This scheme was unsatisfactory, because it afforded no adequate provision for employees who might live many years after retiring from the Service.

Civil Service Insurance Act, 1893: The compulsory savings' arrangement having proved inadequate as a retirement measure, the Civil Service Insurance Act, a combined assurance and annuity scheme for the benefit of Civil servants, was passed in 1893, and made compulsory on all new entrants into the Service under forty years of age. This Act, however, did not prove sufficient as a substitute for a retirement plan. The price of an endowment assurance is so high as to make it of little use to an employee of small salary as a means of furnishing him with an adequate retirement allowance. The inadequacy of the endowment assurance as an old-age allowance made it necessary for the Government to supplement this provision in a great many cases with gratuities and compensation. Such payments were specially appropriated, but the law of 1893 provided distinctly for granting an employee who became permanently incapacitated through no fault of his own a sum equal to one month's salary for each year of service. This allowance on account of invalidity was entirely separate from the annuity for which he paid. Under these terms the employee who became incapacitated through ill-health was in a much better position than one who kept his health. A complete summary of the compensation and pension grants was made by Mr. Morris Fox when the Public Service Superannuation Act of 1907 was under consideration.

The payments for the year 1906–7 for pensions, gratuities, and compensation totalled £42,157.

Public Service Superannuation Act, 1907: The Civil Service Insurance Act proving inadequate from the first as a superannuation measure, different classes of Civil servants made successful efforts from time to time to secure more satisfactory legislation. In 1899 the Police Provident Fund was passed; in 1902 the employees of the Railways and in 1905 the teachers did likewise. In 1906 a Civil Service Superannuation Bill was prepared and referred to the Public Accounts Committee. This Committee recommended that the matter be referred to an Actuary for examination and investigation. Mr. Morris Fox thereupon took up the work, and submitted a very full report, following which the Public Service Superannuation Act, 1907, was passed. Mr. Fox made it clear that the whole of the liability for back service should be borne by the Government, and this point was not questioned by the Government. Mr. Fox insisted on the importance of reserving and accumulating the contributions to meet the contributor's portion of liability, and not using them in earlier years to pay other claims which have not been provided for by the contributors—namely, pensions to persons already in the Service at the time of the establishment of the plan.

He maintained that such claims should certainly be met from other sources as they fall in, and not discharged by using accumulations formed for the purpose of meeting altogether different liabilities. The Act provided for the counting of back service, and Mr. Fox said, "If it be deliberately resolved to offer these pensions, it should also be recognized that they constitute a present liability, and they should be met out of the present resources of the State." The sums contributed by the employees should be used only for the purpose of meeting the portions of the current and future liabilities for which they were intended. That part intended to meet a portion of the future liability should be accumulated at interest, and not used for any other purpose. The remainder of the current and future liabilities not so provided for by the contributor should be discharged year by year as they accrue by the Government of the day, and no portion whatever of the contributed fund should be used for that purpose.

It was pointed out by Mr. Fox that there were several ways in which the liability assumed by the Government might be met:—

I. The capital sum, £1,816,719, might be paid in immediately, but this would not be practicable;
II. A yearly payment of £72,669 interest on the capital sum at 4 per cent. might be made; or, as proposed by him;
III. The liability to be met by the Government year by year as it accrues.

To meet the case, provision was made in the Act for the payment into the fund each year "without further appropriation than this Act" of a certain fixed sum, together with such further amount, if any, as is deemed by the Governor-General in Council in accordance with the report of the Actuary to be necessary to meet the charges on the fund during the ensuing year.

The New Zealand scheme was apparently regarded as being satisfactory to the public as well as to the employees. Press comments took the form of congratulation rather than of any criticism of any extra charge laid on the country.

It will be seen from the foregoing that, after many years of experimentation with various schemes, including compulsory assurance, the present contributory system was adopted. It was regarded as a definite advance on previous schemes, and one that would be equitable both from the point of view of the State as well as the employee. The outstanding features of the scheme itself were:—

(a) A percentage contribution by employees based on age of joining the fund;
(b) A definite recognition by Government of its obligation to contribute to a retirement scheme;
(c) Government's acceptance of a liability for all annuities on service rendered up to the time of the adoption of the scheme; and
(d) Government's assumption of a liability to make up any deficit on account of benefits to invalids, widows, and orphans;

but probably a more outstanding feature of the operation of the scheme has been the fact that the Government's obligations in respect of these undertakings have been "more honoured in the breach than in the observance."