MINUTES OF EVIDENCE.

The Chairman: At the last meeting of this Committee it was decided that Mr. Verschaffelt and Mr. Gostelow should be asked to come here to-day, and that meantime they should make up a general statement in regard to the proposals before Parliament, also expressing their own views upon the matter, and that they should also be invited to attend and be present with this Committee during its sittings. Further, that this morning opportunity would be taken by the Committee to go into details with the officers I have referred to. I presume everybody has read the reports: I think we should express our thanks for the very lengthy report that has been prepared by both these gentlemen. I feel sure they will be of very great assistance to the Committee.

PAUL DESIRE NESTOR VERSCHAFFELT, Public Service Commissioner. (No. 1.)

IN response to your request that I furnish a report in regard to the Superannuation Amendment Bill, I attach hereto a copy of my report to the National Expenditure Commission. This gives—

(1) The reasons why a pension scheme is necessary;
(2) A brief review of the superannuation schemes in operation in New Zealand;
(3) The main causes leading up to existing deficiencies in the various funds; and
(4) A summary of the proposals which, if given effect to, I considered would considerably strengthen the various State Superannuation Funds.

The proposals referred to were discussed with the Commission, and finally adopted by them as the basis of their recommendations.

Before making any further comments on the Bill, I desire to lay stress on the importance of giving the fullest consideration to the reports of the Actuary on the state of the funds, and the suggestions made by him as to the remedial measures necessary to improve their financial position.

Many superannuation schemes have failed because those responsible have not perceived that fixed mathematical principles must underlie any sound superannuation scheme, and that if any system proves inequitable and unsatisfactory it is because it violates such principles.

I propose briefly to refer to two important pension schemes in illustration of the foregoing.

Great Britain.

Though civil pensions, particularly to those officers of the Crown who had held high and important positions, had been granted from early times, it was not until 1810 that the first general Act dealing with the subject of superannuation in all offices of the Government was passed. Under this Act funds were appropriated by the Government and paid into the Exchequer, and a general system obtained of granting superannuation allowances to the Civil Service out of the revenues of the country without the existence of any superannuation fund.

It was found that the expenditure for pensions increased very rapidly, and in 1822 an Act was passed providing that deductions should be made from the salaries of those employees drawing more than £100 per annum. This Act was, however, repealed in 1824. From 1824 to 1829 pensions were granted without deduction from salaries.

In 1829 it was decided by Treasury minute to make deductions from salaries at the rate of 2½ per cent. from salaries not exceeding £100, and 5 per cent. from salaries exceeding that amount, irrespective of age.

The Superannuation Act of 1834 gave parliamentary sanction to these deductions, but no provision was made for the setting-up of a separate fund. As no account was kept of the amount collected, it was not known whether the contributions were adequate or inadequate. An impression prevailed that they were more than sufficient, and that the Government was making a profit out of its employees.

In 1856 a Select Committee of the House of Commons was appointed to consider the superannuation question. This Select Committee, besides taking evidence from members of the staff and others, engaged the services of two actuaries to investigate the question of the sufficiency of the deductions from salaries. To the surprise of many—since an impression to the contrary had prevailed—the actuaries reported that the contributions of the officers were not adequate to meet the liabilities. In other words, had the deductions from salaries been funded from the first, the fund would by that time have been hopelessly insolvent. The report of the actuaries was delayed owing to the necessity of obtaining data from which to make their calculations.

Before the actuaries' report had been submitted, however, the Civil Service Superannuation Commission, which succeeded the Select Committee, had recommended the abolition of the contributory system, and the provision for deduction from salary was repealed in 1857. It is not suggested that the Commission made their recommendation because of the financial unsoundness of the scheme in operation, but had they waited for the report of the actuaries they would have been in a much better position to judge the matter, and instead of the present costly non-contributory system a financially sound contributory system satisfactory to the members of the Service could have been evolved. The members of the Civil Service were not opposed to a contributory scheme.

The inherent weaknesses of the scheme as it existed were—

(1) The provision for flat-rate assessments (irrespective of age).
(2) The lack of provision for taking care of the accrued liabilities.