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THE DEVELOPMENT OF PUBLIC SUPERANNUATION SCHEMES

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A STUDY of the history of public superannuation schemes reveals that, in general, steady progress has been, and is being, made; there is, however, little consistency as between various branches of the public service. There have already been many post-war developments, in which there is some evidence of a common pattern, yet in which there are many startling divergencies. In view of the ever-increasing scope of the public services, it is surely time to give serious consideration to the question of standardization of such schemes; and the object of this paper is to suggest possible future developments along these lines.

2. In order to appreciate the problem, it is necessary to consider past trends in public superannuation and to have some general knowledge of the major schemes at present in force.

Appendix I accordingly outlines the main features of the principal schemes applicable to general classes of public servants, i.e. where there are no abnormal occupational hazards or other special features, and where the maximum pension can be secured on completion of 40 years' service.

Appendix II deals similarly with schemes applicable to particular classes, such as police and firemen, where the maximum pension can be secured on completion of only 30 years' service.

It must be emphasized that the Appendices are throughout expressed in general terms only; for the specific provisions of the various schemes reference must be made to the actual instruments governing them. These are so numerous that, for reasons of space, it is impossible to include in this paper a full list of the proper titles.

3. Prior consideration must be given to the Civil Service scheme, which may be regarded as the foundation of the present system. Its development has been generally logical and progressive, and little comment is necessary except to point out that it is virtually the one remaining non-contributory scheme within the public services (excluding the armed forces, which are regarded as outside the scope of this paper).

4. Turning to the local government service, the position is less satisfactory. A standard contributory scheme has been in operation, with relatively small changes, for over a quarter of a century, yet local-Act schemes (i.e. schemes established under private Acts obtained by individual local authorities before the introduction of the general scheme) still persist. Their continued survival is due in the main to their distinguished history as pioneers in the field of public superannuation, and to the fact that they are, without any doubt, in general considerably in advance of the standard scheme. The Civil Service abandoned the 'pension only' scheme in favour of the 'pension plus lump sum' to a large degree in 1909 and completely in 1935; yet we find the standard

local government scheme written in 1922 and confirmed in 1937 on a 'pension only' basis. Local-Act authorities, however, in the main adopted 'pension plus lump sum' schemes at varying dates after about 1920; and it is thought to have been the common experience that the bulk of contributors on the old basis opted to change over to the new—the main exceptions were, as might be expected, spinsters with no dependent relatives. Whilst it does not necessarily follow that what the average man wants is good for him, nevertheless in this case his sense of what he considered desirable was in close accord with what was considered desirable for him.

5. In 1948 a very large volume of staff was transferred from local authorities to the National Health Service. The scheme for the latter has been framed in many respects on the current Civil Service pattern, i.e. including a pension and a lump sum benefit. It also includes the revolutionary innovation of a compulsory widow's benefit (as opposed to the normal provision that, subject to proof of health, a contributor may at the time of retirement surrender a part of his pension to secure a reversionary annuity for his spouse) and an adequate death benefit where no widow is left. The combined benefits are probably the most satisfactory yet provided under any public superannuation scheme, and local authorities have not been slow to realize this. In 1948 two local Acts were passed modifying, in its application to the authorities concerned, the Local Government Superannuation Act, 1937 (hereafter referred to as 'the 1937 Act') by the substitution of benefits as under the National Health Service scheme; and it is understood that some ten similar Bills are included in the 1949–1950 Session of Parliament. Naturally the piecemeal introduction into local government of benefits of this nature is viewed with a certain amount of disquiet, and proposals for appropriate amendments to the 1937 Act are already being considered.

6. Such a revision, it may be expected, will have repercussions on existing local-Act authorities; an effort will undoubtedly be made to bring them into line with other authorities. It is equally certain that such a move will be seriously opposed, for authorities already complain bitterly against the gradual alienation of many of their powers and are not likely to view with complacency the loss of local autonomy over their superannuation schemes. There is, moreover, the consideration that the statutory imposition of a standard scheme would place a very serious financial strain upon local-Act authorities, since service now excluded by them would presumably become reckonable in the same way as under the 1937 Act. (At present, if a former local-Act contributor enters the service of another local authority, any service previously excluded becomes reckonable by virtue of the provisions of the 1937 Act, and the financial strain thereby falls upon the new employer—a deterrent to fluidity of staffs.)

7. There can be no doubt that, looked at impartially, the existence of local-Act schemes is an anomaly. As stated earlier, they are still, in general, considerably in advance of the present standard scheme; but this merit will disappear if and when the 1937 Act is amended to incorporate the National Health Service benefits, and the differences will then appear as demerits. Probably the most adverse feature is the discriminatory treatment of past service, as compared with the 1937 Act, which provides that all service under any local authority shall count for superannuation purposes either as contributing or as non-contributing service. It is obviously undesirable that a relatively small

proportion of local government employees should be treated less favourably than the majority, and a strong case thus exists for the introduction of a standardized scheme for all authorities.

Unless, however, the new scheme were to provide benefits better, on the whole, than those under any superseded scheme (which is financially impracticable) it would be necessary to give existing contributors an option to retain their former superannuation conditions. Such an option could, following police and fire service precedents, be restricted to schemes certified to be, on the whole, not less favourable than the unified scheme; but, even so, the full advantage of unification would not be felt for a further 40 years. Nevertheless, a large step towards uniformity would have been taken, and there would be an immediate gain in simplicity and economy of administration.

8. Under the 1937 Act, each authority (including a local-Act authority) is responsible for the solvency of its own superannuation fund. A unified scheme could lead to simplified financial arrangements, e.g. an unfunded scheme—which most actuaries would probably deprecate—or a single fund for all authorities.

9. The question of a single fund was considered by the Norman Committee in their report *On the Superannuation of Persons employed by Local Authorities in England and Wales* (Cmd. 329 of 1919). Paragraph 73 of that report said that 'this plan has much to commend it inasmuch as it unites the advantage of the freest opportunities of interchange between the various staffs, the averaging of all risks, and the smallest aggregate amount of administrative work'. The proposal was rejected because (paragraph 74) 'the solvency of the fund would be at the mercy of the separate action' of the independent authorities, as regards conditions of service and scales of pay, 'without their having individually more than an indirect and remote responsibility for it'. Since 1919, however, conditions of service and scales of pay in local government employment have, to a large degree, been standardized, and the above objections have now lost some of their former force.

10. The advantages of a unified fund may be summarized as follows.

(1) Uniformity of benefits, both by reason of the standardized scheme and also since there would be fewer variations of practice. (Certain discretionary powers, such as the addition of years for purposes of calculation of benefits, might well continue, but any excess cost thereby is a charge to the general rate account and not to the superannuation fund.)

(2) Simplicity and economy of administration, including the disappearance of transfer values.

(3) Possibility of unified valuation, with simplified allocation to authorities (e.g. on basis of salary rolls or rateable values—although both are objectionable in certain respects).

(4) Spreading of actuarial risks, with possible advantage to smaller authorities.

(5) Disappearance of any financial strain to employing authority on admission of employee with previous service, and consequent increase in fluidity of staff. (This strain now results from admission in such circumstances that no transfer value is receivable, i.e. after a 'disqualifying break', or where the transfer value is calculated by reference to a part only of previous service, i.e. in the case of certain former local-Act contributors.)

(6) Facility of suspension of superannuation allowances during periods of subsequent employment with any local authorities—a common provision in many present schemes, but difficult to apply in practice.

(7) Disappearance of certain tax inconsistencies due to differing degrees of approval of funds under Section 32 of the Finance Act, 1921, etc.

11. Against these can be adduced the following disadvantages.

(1) Mortality rates differ significantly in different parts of the country. With a unified fund and a single valuation, some authorities would gain at the expense of others. It may be noted that this objection did not prevent the introduction of a centrally financed scheme for teachers.

(2) Local conditions and practices have a significant effect upon the cost of superannuation, e.g. salary scales (where the national scales are not in force), staff structure (i.e. the proportion of highly salaried officers), policy as to recruitment and promotions (e.g. whether permitted at late ages), classes of staff admitted to the scheme, stringency of medical examination before appointment and before retirement on account of ill-health, etc. Authorities might tend to become less vigilant as to cost where they are not directly concerned in the resultant liability.

(3) Any attempt to control factors as in (2) would lead to further interference with existing powers of local authorities.

(4) If account were taken of variations in mortality, etc., sectionalized valuations would be necessary, i.e. gain in administrative simplicity and economy would be reduced.

(5) Superannuation funds can at present be used for internal investment by authorities (e.g. for financing capital expenditure). Any compensating power of borrowing from a central fund would involve some measure of control by an external body.

(6) Local-Act authorities would strongly resist any proposals involving the abolition of their special privileges.

(7) Abolition of local-Act schemes would lead to options to retain former rights and consequential increase in complexity.

(8) Administrative saving might be relatively small—there would still be extensive local work in collecting and recording contributions, and possibly in decentralized payment of pensions. With the passing of hospital services from local government, inter-authority transfers will in any event be relatively few.

(9) Centralization might lead to administrative delays in paying benefits.

(10) Gain in fluidity of staff (by easing of financial strain) may prove to be overestimated. Where there is a twelvemonth's break in service the contributor can hardly, except in special circumstances, claim to make his career in local government.

12. Considered purely from a theoretical viewpoint, argument (2) against a single fund, viz. the effect of local conditions and practices, may well be held to constitute an insuperable objection against unification, or, indeed, against any regrouping, of funds.

There is, however, a practical point at the present time. There are now some 480 separate local authority funds, each with a minimum membership, under the 1937 Act, of 100 contributors. The recent large-scale transfers to the National Health Service and to Gas and Electricity Boards will reduce a number of funds below the minimum membership, and some regrouping is essential. Thus the present time would be opportune for the inception of a single fund.

(As a preliminary all existing funds would require to be valued, and the aggregate emerging liability paid into the central fund.)

A compromise solution might be the regrouping into regional funds, but this suffers from the demerits common to all compromises.

13. The former considerations are related to the local government service, but the arguments for a unified scheme (irrespective of unified finance) are capable of far wider application. Broadly speaking, all the schemes outlined in Appendix I, based on a 40-year service life, offer benefits which are approximately equivalent in value, and there are roughly similar risks in the corresponding branches of public service, i.e. Civil Service, local government, National Health Service, teachers, public boards, etc. (with the exception of certain classes of 'operatives', such as miners and railwaymen, who are subject to special risks). There would appear to be no reason why a single unified scheme (presumably unfunded, for obvious practical reasons) should not extend to all such classes of public employment. This would ensure uniformity of treatment without the need for, and the restrictions imposed by, the elaborate interchange arrangements at present in force or contemplated under numerous sets of interchange rules, etc.

14. Such a unification would remove the many present inconsistencies, of which the conditions governing payment of transfer values and reckonability of service may be cited as examples.

Under all existing regulations, the payment of a transfer value is dependent on there not having been a disqualifying break of 12 months or more.

As between local authorities, the payment of a transfer value is governed only by the above condition, and is independent of the return or otherwise of past contributions. The right to reckon past service, in some form or other, following transfer does not depend on the passage of a transfer value.

As between a local authority and the National Health Service, the payment of a transfer value is dependent also upon the repayment of any contributions which may have been returned. Unless a transfer value passes, previous service with the other branch of public service is completely excluded from reckoning.

As between a local authority and a public board, the position is generally similar to the preceding interchange; but a still further proviso is proposed, viz. that a transfer value shall be payable only with the consent of the former employer.*

15. The non-contributory nature of the present Civil Service scheme presents a difficulty as regards its inclusion in a unified system. It is interesting in this connexion to note that the Chorley Committee (set up to advise the government on the general level of remuneration in higher posts in the Civil Service and kindred matters) included, in their report issued in February 1949, a recommendation for the urgent and thorough examination of the question of introducing a contributory system of superannuation, which, the Committee felt, would have many advantages in facilitating exchange between the Civil Service and other public employments. A step in this direction has been taken in the Superannuation Bill, 1949, which provides for a contributory

* The Superannuation (Local Government and Public Boards) Interchange Rules 1949, which have been issued since the paper was written, do not in fact contain this proviso.

widows' and children's scheme, but this is in addition to the ordinary noncontributory superannuation scheme, and not in any way in substitution therefor.

