



Report of a Committee on
Pensions to Widows and
Orphans of Officers in the
Colonial Service
and on
Colonial Provident Funds

*Presented by the Secretary of State for the Colonies
to Parliament by Command of His Majesty,
July, 1936*

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Chairman.

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Mr. C. J. JEFFRIES, O.B.E. (Colonial Office).

Mr. J. G. KYD (Government Actuary's Department).

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Mr. H. K. PURCELL (Crown Agents for the Colonies).

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REPORT

TO THE RIGHT HONOURABLE J. H. THOMAS, M.P., SECRETARY OF
STATE FOR THE COLONIES.

SIR,

TERMS OF REFERENCE.

We were appointed a Committee by the Right Honourable Sir Philip Cunliffe-Lister, G.B.E., M.C., M.P. (now Viscount Swinton), Secretary of State for the Colonies, on the 28th of May, 1934, with the following terms of reference:—

“ To review the existing arrangements for the grant of pensions to the widows and orphans of officers in the Colonial Service; and to make recommendations as to any changes in the present policy in this matter which Colonial Governments should be advised to adopt, with special reference to—

- (a) the classes of officials to be covered;
- (b) the benefits to be afforded;
- (c) the nature of the financial provisions to be made.”

2. At our first meeting it was suggested that the Colonial Office representatives should bring to the notice of the Secretary of State the feeling of the Committee that, in view of the importance of Provident Funds and of the fact that in some cases there seemed to be a definite interlocking between these Funds and Widows' and Orphans' Pension systems, it might be advisable if a consideration of Provident Funds could be brought within the purview of the Committee. As a result of this suggestion, the following letter was addressed to our Chairman by the Permanent Under-Secretary of State for the Colonies on the 26th of June, 1934:—

“ Sir,

I am directed by Secretary Sir Philip Cunliffe-Lister to inform you that he would be glad if the Committee which he appointed on the 28th of May to enquire into certain questions relating to the grant of pensions to the dependants of deceased Colonial Officers would include the question of the establishment or extension of Provident Fund systems in the Colonies in the scope of their enquiry.

I am, &c.

(Signed) J. L. MAFFEY.”

PERSONNEL OF THE COMMITTEE.

3. The Committee as originally constituted included Mr. F. J. Howard, O.B.E., and Mr. T. I. K. Lloyd, both of the Colonial Office. In consequence of a rearrangement of duties in the Colonial Office, the Secretary of State appointed Mr. G. F. Seel to succeed Mr. Lloyd and Mr. D. C. J. McSweeney to succeed Mr. Howard on the Committee with effect from

the 4th of December, 1934. To our great regret, Mr. McSweeney died on the 28th of February, 1935. In view of the stage which our deliberations had then reached, the Secretary of State did not consider it necessary to appoint an officer to succeed Mr. McSweeney.

I.—HISTORICAL SURVEY.

4. Provision for the grant of pensions to the widows and orphans of deceased officers in the Colonial Service was first made in British Guiana in 1873. It had been felt that owing to the high cost of living in that Colony it was impossible for officers to make anything like adequate provision for their families, more especially in the cases where an officer died early in his career ; and there had been numerous cases of families of public officers being left destitute. A petition was submitted to the Governor by the officers of the Colony in 1871, praying that some moderate provision might be introduced in the shape of pensions for widows and orphans. It was pointed out that recourse to life assurance as a means of making provision for widows and children was virtually almost impossible, owing to the exceptionally high rates of premium charged on account of the supposed unhealthiness of the climate. On the 29th of May, 1871, the Court of Policy and the Financial Representatives of the Inhabitants passed resolutions in favour of the institution of a Fund. As a result, the Governor appointed a Committee which, after consultation with Mr. A. Burnett, the Actuary of the Barbados Mutual Life Assurance Society, prepared a report for submission by the Governor to the Secretary of State for the Colonies. In March, 1872, the Secretary of State approved the proposal in principle, and later sanctioned the draft Rules. An Ordinance authorizing the establishment of a Fund was passed in the Colonial Legislature in 1873.

5. Funds were later set up in other West Indian Colonies (e.g., Jamaica in 1875, Trinidad in 1890), and also in some of the Eastern Colonies (Ceylon, 1885 ; Straits Settlements, 1885 ; Mauritius, 1886 ; Hong Kong, 1890).

6. The widows' and orphans' pension systems which were established during the last century took the form of Funds. These were managed by official Directors, and their finances were kept apart from those of the Government, whose liability was limited to a payment sufficient to raise the interest receipts of the Fund to the rate of 6 per cent. per annum. The payments of contribution, together with this subsidy, were available to defray pensions computed in accordance with tables which were based on actuarial advice, and revised from time to time after valuation of the Fund by an Actuary.

7. It is, however, interesting to note that in 1878 Mr. R. P. Hardy, a prominent Actuary of the day, prepared a scheme for the then

Colony of the Cape of Good Hope under which contributions were to be paid into Colonial Revenue and pensions were to be paid therefrom. The Colonial Government was to be deemed to allow 5 per cent. interest per annum on the contributions and to bear the cost of management. The Scheme as proposed was put into operation by an Act of 1879. *Inter alia*, the Act provided that a statement of accounts and a report on the operations of the Scheme should be laid before the Houses of Parliament of the Colony annually. We shall have occasion to refer elsewhere to the absence of corresponding provisions in the case of later Schemes.

8. Early in this century opinion as to the most suitable means of Government co-operation in providing for pensions to the dependants of Colonial civil servants underwent a change. A general policy was adopted of replacing Widows' and Orphans' Pension Funds by Schemes in most of the territories where an arrangement of the former kind at one time existed, and arrangements in the form of Schemes were introduced in East and West Africa, where no provision of any kind had previously obtained. The benefit tables for Schemes were on precisely the same bases as those for Funds.

9. While the distinction between a Fund and a Scheme is dealt with fully in a subsequent section of this Report (Section IV),* it is necessary to outline briefly the features of a Scheme as opposed to a Fund in order to be able to follow the reasons which led to the alteration in the financial arrangements.

10. The essence of a Scheme is that contributions are credited to the general revenue of the Government, which is made liable for the payment of pensions, and the pension tables are calculated actuarially on the basis that compound interest at the recognized rate will be paid on the assumed accumulations. The pension tables as a rule include no provision for the cost of administration, which is borne by the Government. There is a provision in most Schemes for periodical actuarial investigation, as the result of which the Secretary of State for the Colonies may decide that revised tables should be adopted.

11. We understand that the replacement of Funds by Schemes was based on the considerations set out below. Our statement of these considerations must not be taken as an indication of our agreement with all or any of them.

(1) Under a Scheme a Colonial Government is relieved from the necessity (inherent in the old system of Funds) of contributing interest at the specified rate on accumulating balances; if these contained a surplus of assets over liabilities, the interest payments had the effect of continually increasing the surpluses and of throwing on the Government a larger burden than was reasonable or necessary.

* See page 11.

(2) If at any time there were a deficit, the Fund system would tend to increase it, since interest would be calculated on a balance smaller in amount than that needed to meet the future liabilities of the Fund, and the Government contribution itself would accordingly be less than the amount required to maintain an equilibrium between assets and liabilities. Thus, it was argued, the normal condition of a Fund tended to be one of instability.

(3) The necessity for periodic costly and troublesome valuations is avoided under a Scheme.

(4) Experience had shown that where distinct funds with separate accounts existed it was difficult to satisfy members, who, when the assets of the Fund reached a large figure, tended to think that the pensions could be increased considerably beyond the rates which the Actuary considered safe.

