by ordinary commercial standards, this is too high a price for the State as employer to pay for the advantages it derives from the existence of a Staff Superannuation Fund. In order to enable comparisons to be made, I cannot do better than to quote the following extract from the report of a Commission on the Pension Funds of the City of New York :—

> "The Commission has made a broad review of existing pension systems in operation, both in the United States and abroad, on which it was able to secure information. This inquiry has brought out the fact that the development of pension measures as a result of an experience of over a hundred years is in the direction of equal division of cost between the employer and the employed, and that this tendency applies equally to systems for public employees and for industrial workers."

My recommendation for the future State subsidy to be 10 per cent. of the salary roll does not differ very much from apportioning the cost equally between the employer and the employee when account is taken of the initial deficiency created in the Fund by the free gift of back service in calculating the pensions payable to employees in the service when the Fund was established, and the very considerable amount by which past subsidies have fallen short of the contributions paid by employees.

27. I have previously stated that, on account of the large deficiency in the Fund, the subsidy is in the nature of a perpetuity, and consequently my recommendation of an automatic subsidy equal to 10 per cent. of the pay roll will require modification if at any time the present constitution of the Fund is altered, as for example, by refusing or even making voluntary the enrolment in the Fund of new employees.

28. In recommending that the amount of the automatic subsidy be fixed at 10 per cent. of the pay roll I have endeavoured not only to place the Fund on a firmer footing, but also to keep the cost to the State as low as is reasonably possible. The valuation bases have been fixed after very careful consideration, but it is impossible that they will exactly coincide with the actual future experience of the Fund, since many of the factors involved are affected by social and economic conditions which can only be estimated approximately.

In order to counteract any possible adverse fluctuations, it is essential that every endeavour should continue to be made to invest the funds at the most remunerative rate consistent with safety.

29. Should it be desired to go further than I have indicated, so as to more rapidly redeem the deficiency, a higher subsidy than 10 per cent. could be fixed, or alternatively the Fund could be strengthened by suitable amendments to the Government Railways Act. For example, the following alterations in the scheme would considerably lessen the liabilities of the Fund without unduly prejudicing contributors :—

(a) Abolish the employee's right to retire after forty years' service, and substitute a provision that any employee compulsorily retired after forty years' service for any reason other than his own misconduct, shall be entitled to a pension ; but in such case all pension payments between the date of retirement and the attainment of age 60 shall be paid out of the Working Railways Account, and not out of the Superannuation Fund. Many officers join the Service round about age 15—the average entry age of the whole First Division is a little under 17—and I have already indicated that it is very costly to cause, or even allow, them to retire on the maximum rate of pension at as early an age as 55. To make the early retirement rates of the valuation period under review—12·8 per cent. of the total retirements took place at or before age 55—a permanent feature of the Fund's experience will bankrupt the Fund, short of a prohibitive subsidy. Quite apart from the financial strain on the Fund, many of the officers so retired are, by their ability and experience, at their maximum of usefulness to the State, and it is one of the objects of a good superannuation scheme to retain men of outstanding ability. It is important to recognize that such a modification affecting the employee's right of voluntarily retiring would in no way lessen the power of the Railway Department to decide that an employee was to be retired in the interests of efficiency, but it is only right in such a case that the Superannuation Fund should not have to foot the entire bill. I have suggested above that in such cases the Railway Department relieve the Superannuation Fund of pension payments prior to age 60, but the Department might prefer the alternative method of the Fund paying reduced pensions to those compulsorily retired on pension before age 60.

In the case of new employees joining the service after, say the 1st January, 1930, at ages under 20, the right to retire after forty years' service could be automatically abolished by the simple expedient of deferring membership of the Superannuation Fund until the attainment of age 20. Such a plan not only makes it impossible for the maximum rate of pension to enure before the attainment of age 60,