16. In the event of unification of schemes, it would probably be essential for each branch of the public service to be treated initially as a separate financial entity, since the ultimate responsibility for solvency may rest variously with the Exchequer or local rates or revenues. If, however, comparable wage-structures are evolved with the passage of time, experience may reveal some permissible financial simplification.

17. One incidental advantage of unification of schemes would be the resulting uniformity of treatment for tax purposes.

In the case of funded schemes, tax relief is allowed under Section 32 of the Finance Act, 1921. The relief in respect of members' contributions varies according to the degree of approval of the fund (dependent on the proportion of the contribution which secures the main pension benefit). Contributions returned to the member are assessed to tax, at one-quarter of the standard rate current at the date of return, to a similar extent; under public funded schemes this tax liability is not passed on to the member.

In the case of schemes which derive from 'public general Acts of Parliament', tax relief may be allowed, under Section 31 of the Finance Act, 1922, on the whole of the members' contributions. Any return of contributions is subject to deduction of the tax which would have been paid had no such relief been given, i.e. having regard to the incidence of payment of the contributions.

This gives rise to anomalies in certain cases. For example, for persons subject to the National Health Service modification to a local government scheme, the tax position as regards members' contributions is as follows.

(*a*) In respect of the 'approved' portion (the degree of approval being reassessed from 5 July 1948, when the modification became fully effective) full relief is given under the 1921 Act. Tax on returned contributions is borne by the fund.

(*b*) In respect of the 'non-approved' portion, full relief is given under the 1922 Act, for a '1937 Act' fund (tax being deducted from any return of contributions); but no relief is given for a 'local Act' fund, since the contributions, not being made 'in pursuance of any public general Act of Parliament', are outside the scope of the 1922 Act.

18. The foregoing paragraphs relate to public superannuation schemes based on a 40-year service life.

There is a similar case for a unified system for all public schemes based on a 30-year service life, i.e. police, firemen, mental health officers in the National Health Service, and prison officers.

Interchange between the two unified systems could take place subject to an appropriate adjustment on transfer in respect of reckonability of past service.

19. All the preceding considerations have referred to existing branches of the public service. The Labour Party has indicated a considerable sphere in which future nationalization is proposed. If this programme materializes, the appropriate existing 'private' superannuation schemes will presumably be assimilated and the scope of the interchange rules still further extended. The exact degree of future nationalization is of course unpredictable. For this reason, and also on general grounds, it would seem not unreasonable that any unified superannuation scheme for the public service should contain provision for its adoption, on a voluntary basis, by approved 'private' em-

ployers, such as the financial houses and the larger commercial and industrial concerns; separate financial arrangements might or might not be essential. The practical difficulty would, of course, lie in determining how far this process should be allowed to continue.

20. It is hoped that the above remarks may serve to produce a useful discussion on what is, I feel, a matter of great practical importance at this time. Continued haphazard development in this sphere will introduce yet further complexities into an already over-complicated subject, and will render ultimate clarification more and more difficult and remote.

In the limited sphere of the local government service, the possibility of simplification, with particular reference to unification of funds, has already attracted attention. Since this paper was first prepared, a paper entitled *Superannuation—Present Tendencies and their Implications* by R. S. McDougall, F.I.M.T.A., A.C.A., has been presented to the Institute of Municipal Treasurers and Accountants. As I have endeavoured to show, however, all branches of the public service require to be considered simultaneously.

I have outlined only what appear to me to be the main issues affecting the problem. There are numerous minor questions that suggest themselves; e.g. it might be considered that the right to reckon previous service should in all cases be subject to the repayment of any contributions returned; or, again, some simplification in the taxation position might be sought.

I should add that all opinions expressed in this paper are personal to myself, and must not be taken as representing in any way the views of the London County Council.

APPENDIX I

Outline of the main features of principal schemes applicable to general classes of public servants, where maximum pension can be secured after 40 years' service

Introductory. The schemes will be considered in the following order:

(*a*) Civil Service
(*b*) Local government (except as (*c*), (*d*) and (*e*) below)
(*c*) Poor Law
(*d*) Mental hospitals, etc.
(*e*) Teachers
(*f*) National Health Service
(*g*) Public boards
(*h*) Modifications by reason of State Insurance benefits
(*j*) Pensions (Increase) Acts

There are several threads to trace, sometimes parallel, but frequently intermingled. Generally speaking, the Civil Service schemes have set the pattern.

Where a scheme has been materially altered, existing contributors at the time have almost invariably been allowed an option to retain former conditions or to transfer to the new scheme. In general, where the new scheme introduces a lump sum on retirement and a benefit (other than return of contributions) on death in the service, the lump sum is increased by $\frac{1}{2}\%$ for each year of service completed at the date of alteration.

(*a*) *Civil Service* schemes have throughout been non-contributory and unfunded.

(i) The Superannuation Act, 1834, provided pensions on retirement on grounds of full age (65) or earlier incapacity; benefits were based on the 'annual salary' at retirement, i.e. the then-operative rate, or the average over the last three years of service if there had been a promotion within this period.

For entrants before 1829, the scale provided a pension at the full 'annual salary' after 50 years' service.

For entrants after 1829, the scale was reduced—10 years' service secured a pension of 3/12 of the 'annual salary', rising by 1/12 for each further 7 years to a maximum of two-thirds after 45 years' service.

(ii) The Superannuation Act, 1859, revised the scale to that which became standard for all schemes providing a 'pension only' benefit, viz., at the rate of 1/60 of 'annual salary' per completed year of established service, subject to a maximum of two-thirds, and with a qualifying period of 10 years. The optional retiring age was reduced to 60, at which it has since remained. Provision was made for a permissive short-service gratuity in the event of enforced retirement before qualifying for pension.

(iii) The Superannuation Act, 1909, introduced, for male officers only, the scale which became standard for schemes providing a 'pension plus lump sum' benefit, viz., subject to a qualifying period of 10 years, a pension at the rate of 1/80 per completed year, maximum 40/80, and a lump sum on retirement at the rate of 1/30 per completed year, maximum 45/30; all related to 'annual salary'. Each completed year of service after age 65 entailed a 5% reduction in the lump sum.

This Act also introduced a death benefit, subject to five years' qualifying service, of one year's 'annual salary', with provision to secure that a pensioner's estate was not worse off by his retirement than it would have been had he died on his last day of service.

(Under the Superannuation Act, 1914, the death benefit was increased to the lump sum benefit which would have been payable in the event of ill-health retirement as at the date of death, where this was greater than one year's salary.)

(iv) The Superannuation Act, 1935, discarded the 'annual salary' basis and substituted the 'average salary' over the last three years of service. At the same time the scale of the lump sum benefit was varied to 3/80 per completed year of service, and the 'pension plus lump sum' basis was extended to female civil servants.

The 1935 Act also contained provisions whereby prospective pensioners were empowered, within three months preceding retirement, to surrender a part, not exceeding one-third, of their pension in favour of an approved dependant. The option became effective only on proof that the pensioner was in good health at the time of retirement. The amount of pension secured by the beneficiary depended on the relative ages of the pensioner and the beneficiary, and the tables published by the Government Actuary for this purpose are used as the standard for practically every similar scheme for apportionment. A point of interest is that the beneficiary's benefit under virtually all other schemes is a reversionary annuity (since tax difficulties arise otherwise in connexion with '1921 Act' funds) but the benefit to a spouse under the 1935 Act may be an immediate or a reversionary annuity. It may be noted that where a beneficiary receives an immediate annuity the amount is doubled on the death of the officer pensioner.

(v) Miscellaneous developments which may be mentioned in passing govern the reckonability of service. Originally, only established civil service was pensionable; gradually the scope was widened to include unestablished service (at half length), with discretionary aggregation of discontinuous service, other public service not subject to the Superannuation Acts, etc. The 1935 Act recognized approved local government and teaching service for qualifying purposes only (since such service attracts normal benefits under the appropriate schemes); and Regulations under the Superannuation (Miscellaneous Provisions) Act, 1948, which are in course of issue will give complete recognition to such service for all purposes, subject to payment of the appropriate transfer values.

For civil servants who, by reason of their being required to possess 'professional or other peculiar qualifications not ordinarily to be acquired in the public service', enter at late ages, there was, at one stage, a power to add years, not exceeding 20, for calculation of benefits. This has now been superseded by a power to approve increased reckonability, at the rate of eight-fifths of a year for each year of actual service, for entrants after age 40, with a provision extending this benefit in a modified form to entrants aged between 35 and 40.

(vi) The Superannuation Bill, 1949, includes two entirely new developments. The first relates to the maximum benefit. Hitherto service after 40 years has attracted no pension benefit other than that due to an increase in the 'average salary' at retirement. The Bill provides that such service performed after the optional retiring age (60) shall secure also an increased proportion of such 'average salary'. There will be a resulting tendency to defer retirement, and this will probably tend to reduce the ultimate cost. The second innovation is the establishment of a separate widows' and children's scheme, on a contributory basis, half the cost being borne by the Exchequer. The member's share may be either by way of contribution ($1\frac{1}{4}\%$ of salary), or by abatement by one-third of the normal lump sum at retirement or of the death benefit. The scheme will be compulsory for all future male civil servants; but entry may be deferred until marriage, when arrears will become due as from the commencement of pensionable service. Where the risk subsequently disappears by widowerhood, contributions will continue until retirement, when there will be a refund of contributions in respect of the period of widowerhood or, if the abatement of lump sum method is chosen, there will be a corresponding adjustment.

(*b*) *Local government* (general)

Except for certain very early local Acts, the schemes have throughout been contributory and funded, subject to quinquennial actuarial valuations. Each local authority can (subject to a minimum membership) establish its own fund, or authorities can combine.

(i) The Local Government and other Officers' Superannuation Act, 1922, was the first general Act. This was permissive in its application, but was very widely adopted by authorities. Once adopted, it applied only to employees 'designated', individually or by classes, by special resolution of the authority. Contributions were at the rate of 5% by the member and 5% by the authority. The compulsory retiring age was 65. The standard 'pension only' benefits applied, i.e. at 1/60 per completed year of contributing service, maximum two-thirds, based on the average remuneration over the last five years of service, subject to 10 years' qualifying service. On enforced retirement before qualifying for pension, or on death, contributions were returnable with compound interest; on voluntary resignation they were returnable without interest. There was also provision for a permissive gratuity, payable out of the rate account, in the event of enforced retirement before qualifying for pension.

'Designated' employees were entitled to reckon all service between ages 18 and 65, under all local authorities, as either contributing or non-contributing. Benefits in respect of non-contributing service were at half the normal rate, chargeable to the superannuation fund; but authorities could increase this to the full rate, subject to reimbursement from the rate account to the fund in respect of the additional expenditure. On transfer between 1922 Act authorities, a transfer value was payable provided that there was no disqualifying break of 6 months or more and that the former authority consented to the transfer.

Some local authorities which did not adopt the 1922 Act established schemes under privately promoted local Acts. Such schemes did not, in general, recognize service with any other authority, and the 1922 Act system of transfer values did not apply.

(ii) The Local Government Superannuation Act, 1937, which repealed the 1922 Act as from 1939, now applies compulsorily to all local authorities other than those with local-Act schemes. The provisions are generally similar to those of the 1922 Act, but apply compulsorily to all whole-time 'officers' (i.e. administrative, professional, technical, etc.) and at the discretion of the authority to all other employees. Contributions are at the rate of 6% by 'officers' and 5% by 'servants' (i.e. other than 'officers') with equal contributions by the employer, except that a former 'designated' officer continues to pay 5%. Benefits are as in the 1922 Act, except that, for female nurses and kindred grades who enter local government service after 1939, the compulsory retiring age is 60, and there is a compensating power for the authority to add years, up to a maximum of five, for calculation of benefits (the additional cost being chargeable to the rate account and not to the fund). Provision is made, on the lines of the Superannuation Act, 1935, for the surrender of part pension in favour of an approved dependant.

The provisions for reckonability of service are similar to those of the 1922 Act; but contributors are now empowered to purchase full rights in non-contributing service by making 'additional contributory payments' calculated on a prescribed actuarial basis with reference to age and salary at the date of option.