(5) On the other hand, it was felt that, when a Fund on valuation showed a deficit, hardship and dissatisfaction was liable to be caused if reduction of pensions should follow.

12. By 1930 all the Widows' and Orphans' Pension systems either had been converted to Schemes or had been introduced in that form, with the exception of those in Ceylon, Mauritius and British Guiana. In Ceylon a Scheme and a Fund, the latter confined to entrants before 1906, are operating concurrently. This general adoption, or substitution, of Schemes in lieu of Funds was accompanied by one important consequence which appears, from the first, to have been overlooked. The very general impression (which still prevails in many quarters) that the Actuaries had deliberately over-estimated the liabilities appeared to be confirmed by the results of valuations in the few cases in which Funds had been set up. These valuations regularly revealed substantial surpluses, which were generally applied to increasing benefits. The impression was, nevertheless, erroneous, the surpluses being due to the fact that in the entire absence of data on certain points, e.g., the proportion of widowers who would remarry or the number and ages of children who would be entitled to take a deceased mother's pension, the Actuaries were compelled to proceed upon a basis which in ordinary circumstances would produce a somewhat lower benefit for a given contribution than might be found practicable in the actual working of the system. In the case of a Fund, this was unimportant, since the periodical valuation of the Fund enabled a corrective to be applied, i.e., by way of bonus absorbing the surplus. In the case of a Scheme, the position was otherwise. The Government, it is true, guaranteed the tabular benefits, but these benefits in the circumstances were, in all probability, lower than those which the contributions could have provided. Only by the maintenance of a proper account and a periodical valuation could this be corrected. Neither was attempted; and we are actuarially

advised that there is reason for thinking that Colonies which have set up Schemes have been subsidizing them to a considerably less extent than was originally intended. In this connection we are not referring to the patent fact that in the early years of a Scheme the contributions received are in great excess of the benefits paid out. Such excess is offset later on by the excess of benefits over contributions which the taxpayers will have to find. We refer later to this aspect of the matter (para. 40). At this stage we are concerned only to point out that a Scheme to which no actuarial review is periodically applied may operate to the serious disadvantage of the contributors.

13. We come now to another element by which the situation has been further complicated, although the result has been to afford to the contributors under Schemes some relief from the disadvantages described above.

The original rate of 6 per cent. had been based on the assumptions that investments would produce 4 per cent. and that the Government would grant a subsidy of 2 per cent. Shortly after the War, the assumed rate of interest (in the case of Schemes) and that actually payable (in the case of Funds) was raised in a large number of cases from 6 per cent. to 8 per cent. on the ground that owing to the general increase in interest rates the former rate no longer provided for any element of subsidy by the Government. The specific action taken was the substitution of tables requiring interest at 8 per cent. for their support, and, further, in the case of Funds, the re-calculation of existing registered pensions on the assumption that the accumulated capital would, in future, be credited with interest at this higher rate instead of 6 per cent. The effect of raising the combined rate to 8 per cent. was generally to make a substantial increase in the benefits, of which the existing contributors were given full advantage.

14. In 1932, proposals were under consideration for the institution of Widows' and Orphans' Pension Schemes in Palestine, the Leeward Islands and the Windward Islands and for the valuation of the British Guiana Fund. The Treasury, who were consulted in the matter as regards those territories which were in receipt of assistance from Imperial Funds, raised the question whether, following the conversion of the Mauritius Fund into a Scheme in 1932, the British Guiana Fund should not be similarly converted, and whether if provision were to be made for widows' and orphans' pensions in the cases of Palestine, the Leeward Islands and the Windward Islands this provision should take the form of a Fund or a Scheme. As the result of discussions between the Government Actuary and representatives of the Treasury and the Colonial Office, in which the various points explained above were brought under consideration, the Secretary of State decided to appoint the present Committee.

II.—THE QUESTIONNAIRE.

15. At our first meeting we considered that it would be advisable to take steps to ascertain the views of Colonial Governments and officials on the matters which had been referred to us. Accordingly, we drew up a series of questions for transmission to all Colonial Governments, whether or not they had provision for widows' and orphans' pensions.

16. Copies of Sir Philip Cunliffe-Lister's Circular despatch of the 17th of August, 1934, and of the Questionnaire enclosed therewith are attached to this Report.* It was stated in the despatch that the answers might be accompanied by comments on points not specifically mentioned in the Questionnaire. Although it was hoped that the replies would have been received by the 31st of December, 1934, it was not until the early part of May, 1935, that they were complete. Altogether, replies were received from 35 Governments, 33 Associations, and 37 representative officials. On examination of the replies, it was apparent that not only did the various Colonial Governments differ in their views but that, where more than one reply was received from a particular Colony, the Associations and officials often held widely different opinions as to the merits and demerits of existing provisions. We have carefully considered the observations which have been submitted and desire to express our appreciation of the manifest interest shown in the subject and the care that was obviously taken in framing the answers to our questions.

III.—DISADVANTAGES OF PRESENT ARRANGEMENTS.

17. There can be no doubt that while, as we shall have occasion to point out in the course of this report, the existing arrangements are defective in many respects, the provision of Government-assisted pensions for the dependants of officers of the Colonial Service has been an inestimable boon to those parts of the Service which have been enabled to participate in the various Funds and Schemes. Moreover, the existence of these provisions has been of considerable advantage to the Colonial Governments, both as a means of maintaining contentment and efficiency in the Service and as a protection against indiscriminate appeals for compassionate grants. At the same time, it is our duty to consider whether the arrangements as they exist to-day are so designed as to carry out their purpose with the maximum of efficiency.

18. It is first necessary to consider what that purpose is. We must note, at this point, that the present Schemes or Funds have been constituted in different Colonies with different objects in view, these variations arising out of differences in the structure of

* Appendix, see page 62.

the local civil services. Broadly speaking, the Dependencies which provide for widows' and orphans' pensions fall into two groups:—

(1) Those in Tropical Africa, where the Schemes are designed for European officers of all classes, and where personnel recruited locally or elsewhere than in Europe, if provided for at all, are included in *ad hoc* local Schemes (as in the case of Asiatic officers in Kenya and Uganda) or in Provident Funds.

(2) Those outside Tropical Africa, where the Schemes or Funds apply to all officials (subject usually to the exclusion of certain classes, for example those who are not pensionable, or who are below a stated salary limit) irrespective of race or origin.

19. There emerges, therefore, a fundamental difference of purpose between the two groups. In the first group, as indeed in this country, it has not in general been considered that the Government is called upon to make financial provision for the dependants of those officials whose homes are in the Dependency concerned. Generally speaking, it is left to the official himself to provide for his family by saving or private insurance; or again it may be unnecessary for him to do so in view of the customary obligations which a dead man's tribe or family may be relied upon to assume towards his dependants. The obligation of the Government is thus conceived as confined to those officials whose homes are elsewhere, and whose dependants will normally return to their own country and will need to be supported there. The removal of fear for the future of those dependants is a valuable factor in attracting and retaining the right type of officer for a service in which the financial rewards are not great and the risks to health and life are not negligible.

20. In the second group, the primary purpose of the Government has presumably been to provide a means of compulsory thrift for locally-recruited personnel, experience having shown that they are either unable or unwilling to make satisfactory provision for the future, of their own initiative and from their own resources. The special position of officers recruited from overseas is a secondary consideration; and in Colonies where the Government has not desired, or has not been in a position, to arrange for dependants' pensions in respect of the staff as a whole, no attempt has been made, outside Tropical Africa, to provide these pensions in respect of European officers as such.

