The effect has been to deplete the funds at a time when they should be steadily building up to provide for their liabilities to existing contributors. The loss of interest due to the depletion of the funds under these circumstances is very real, and has a marked effect on the funds.

It is in my opinion very necessary that the obligation of Government regularly to pay the subsidy due should be fully recognized, and every endeavour should be made to ensure this being done. The Commission suggests "an *automatic* £1 for £1 subsidy." For this reason I think the Bill should make provision for the necessary amount to be paid to the funds "without further appropriation than this Act," instead of, as provided in the Bill, "out of moneys appropriated from the Consolidated Fund for the purpose."

Paragraph 1461. Review of Existing Annuities.—I agree entirely with the recommendation of the National Expenditure Commission that existing pensions be reviewed and brought into line with the proposals for future pensions. I would not go so far, however, as to recommend that the reductions be not greater than 20 per cent.

It should not be overlooked that existing pensions are to a large extent practically non-contributory. By this I mean that the employee made no contribution in respect of service prior to the year 1908, and when it is realized that the present condition of the funds is largely due to the failure of Government to meet its liabilities in this connection it is only reasonable that those reaping the benefit of the scheme without fully paying for those benefits should bear their share in the reconstruction proposals which have been forced on the funds.

It is often contended that, when a man has actually retired and is in receipt of a pension, the contract is more or less complete; but to differentiate between the man who retired yesterday and the man who may retire to-morrow under the new proposals would be to create very real anomalies, which can be avoided only by treating all alike.

Office of the Public Service Commissioner, Wellington, N.Z., 18th March, 1932.

Memorandum for The Chairman, National Expenditure Commission.

As requested, I have made a brief review of the retirement pension schemes relating to the various branches of the Public Service.

For the sake of clarity I shall divide the subject-matter under the following main heads:—

(*a*) Objective and history of scheme;
(*b*) Alternative methods;
(*c*) State Superannuation Funds in operation in New Zealand;
(*d*) History of various schemes in New Zealand; and
(*e*) In conclusion, certain suggestions which may be helpful to the Commission.

(*a*) *Objective and History of Scheme.*—It is, I think, fully appreciated by everybody that some form of pension scheme is necessary in any State service, even if it be only for the purpose of promoting the efficiency of the Service by facilitating the removal from office of those who, as the result of age or medical unfitness, have outlived their usefulness.

The generally recognized obligation of the State to contribute to a retirement pension scheme is based on the principle or recognition of the fact that, if the State has the services of an employee throughout his years of usefulness, there is a duty to provide for his old age.

This principle has long been recognized in nearly all civilized countries, and in England as early as in 1810, to place this matter on a more systematic basis, a Superannuation Act was passed providing for pensions to retired State employees.

The monetary reward for public servants are as a rule on a lower plane than in other callings, hence the State's contribution to a retirement scheme has always been regarded as in the nature of deferred pay.

(*b*) *Alternative Methods.*—Various systems are in operation in different countries, but in effect there are only two particulars in which retirement schemes differ fundamentally—

(i) In the source of the funds by which they are maintained; and
(ii) In the method by which provision is made for meeting the liabilities incurred.

In regard to (i), the scheme may be contributory or non-contributory.

As regards (ii), they may be managed upon either the cash disbursements or the actuarial reserve plan.

Under the joint contributory system each employee contributes regularly, usually by a percentage deduction from his salary, while the employing authority either makes a fixed regular contribution or undertakes to appropriate sufficient funds as needed to keep the scheme in operation. Under the non-contributory system the whole cost is borne by the employer. The latter system is in operation in Great Britain, Belgium, and Germany, but in most countries the former system is in vogue.

Under the cash-disbursement system benefits are paid from whatever funds are in hand, without much reference to the future. During the early years of the operation of such system the employees' contributions are often more than sufficient to meet all needs, but gradually the growing pension roll