Local-Act authorities are empowered to continue their former schemes, but were required to prepare amending schemes (approved by the Minister of Health) to confer rights, substantially similar to those under the 1937 Act, upon new entrants who had previously contributed under another authority.

The transfer value system is extended to include local-Act authorities. A disqualifying break only occurs after 12 months (as against 6 months previously), and the consent of the former employer is now no longer required. Return of contributions to the employee does not remove liability for the payment of a transfer value.

(iii) Local-Act authorities are relatively few in number—London County Council, Edinburgh, Glasgow and Manchester Corporations, and certain Metropolitan Borough Councils—and these represent the pioneers in local government superannuation. The non-contributory Superannuation (Metropolis) Act, 1866, in respect of officers of Metropolitan parochial bodies and of the Metropolitan Board of Works, paralleled closely the Superannuation Act, 1859. Contributory funded schemes for the London County Council and the Metropolitan Borough Councils came into being from 1895 onwards. Their development followed generally the Civil Service pattern of benefits, although there were, and still are, many minor variations, e.g. as regards the death benefit. There is little uniformity in members' rates of contribution (at present these vary from 2% upwards and may exceed 6%) or in the circumstances governing return of contributions with or without interest. The payments required to purchase full rights in earlier service also vary widely: some authorities are content with an amount equal to the normal contributions based on actual remuneration for the period in question; others charge an additional percentage contribution payable throughout the remainder of service; yet others use a basis similar to the additional contributory payments of the 1937 Act; and at least one requires, in effect, payment of the member's and employer's contributions.

Local-Act authorities are required, under the 1937 Act, to reckon previous service only where contributors have, at some time since 1939, paid contributions under some other authority; apart from this statutory requirement, they lay down their own conditions as to reckonability.

(*c*) *Poor Law*, i.e. employees of the late boards of guardians, etc.

(i) The Poor Law Officers' Superannuation Act, 1864, was non-contributory and unfunded. The award of a pension, not exceeding two-thirds of the final salary, on grounds of full age (60) or ill-health, and subject to 20 years' whole-time poor law service, was solely at the discretion of the guardians, subject to the consent of the Poor Law Board.

(ii) The Poor Law Officers' Superannuation Act, 1896, which superseded the preceding, was also unfunded, but required a contribution, normally at the rate of 2%, from every employee, whole-time or part-time, permanent or temporary. Even this contribution was soon considered excessive in some cases, for an Amendment Act of 1897 empowered 'female nurses', for so long as they continued to serve in that capacity, to contract out of any rights and liabilities under the 1896 Act.

The pensions, which were a direct charge on the rate fund of the final employer, were on the standard 1/60 basis. All poor-law service, other than as a contracted-out nurse, aggregated subject to repayment of any contributions which had been returned. Such a return, without interest, was made only on the determination of an appointment, and not on voluntary resignation.

The 1896 Act was repealed by the Local Government Act, 1929, when the poor-law functions were transferred to local authorities; and the general local government schemes now apply, subject to certain modifications in respect of the transferred poor-law officers.

(*d*) *Mental Hospitals, etc.*

(i) The Lunatic Asylums Act, 1853, and subsequently the Lunacy Act, 1890, provided for discretionary non-contributory pensions on the lines of the Poor Law Officers' Superannuation Act, 1864.

(ii) The Asylums Officers' Superannuation Act, 1909, was generally similar to the Poor Law Officers' Superannuation Act, 1896, except that only established employees participated, at a normal contribution of 3%, and there was no power for female nurses to contract out. Established employees were divided into two classes, the first class (having care or charge of patients in the usual course of their duties) qualified for the maximum pension after 34 years' service only (see Appendix II, item (*c*)); the second class qualified for pension on the standard 1/60 basis. For both classes, all established asylums service normally aggregated for calculation of pension. There was no system of transfer values; but, as and when the pension became payable out of the rate account of the last employer, all previous employers became liable to pay 'pension contributions' to reimburse that part of the pension which was attributable to the appropriate previous service. An ill-health pension could be withdrawn in the event of subsequent recovery, and the pensioner required to resume duty until the normal pension age.

(iii) The Asylums and Certified Institutions (Officers' Pensions) Act, 1919, extended the 1909 Act to include service (treated as of the second class) in certified institutions provided under the Mental Deficiency Act, 1913.

(iv) The Local Government Superannuation Act, 1937, provided for interchange between the general and the mental hospitals, etc., service, requiring, *inter alia*, payment of 1937 Act transfer values to the Mental Hospital authority and 'pension contributions' in the reverse direction, subject, in all cases, to the repayment of any contributions returned by the former employer.

The 1909 and 1919 Acts were repealed by the National Health Service (Superannuation) Regulations, 1947.

(*e*) *Teachers* (this scheme has throughout been financed centrally but administered, prior to pension age, by local authorities)

(i) The Elementary School Teachers (Superannuation) Acts, 1898 to 1912, provided a deferred-annuity money-purchase scheme coupled with a non-contributory unfunded superannuation scheme. Under the former, the annual contribution, at rates varying from £3 in 1899 to £3 12*s.* in 1919 for men, and at two-thirds of those rates for women teachers, was normally payable until age 65 when the deferred annuity vested. The non-contributory superannuation allowance, payable by the Exchequer, was at the rate of 10*s.* per year of recorded service in the case of retirements before 1912, and at £1 per year in the case of later retirements. Provision was also made for ill-health pensions, on a much more generous scale, but subject to withdrawal in the event of recovery.

(ii) The current Teachers (Superannuation) Acts, 1918–46, superseded the above. Members' contributions, at 5% of salary, and equal employers' contributions by the local authorities, are carried to a national Teachers Superannuation Account, which, although on an unfunded basis, is statutorily subject to actuarial investigation at seven-year intervals. Owing to the intervention of the war, the last investigation to be made was that of 1932. Pension and lump sum benefits are on the scales set out under the (Civil Service) Superannuation Act, 1909, but are related to the average salary over the last five years of service. There is provision for the suspension or withdrawal of an ill-health award in the event of recovery.

Successive Acts have broadened the scope of service which may be recognized for various purposes. Broadly speaking, all service of an educational nature (other than purely administrative) reckons for calculation of benefits, and previous administrative service (educational or otherwise) may reckon for qualifying purposes. It is probable that Regulations to be issued under the Superannuation (Miscellaneous Provisions) Act, 1948, will still further increase the interchangeability with other branches of public service.

It may be mentioned in passing that the Teachers (Superannuation) Act, 1945, provides that a person formerly subject to an 'independent superannuation scheme' such as the Local Government Superannuation Act, 1937, who transfers, without a disqualifying break, to the teaching service, remains subject to the former scheme unless he elects otherwise.

(*f*) *National Health Service*

Under the National Health Service Act, 1946, the central authority has become responsible for hospital services (taken over from local authorities and boards of governors) and local authorities remain responsible for services such as maternity centres, day nurseries, etc. The National Health Service (Superannuation) Regulations, 1947–48, set out the superannuation scheme for staff of the new central service and prescribe similar modifications to local government schemes in respect of medical and nursing, etc., staff employed in local health services.

The central scheme is contributory, but unfunded; as under the Teachers' scheme, provision is made for an actuarial investigation every seven years. All whole-time employees, permanent and temporary, are subject to the scheme, except that manual grades are excluded for their first two years of service; part-time employees may be admitted at the discretion of the Minister of Health. Independent medical and dental practitioners are also brought within the scope of the scheme. Members' contributions are at the rate of 6% for non-manual and 5% for manual employees (corresponding with the previous 'officer' and 'servant' classifications respectively); employers' contributions are 8% and 6% respectively, as against 6% and 5% under the 1937 Act.

Pension and lump sum benefits, based on average remuneration over the last three years of service, are again related to contributing and non-contributing service, the latter attracting benefits at half the rate of the former. Pension per completed year of contributing service is at the rate of 1/80 (maximum 40/80); lump sum, subject to the following, 3/80 (maximum 120/80). (Further Regulations, now in draft form, will provide for increases in these maximum limits, on the lines of the Superannuation Bill, 1949.) Compulsory retirement is at age 60 for female nurses, midwives, health visitors and physiotherapists, and age 65 for all others, with optional retirement 5 years earlier subject only to 10 years' service (including hospital service prior to 1948).

The important new feature is the automatic provision of a widow's pension, payable to the widow of every male contributor who has (normally) at least 10 years' service. This pension, subject to adjustment on account of relative ages, is at the rate of one-third of the pension drawn by the former contributor, or which would have been drawn had he retired on the day preceding the date of his death in the service. It is secured by the compulsory abatement, in the case of men married at the date of retirement, of two-thirds of the lump sum which would otherwise have been payable; in the case of married men dying in the service, a similar abatement is made in the death benefit (equal to the accrued lump sum) which would otherwise have been payable. Where a widower retires, the lump sum is reduced having regard to the period for which he was at risk. Under all schemes previously considered (except the Superannuation Bill, 1949), a widow's pension can be secured only when a contributor elects, at the time of his retirement, to surrender a part of his pension, and subject to proof of his health. The new scheme provides for a benefit in cases previously excluded, i.e. to widows of ill-health pensioners and of contributors dying in the service, and these are the two classes for whom, generally speaking, the provision of a widow's pension is most necessary.

Turning now to regressive aspects of the scheme, the first point concerns reckonability of service for superannuation purposes. All continuous service under the National Health Scheme counts; but similar discontinuous service is only aggregated if (*a*) there has been no disqualifying break of 12 months or more, and contributions previously returned are repaid, or (*b*) there has been a disqualifying break and additional contributory payments are made to secure reckonability as 'contributing' service (provided always that no outgoing transfer value was paid in respect of such earlier service). On transfer from a local authority, previous local government service reckons only if a transfer value passes, and this is dependent on the absence of a disqualifying break and on the repayment of any contributions returned by the former employer, with a converse regulation governing reckonability on removal from the National Health Service to a local authority. This is a regrettable departure from local government precedents, particularly so since transfers of this nature will probably continue to be fairly numerous.

A further retrograde step is that, on the appointed day under the 1946 Act, very large sums became payable, by way of transfer values, from the superannuation funds of local authorities. Since the central scheme is unfunded, these sums will, presumably, be applied by the Exchequer towards current expenditure, i.e. there will be an actual disposal of funds, which cannot be regarded as financially sound.

The only other point worthy of note is in connexion with former voluntary hospitals. The staff of these were pensionable by way of policy schemes, such as the Federated Superannuation Scheme for Nurses and Hospital Officers, and provision has been made in the 1947 Regulations for the continuance of existing policies following the transfer of the staff to the National Health Service. It may be added that parallel Superannuation (Local Government and Policy Schemes) Interchange Rules have been made under the Superannuation (Miscellaneous Provisions) Act, 1948.

(*g*) *Public boards*

Arising from the recent nationalization programme, sundry public boards have been established. In general, existing schemes (very diverse in scope and character) of the transferred bodies and organizations are being continued as 'closed' schemes, by reason of the impracticability of a satisfactory unification; and the position is further complicated since each nationalization Act provides that there shall be no worsening in the pension position of any person transferred under the Act. Schemes approved for new entrants to the public boards adhere to the general pension and lump sum pattern.

Regulations which are in course of issue under the Superannuation (Miscellaneous Provisions) Act, 1948, will preserve pension rights on transfer between public boards and other branches of the public service; but, as with the National Health Service, such preservation is dependent on the passage of a transfer value, which is conditional upon there being no disqualifying break, upon the repayment of any contributions returned by the former employer, and also upon the consent of such former employer.

Bodies such as the Port of London Authority and the Metropolitan Water Board have, of course, had their own private schemes for a considerable number of years, but as yet have not been brought within the scope of interchange rules.

(*h*) *Modifications by reason of State Insurance benefits*

(i) Prior to 1946, insured persons qualified for an old age pension at the rate of 10*s*. a week, under the Widows', Orphans' and Old Age Contributory Pensions Act, 1936. The Local Government Superannuation Act, 1937, contained power (now repealed) for an authority to make a scheme, of voluntary application, whereby, to avoid overlap of benefits from public moneys, an initial amount of remuneration could be disregarded for purposes of contribution and of benefit. This power was not widely used.