21. We have no reason to suppose that, so far as they go, the existing arrangements in each group fail to achieve the purposes for which they are designed. (Whether the arrangements in themselves are financially satisfactory is a question with which we deal in Section IV* of this report.) We feel, however, that in a general

* See page 11.

review of the question such as we are undertaking, we are bound to consider those purposes in the light of modern conditions, and to enquire whether their achievement should be regarded as necessarily desirable; or again whether some extension of the present applicability of the widows' and orphans' pension arrangements would be in the interests of the Service and of the Governments themselves.

22. The first question that arises is whether the provision of State-aided pensions for the widows and orphans of State servants generally should be regarded as a necessary or desirable feature of the organization of a public service. We feel bound to answer that such provision cannot be regarded as necessary in principle. The system of superannuation benefits for permanent State servants themselves is a well-established feature of Government service, and we feel entitled to assume that it will not be challenged or disturbed. It is however reasonable to argue that an official's domestic affairs are matters for his personal arrangement, with which the State is concerned no more and no less than it is concerned with the domestic arrangements of citizens not in its employ, or than any other employer is concerned with the domestic affairs of his employees. Whether, then, the provision of widows' and orphans' pensions in respect of officers of a Government service is desirable is a matter of expediency, to be decided according to the relevant circumstances. So far as the general mass of the public service of a Colony is concerned, we consider that each Colonial Government must decide for itself, in the light of local conditions, whether the provision of such pensions is expedient, and, if so, upon what terms.

23. There is, however, common to all the Colonies a class of officials to whom other than purely local considerations apply, namely, the class of officials recruited from outside the Colony itself, and for the most part from the United Kingdom. The necessities and the circumstances of an official of this class do not materially differ according to the Colony in which he is serving; wherever he may be employed, the fundamental consideration is that he is employed away from his home surroundings, from his family ties, and from the country where his dependants may be expected to live in the event of his death. Such an officer must normally expect to maintain certainly his children and possibly also his wife in his home country for periods which in the aggregate represent a considerable part of his career. The circumstances naturally vary with individuals, but, broadly speaking, family maintenance and education impose heavier relative expenditure upon a Colonial than upon a Home civil servant. At the same time a Colonial civil servant has very little liberty to adapt his mode of living to his private circumstances and resources. He is seldom free to choose, for example, in what kind of house he will live and on what kind of scale. He is bound to take his share in social functions

and in giving hospitality, all of which means expense. When these considerations are taken into account, we do not think that the prevailing scales of salary in the Colonial Service are such as to leave much margin for an officer without private means, and with average family responsibilities, to provide adequately for the future of his dependants. Moreover, such an officer is at a disadvantage in other ways as compared with an officer working in his own home country. For example, he is less favourably placed for dealing with such matters as the management of any property which he may possess, or the supervision of his children's education and their placing in employment. He is not in a position to combine with other civil servants to secure favourable terms in matters of house purchase, life assurance, and so forth. There are obvious arguments in favour of a Colonial Government affording assistance to an officer who is so cut off, by the nature of his work, from many of the opportunities ordinarily enjoyed by persons working in their home country of providing for the future of their families with a minimum of expense and difficulty. It is true that in some of the Colonies, as in the Home Civil Service, there is a system under which gratuities may be paid to the estate of an officer who dies in the Service, and to an officer on retirement. Such gratuities, however, are not large relatively to ordinary family needs and cannot compare with the benefits of a Widows' and Orphans' Fund or Scheme. The existence or absence of arrangements designed to provide adequately for the future of an officer's dependants must necessarily be an important factor in recruitment for the Service. It is, in our judgment, a most serious defect in the present arrangements that, whereas this special consideration of the needs of officers recruited from overseas is fully recognized in the case of certain Colonies, notably those in Tropical Africa, in other cases it is not recognized, although it is a consideration independent of geographical limitations. Thus, even where there are arrangements in which such officers may participate these are designed primarily for locally-recruited personnel and may be unsuitable for the overseas officer.

24. We wish, therefore, to record here our view that, whatever a Colonial Government may decide as to the expediency or desirability of providing arrangements for widows' and orphans' pensions in respect of its employees generally, it is still under an obligation to consider the position and the needs of those of its officials whose homes are outside the Colony.

25. Another important defect in the existing arrangements to which we desire to direct attention at this stage relates to the position of an official who is transferred from one Colony to another. We understand that the principle of interchangeability in the Colonial Service has long been recognized in practice, and that it is the policy of His Majesty's Government to foster interchange in the interests of the Service and of the Colonies as a whole. In pursuance of

this policy, considerable progress has been made during the last few years with the unification of those grades of the Service which are normally recruited from outside the Colonies themselves, and a substantial proportion of the officers now recruited in this country for the Colonial Service is required to accept a liability to be transferred from one Colony to another at the discretion of the Secretary of State. It is clearly desirable, in the circumstances, that officers who are transferred (usually on promotion) in the course of their duties should not be placed at a disadvantage in the matter of widows' and orphans' pension benefits. Yet we find that this is to a large extent the case. Generally speaking, an officer who is contributing to a Widows' and Orphans' Pension Scheme and is transferred to another Colony is regarded for the purpose of that Scheme as if he had retired. If he is a bachelor, he receives a partial refund of contributions and loses his potential right to benefit. If he is a married man, he may cease to contribute and remain registered for a "paid-up" pension based on the contributions which he has made; or he may continue to contribute on his last rate of salary in the original Colony: that is to say, he is deprived of the opportunity of increasing the prospective pension by contributing at higher rates as his position in the Service improves. In his new Colony he may start as a new contributor to its Scheme or Fund, if it has one; or claim exemption on the ground that he is already contributing to an approved Scheme. In some cases his dependants may be worse off than if he had received the same promotion in his original Colony, and may even be worse off than if he had received no promotion.

26. Such a state of affairs is evidently inimical to free interchange, and while it may be doubted whether full weight is always given to these considerations by an officer who is offered transfer, yet the considerations exist, and we have heard of a recent case of an officer who declined a transfer because of the disadvantage at which he would be placed in relation to the Widows' and Orphans' Pension Scheme to which he was contributing.

27. It is true that there are certain exceptions to the general practice which we have stated. In the East and West African groups of Colonies, respectively, there are Schemes for European officers which are common to the group, and an officer who is transferred within the group retains his position under the Scheme. This is a satisfactory arrangement, so far as it goes, but it has an extremely limited range of application. There is no ground in principle for giving an officer who is transferred from an East or West African Colony to another in the same group better treatment than an officer who is transferred outside the group. What is needed is a general arrangement which will secure an officer's position irrespective of the accidents of transfer. We shall deal later with the means of reaching such an arrangement.

28. Before we proceed to discuss further the questions relating to the application of the Widows' and Orphans' Pension Schemes and the benefits to be afforded, we propose to deal with that part of our terms of reference which relates to the nature of the financial provisions to be made.

IV.—NATURE OF THE FINANCIAL PROVISIONS.

29. We have already indicated that under the existing arrangements the financial provisions governing the treatment of the contributions may take one of two forms. Contributions may be funded as they are received, or they may be paid to the general revenue of the Colony. In the first case—that of a "Fund"—the accumulations of contributions may be held as a loan to the Government or they may be invested in securities. In either event there is a Government subsidy. Where the contributions to a Fund are lent to the Government, the Government guarantees a rate of interest sufficiently high to include a subsidy, and where the accumulations are invested an additional Government grant is given in order to bring the yield up to a prescribed rate. In the second case—that of a "Scheme"—the Government takes the contributions to revenue and guarantees the benefits, which are calculated on a high interest basis and paid from revenue as current expenditure.

