undoubtedly be characterized as repudiation; but there is also a moral obligation on the Government to sustain the solvency of the funds, and there appear to be only two alternatives for the Government to accomplish this end—

(a) To pay up arrears of subsidy and interest—a course in its entirety at present quite impossible; and

(b) To reduce pensions and other benefits (both existing and future).

Whilst I am loath to recommend the latter course, both on general principles and also because I recognize the serious effect it will be likely to have on the morale of the Service, it must be admitted that the majority of pensioners who have retired since 1921 have done so on an inflated pension, in most cases out of all relation, on an actuarial basis, to the average salary upon which their contributions to the fund have been made.

If the reductions advocated in salaries, interest, rent, and in other directions betoken a general lowering of income standards, then a reduction of pensions would bring this class into line with other sections of the community.

With regard to pensioners who retired prior to the war-inflated period, it should be noted that, except for pensions of less than £100 per annum, no adjustment by way of increased pension was made to compensate for the higher standard of values prevailing. On the other hand, these early pensioners have enjoyed pensions calculated over a long period of back service for which no contribution to the funds has been made by them.

Any percentage reduction of pensions made because of depressed conditions would involve an obligation to readjust by granting a percentage increase in the event of general trade conditions reviving. Such an innovation would have objectionable features, as, from an actuarial point of view, uniformity and certainty are factors of paramount importance.

Recommendations.—After fully reviewing the various alternative methods of improving the financial stability of the funds, and avoiding as far as possible any anomalies, I recommend—

I. That proposals Nos. 1 to 6 inclusive, set out on pages 7 and 8 hereof, be adopted.

II. That as far as possible the proposals referred to be made retrospective, and all existing pensions be reviewed on the following basis:—

(a) The calculation of pensions on basis of average salary of last ten years of service, instead of last three as at present:

Provided, however, that such average salary shall in no case be deemed to be less than the average salary for the three years ending the 31st March, 1921; nor shall any alteration be made in any pension granted before the 31st March, 1921 (*vide* proposal 3).

(b) The calculation on an actuarial basis of pensions payable to those who retired, for reasons other than medical unfitness, prior to attaining age 65 (females 60) or after completing forty years' service (females 35) (*vide* proposal 2).

III. That in reviewing existing pensions no retiring-allowance be reduced below £150 per annum.

If it be decided to vary the method of computing future retiring-allowances it will be imperative to review existing allowances in order to avoid anomalies, and for this reason recommendations I and II above should be considered together.

P. Verschaffelt, Public Service Commissioner.

Cecil Gostelow, Government Actuary. (No. 2.)

With reference to the request of the Select Committee appointed to examine the Government Superannuation Funds Bill, 1932, that I should outline the reasons for the drift of the Government Superannuation Funds to their present parlous position and to comment on the recommendations for reconstruction contained in the National Expenditure Commission's report, I have to advise as follows:—

The causes of the present large deficiency in the combined funds may briefly be summarized in their order of importance as follows:—

(1) The accumulation at interest of the unredeemed amount of the initial deficiency caused by the gift of free pensions in respect of service prior to the inception of the fund. Pensions for each year of such "back service" were allowed at the same rate as for future contributory service.

(2) The burden thrown on the funds as the result of the practice followed, particularly from 1922 onwards, in compulsorily retiring men with forty years' service irrespective of their attained ages or their own wishes, and the extensive use of the extended provisions in the Act for retirement after thirty-five years. In the Public Service Superannuation Fund this power of extending the provisions of the Act to any officer rests with the Minister in Charge of that officer's Department, and in the Teachers' and Railways' Funds with the Superannuation Board, with the approval of the Minister of Education and the Minister of Railways respectively.

(3) The great increase in pension liability due to the effect of the war on salary levels and to the inclusion of house allowance as salary for the purpose of computing pensions. At the most a contributor would only contribute on his increased salary for his future service, whereas he would obtain the same pension benefit as if he had been in receipt of such a salary for the whole period of his service.

(4) Additional options granted to contributors from time to time. For example, the options to contribute on salaries prior to the cuts of 1921–1922, 1931, and 1932, or to accept refunds of contributions on excess payments.