(ii) Under the National Insurance Act, 1946, a retirement pension of 26*s*. a week becomes payable under prescribed conditions. Various regulations have been issued to avoid overlap of benefits. These provide for the reduction, from the appropriate age, of the normal annual superannuation allowance by an amount at the rate of £1. 14*s*. 0*d*. for each year of pensionable service, with a corresponding reduction in the contribution throughout service. The modification is compulsory for new entrants after 1948. Persons previously contributing could elect to have the regulations applied to them as regards the reduction in future contributions, but with the reduction in benefit, restricted to future service, assessed with regard to their age at the time of election, instead of the normal £1. 14*s*. 0*d*.; in practice a negligible proportion of those eligible opted for the modified scheme.

Under all modified schemes there is provision for a consequential modification of transfer values.

(*j*) *Pensions* (*Increase*) *Acts*

For contributors on the active list, the general wartime and post-war increases in salaries and wages are reflected in increased averages on which benefits are calculated, although the full effect will not be felt until stable conditions have obtained throughout the period over which the average is assessed. For persons already retired, there is normally no means whereby the pension could be increased to offset the rise in the cost of living. To overcome this position, there has been a series of Pensions (Increase) Acts, those of 1944 and 1947 being now current. These authorize increases of pension, commencing at 40% and decreasing to nil when the total income exceeds £450 a year. For this purpose, stability is assumed to have been reached in 1947, and where the pensionable average is assessed over a period ending after that date, the increase is restricted to the pre-1947 remuneration.

APPENDIX II

Outline of the main features of principal schemes applicable to special classes of public servants, where maximum pension can be secured after 30 years' service

Introductory. The following classes will be considered:

(*a*) Police.
(*b*) Firemen.
(*c*) Mental health officers.
(*d*) Prison officers.

(*Note:* As under Appendix I, National Insurance modifications and the Pensions (Increase) Acts apply generally.)

(*a*) *Police*

(i) Pride of place must go to the Metropolitan Police, since in 1829 'an Act for improving the police in and near the Metropolis' provided for discretionary allowances to such policemen 'as shall be disabled by bodily injury received, or shall be worn out by length of service'. This and other local-Act schemes persisted until superseded by the Police Act, 1890.

During this period, the position was governed generally by a series of Police Acts from 1839 to 1865, which provided for pensions and gratuities on grounds of age or incapacity. Benefits, at the discretion of the Justices but subject to prescribed maximum limitations, were paid out of a police pensions fund; to this were carried contributions (not exceeding 2½% of remuneration), stoppages on account of sickness, fines on policemen for misconduct and on the public for drunkenness and assaults on the police, and the proceeds of sales of old police clothing. If this did not produce solvency, the fund was secured on the local rates.

(ii) The Police Act, 1890, superseded all previous schemes (other than that of the City of London). This Act, and subsequent amending Acts to 1919, provided for a contributory ($2\frac{1}{2}\%$) funded scheme with prescribed upper and lower limits for benefits; within these limits the precise scale was decided by each police authority. The scheme was generally on the lines of the 1921 and 1926 Acts next described.

(iii) The Police Pensions Acts, 1921 and 1926, provided an ordinary pension, based normally on the final rate of pay, calculated on a 'sixtieths' scale at the rate of one per year of service up to 20 years, and two thereafter up to the maximum of two-thirds on completion of 30 years' service. Voluntary retirement on pension was permissible after 25 years' service. Owing to the abnormal injury risks, scales of special pensions were prescribed, according to length of service. Separate scales were laid down for accidental injury and for non-accidental (i.e. intentionally inflicted or incurred in the performance of duty involving special risks) and discretion was given to the police authority to make an intermediate award where appropriate. Each scale was in turn subdivided to show the rate for total disablement and the minimum rate for partial disablement (determined by reference to loss of earning capacity). There was no lump sum benefit. Scales of ordinary and special pensions and allowances were also prescribed for widows and children of deceased policemen and police pensioners.

Contributions were payable by policemen at the rate of $2\frac{1}{2}\%$ of pay from 1921 to 1926 and at 5% thereafter. The scheme was not funded. The reckonability of service was unaltered by an approved transfer between police forces, with a discretion in respect of other changes. The pension was a charge on the general rate account of the last employer, who was, however, entitled to call upon previous employers for an appropriate 'pension contribution' towards the pension as paid. There was no provision for interchange with any other scheme except with the established Civil Service, four years of which reckoned as three of police service and *vice versa*.

(iv) The Police Pensions Act, 1948, and Police Pensions Regulations, 1948, superseded the 1921 and 1926 Acts. The scale of ordinary pensions was unaffected; but the former special pensions disappeared, being replaced by a scale of 'standard amounts' applicable in the event of retirement on account of permanent disablement resulting from an injury received by a policeman in the execution of his duty without his own default. These 'standard amounts', by reference to length of service, are subdivided as between total and partial disablement as under the 1921 Act. From the 'standard amount' must be deducted any benefits under the National Insurance (Industrial Injuries) Act, 1946, and any sickness benefit, so long as this is paid continuously from the date of retirement, under the National Insurance Act, 1946. Widows' and children's ordinary and special benefits are again prescribed.

Contributions are payable at the rate of 5% of pensionable pay less 1*s.* 2*d.* a week under a National Insurance modification (the abatement being optional in the case of serving policemen in 1948). Reckonability of service and financial arrangements are generally as under the 1921–26 Acts.

(v) The Police Pensions Regulations, 1949 (issued following the adoption of the Oaksey report), are generally similar to the preceding, except that benefits are calculated on a three-year average basis instead of by reference to final pay as hitherto. These Regulations supersede those of 1948 except in the case of existing policemen who elect otherwise; such election excludes the operation of the increased (Oaksey) rates of pay.

(*b*) *Firemen*

(i) The Fire Brigade Pensions Acts, 1925 and 1929, were generally similar to the Police scheme of 1921, except that the maximum ordinary pension was secured only after 35 years' service; the scale, again based on 'sixtieths', was at the rate of one per year of service up to 30 years, and two thereafter up to the maximum of two-thirds. The special pensions in the main followed the police scheme, i.e. reached their maximum after 30 years.

The financial basis, however, differed completely from that of the police scheme. An authority employing ten or more whole-time permanent firemen was required to establish a pension fund, to which were carried the firemen's 5% contributions, an equivalent sum by the authority, and such further sums, if any, as the authority saw fit to provide. There was no system of transfer values, but, as with the police scheme, 'pension contributions' were recoverable from former employers. The 1925 Act applied to all whole-time permanent operational firemen, except that local-Act schemes previously in force continued to operate where these were certified by the Government Actuary to be on the whole not less favourable than the 1925 Act.

(ii) The Firemen's Pension Scheme, 1948 and 1949, made under the Fire Services Act, 1947, superseded the 1925 and 1929 Acts. This scheme is very similar to the 1948 Police scheme, and, like it, is based on a 30-year service life.

The financial arrangements are, however, different. In view of the wartime nationalization of the fire service, a centrally administered scheme was considered, but was rejected. Fire authorities are now required to maintain a Firemen's Pensions Account, but the present indications are that this will be unfunded. This will entail, *inter alia*, the disposal of existing 1925 Act funds, but these are, in any case, probably all actuarially insolvent. The former 'pension contributions' are replaced by the more administratively convenient system of transfer values in the case of approved changes of brigade. Consideration is being given to the preparation of interchange rules with other branches of the public service.

(iii) All local-Act schemes are also superseded, except where these are certified by the Government Actuary as being on the whole not less favourable than the 1948 Scheme; and thereafter they continue as 'closed' schemes, limited to existing contributors in 1948 for so long as they continue in operational employment with the parent brigade, subject to the right of individuals to opt into the general 1948 scheme. The major local-Act schemes approved by the Government Actuary are those of London and West Ham, and certain police-firemen are allowed to continue under the police scheme.

As an example, the pre-1948 London firemen derive their pension rights under the Metropolitan Fire Brigade Act, 1865; pension is based on a 'fiftieths' scale, and the maximum (two-thirds of final pay) is earned after only 28 years' service. The member's contribution is at the rate of 2½% of pay. The scheme is unfunded.

(*c*) *Mental Health Officers* (former established employees of the first class)

(i) Under the Asylums Officers' Superannuation Act, 1909, these officers (having care or charge of patients in the usual course of their duties) qualified for pension, based on 'fiftieths', on a scale which secured the maximum (two-thirds) pension after 34 years of established service of the first class. Retirement was optional at age 55, as against the normal 60. Otherwise the scheme was as described in Appendix I, item (*d*).

(ii) Under the National Health Service (Superannuation) Regulations, 1947–48, which superseded the above, the general conditions are preserved, but the substituted scale is based, at the rate of one per year of appropriate service up to 20 years and at two per year thereafter, on 'eightieths' for pension and on 'three-eightieths' for lump sum, reaching the maximum ($\frac{1}{2}$) pension, etc., after 30 years' service as a mental health officer.

(*d*) *Prison Officers*

Under the Superannuation (Prison Officers) Act, 1919, and the Superannuation Act, 1935, the standard type of civil service benefits apply, but service after 20 years attracts benefit at twice the normal rate, until the maximum is reached after 30 years as a prison officer. Retirement is optional at age 55.

ABSTRACT OF THE DISCUSSION

Mr A. C. Robb, in introducing the paper, said that, since it had gone to print, the Superannuation Bill, 1949, had become law, and sundry Statutory Instruments had been issued on the lines of the draft regulations referred to in the paper. The Superannuation (Prison Officers) Act, 1919, which was referred to in Appendix II, item (*d*), had been repealed, but similar rights were conferred by the Superannuation Act, 1949, with the modification that extended service could earn an increased benefit, subject to a new maximum.

Illustrating the desirability of standardization from a practical viewpoint he said that local-Act schemes for the local government service were originally designed purely to suit the authority concerned. The Local Government Act, 1929, required amending schemes in connexion with the assimilation of transferred staff. The Local Government Superannuation Act, 1937, required amending schemes governing mainly the pensionability of earlier service. Regulations under the National Insurance Act, 1946, imposed modifications to avoid duplication of benefits from public moneys. Regulations under the National Health Service Act, 1946, imposed modifications in respect of local Health Service staff; moreover, contributors transferred under that Act were empowered to retain their former superannuation conditions.

The cumulative effect on the 'local-Act' fund with which he was concerned was startling. In 1947 there were six subvarieties of pension scales and conditions, but the number of possible subvarieties in that one fund had grown to no less than 136, and its administration entailed reference to ten public general Acts and forty-two local ones, not forgetting a wide range of Statutory Instruments and amending schemes. That increase in complexity resulted entirely from statutory requirements. It might, of course, be claimed that these arose from advances in superannuation methods and conditions; but they did not assist practical administration, nor did they show any evidence of a reasoned approach to the general question. As he saw it, the need was for a review of the whole field of public superannuation, his own conclusion being that the introduction of a generally standardized scheme was long overdue. The question of finance was a secondary consideration, since unified finance was by no means essential, though obviously desirable in practice if it could be justified.

Mr F. J. Lloyd, in opening the discussion, said that the paper set out and discussed the various superannuation schemes which covered members of the public services and employees of the nationalized boards. While those schemes were of interest to all as taxpayers, and to some as actual or potential members, they were of particular interest to those actuaries who had to advise on the many problems which arose in day-to-day administration. Members and management, although partners in a superannuation fund, did not always take the same view—the members wished to secure the maximum benefits at the minimum cost to themselves; the management wished to provide reasonable benefits at a reasonable cost. In those public funds, the members either paid contributions at a fixed rate, or paid none at all, and the balance of the cost fell on the management. In public funds the management meant ultimately the general population, who were the taxpayers or the users of the products of the nationalized industries. He approached the matter as a taxpayer, and it was in that sense that he wished to speak for the management.