30. Of the fourteen Colonies or groups of Colonies which at present make provision for widows' and orphans' benefits, twelve have Schemes and one (British Guiana) a Fund. In Ceylon there are both a Fund and a Scheme: the Fund includes all officers who were appointed before March, 1906, while all officers appointed after that time pay under a Scheme. As previously recorded, many of the Schemes were originally on a Fund basis, but about thirty years ago a general change in financial policy was made, resulting in the substitution of Schemes for Funds. The latest example of conversion of a Fund to a Scheme is that of Mauritius; the Government of this Colony cancelled its accumulated debt to its Widows' and Orphans' Fund as recently as 1st July, 1932, and passed to the general revenue of the Colony the total amount of Rs.5,044,719 standing to the credit of the Fund. All new systems which have been brought into operation during the last thirty years have been established as Schemes, with the exception of the British Guiana New Fund.

31. When Widows' and Orphans' Funds were first established in the Colonies, the rate of interest obtainable from sound securities was from $3\frac{1}{2}$ to 4 per cent., and the Government subsidy took the form of raising the receipts from interest to 6 per cent. There are manifest disadvantages in this form of subsidy, for instead of the revenues of the Colony having to bear a charge related to the value of the current service of the officers concerned,

the charge is a minimum at the inception of the Fund and steadily increases with the growth of the Fund. Under this system the Government subsidy is unevenly distributed and eventually imposes a serious burden on the taxpayers. The better method would be for the Government to contribute a percentage of the officers' salaries, so that, with a stable membership, the charge on the revenue would be comparatively flat, even though it would be much greater at the outset than under the system adopted.

32. Attention may here be drawn to a point which arises on the finance of a Fund. If a valuation shows a surplus, the reasonable inference is that the contributions have proved more than was originally thought necessary, and that with the application of the surplus to increase of benefits the Government is paying by way of subsidy in interest something greater—in the course of time it may be considerably greater—than could have been contemplated at the outset. In this respect we think that Colonial Governments have, if they care to urge it, a substantial case for the mitigation of their liabilities in respect of interest. It would perhaps be complicated to require the Fund to receive interest at 6 per cent. on the amount representing the reserve for the contractual liabilities and, say, 4 per cent. on the surplus (though the Actuaries could perhaps lay down a simple rule for the calculation of interest on such a basis), but it is possible that the better way to treat the subject, if Colonial Governments so desire, would be to utilize the surplus, as far as is reasonably possible, in the decrease of contributions, so preventing the funds from growing unduly in amount, and thus, in a sense, penalizing the taxpayers.

33. About 1920 it appears to have been accepted that in view of the altered value of money it was inequitable to credit funds deposited with Colonial Governments with interest at 6 per cent. only, the reason for this view being that 6 per cent. had ceased to contain any element of subsidy. For that reason interest was in many cases increased to 8 per cent. But in raising the guaranteed rate of interest from 6 per cent. to 8 per cent. it was apparently overlooked that, if the existing funds had been invested in Trustee securities, these investments would have depreciated: as the funds were generally in the hands of the Governments on loan, they were saved from this depreciation. It was said, further, that it was unlikely that the high rates of interest then current would fall for many years, and even if they did fall more rapidly than seemed probable at the time of the change there was much to be said for a Colonial Government making a liberal contribution towards the cost of widows' and orphans' pensions. The same view was taken in regard to Schemes. As a result, therefore, the Ordinances of several Colonies were altered and new tables were made to secure to the members and beneficiaries the advantage for an indefinite period of the exceptionally high rate of interest of 8 per cent. per annum.

34. It is apparent that there is now no justification for this abnormal rate of interest, and that a rate of 6 per cent. would secure an ample Government subsidy for the future. It appears from the computations of new tables which have been lately made for certain Schemes that for nearly the whole of the membership the present benefits (calculated on an 8 per cent. basis) can be maintained if the assumed rate of interest be lowered to 6 per cent.; this is mainly the result of the lighter death-rate now prevailing among the subscribers compared with that on which the earlier tables were founded. This feature may not, of course, be so marked in other cases and it may be that in certain Colonies a reduction in the rate of interest from 8 per cent. to 6 per cent. would involve a general reduction of benefits. It is presumed that existing rights would have to be preserved, and in these cases it would be necessary to keep the 8 per cent. tables in force in so far as present contributors are concerned; otherwise new tables based on interest at 6 per cent. should be adopted.

35. In thus stating the position we do not overlook the power conferred upon the Secretary of State in many of the Ordinances to require an actuarial investigation and, if found necessary, to call for the adoption of revised pension tables, applicable to all existing members but not to incumbent pensioners. This provision appears to refute any suggestion that pensions payable under Schemes are guaranteed in amount, but we are informed that in a case which has recently come before him the Secretary of State has expressed the view that in cases where the new tables will give smaller benefits than those provided under the existing tables some provision is desirable to ensure that the adoption of the new tables should not adversely affect the position of any existing member. It is understood that in consequence of this advice legislation is being undertaken to modify the existing Ordinances in the Colonies concerned. We recommend that this action should be taken in all cases where new tables on a 6 per cent. basis are incorporated in the Ordinances.

36. Since in the case of a Scheme the method of treating the contributions received is to pay these contributions and their accumulations to general revenue, it is necessary to consider what advantages and disadvantages this system possesses as compared with the funding system. Under the latter system, one method is for the moneys of the Fund to be invested in approved securities and for the Government to add interest sufficient to bring the yield up to the rate prescribed. Alternatively, the Government may borrow the money for legitimate development purposes and acknowledge the loan as a public debt. Accounts are kept and the balance to the credit of the Fund is disclosed to the contributors at the end of each year. It should be remarked, however, that if the latter method be adopted, there is a danger that the Government may automatically borrow the

yearly balance of the Fund, whether or not there is a need for such borrowing, and that the effect as regards the taxpayer in such circumstances may prove a serious disadvantage. In this connection the position of the Mauritius Fund, prior to its transfer to the Government in 1932, is noteworthy. The Mauritius Fund was instituted in 1886; no definite investments were ever made but the accumulations were transferred to the Government. Accounts were kept and the Government credited interest, first at 6 per cent. and, as from the 1st January, 1921, at 8 per cent. The Governor of Mauritius, in his reply to the Questionnaire, recognizes that this procedure was a severe burden on the Treasury of the Colony, for he states that "this theoretical lending of assumed balances to the Colony, which did not require them, proved to be upsetting to the public finances." If a Fund were to be re-established in Mauritius, the first essential, in the opinion of the Governor, would be that it should be supported by actual investments.

37. If a Fund be set up, either in the form in which the accruing balances are invested or under the system by which they are lent to the Government, the only liability borne by the Government is the interest which it must pay to bring the yield up to the prescribed rate. Valuations of the Fund are made periodically and surpluses are allotted in the form of extra benefits to the contributors and beneficiaries. While it is true that in the event of a deficiency being disclosed on valuation, either the members of the Fund must suffer a decrease in benefit or pay an increased contribution, or the Government may be forced to come to the help of the Fund, the method of constructing the benefit tables is such that there is always a margin in the contributions, and the risk of a deficiency is therefore under modern conditions not a practical one, so long as the rate of interest used in the valuation is the same as that on which the benefits were computed.

