1444. We have accordingly investigated the position from this standpoint, and after careful consideration would recommend the amendment of the law in the following directions :—

1445. (1) **Modify the present right of members to retire by length of service by limiting it to those who have attained a specified age—*e.g.*, age 60 in the case of males, and age 55 in the case of females ; also increase by five years the age or length of service at which a female contributor has the right to retire.**

Present Rights.	*Proposed Rights.*
Males—	**Males—**
(*a*) **After age 65.**	(*a*) **After age 65.**
(*b*) **After forty years' service.**	(*b*) **After age 60, if combined with forty years' service.**
(*c*) **At any age if medically unfit.**	(*c*) **At any age if medically unfit.**
Females—	**Females—**
(*a*) **After age 55.**	(*a*) **After age 60.**
(*b*) **After thirty years' service.**	(*b*) **After age 55, if combined with thirty-five years' service.**
(*c*) **At any age if medically unfit.**	(*c*) **At any age if medically unfit.**

1446. (2) **Eliminate all options to retire, with the Minister's consent, &c, earlier than above, but, in order to avoid hardship in the case of those compulsorily retired through no fault of their own, make provision for an actuarially reduced annuity that will place the Superannuation Fund in the same financial position as if the contributor had been retained in the Service to the earliest date at which he could have retired as of right—*i.e.*, on similar lines to section 14, Finance Act, 1931 (No. 1).**

Present Options.	*Proposed Options.*
(*a*) **After age 60 (females age 50).**	**Actuarially reduced annuities only if compulsorily retired through no fault of their own after twenty-five years' service or attainment of age 50.**
(*b*) **After age 55 if combined with length of service of thirty years.**	
(*c*) **After thirty-five years' service.**	

Note.—This should be qualified to the extent that it should be optional for male officers to retire with forty years' service after, say, age 55, and female officers to retire with thirty-five years' service after, say, age 50, on an actuarially reduced annuity. There will be cases where, through failing health, officers are desirous of retiring before the age-limit is reached, and it would be to the advantage of the State that they should do so, provided that the Funds do not suffer.

1447. (3) **(i) Alter the basis of calculation of "final salary" to the average salary of the last seven or ten years, instead of three years as at present.**

An actuarial calculation will be necessary to determine which of these periods—*i.e.*, seven or ten years, will give the results aimed at, and, as this will take some considerable time, we are unable to state a definite period over which the average salary should be calculated.

Or,

(ii) Disregard for annuity (and contribution) purposes any salary increases after a specified age—say, age 55.

Of these two alternatives the former has the merit of correlating to some extent the retiring-allowance and the average salary received in the years preceding retirement, while from the viewpoint of the Fund the latter alternative has the advantage of being as effectual as the former in minimizing violent fluctuations in the annuity liabilities due to salary increases immediately preceding retirement, and at the same time does not penalize those retiring medically unfit to the same extent as the former basis would.

We have considered the relative merits of the two alternatives, and, while admitting the adverse effect of the former in so far as retirements through medical unfitness are concerned, we are nevertheless of opinion that the alteration of the basis of calculation of "final salary" to the average of the last seven or ten years is preferable. The percentage of retirements on account of medical unfitness is relatively small, and on this account the advantages of the first alternative outweigh the disadvantages.

1448. (4) **The Government to guarantee a net effective interest yield of 5 per centum on the Funds. This would enable valuation of the Funds to be made at 5 per centum, and in effect be equivalent to a deferment of subsidy.**

This recommendation is made primarily with a view to enabling the Actuary to value the Fund on a 5 per centum basis and will virtually have the immediate effect of reducing the actuarial deficiencies in the three Funds by a considerable amount. Without some such guarantee the Actuary is unable to value on a higher basis than $4\frac{1}{2}$ per centum. The Funds at present are earning considerably more than 5 per centum and the adoption of this recommendation should not throw any immediate liability on the Government.

1449. (5) **Alter the method of paying the Government subsidy, which at the present time bears no relation to the actual deficiencies in the Funds, but is merely an average annual proportion of the actual annuities falling due during the next triennium which the Funds are unable to provide from their own resources. Although not sufficient to secure immediate solvency, an automatic £1 for £1 subsidy is suggested as being in keeping with the basis adopted in large superannuation**