The main public superannuation schemes—Civil Service, local authorities, teachers, National Health Service—had approximately 1,500,000 members. The recently formed public boards for coal, electricity, transport and gas had about 2,000,000 employees. Whether all those employees would be covered eventually by superannuation schemes was not known. The large number of members and potential members involved vast sums of money. In a funded scheme with interest at 3%, a pension of two-thirds of final average salary after forty years' service required a joint contribution in the region of 15% of salary for a young entrant. In the event of inflation, such as had been experienced over the last ten years, the additional resources required—conventionally described by the unhappy word 'deficiencies'—were often staggering in their amount. If, however, instead of being funded, the scheme was to be financed on an emerging cost basis, Heywood and Marples had shown that, provided the size of the working population remained the same, the cost of the benefits would rise ultimately to about 30% of the pay-roll. That figure, of course, was independent of the rate of interest. Those liabilities, apart from the members' fixed percentage contributions, normally fell on the management—the taxpayer—because the schemes were guaranteed. An annual outgo of 30% of the pay-roll for a million employees was an immense future commitment.

Modern accounting practice aimed at isolating individual sources of cost or expenditure, and allocating to each item or service the true cost of making the item or providing the service. Prudent finance dictated that all liabilities, as soon as they accrued, should be covered by assets. Expenditure on superannuation was an important factor in the analysis of the total cost of a service, and the appropriate provision, either as a percentage of the pay-roll or an equalized annual charge, should be made currently as the superannuation liabilities accrued. The best estimate of the necessary provision could be made by an actuary.

Of the 1,500,000 members of public superannuation schemes, about 500,000 were members of local government schemes which were funded; the other 1,000,000 members were covered by schemes which had either no funds or merely notional funds, and were, in effect, financed on an emerging cost basis. Although he would like to see the schemes for all those members funded, he could understand the historical development of the Civil Service scheme on a non-funded basis. When the size of the Civil Service was small, relative to the general population, the future commitment of a scheme on an emerging cost basis was bearable, but with the increase in the size and scope of the Civil Service, the problem required reconsideration. He would regard the trading and general service departments—Post Office, Supply, Health Service, teaching, National Insurance, etc.—as sections where it was essential that the superannuation liabilities, as they accrued, should be covered by interest-earning assets. The true cost of such services would then be disclosed, and might be better understood by politicians and the general public.

Incidentally the National Health Service was an example, on a grand scale, of a non-funded scheme taking over the accumulated assets of funded schemes. When local health service staffs were taken over, the superannuation funds of the local authorities paid to the Central Government sums in cash of about forty million pounds. He understood that the Central Government had used that large capital sum as a credit to revenue in the national accounts. The nationalized industries were required by statute to balance their revenue and expenditure, taking one year with another. Since the cost of superannuation was such an important factor, he would consider it essential that those industries should make provision each year to cover all superannuation liabilities incurred during the year. Only thus could the true cost of the products of the nationalized industries be measured. Members of superannuation funds frequently asked for additional or revised benefits. He thought that it was important to assess the additional cost before an executive decision was taken.

He had heard the argument of some economists that, whether a superannuation scheme was funded or not, the chance of receiving a pension years ahead depended on the share of the national income available for pensions and the proportion of the population pensioned at that time. He submitted that if a superannuation scheme were funded, the productive investment of the fund would tend to produce, by the time of retirement, a larger real national income to be shared, without itself causing unnecessary inflation. Funding avoided subsidizing the present at the expense of the future, and it did not hide the true cost of superannuation. A benefit was fully appreciated only when its true value was understood by all parties. Was any economist prepared to argue that funding was, at that time, harmful to the national economy?

The author had advocated that there should be a standardized scheme for all public and local authority services. If that meant a single unified scheme which would be unfunded, then he would object strongly, for the reasons already given. Even if the scheme were to be funded, he could not agree that a single fund would be desirable. He believed that the best way to keep superannuation costs at a reasonable level was to disclose clearly the true cost of superannuation to each separate financial authority. Even if there were a single fund, he would advocate the keeping of separate accounts for each authority, so that the liabilities of each authority could be accurately assessed at each valuation. The local conditions and practices detailed by the author in paragraph 11 (2) of the paper had a powerful effect on the finances of a fund. A single large fund would be more vulnerable, because each separate authority would try to secure maximum benefits for its own members, knowing that the cost would be shared by all the other authorities.

In addition, there were technical difficulties in forming a single fund. Those had been demonstrated in the formation of the public boards, which in effect collected together members of a number of diverse superannuation schemes. The supporting legislation usually protected the superannuation rights or expectations, whether formal or derived by customary practice, of existing members, and therefore, unless the unified scheme was at least as good as the old schemes in each and every particular, some members of the old schemes would object. This 'best of all worlds' method of unification was expensive, and the cost fell almost entirely on the management. The Ministry of National Insurance, when absorbing the staffs of the Approved Societies, granted, at the management's expense, past service pension benefits which in many cases were more generous than those previously enjoyed in the Approved Societies. It would be instructive to know the cost to the management of those concessions.

The most practical solution, in his opinion, was to close all existing funds to new members. The public board should then set up a new fund, or funds, which would become the standard of superannuation which the board was prepared, or was able, to provide. Some of the closed funds would be superior, some inferior, to those standards. If members of the superior funds wished to secure additional benefits, they should meet the entire cost themselves. Members of the inferior funds should be given an option to transfer to the new standard scheme as new entrants, paying the contribution for their attained ages. Any transfer value, or withdrawal benefit, taken over from the old scheme should be used to purchase past service benefits, on the understanding that no additional cost for past service benefits would fall on the board. If the board were prepared to be more generous than the realistic policy which he had outlined, the cost of the more generous treatment should be calculated by an actuary before the executive decision was taken, so that the true cost of the benefits might be understood.

His closing words were concerned with interchange arrangements. Under existing conditions, members of local authority funds could move from local authority to local authority taking their past service rights with them as transfer values; civil servants had freedom to move within the Civil Service, because they remained in the same scheme; teachers had the same facility in their own sphere; but in general a member of one public board or service, on transfer to another public board or service, lost a large part of his past service rights, because he could not stay in the same scheme nor take a transfer value. The Superannuation (Miscellaneous Provisions) Act, 1948, enabled various Ministers to make regulations permitting transfer values, but few regulations had so far been issued. In his opinion, there should be no deterrent which impeded the movement of individuals from one public service or board to any other. That interchange of staff could be beneficial to all concerned. He saw no reason why a member on moving should not take a transfer value as certified by the fund's actuary. The technical difficulties to be overcome were not insurmountable. Transfers were not directly reciprocal. Many schemes had large deficiencies, or, in the case of the unfunded schemes, no assets, and it was for consideration how far the management should have to meet deficiency charges after the employee had left. Should transfer values be calculated on a common rate of nterest and experience or on the rates used at the last valuation of the fund? Should the new employer grant past service benefits which were equivalent in value to the amount of the transfer values, or should they be based on the number of years of past service?

Mr A. Farncombe found it difficult to see why lump sums should be paid on retirement rather than at any other milestone in a man's life; lump sums on marriage, for example, would be socially more desirable. The cost of providing adequate pensions was proving an almost intolerable burden on private employers, and to attempt to compete with public superannuation funds, equipped with lump sum payments and widows' pensions, was virtually impossible. It was very surprising that public bodies, which were not usually over-generous to their active staff, should treat their pensioners so well, and it was also odd that, with public pension funds leading the way in the matter of lump sums, the Government should discriminate against lump sums in private pension funds by its taxation policy.

He was not sure that he agreed with the author that local authorities were so fond of their pension funds as to oppose bitterly their absorption in a national fund. Their experience had been somewhat unfortunate since the appointed day in 1939, and valuation reports had not made happy reading for the local finance committees. Many of them would define a pension fund as something into which large contributions were paid every year, and which produced a deficiency regularly every five years. In many cases the assets had not been invested very remuneratively, and overworked borough treasurers must find the administrative work very onerous. That state of affairs tended to react on private self-administered funds, and there was a well-authenticated story of a broker who, on reading in the newspapers of a deficiency in a local government fund, cut out the reference and used it to frighten his clients into life assurance schemes. Local authorities might well, therefore, feel a sense of relief if faced with the early loss of their pension funds, but, given a reasonable period of stable salaries and hardening interest rates, coupled with a realization that there were other outlets for the investment of funds besides a very narrow range of gilt-edged securities and loans to the authority itself, it might well be that pension funds would become a source of pride to the authority. Any scheme for the nationalization of local government funds might then be opposed as vocally as was the case with industrial assurance.

The appendices to the paper, though very full in the case of Civil Service, local government and Health Service schemes, were less comprehensive when dealing with the superannuation schemes of public boards. The consulting practice with which he himself was connected had recently had close contact with the actuaries of the National Coal Board, and it might be that a brief examination of some of the problems arising from the absorption of a large number of small funds into the unified scheme of the National Coal Board would be of interest. Those funds were not being continued as closed funds, but members were being granted benefits in the new scheme of equivalent value to those given up. The National Coal Board had inherited a remarkable collection of pension funds, and great ingenuity had been exercised by the Board's actuaries in devising suitable terms for ex-members of those funds.

The member on transferring was granted benefits equivalent to those which he had been promised according to the rules of his former fund, and no regard was had to his prospects of actually receiving those benefits, although many of the schemes had never seen the light of actuarial investigation and were hopelessly insolvent. In some cases the pensions were paid only at the discretion of the management, there being no fund in existence. In those cases, the members could claim what were known as customary rights, which, if established, could be exchanged for equivalent benefits in the new fund. Members of the schemes taken over had, however, the right to take what were known as assimilated benefits, whereby their existing rights to benefit were preserved so far as past service was concerned, but they must come into the new fund for future service. If they could, on retiring, prove that they would have been better off in their former schemes, they could claim the benefits to which they would have been entitled under those schemes.

Needless to say, the new National Coal Board scheme was far superior to most of the schemes taken over, and cases where members elected to take assimilated benefit were likely to be rare. On the other hand, the new scheme applied only to those in the industry of the rank of deputy and upwards, and he did not know what steps were being taken to preserve the pension rights of those below that rank.

Mr W. F. Marples said that there was so much food for thought and there were so many opportunities for argument in the paper that he wished the author had devoted a little more time and space to the leisurely development of his arguments, instead of following the modern practice and putting more in the appendices than in the paper itself.

In the first place, there was the curious reflection on the designers of the 1922 Act to be found in paragraph 4 of the paper. It was possible that those gentlemen had had a clearer idea of the purpose of the adjustment of the Civil Service scheme than many people had at that present time. The Civil Service scheme was non-contributory and therefore did not provide the usual returns on death and withdrawal which were of help and value to a widow. The altération was designed to make some provision for the widow, and also for the member on retirement to provide himself with a house and furnishings not hitherto acquired owing to the exigencies of the service. Those objects had since been met by other means. There were the extended provisions for allocations for widow's benefits, and more recently the contributory scheme for widows' pensions. The means of providing houses and furnishings through income had multiplied very greatly since 1909. The original reason for introducing the lump sum payment had therefore disappeared, but the lump sum had been perpetuated, human nature being what it is.

His own view was that the reason for the existence of a pension fund was to pay pensions. That view was supported by the published writings of various actuaries. Reference might be made, for instance, to George King's famous paper (*J.I.A.* Vol. XXXIX, p. 129), and to the address of Mr R. C. Simmonds to the Association of Superannuation Funds in 1946. It was a corollary that the subsidiary benefits should be reduced to the minimum in order to produce the maximum pension. Unfortunately, those views did not appear to command the agreement of the non-actuarial designers of schemes, who tended to overload a pension fund with lump sums, injury allowances, and provisions for death benefit in the most exaggerated form. He would affirm, however, that a pension fund was designed to provide a continuation of income to members who were no longer able to work, or to their dependents after their death. Thus, pensions and widows' annuities were legitimate products of a pension scheme. An exaggerated lump sum payment on death or retirement should be provided by other means, if considered necessary. From that point of view, he regarded the design of the National Health Service superannuation scheme as a retrograde step in pension funds, in so far as it contained lump sum benefits. In any case, the extraordinary gymnastics by which the lump sums were given with one hand and taken away with the other were ludicrous. He would suggest to the authors of the scheme that the lump sum should be abolished. They would then find themselves in a position to increase the pension for widows and the pension for bachelors.