38. This margin is due to the following causes. The principal benefit granted in return for the contributions is a pension to the widow of the contributor payable until her death or re-marriage; if she dies leaving a child or children, the benefit is continued until the youngest child attains a certain age. If a contributor dies as a widower leaving a child or children, the benefit which would have been payable to his wife had she survived him is paid temporarily to the children under the same conditions as the benefit to the children of a deceased widow. There are certain minor benefits in the form of refund to bachelors and widowers without pensionable children. When this type of Widows' and Orphans' Fund was first established, there were no data on which to base the specific calculations necessary for the strict evaluation of the benefits that could be purchased by the members' contributions. A plan was therefore evolved for the solution of the problem whereby the benefit was purchased in two parts. The contributions paid by the member while a bachelor (either with or without accumulations at interest) were treated as a single premium to buy a pension

for the wife after her husband's death; the member's future contributions as a married man were employed to purchase a further pension for the wife. In the application of this method, however, no exact effect was given to the chances of the wife predeceasing the husband while he was a contributor, or of his subsequent re-marriage after her death: the plan adopted was to assume that if the wife died before the husband had attained a specified age (usually the age after which he was no longer required to pay contributions), the husband immediately married a second wife of the same age as the first wife was when she died, and so on for subsequent wives. If therefore a contributing widower died, or reached an age when his contributions had ceased and any liability in respect of his children had expired, there was left with the Fund the present value of the annuity which would have been payable to his wife had she survived, less the sum of any allowances payable on his death to his children, or, alternatively, any return to be made under the law to him or his estate. This system of calculation is still in force, for it is improbable that for any one Fund or Scheme there are sufficient data on which to base reliable estimates as to the probabilities of remarriages of widowers, the probable ages of their wives at the dates of remarriage, and the probable number of children (and their ages) that a deceased member may be expected to leave. Further, the system of refunds whereby the only return made to a bachelor or widower without pensionable children on leaving the Fund is one-half of the total past contributions paid by a bachelor, or one-half of the contributions paid by a widower since the Fund ceased to become liable for benefit on his behalf, leaves a considerable margin with the Fund.

At a later stage in this report we shall make recommendations by which the profits arising on this arrangement as to bachelors and widowers will be substantially reduced in the interests of these classes of contributors.

39. Turning to another point which has an important bearing on the subject, recent examination of the mortality experiences of the members and beneficiaries of certain Funds and Schemes shows that the vitality of both contributors and their widows is much superior to that which had been assumed in the construction of the tables in force; this does not necessarily result in the production of profit, since, financially, an increase in the duration of life among widows tends to counterbalance the like experience among contributors. It is, however, the fact that in some recent cases the change to a basis of mortality corresponding with recent experience has operated to the advantage of the contributors. Regard being had to the combined effects of these various elements it is a reasonable inference that many Schemes are making profits in which the contributors have no share. This conclusion may not, however, apply to cases where the benefits have been fixed by, or converted to, an

8 per cent. basis, considering that at the present time 6 per cent. is the highest rate at which the contributors can fairly expect their money to be accumulated in the future. The point is one which can be settled only by valuation in each case.

40. The position under a Scheme is very different from that under a Fund. In the early years of a Scheme, claims are few; contributions are taken to revenue and the taxpayer benefits by the consequent reduction of taxation. Ultimately, however, and before any great length of time, the position will be reversed. Claims will gradually grow until the pension payments exceed the contribution income, and the Scheme will become a burden to the taxpayers. A complete examination of the progress of any existing Scheme from its inception to its maturity would require the collection of a considerable body of statistics and a large amount of actuarial work. A general idea of the working of a Scheme can be obtained, however, by a consideration of the income from contributions and the expenditure in benefits over a series of years in a typical case. The Scheme under which the European officers in the Gold Coast make provision for prospective benefits to their widows may be taken for this purpose. This Colony is included in the West African Scheme. Ordinances were passed in all the British Colonies and Protectorates in West Africa bringing this Scheme into operation on the 1st of January, 1914, and a regulation common to each of the Colonies and Protectorates was that all contributions made by the members should be paid into, or credited by the Crown Agents for the Colonies to, the Treasury of the particular Colony or Protectorate. It is evident that for the years immediately subsequent to the inception of the Scheme each Colony must have received in contributions far more than it paid out in benefits. For example, in 1921, seven years after the date of commencement of the Scheme, the amount expended by the Government of the Gold Coast on benefits was less than £5,000, while contributions received amounted to over £23,000. The general revenue of the Colony benefited therefore to the extent of about £18,000. Since that year, however, the expenditure on benefits has, as might be expected, increased rapidly; the income from contributions, after having reached a maximum in 1930, has started to fall and shows a tendency to remain at a fairly constant level. In 1934 the income was £26,000, while payments to beneficiaries, refunds to bachelors and widowers, and expenses of administration amounted to more than £13,000. As the Scheme has been in force for only 21 years, there are still relatively few beneficiaries, but it is evident that the number and the cost of their pensions will continue to increase for many years. From a consideration of the figures of the working of the Scheme, it is estimated that by about 1953 there will be very little difference between the income and the outgoings, and that by 1960 benefits will in part be a charge on the revenue of the Colony. After a further period the relative numbers of contributors and beneficiaries will tend to become stabilized, and if a Scheme is still in operation the

Government will be faced by an annual charge in perpetuity which will have to be met out of taxation.

41. It is apparent that under the Scheme system, instead of due provision being made at the time when the liability is incurred, such liability is passed on, with compound interest, to future generations of taxpayers. Even so, we consider it reasonable that both the contributors and the taxpayers should be informed of the financial position of the Scheme from time to time. But under the present system no accounts are kept, or at any rate disclosed. No valuation is made of assets and liabilities, and no prospect of benefits in excess of the rates granted by the current tables is entertained. One of the arguments adduced by several Governments in favour of a Scheme is that benefits are guaranteed by the Government, whereas under a Fund they are not. It has been shown above that, owing to the margin of safety in the members' contributions, and provided that no change has been made in the rate of interest, the probability of a deficiency being shown on the valuation of a Fund is small, and this argument therefore has little, if any, force. Again, some advocates of the Scheme system stress the fact that under a Scheme a considerable Government subsidy is implied in the rate of interest: as this is equally the case where a Fund is maintained, this fact provides no argument in favour of a Scheme as against a Fund.

42. A number of Governments, Associations of Civil Servants, and representative officials urge that the payment of the members' contributions to the revenue of the Colony under a Scheme of guaranteed benefits is unsound in principle. Many of the replies showed that a close study of the problem had been made, and in some instances there were attempts to estimate the probable position of an existing Scheme at the present time by building up an accumulated Fund from the inception of the Scheme. Two replies may be quoted.

The Malayan Governments Professional Officers Association (Straits Settlements and Federated Malay States) states that the present Scheme in the Straits Settlements has operated since 1905 when the previous Fund was taken over by the Government. Contributions were made compulsory and absorbed in the general revenue, pensions were made a charge on the revenue and the Government has borne the necessary expenses of conducting the Scheme. Financial statements are submitted by the Association purporting to show the present position had the Scheme been funded since 1905, and the Association concludes the survey with the following summary:—

“(a) Over a period of 29 years annual contributions have largely exceeded payments.

(b) Had the contributions been funded, the Fund would have now been in a very strong position.

(c) Contributors have not received adequate treatment which financial results appear to justify.

(d) Far from having contributed, Government for 29 years has obtained considerable surpluses under the Scheme.

(e) Contributors are being required to provide against possible liabilities of Government in respect of their successors.”

The Government of Nyasaland puts the points at issue succinctly :—

“ Payment of the contributions to the general revenue of a Colony is unsound in principle and therefore to be deprecated. In the case of Nyasaland the total amount paid into revenue since the inception of the fund in 1921 to the end of 1933 is £49,684 and the expenditure on benefits and Management expenses during that period amounted to £6,862. The Government has the use of £42,822 at the present time in return for its guarantee of the benefits under the Scheme. During the last four years the net balance credited annually to the Surplus and Deficit Account of the Colony has exceeded £4,000. This money helps to balance the Budget and will not be available for use in paying out benefits in the future. The pension list is being increased as time goes on by benefits payable under the Widows' and Orphans' Scheme and the Government may or may not be in as good a position to meet them hereafter as at present. In other words, Government is spending the income obtained from the contributions without making due provision for its liabilities.”