Much could be said about nearly every one of the advantages and disadvantages listed in paragraphs 10 and 11 of the paper, but he would like to pick out one point in particular for comment in the light of such experience as he possessed. In his opinion, control of remuneration scales, dealt with in paragraph 11 (2), required the maximum emphasis; the author's comment was, he felt, half-hearted. It was 40 years since the Departmental Committee inquired into the affairs of the Railway Clearing House pension fund and disclosed a position not merely of 'less vigilance' but of open disregard of individual responsibility in the operation of what would now be referred to as a joint contributory scheme. Anyone who knew how scrupulously the scales had to be held between joint authorities, or between an admitted and an administering authority, in a local government superannuation fund could have foreseen the situation disclosed by that inquiry, the conclusions of which were still worth studying. He would push the point further. He had a vivid recollection of an interview between an actuary and a treasurer; the former of whom maintained that the average level of remuneration had risen and the latter that he had stuck to his salary scales and had not altered them. Close investigation produced the solution: they were both right. In point of fact the treasurer had appointed many more deputy heads of his department and many more high-salaried officers, with the result the actuary had shown. The inference the speaker drew was that both salary scales and establishment numbers would have to be controlled in order to avoid acts by constituent authorities which would throw the central scheme into jeopardy. He submitted that it would be an intolerable affront to a local authority to be told how many employees of each category it should employ, and to have to seek permission from some central authority to employ larger numbers.

He found himself in entire agreement with the opener's remarks on unfunded schemes. Essentially, pensioners did not want money; they wanted clothing, a house, food and so on. The drawback to the ordinary pension scheme was that the pension was simply a ticket, under the signature of K. O. Peppiatt, for a relative share in the current production of the community, and not for an absolute share. It followed that the assets of pension funds should be employed in increasing the relative production per head of the community, so as to allow pensioners their share without reducing the standard of the active workers. He was not entirely happy that that was being done in current investment policy, and if it was not being done it was time that attention was paid to that aspect of the matter. In the meantime, he would point out once more that a funded scheme was surely saving, to which so much attention was being directed by the Government at the present time. It was an unhappy commentary that on the one hand the Government should advocate saving while on the other hand appropriating sums such as were mentioned by the opener out of capital and treating them as revenue.

He would point out also that the decision whether to fund or not had an important bearing on the scale of benefits adopted. Anyone who had taken part in discussions on the setting up of a new fund knew the vital part played by past service cost. He was always in favour of funding a scheme, whether by a private employer or a public authority, so that full appreciation of the genuine costs of the scheme could not be avoided; that full appreciation could be achieved only when payment had to be made not only for current benefits but also for past service pensions.

If he might attempt to find the keynote of the paper, he would suggest that it was a subtle dissertation on the theme 'Let me not to the marriage of true minds admit impediment'. He would draw attention to the fact that there were so many parties to the marriage as to resemble a harem. They had been at pains as a nation to break the bonds of slavery, and he hoped that they would be reluctant to impose them, however disguised, on their institutions. Let them have standardization, but not centralization or unification, for that way lay frustration.

Mr R. S. McDougall (a visitor) said that he was the author of a paper on superannuation presented a short time before to another body, and he felt then and still felt that the three most important things were the increase in longevity, the fall in the rate of interest (which, however, seemed to have been checked), and the increase in scales of salary. Those three things were the major causes of the large deficiencies which caused the local government officer and the finance committee so much concern. He felt sure that actuaries, when they made their quinquennial reports, would bring home to the members of the authorities the causes of those big deficiencies, which were not understood in local government. It would take a long time to make them properly understood.

He spoke, of course, as one who advised a local authority and not as one who hoped to get some benefits from the pension scheme, but to his mind the defect in the local government schemes was that the deficiencies were inevitably met by the employer, and not shared by the employer and employee. There were no provisions for varying the rate of contribution for existing members, however much the circumstances might have changed, and hence the position arose that an officer might get a substantial increase in his remuneration towards the end of his career which would ultimately cause a very severe deficiency in the fund, and that substantial deficiency was, of course, met entirely by the employer and not by the employee. The people who negotiated the 1922 Act, and subsequently the 1937 Act, may have intended that the cost of pensions should be borne equally between employer and employee, but that position had been lost, and the employer was now bearing, and would in future bear, a much larger proportion of the cost of the pension. He thought that that sort of thing ought to be brought home to the employer.

The other important matter, which had already been touched on both by the author and by other speakers, was the growing complexity of superannuation in local government, and indeed in the public service generally. The regulations issued under the National Health Service scheme covered 88 pages, and he believed that ten pages of amendments had already been issued since the regulations were published in July, 1948.

Much more could be said about the complexities of superannuation schemes in the public service. The reason was, he thought, the insistence in every conceivable case on absolute fairness to the individual. So long as this was insisted upon, it would be necessary to go on making superannuation legislation more and more complicated. Only if there was a readiness to be content with doing rough justice would it be possible to succeed in bringing about any form of simplification at all.

He then touched on the question whether pension schemes in the public service should be contributory or non-contributory. Leaving out of account for the moment the question of funding or not funding, or of having only one fund, he wished to direct attention to the administrative benefits of a non-contributory scheme. He was well aware that the Chorley Committee on Civil Service pay recently recommended that the Civil Service scheme should be made contributory, but the only argument advanced in favour of that was that it would bring it into line with the local government scheme; in other words, transfer from the Civil Service to local government would be more simply and easily effected if both schemes were on the same basis. Personally, he felt that the proper thing was to go the other way and have non-contributory schemes for local government. He did not mean that there should be no funding; he believed that it was perfectly possible to have a non-contributory scheme with a fund, and he believed that it was even possible to refund contributions which had never been made. He thought that there were merits in doing even that. The greatest disadvantage of a non-contributory scheme was that a man leaving local government or the Civil Service and going into industry could not take his contributions away with him, but it should be quite possible to devise a scheme under which contributions he had made not directly, but by a diminution in his rate of pay, could be recognized, and a refund made.

Mr A. J. D. Winnifrith (a visitor) was definitely against standardization, his first reason being a practical one. To unify the numerous systems which prevailed, it would be necessary to negotiate with all the interests concerned and that process of negotiation would be lengthy and expensive. It would be expensive because, as a previous speaker had suggested, the process would be one of levelling up and not of levelling down. It would be protracted, because all the different bodies would have to be brought into the talks, and they would all have individual points of view. It was all very well to say that the Government should use a strong arm and mete out rough justice, but a Bill would be necessary to bring the new unified scheme into force and there was no constituent more persistent in his attentions to Members of Parliament than the disgruntled pensioner. All the staff associations would write to all their members and all the members would write to their Members of Parliament. Could any Government be blamed for being somewhat chary of undertaking such a process?

His second point was less important. One of the reasons which had been suggested for unification was to promote interchange, and in that connexion he was going to utter the grossest heresy. He thought that far too much lip service was paid to the new doctrine, which everybody was supposed to advocate, of promoting interchangeability. Of course there should be interchangeability, but it would be over a very small area of the different services. Some people were eminently fitted for transfer, and would benefit their new service by transferring to it, but the great majority would end where they began, for the excellent reason that they had spent a large part of their service in acquiring the technique of that service, and it would be a waste of their talents to send them out to other fields. Without pressing the point too far, he said that, in the small area where interchangeability was desirable, interchange would not be stopped by the existence of different superannuation provisions; that difficulty could always be overcome if there was a sufficient reason for getting the right man into the new job.

Thirdly, as an individualist, he disliked the idea of being straight-jacketted into a uniform scheme. He was not speaking for the management, whose interests would be served by having a uniform scheme at the lowest common denominator. He thought, however, that the interests of the members of the different schemes were best served by various individuals in the different services hammering away at their different points of view and getting improvements in their respective schemes. In the Civil Service they had scored a point recently by securing something for their widows. The other public services had not yet got there but no doubt they would do so; they would be stimulated by the efforts made by the civil servants and secure similar benefits under their own schemes. They should obtain those benefits, however, by improving their own schemes, the framework of which was suited to the requirements of their own services, and not by being brought within a uniform scheme.

Mr R. W. Abbott confessed to finding it ironical that, during the five years of office of a Government devoted to planning, there should have been so much unplanned development of public superannuation schemes. He felt that the valuable paper which the author had presented should have been discussed, not by the Institute of Actuaries, but by an institute of administrators of pension funds, which would doubtless come into being if that unplanned development continued.

He would take as an example one of the most recent major developments, the extension of widows' pensions to members of the Civil Service, the National Health Service and various public boards. He wondered whether the author had emphasized strongly enough the differences between the various schemes, and particularly between the widows' benefits described in the appendices to the paper. For instance, in the National Health Service scheme there was automatic provision for a pension of one-third of the former contributor's actual or accrued pension at date of death, a benefit secured by the reduction in the lump sum payable on death or retirement from 3/80ths to 1/80th of the average remuneration over the last three years' service for each year of contributory service. The benefit was compulsory for all married men, and there were no children's benefits payable. On the other hand, the scheme brought into force by the Superannuation Act, 1949, for civil servants granted a widows' pension of one-third of the former contributor's actual or accrued pension, with a minimum of £26 a year, but there were in addition certain children's benefits dependent on the number of children, which might increase the total pension payable by another one-third, or £26 a year. Unlike the National Health Service scheme, existing civil servants might contract out of it, and the cost was shared between the Exchequer and the member, the latter paying $1\frac{1}{4}$% of salary or suffering a reduction in the lump sum payable on death or retirement of 1/80th of the average salary over the last 3 years of service for each year of pensionable service. He felt that a particularly regrettable feature of that Act—although it was easy to see why it had been incorporated—was that there was one clause debarring the contributor from obtaining relief of income tax in respect of his contributions, despite the provisions of the Income Tax Act, 1918, and the Finance Act, 1921, thus adding one further complication to income tax law.

He referred also to the National Coal Board scheme and to the scheme for the British Electricity Authority staff, under which were included certain family benefits. A member who wished to have those family benefits paid a contribution of 1 % of his salary, and his widow became entitled to a pension on his death of one-quarter of the accrued or actual pension of which he was formerly in receipt. Children's benefits were included amounting to £50 a year for the youngest child and £45 a year for each other child up to a certain maximum, and the Board or Authority contributed twice as much as the member. The scheme was optional for existing and new employees.

It would be seen, therefore, that there were many variations in the few schemes set up to provide widows' and orphans' benefits for public servants. There appeared to be no intrinsic reason for those variations, and it would have been a big step forward if one standard set of provisions had been adopted. Such a reform was possible in respect of widows' and orphans' pensions, because they were a recent innovation. The arguments for a unified scheme for all classes of public servants—apart from unified finance, which he deplored—were strong, but the forces against such a reform were stronger, and it would be wiser to limit any efforts which were made to an attempt to secure immediately possible reforms. Unified widows' and orphans' benefits were practicable and would, to a limited degree, ease the problem of transfers such as were in fact taking place between local authorities, the Civil Service and public boards. The standard widows' scheme he would recommend would be the National Health Service scheme, where the whole cost was thrown on the employee by scaling down the lump sum payable on death or retirement. Lump sum benefits were, he agreed, a luxury, which the Inland Revenue authorities rightly discouraged by taxation regulations, with the result that private employers were rarely able to include such benefits in their pension schemes. A standard scheme on the National Health Service lines for all classes of public servants would encourage private employers to embark on widows' and orphans' benefits as opposed to lump sums on death or retirement. He would not encourage them to enter a State unfunded scheme, as the author suggested in paragraph 19, but would strongly deprecate such a proposal.

Mr M. D. W. Elphinstone thought that there was nothing so objectionable in anything that actuaries came across as the unfunded pension scheme. It was a form of promise which the members of that generation were giving to their colleagues in the Civil Service and in the public service generally, and which might be met, and probably would be met, by their successors, who would, it was to be hoped, be honest men. If met, it would be at the expense of somebody else, because in the unfunded scheme there was no fund to be invested in capital investment, and there was no means of ensuring that goods and services were available to meet those pensions when they became due. The same considerations applied to a funded scheme, unless the amount of capital investment was equivalent to the amount of the fund.

There was a correlation between the size of the scheme and the likelihood of its being based upon final salary. The small schemes, underwritten by Life Offices, the bulk of whose investments were producing capital goods (apart, unfortunately, from some 40% in government debt), were rarely based on final salary. Then there were the large schemes, possibly underwritten, possibly private schemes properly funded (except for the apparently inevitable deficiency), into that class came many local government schemes. The large private funded scheme was sometimes based on final salary and sometimes not; it was occasionally based prudently on the money-purchase plan. The very large schemes, the Civil Service scheme and so on, nobody dreamed of funding and these were invariably based on final salary.

An example of the tendency to which he objected was the F.S.S.N. scheme (with which he had never had anything to do but which he believed to be an excellent scheme); that had been abolished and a large amorphous unfunded scheme substituted, which would be a burden to the present generation in their old age and to their successors.

Of the total amount of money available to pay pensions to non-producing old people he was afraid that too large a share would go to the ex-civil service pensioners and others belonging to unfunded schemes and he believed that was a serious matter. Private industry, with its carefully fostered funded or insured schemes would not be able to afford extra payments, and it was the pensioners of the unfunded schemes who would have cost of living allowances added.

Mr A. E. Hickinbotham (a visitor) did not claim to be an expert in any way but said he was merely a lay administrator; he had, however, had a little to do with the Health Service scheme and he had to perform mental gymnastics to produce the regulations which Mr McDougall had mentioned. He would very much like to see some uniformity in schemes, because without it extremely complex regulations were unavoidable. Quite apart from the fact that they were very difficult to understand, the ordinary man was liable to fall between them and lose rights which he ought to have. A certain amount of uniformity would be quite easy to achieve, with a little guidance. The three main schemes were already running on fairly similar lines—the scheme for teachers, the Health Service scheme and the Civil Service scheme. Discussions were proceeding for getting widows' pensions written into the scheme for teachers, and he thought that they could easily be introduced in the same way as they were in the Health Service or the Civil Service. It was unfortunate that there were different terms for widows in those two cases, but there was something close to uniformity there, and the sort of arrangement was much the same. One of the difficulties in obtaining uniformity was partly historical. All the schemes had just grown up, like Topsy, and everybody had his own opinion about their provisions.

Personally, he thought that the lump sum had some advantages, in spite of what Mr Marples had said. There was evidence that people liked to have a small lump sum when they retired, which enabled them to change their mode of living, and it was useful when a man died for his widow to have not only a pension but also a lump sum. If some uniformity were to be achieved, he thought that the technicians would have to throw overboard some of their finer principles; it would not be possible to follow the tendency, in interchange rules, etc., to tie everything up to the last detail.

He was not an expert on the question whether pension schemes should be funded. As an individual, he inclined to the view that there ought to be a fund as a way of trying to provide in the present for the liabilities of the future; but nobody had referred to the biggest scheme of all, the National Insurance Scheme, and nobody had suggested that an enormous fund should be run for that. He thought the answer might be that a public service scheme had to be set against the credit of the employer, and if that credit was very good, as was the case where the employer was the nation or a local authority, there was no point in incurring all the expense and trouble of keeping a large fund going and of valuing it. But, even if there were no fund, he thought that contributions from the individual represented a principle which should be maintained, because it preserved the individual's feeling that he participated in the scheme and that it meant something to him.

As an example of the tendency in the non-funding direction, he mentioned that discussions were going on with a view to the dismantling of the Fire Service funds and substituting an unfunded scheme. As an individual, he felt that it was pleasant to have a fund to look at, and for contributors to be able to say 'That is our money', but in practice there were objections to it, and, even with a fund, in a scheme relating pensions to pay it was never possible to provide for the unexpected liability due to an increase in pay. It was necessary for employers when negotiating pay changes to have in mind that they had that deferred liability overhanging them.

Mr J. K. Scholey, referring to the advantages of unification of funds set out in paragraph 10 of the paper, said that some were shown as leading to corresponding disadvantages in paragraph 11 and all were minor in character. The two main factors to take into account were both disadvantages and were given under headings (1) and (2) of paragraph 11. Under heading (3) of paragraph 10 the author spoke of the 'Possibility of unified valuation, with simplified allocation to authorities (e.g. on basis of salary rolls or rateable values—although both are objectionable in certain respects).' Personally, he felt that they were objectionable in many respects. Where an actuary was called upon to allocate liabilities between two financial entities (unless those financial entities were small and closely related, when perhaps some *ad hoc* division might be reasonably justified) it was necessary in fairness to both authorities to have a complete valuation of each set of liabilities. That meant that it was not proper to have a unified scheme of the type dealt with in the paper, which would involve rolling everybody in together and sorting out the liabilities on some general basis.

He thought that there was a misapprehension about the nationalized boards, which, in paragraph 13, were classed with the public services. In his view, the nationalized boards were not 'public services' in the sense that the other classes in that paragraph were. They were independent companies of which the community held the capital; they were trading companies, as the opener had so accurately put it. They were to pay their way, but they could not properly be said to do so unless they knew what their superannuation costs were, and that meant that they must have their own separate schemes. Equity apart, even, it was the easier course for them. In addition to maintaining their own superannuation schemes, they must 'fund' those schemes. The word 'funding' had been used that evening in several senses. But the minimum meaning to be inferred from the term was that they must periodically have their superannuation liabilities valued, and on the capital liability left after taking credit for any assets they must at least pay annual interest. Whether they should pay more than that and accumulate capital over the years, had been touched on by one or two speakers, but he did not think that the final answer had been given, and there was not time to deal with so big a subject that evening. There seemed to be scope for investigation to decide what advice actuaries should give on that problem, although it was not only an actuarial but also an economic problem.

The author had referred to the practical importance of administrative convenience but he felt that administration was the second consideration to bear in mind. They must first of all make up their minds as actuaries whether unification was proper or improper on financial and actuarial grounds. If it was improper, then no amount of administrative convenience ought to tilt the scales towards unification.

There were obvious differences between the various schemes they were discussing. The author had mentioned the many Acts of Parliament to which he had had to refer. Furthermore there were no doubt anomalies, particularly in regard to the transfer of funds. Surely, however, those differences, though not the anomalies, were part of our national culture? He did not know how many members had heard Mr Birley's Reith Lecture the previous day, in which he had pointed out the multiplicity of political forms that there were in the country, and how in that multiplicity lay our genius and strength. The issue under discussion was a much smaller one, but it should be borne in mind that the differences which were found between pension funds were not there because of the incompetence of those who framed the schemes, that the framers were not wilfully obstinate in departing from the pattern set by other schemes nor blind because they failed to see that a unified scheme was necessary or desirable; the differences were there because human problems were being dealt with, and because those who framed and ran the schemes were human beings. So far as transfer arrangements were concerned, it was obviously a good thing to eliminate anomalies, and he felt sure that there were many ways in which, by altering and simplifying the rules governing transfer values, a good deal of help could be given to those who were saddled with the administration of funds.

Mr K. G. Smith wished to make it clear, in view of the doubt there seemed to be on the point, that the public boards which had been set up recently as a result of nationalization had separate funds and had made provision for valuation of their liabilities and for making deficiency payments to make their funds self-sufficient. It had already been pointed out that the information given in the appendices to the paper was incomplete in one particular, and that was that in the public board with which he himself was associated the independent schemes existing at the date when the board took over were not being continued. It was a similar problem to the one which was to be found in the paper as a whole, but on a smaller scale. There were 200 schemes at the vesting date, and the problem was whether they should be continued or wound up. The board decided to wind them up. The actual machinery was interesting, because it might be an example for a larger amalgamation. Each scheme was considered, and an offer was made to each member, not necessarily an offer of a year for a year. There were two simple devices which made it much easier to equate benefits. One was to offer a proportion of a year in the board's scheme for each year in the old scheme, and the other, in those schemes which were money-purchase schemes or insurance schemes and which did not relate their benefits to salary at retirement, to grant a year with a fixed pensionable ceiling instead of one related to the pension at retirement. It was possible by those two methods to allow satisfactory terms to the vast majority of people who were transferred. There would always be exceptions, and special steps had to be taken to safeguard their rights, including the guarantee of benefits on the scale of their old scheme but limited by certain notional increases of salary, and taking into account any future difference in contributions. It was then possible for the Minister fairly and equitably to issue an order winding up the scheme, and the scheme then ceased to exist, the assets being transferred.

He was surprised that one point had not been mentioned in the paper. Most people were agreed that freedom of transfer between the various public boards was a good thing. He was equally convinced that free transfer between public boards and private enterprise was an even better thing, and it seemed to him that an immediate practical approach would be to amend the legislation relating to approval of funds to ensure that no fund should be approved unless it was prepared to grant a transfer value in respect of a member who was transferring to another approved fund. That, it seemed to him, would do away with a great deal of the standstill imposed by different pension schemes, but would not restrict future legislation on the lines proposed by the author.

Mr C. H. L. Brown said that Mr Hickinbotham had referred to the National Insurance Scheme in terms which suggested that there could be no possible alternative to its being an unfunded scheme. He wished to make the point, therefore, that some people felt that the approved societies system had worked very well, and it should not be inferred that actuaries as a body acquiesced in the suggestion that the National Insurance Scheme must be unfunded.

Mr G. Heywood proposed to confine his remarks to local government schemes and to the suggestion of one uniform central fund. He wished to consider particularly the effect of centralizing local government funds so far as administration was concerned. In paragraph 10 (2) it was stated that one of the advantages of a unified fund was 'Simplicity and economy of administration, including the disappearance of transfer values,' but in paragraph 11 (8) it was stated as a disadvantage of a unified scheme that the administrative saving might be relatively small. The author seemed to be satisfied that there would be some saving, but was doubtful of its extent. Presumably he reached that conclusion because it would mean the disappearance of transfer values in the form in which they were now known, and it would relieve the local authority of the necessity of making investments.

There would remain, however—and it seemed that the author agreed with that—other duties at present undertaken by the administrators of local government funds. They would still have to collect the contributions, pay the benefits, and keep some basic records, otherwise there would be an enormous correspondence between each local authority and the central body. He submitted that those duties formed the greater part of the administration of local government funds as it was, and that any saving would be very small indeed. As a set-off against any saving, moreover, there might be an increase in the work which the administrators of local government funds had to do. They would have to make returns to the central office, if not to regional offices as well, returns which might be quarterly, monthly, weekly or even daily. Paragraph 11 (9) referred to the possibility of delay in the payment of benefits, and that seemed to indicate the existence of an even closer liaison, so that it might well be necessary to obtain authority from the central body to make any and every payment or to arrive at the simplest decision. In fact, the greater part of the initiative which was a feature of the present system of local government funds would largely disappear, and in his view would be replaced by increased routine and administrative work. Quite apart from that, the central staff would be set up on a scale at which he hesitated even to guess. He considered therefore that, taking everything into consideration, it was unlikely that centralization of local government funds would relieve the local staffs of any administration at all, and the reverse might well be the case. Taking into account the new staff of the central office, the overall result would undoubtedly be more administrative work, increased cost of administration, and a loss of man-power which could be ill-afforded in our present national difficulties. The ultimate cost of pension schemes, excluding administration, was quite independent of centralization and depended entirely on salaries, service, and the duration of life after retirement. On the other hand, the cost of administration might be kept to a minimum or might be lavishly extended beyond any reasonable limit. He thought that the control of that cost by every local authority running its own fund was the best way to keep it at a minimum.

He would digress for a moment to refer to the subject of transfer values, as they were often referred to as a major difficulty in the administration of present local government schemes. In an effort to discover their extent, he had selected five local government funds at random, and for the five years prior to the past valuation had obtained the figure for the number of transfer values per annum expressed as a percentage of total members. That was a period when there was great fluidity in local government staffs, and many changes due to the abnormal conditions of the war and post-war years, so that the figure might be expected to be a maximum. For all classes, excluding female nurses, the average figure was 1·1%; taking the figures for each individual fund the maximum figure was 2·2% and the minimum 0·4%. It hardly seemed to him that such small proportions could be a major problem. He would suppose for a moment, however, that it was a problem. The simplest task was the calculation of the transfer value itself; the difficult task was agreeing the salary, the contributory service, the non-contributory service and the contributions paid with the other authority. If each local authority was to keep any records at all after unification, this task would remain, except that the amount of correspondence would be doubled by passing through a central office.