43. In our view, the ideal method of making provision for benefits to the widows and orphans of Colonial officers is by the funding of the contributions as they are received and the investment of the accumulations of the contributions in approved securities; and in the case of a Colony which has at present no provision for such benefits, there is no doubt but that the financial arrangements should take the form of a Fund. Where, however, a Scheme is at present in operation there are manifest difficulties in making such a drastic change as would be involved by the immediate replacement of the Scheme by a Fund. Many of the replies to the Questionnaire showed that while, in principle, the Fund system was to be preferred, the adoption of that system in present circumstances would be upsetting to the finances of the Colony. For example, the Treasurer of Kenya states that the funding of the European Scheme would cause serious financial embarrassment to that Government; the Governor of Nigeria emphasizes that the formation of a Fund sufficient to provide for the residue of contributions paid since the Scheme commenced is impracticable in the present state of the Colony's finances; the Treasurer of Nigeria, while inclining to the view that it would have been better in the mutual interest of the Government and the contributors had the Scheme been funded from its inception, is of opinion that the formation of a Fund at the present time is outside the bounds of practical finance so far as Nigeria is concerned. Other replies are to the same effect.

44. It is necessary, therefore, to consider the case in which it is impracticable for the Colony to set up a Fund, as well as that in which this procedure could be carried out without serious disturbance of the Colony's finances. Existing Schemes should be funded where possible and as soon as possible. This broad conclusion being in our view established, we have given much consideration to the manner in which the operation should be effected. On a strict view of the position the Fund should consist of the accumulations at a reasonable rate of interest of past contributions in excess of past expenditure on benefits; but having regard to the fact that any surpluses which might have accrued in the past under these conditions have been merged in the Government revenue and cannot now be restored, while in the meantime many contributors who should have had an interest in the Fund have ceased to be members for various reasons, we think that it would be reasonable to take the starting amount of the Fund as the "net liability", that is, the difference between the present value of the prospective benefits and the present value of the future contributions as shown by a valuation at the accounting date next following the adoption of the necessary Ordinance. The calculation of these present values should be made at 6 per cent. interest, a rate which in present circumstances we recommend for general adoption. The amount so ascertained should be acknowledged as a part of the public debt of the Colony and might be liquidated by an appropriate sinking fund. The effect of conversion on these lines would be that, starting from the first year, there would be an annual charge for interest at 6 per cent. on the unliquidated balance of the Fund, with sinking fund charges, if any. The contributions being paid direct to the Fund would be a loss to the revenue, but, as against this, the Government would be relieved of all payments in respect of pensions and other benefits.

45. In Colonies where a local Fund is created, or an existing Fund is continued, we recommend that a Board of Management should be appointed by the Governor-in-Council. The Board, which should preferably include a representative, or representatives of the contributors, should be generally responsible for the administration of the Fund under Regulations made by the Governor-in-Council, but the actual management would be in the hands of the Colonial Treasurer who, we presume, would generally be the Chairman of the Board.

46. The cost of administering such a local Fund should not be great, and we think that it should be borne by the Fund and not by the Government. The contributions of members, by way of deduction from salary or pension, and the amounts provided by the Government (which, for the reasons given in paragraphs 31 and 61, should, in the case of a new Fund, be a percentage of salary) should be deposited in the Treasury to be invested in approved securities, or used for the purposes of the Fund, including payment

of benefits. An account, to be kept separate from the ordinary accounts of the Government, should be opened to record the transactions, and the balances should be shown in the Colony's annual statement of assets and liabilities. The account should be audited by the Government Auditor and should be included, with a report on the working of the Fund, in the annual report and statement rendered by the Treasurer.

47. Should the Government of a Colony decide that insuperable difficulties of a financial character arise in replacing, in the immediate future, an existing Scheme by a Fund, an improvement on current practice is, nevertheless, essential, in order that all parties concerned (including the taxpayer) may be fully seized of the position. Detailed accounts of income and expenditure should be kept, opening with the net liability as explained above. The accounts should show the balance of income over expenditure accumulated at 6 per cent. interest each year, thus setting up a hypothetical fund, as is done, for example, under the English Teachers (Superannuation) Act, 1925, where the balance does not exist in actual securities but is in effect invested with the Government. As in this case, periodical valuations should be made as though the hypothetical fund existed in fact. If surpluses are shown, an appropriate part, to be actuarially determined, should be reserved on each occasion as a safeguard against adverse contingencies and the remainder applied for the advantage of the members and beneficiaries.

48. It should be clearly understood that action on the lines of the paragraph above would not enable a Colonial Government to avoid any part of its ultimate liability under its Widows' and Orphans' Pension Scheme. It would, however, have the important effect of showing the Government, periodically, precisely how its liabilities were progressing.

49. Our argument so far has led to the conclusion that the system of Funds is preferable to the system of Schemes, both from the point of view of the contributors and beneficiaries (who stand to gain by the distribution of surpluses arising out of improvements in mortality rates and out of margins inherent in the tables) and from the point of view of the finances of the Colonial Governments. Whatever the justification for the original decision in favour of Schemes, we can find no argument at the present time which would justify an indefinite continuance of an arrangement by which the Government's liability, though unescapable and susceptible of being estimated, since it represents the accumulation with interest of the difference between contributions received and benefits paid in the past, is neither acknowledged nor taken into account in any appreciation of the Colony's financial position. The appropriation of contributions as current revenue, and the relegation to future taxpayers of the liability for the pensions earned by those contributions, for which no provision has been made in advance

is in our view a policy which may well have very serious ultimate consequences for some of the Colonies concerned if not for all. We submit that the situation calls for early and earnest consideration by each Government of the steps which should be taken to establish a sounder financial basis for these pensions.

V.—UNIFICATION OF THE COLONIAL SERVICE.

50. At this stage it is convenient to take into consideration the policy of the unification of the service, to which brief allusion has already been made in paragraph 25. When the existing Funds and Schemes were instituted, the public services of the various Colonies were separate and distinct, and the terms of employment were related entirely to local conditions. In 1930, however, a new policy was introduced, following the report of a Committee on the system of appointment to the Colonial Office and the Colonial Services, presided over by Sir Warren Fisher (Cmd. 3554). This Committee, after discussing the arguments for and against the unification of the Services, recommended that "a single Colonial Service should be created, and within this larger whole, unified special services should be organised with the necessary degree of assimilation of the terms of service in the separate Dependencies." This recommendation was accepted in principle by the Colonial Office Conference of 1930, and the existence of a single Colonial Service was thenceforward formally recognized. Since 1932, a number of special unified services have been set up, namely :—

- The Colonial Administrative Service ;
- The Colonial Legal Service ;
- The Colonial Medical Service ;
- The Colonial Forest Service ;
- The Colonial Agricultural Service ;
- The Colonial Veterinary Service.

We are informed that the unification of certain other services is under consideration.

51. The principal features of all these Services are as follows :—

- (i) Appointments to the Service are made by the Secretary of State ;
- (ii) There is a common standard of qualification for membership ;
- (iii) Recruitment is for the most part from the United Kingdom ;
- (iv) Members are interchangeable amongst the various Colonies, subject to certain conditions, at the discretion of the Secretary of State ;
- (v) The assimilation to a common standard of the major conditions of employment is being pursued as opportunity offers.

VI.—PROPOSALS AS TO A CENTRAL FUND.