Much had already been said on the subject of funding, but he felt that at a meeting of the Institute it could not be said too often. The system of unfunding completely obscured the true cost of a pension scheme, a cost which should be provided, as the opener so rightly said, when the members were in active service and were still a producing asset. It would be unsound, in his view, to advise any company, however large and prosperous, to establish an unfunded scheme, and he saw no reason why an exception should be made in the case of a nationalized industry or the centralized fund of a service. He would welcome the continuation of the traditional actuarial method of funding.

Mr J. H. Gunlake, in closing the discussion, said that there had been a very long and full debate, and he did not think that there remained much for him to do except to underline one or two of the more important points.

While agreeing with almost everything that Mr Marples had said, he disagreed with him slightly on one point, namely, his comment on the arrangement of the paper. The paper fell naturally into two parts—first, an historical survey, very brief but extremely useful, which the author properly relegated to the appendices, and secondly, an equally brief and very tersely argued survey of certain possible future developments. The appendices were arranged in a particular way, and it was of some interest to re-arrange the information in chronological order and pick out a few of the milestones in this progress through history, because it revealed some of the salient problems as they had become apparent—problems which, of course, still existed and were still encountered in dealing with pension schemes.

How, then, did it all begin? He knew of at least one very early case of the problem of a pension in the public service, and that was the problem that faced Samuel Pepys in 1660, when he took over the job of Clerk of the Acts of the Navy Board and had to deal with his predecessor. Having successfully fought him off (because he showed some signs of trying to take on the job again) Pepys allowed him a pension out of his own salary, and it was an amusing footnote to something which the opener had said that the proportion which he allowed him was almost exactly 30%. It might be added that Pepys dealt with his own pension problem out of his own savings.

The first of the historical cases mentioned in the paper was the 1829 Metropolitan Police Act, and it was worth while reading again the words in Appendix II of the paper; the Act provided 'for discretionary allowances to such policemen "as shall be disabled by bodily injury received, or shall be worn out by length of service"'. There was the enunciation of the principle that a pension should only be granted in case of need. Some of the difficulties that had arisen in the last hundred odd years might be the result of straying a little too far from the fundamental conception.

The main event in the history of the matter, however, was the first Civil Service Act, the Superannuation Act of 1834. That scheme had a number of special features. In the first place, following up the thought that arose in the case of the police, it seemed to have been assumed that, so far as civil servants were concerned, they could be regarded as being worn out by length of service on reaching the age of 65. That might have been a reasonable assumption at the time. It was fair to add that, physiologically, the age of 65 in 1834 might have been equivalent to 70 or even 75 to-day. The next great feature of that Civil Service scheme was that it was non-contributory and not funded. He did not know anything of the circumstances in which the matter was argued at the time, but he thought that it was quite probable that those points were not very much discussed. The Civil Service, as had already been said, was then very small. It was not recruited by examination, but by what might be called 'appointment', and pensions were probably granted for obvious reasons. Incidentally, the pensions for the pre-1829 entrants were at the rate of 100% of final pay. The next Civil Service Act, the Act of 1859, took the pension-age question a little further, the idea being, apparently, that if the Government might fairly assume that a civil servant was worn out at 65, the civil servant himself might consider that he was worn out at 60, and so he was given an optional right to retire at that age. That process had been reversed recently by the belated but necessary recognition of the fact that people now lived so much longer, and remained fit so much longer, that everything possible should be done to encourage them not to retire until the last possible moment. The next piece of legislation was the 1890 Police Act, where at last full respectability was achieved by a scheme which was both contributory and funded.

The Act of 1898 relating to teachers had an interesting feature, about which the author might be able to give a little further information in his reply to the discussion. The author said that the scheme had throughout been centrally financed but administered locally until pension age. Much might lie behind those words, and it would be interesting to have more information on how that worked out in practice.

In 1909 a new difficulty came to light, which was recognized in the scheme for asylums officers in that year. The difficulty was how to arrange that people who changed their jobs should have their pension liabilities properly allocated to their previous employers. That was a scheme financed on an emerging cost basis, and the arrangement was that the previous employers had to pay an appropriate part of the emerging cost; but it emphasized the point made in the discussion, that pension liabilities should be placed fairly and squarely on the shoulders that ought to carry them, and should be met, so far as possible, at the time when they accrued. In passing, he mentioned that he agreed thoroughly with Mr Marples's castigation of lump sum benefits. The teachers in 1918 had a new idea; they introduced a scheme which was contributory, not funded, but valued. If there was one thing worse than an unfunded scheme, it was a contributory unfunded scheme, where contributions were collected from the employees, in return for which they were given a promissory note that could at any time become the plaything of politicians and (what might sometimes be worse) of economists. The next outstanding event was the Local Government Officers' Act of 1922. That Act was very important; it recognized what he regarded as a vital principle. The arrangement was that contributions should be paid which would provide the future service pensions, and, further, the generation of that time was prepared to shoulder the liability for which its fathers and grandfathers had forgotten to provide, namely, the cost of back service. There was nothing more deplorable than to go back on that brave decision.

The main point in the paper itself arose, he thought, in paragraph 10, and he ventured to repeat what had already been said, namely, that the points set out in paragraph 10 were all answered, and to his mind most effectively answered, in paragraph 11 and in other places in the paper. On the question of uniformity, variations were always disliked by planners and administrators and legislators, because they made work. Perhaps no department of Government might have been better excused for objecting to variations than the Treasury, yet Mr Winnifrith had said that he was an individualist, and opposed to uniformity. There was no doubt that Mr Winnifrith was right. Human beings were untidy, and human development was untidy; that was what made life interesting. He thought it also made it efficient. Those variations were not haphazard, or the product of obstinate minds; they had arisen for definite reasons, and before they were swept away it was necessary to be very careful indeed to see that the reasons which gave rise to them were no longer valid. The next point was economy of administration, and on that subject he had been delighted to hear, though somewhat late in the discussion, some very trenchant remarks. Centralization and uniformity, to his mind, would inevitably lead to duplication of records and duplication of function, because head office would never allow the branches to administer without checks, and the branches would never be satisfied to leave it to head office without checks. Then came the question of unified valuation. That was the second stage in the rake's progress; the first stage was uniformity of benefits, then all the liabilities were amalgamated, and the third step was to dissipate all the assets. He did not know how it would be possible to amalgamate the liabilities while continuing to place the pension liability on the proper shoulders. Local authorities should meet the liabilities arising out of the service of their employees with them, and there was no way of seeing that they did that except by valuing the separate liabilities, as Mr Scholey had pointed out. Reference had been made to fluidity of staff, and that was a matter that might be left to the local government authorities. Clearly there was something to be said, in the national interest, for promoting the movement of staff from over-manned to under-manned industries, but whether it was equally right to promote what some unkind people might call a movement of staff from one over-manned public authority to another over-manned public authority was another matter. The dissipation of assets was a question about which it was impossbile to speak too seriously, and he was glad that so many speakers had taken that line.

He had begun his remarks by asking how pension business all originated, and perhaps he might conclude them by asking how it would all end. If all the benefits were unified, all the liabilities amalgamated and all the assets of the local government authorities dissipated, what next? That was dealt with in paragraph 13 of the paper and in the following paragraphs. Apparently a whole lot of other groups—the Civil Service, and so on—were to be put into the common pool. Would it stop there? If the Government had taken £40,000,000 and put it in the till, what might happen to the £2,000,000,000 (or thereabouts) of funds which had been so carefully accumulated by the life assurance companies? In case there might be anybody present—though he did not think that there was—who might be tempted to say that the fate of those local government funds was no particular concern of his, he would quote the terrible words of John Donne: 'Any man's death diminishes me, because I am involved in Mankinde; and therefore never send to know for whom the bell tolls; it tolls for thee.'

The Chairman (Mr W. F. Gardner), before asking the author to reply, said that he would like to make one human, and therefore actuarial, point. As actuaries, they might well be thought to be close to their actuarial and financial problems, but remote from the individual. They necessarily dealt with aggregations of numbers, and therefore in the minds of those who might later read the paper, and to a lesser degree of those who might read their discussions, they might seem remote; yet implicit in Mr Robb's paper, and sometimes implicit and sometimes explicit in the discussion that evening, had been that concern for the individual, and he felt it right that he should emphasize that. He had been particularly glad to hear Mr Marples say that the object of a pension fund was to pay pensions, and that the pensioner needed his pension to buy food and clothes. There was danger in remoteness. He was sure that the members would wish to express to Mr Robb their appreciation of the paper which he had submitted and of the vigorous discussion which it had produced.

Mr A. C. Robb, in reply, expressed his thanks for the way in which the paper had been received. He had tried to write a paper which he hoped might be provocative, and in view of the discussion he thought he could claim to have been successful in that. As Mr Gunlake had pointed out, it had been necessary to set out the history in some detail, and he had had to relegate that to the appendices. Having done that he had had space in the paper only to indicate ideas, and not necessarily to follow them to conclusions; he had left that for the speakers in the discussion. He did not propose to deal at great length with all the points which had arisen, many of which were important but somewhat incidental to the main question of standardizing or combining schemes. He fully agreed that unification of finance was not desirable. There were arguments for it, but in his opinion, as in the opinion of most of those present, they were weak arguments. There were far stronger and more cogent reasons for separate finance, but he did not regard those reasons as in any way detracting from the idea of standard benefits.

One or two speakers had said that they did not think that transfers were very frequent. Again he could only speak for his own authority. He hesitated to quote a figure, but he would put the number of transfer values, incoming and outgoing, with which they had dealt annually, at between 5 and 10 per cent. of the membership of their fund. Although that figure included transfers of nurses, which would, to a large extent, cease, the total was certainly not inconsiderable. Probably also they saw more of the special cases of transfer values than did most other authorities, and knew the difficulties of the person who said that he had lost something by his transfer from another scheme. That kind of thing should not be allowed. He knew that in many cases people transferred voluntarily, but they should not have artificial penalties put on them for what was presumably an increase in the efficiency of the public service—because otherwise they would not be taken into the employment of their new employer. That kind of discrepancy could be avoided by uniform benefits. Reference had been made to the way in which those pension schemes had developed, and to the reasons behind their provisions. The reasons for creating a particular benefit at a certain time might have been very good ones even if the need for some of the provisions had since largely disappeared. For instance, the reasons for the lump sum benefit were very good when it was first introduced, for at that time no special provision was made for widows. He agreed with Mr Hickinbotham, however, that there still remained some case for a small lump sum.

The other main point made in the discussion concerned unfunding. He agreed with everything said by the actuarial profession as to the merits of funded schemes and with regard to the National Health Service scheme, he regarded the annexation of that £40,000,000 as a completely inexcusable squandering of capital assets designed for the future. The Exchequer might hold that as they were financing it they could run it their own way, but what about the Fire Service? That was primarily the financial responsibility of local authorities. In the negotiations which had gone on he had not heard a single local authority spokesman declare in favour of an unfunded scheme, and he had heard several very strong expressions in favour of a funded scheme; yet it was understood that the Treasury had ruled that it should be unfunded.

Mr Elphinstone later wrote: The ideas which I was trying to express at the meeting spring from the fact that when the present generation retires, the next generation will determine the total amount of goods and services which its pensions will buy. If the present generation does not make capital investment as the actuarial liabilities for its pensions grow, then it will be hard up in its old age. It will not be the servants of private industry, members of insured and funded schemes, who will then be granted cost of living bonuses to relieve their distress, but the members of the unfunded schemes, for there such relief involves no immediate deficiency. In an unfunded scheme, such extravagance is encouraged because there is no machinery to count the cost. Members of these schemes, drawing pensions based on final salaries, will already hold a disproportionate claim to the goods and services available for the old people. But though their claims will be out of proportion and further increased by the reliefs, it will be these same people who will have caused distress among their fellows by claiming pensions against which there is no capital investment.

Some attempt at least is made to create real assets to back the liabilities of properly funded or insured schemes. In schemes with deficient funds—i.e. in nearly all final salary schemes—only a half-hearted attempt is made. An unfunded scheme for pensions based on final salaries is but a way of raiding the savings of other people. For this reason I consider such schemes to be wholly objectionable.

The argument is simplified—an outline only—but it should prevail, being derived from economic principles, not from administrative convenience. Our forefathers, the early actuaries, were at pains to abolish the assessment Life Offices; we have so far lost touch with the principles of our craft that we condone, and now even encourage, assessment pension schemes.