52. In these circumstances, we have felt it to be clearly appropriate that we should relate our recommendations to the present position and prospective progress of the policy of unification. The natural method of providing for the dependants of members of a unified service would be by means of a Central Fund applicable to such members, and while we realize that the creation of such a fund would not be free from difficulty, we suggest that it is not only administratively desirable but that it would offer the Colonial Governments the best practical means of extricating themselves from the very serious potential difficulties which we have shown to be inherent in the present system.

53. After consideration, therefore, of the various possible courses, we have decided to make it our primary recommendation that—

(a) As regards the unified branches of the Colonial Service and other grades of corresponding status, appointments to which are made by or with the approval of the Secretary of State, insurance through the system of local or regional schemes should be discontinued in the case of new entrants to the Service, and the Colonial Governments should be invited to co-operate in the establishment of a Central Fund to cover all future members of these branches and grades, irrespective of Colony;

(b) as regards other classes of officials, the arrangements to be made, if any, should be determined according to the circumstances of the Colony concerned.

54. We proceed to discuss the proposal for a Central Fund. In the first place, the establishment of such a Fund would enable provision to be made for those officers serving in Colonies where no Fund or Scheme at present exists and whose needs are no less insistent than those of their colleagues elsewhere. Secondly, it would eliminate the difficulties to which attention has been drawn in connection with inter-Colonial transfers. Thirdly, the officials participating in the Fund would know throughout their careers exactly how they stood, and the existence of clear and definite provisions could not fail to add materially to the attractions of employment in the Colonial Service. In the case of contributors not eligible for membership of the Central Fund, if a Government felt disinclined or unable to convert an existing Scheme into a Fund, it would be open to it to allow that Scheme to continue, or to close it to new entrants, substituting if necessary some alternative system such as a Provident Fund. We shall recur to these alternatives later (paras. 67, 68 and 70).

55. The Central Fund which we envisage would be constituted by Act of Parliament and vested in a Board of Management appointed by the Secretary of State. The Board should have control of the investments and be responsible for the general administration of the Fund, the actual management of

which should be in the hands of the Crown Agents for the Colonies under regulations made by the Secretary of State. The cost of administration, which should be relatively small, would be borne by the Fund. The contributions of officers would be collected by the employing Governments or by the Crown Agents, by means of deductions from salary or pension, and paid into the Fund. Benefits would be paid out of the Fund, and the balances of the Fund, after making provision for outgoings, would be invested in approved securities or made available for borrowing by the participating Governments, at the discretion of the Board. It will be desirable that, as in the case of the Crown Agents' Office Fund, the accounts of the Central Fund should be audited by the Comptroller and Auditor General. An annual report should be made to the Secretary of State by the Board, showing the transactions of the Fund during the year of account.

56. The membership of the new Fund would be based upon a list of posts, comprising the offices scheduled in the various unified services and such other posts as the Secretary of State might from time to time direct. Officers who were appointed to the listed posts after the inception of the Central Fund would automatically become contributors unless exempted or disqualified from doing so by reason of sex, age or other circumstance provided for in the regulations of the Fund. An officer who, on the inception of the Central Fund, was not contributing to an existing Scheme or Fund would, if duly qualified for membership and subject to medical examination be given an option, exercisable within 12 months, of joining the Fund as a new entrant. If he should join the Fund, the Government by whom he was employed would become liable to it for the appropriate Government contribution, ascertained as explained in paragraph 61 below.

57. In the case of serving officers who were holders of listed posts and who were already contributing to an existing Scheme or Fund at the date of establishment of the Central Fund, we recommend that certain options be granted depending upon the marital status of the officer at that date.

If the officer were a married man, he should be given the following options :—

(1) He should be allowed to continue membership of the Scheme or Fund of the Colony in which he was serving, so long as he remained in that Colony, or, in the case of the East and West African groups, in the appropriate group of Colonies. Where the officer did not join the Central Fund the liability for contingent pensions to his dependants would still rest with the Government, or local Fund, concerned.

(2) He should be allowed to cease membership of his local Scheme or Fund. Where he so ceased he would remain registered in the Colony for the pension earned by his past contributions, such pension being adjusted should he subsequently

become a widower and remarry. He would join the Central Fund as a new entrant and the pension earned by his future contributions would be paid from that Fund.

The same options would be granted to a widower, with the exception that if he had no children of pensionable age, he would be treated as an unmarried man on his joining the Central Fund, and his contributions to that Fund would be accumulated and dealt with in exactly the same way as if he were a bachelor. Should the widower die while a member of the Central Fund without leaving any children eligible for pension, the Colony would be liable to make the same return of contributions as would have been made had he died at the date of his joining the Central Fund.

In the case of a bachelor, the following options should be given :—

(1) He should be allowed to continue membership of his old Scheme or Fund.

(2) He should be allowed to join the Central Fund. In the event of his subsequent marriage the accumulated contributions which he had paid to his local Scheme or Fund and to the Central Fund respectively would be utilized to purchase separate pensions for his widow on the basis of the appropriate tables, in each case. If he never married, the local Scheme or Fund and the Central Fund would be respectively liable for the usual return of contributions on his death or retirement.

We do not consider that any officers who, when the Central Fund is established, have already retired from service, should be admitted to the Fund, even if they are still contributing under an existing local Scheme or Fund. Similarly, officers who are still serving but have ceased to contribute on reaching the age limit prescribed in the regulations under which they contributed should not be allowed to join the Central Fund. They have completed their contract in respect of contributions and it is for the local Scheme or Fund to provide the resulting benefit on their death.

The options outlined above should be exercised within 12 months of the date of establishment of the Central Fund.

58. If an eligible officer had not joined the Central Fund at its inception and, being a married man or widower with pensionable children, was subsequently transferred from one Colony to another (not being a Colony in the same group, i.e. East or West Africa) he should be allowed the following options :—

(1) To contribute to the Scheme or Fund of his old Colony at the rate at which he was contributing immediately before he left the service of that Colony and to join the Central Fund, paying to that Fund the difference between the full contribution for which he would be liable under the regulations of the Central Fund and the contribution which he continued to pay to his old Colony.

(2) To cease to contribute to the Scheme or Fund of his old Colony, remaining registered for the pension earned by his past contributions (adjustable on remarriage in the case of a widower), and to join the Central Fund as a new entrant, paying the full contribution to that Fund.

In either event the Government of the Colony (or the local Fund concerned) and the Central Fund would be liable for the appropriate part of the total pension payable to the officer's dependants on his death.

If, however, the transferred officer is a bachelor or widower without pensionable children he must join the Central Fund as a new entrant. In regard to his past contributions to his local Fund or Scheme he should be granted the following options, the second of which would require amendment of existing legislation.

(1) He should be given a refund of contributions equal to that which would have been made by the Colony under the regulations existing at the date of establishment of the Central Fund.

(2) The contributions which he has paid to the local Scheme or Fund of which he was a member at the date of his transfer should remain with that Scheme or Fund and should be utilized for the purchase of a pension or for a refund, as the case may be, in the event of his subsequent marriage or of his death or retirement as a bachelor.

59. Pensions actually in payment on the establishment of the Central Fund and contingent pensions to dependants of officers who were not eligible or who did not elect to join the Central Fund would still be paid by the Government or local Fund concerned. The Central Fund would assume responsibility for the payment of the appropriate part of the pensions and benefits accruing in the future in respect of those officers in active service who became contributors to it, either at the date of its inception or subsequently, and for the payment of all pensions and benefits in respect of officers appointed in future to the listed posts.

60. We have considered the question whether it is practicable, having regard to differences of climate and conditions of service, for uniform tables of benefits and uniform rates and periods of contribution to be laid down for the members of the Central Fund. It is clearly desirable from the point of view of simplicity and administrative convenience that this should be arranged if possible, and we have come to the conclusion that it can be arranged without doing violence to actuarial principles or to the interests of the Governments or the officials concerned. It has to be remembered that, wide as are the differences to which we have referred, our proposal concerns officials who form, for practical purposes, a homogeneous class of selected lives. Generally speaking, they are men of similar race, antecedents, social standing, and habits.

Differences in the climate and amenities of the Colonies in which they serve may be taken as offset to some extent by differences in leave conditions. The regulations affecting the period of active service and the age of retirement are tending to become uniform. The statistics of mortality show that there is actually much less difference than might be expected in the factors affecting pension tables for Europeans in the healthier and the unhealthier Colonies. In fact, comparatively few officers of the class with which we are dealing are employed outside the tropics, and fewer still spend their whole official careers in the non-tropical Colonies. We consider, then, that it would be reasonable to construct for the members of the Central Fund a single set of tables providing the same benefits in return for a given contribution, irrespectively of where the officer concerned might happen to be serving.

61. In superannuation funds it is the usual practice for the contribution of the employing authority to take the form of a percentage of the member's salary. This contribution is paid to the fund at the same time as the member's contribution, the charge on the employer being thus related to the employee's service at the time when such service is being rendered. As we have already pointed out in paragraph 31, this method possesses obvious advantages over a form of subsidy in which the charge upon the Government is not only relegated for the most part to the future (since it is represented by an addition to the interest earned upon a Fund which begins at nothing and gradually accumulates, over a long series of years, to a large sum), but cannot be estimated because no prediction can be made as to the rate of growth of the Fund in the absence of information regarding the probable growth of membership in the future and to the course of salaries as governed by such elements as admissions, deaths, retirements, increments, resignations and promotions. We are strongly of opinion, therefore, that in setting up a new Fund, the more logical, and, financially, the sounder method should be adopted. We recommend accordingly that for the Central Fund the Government subsidy should take the form of a percentage of the officer's pensionable salary, paid concurrently with the officer's own contribution.

The question of the appropriate rates of contribution is a matter of some difficulty. If the Government subvention is to take the form of a percentage of the officer's salary, the benefit tables will have to be constructed at a rate of interest which may be expected to be earned on the accumulating funds, and not as at present at a high rate in which a Government subsidy is involved. We assume that it will be regarded as desirable that the benefits to be secured by the combined contributions on tables so constructed should not differ markedly from those at present obtaining in Colonies in which the mortality experience is similar to that which may be expected among the members and the beneficiaries of the Central Fund. The contributions required in order to secure the desired benefits must therefore depend upon the rate of interest assumed

in the preparation of the Central Fund tables and this rate must be governed to some extent by the range of the approved securities in which the Board of Management will be authorised to invest. It is hardly within our province to consider what rate of interest it will be safe to adopt, but we have it in mind that contributions should not exceed in the case of the officer, 5 per cent. of his salary, and in the case of the Government, 3 per cent., making a total of 8 per cent. of salary.

62. In some existing Schemes provision is made for additional voluntary contributions by an officer, and under present conditions these contributions automatically attract a further subsidy from the Colonial Government. This should form no part of the scheme of the Central Fund, since it is evident that Government cannot fairly be called upon to supplement the private thrift of its officials. In order to avoid both complications and misunderstandings we recommend that additional voluntary contributions to the Central Fund should not be allowed.

63. The Central Fund would be valued at intervals of five years by the Government Actuary. It would be necessary to draw up regulations prescribing the method of dealing with any surplus or deficiency disclosed as a result of a valuation, whether by way of adjustment of contributions or benefits, or otherwise.

64. If a Central Fund is to be constituted, we regard it as most desirable, if not essential, that the income of the Fund should be exempted from United Kingdom income tax. We understand that at present there is no statutory provision under which the income of such a Fund, domiciled (as we think it must necessarily be) in London, could be so exempted. We feel bound to record the view that, if income tax has to be paid on the investment income, the benefits payable in return for contributions would for a long period be so seriously affected that the projected Central Fund would start its career under grave disadvantages, if, in the circumstances, its establishment were practicable. On the other hand, the income of the Fund would constitute an entirely new and unexpected source of tax revenue, and if, as we think, it is desirable as a matter of Imperial policy that such a Fund should be established, we hope that His Majesty's Government will be prepared to seek legislative authority to grant exemption.

65. In this connection we would refer to Section 19 of the Finance Act, 1930, under which in certain conditions the interest income of a widows' pension Fund established for employees of firms and companies operating in Great Britain is exempt from income tax. We think it reasonable that this concession should be extended to a Fund set up in this country to provide pensions for the widows and children of officers mainly recruited here for Imperial service (often of a very arduous character) and the greater proportion of whom, and of their wives (or widows) return eventually to the Home country.

66. We should also mention that if a Central Fund, domiciled in London, were established, estate duty would become payable on the value of pensions granted to widows or other beneficiaries. We are, however, of opinion that the amount of the estate duty so chargeable will be such as could be paid out of the Fund without having any material effect upon the benefit tables. We do not, therefore, suggest that a request should be made for any concession under this head.

VII.—POSITION OF OFFICERS NOT INCLUDED IN A CENTRAL FUND.

67. Assuming that a Central Fund were set up, it would remain to consider the position of those officers who were not included in it. As we have suggested, this question would have to be considered according to the circumstances of each Colonial Government, and we must confine ourselves to indicating the broad principles which we think should be taken into account.

68. We consider that if pensionable officers, in so far as they are not included in the Central Fund, are to be assisted to make provision for their dependants, it must be by way of a local Widows' and Orphans' Pension Fund or Scheme constructed to suit the circumstances of the Colony concerned. Many Colonies, as this Report shows, have established Schemes, but there are many others in which no provision has been made for widows' and orphans' pensions: these, we think, should give serious consideration to the matter. In cases where the number of officials is too small to enable a Fund or Scheme to be properly constituted, and where the Government is nevertheless desirous of taking some action, the possibilities of neighbouring Colonies acting together in the operation of a joint Fund or Scheme would be worth investigation.

VIII.—CLASSES OF OFFICIALS TO BE INCLUDED IN THE PENSION PROVISIONS.

69. In view of our opinion that, if practicable, a Central Fund should be set up as mentioned above, we proceeded to consider the replies to the various questions in Part A of the Questionnaire referred to in Section II of this report from two aspects according as to whether a Central Fund were or were not to be established.

70. In the first question in this part of the Questionnaire Colonial Governments and officers were asked for their views as to whether provision should be made for the payment of either compulsory or voluntary contributions by—

- (a) officers on probation ;
- (b) officers on agreement in pensionable offices ;
- (c) officers on agreement in non-pensionable offices ;
- (d) officers who are contributors to a Provident Fund.

Generally speaking, existing Funds and Schemes outside East and West Africa are confined to permanent male officials whose salaries are above a certain minimum; while in East and West Africa all European officials are covered except the holders of a few specified offices, females, persons temporarily employed on special missions, and persons employed for a specified period of less than twenty months.

We are of the opinion that officers serving on probation and officers serving on agreement in pensionable offices should be compulsory contributors whether the Central Fund or a local Fund or Scheme applies. For officers serving on agreement in non-pensionable offices, a Provident Fund would, we consider, be a more suitable provision, and we do not recommend that they should be permitted to contribute for widows' and orphans' pensions; in fact, we do not consider that any provision should be made for voluntary contributors, except, of course, that where a Fund or Scheme is first set up in a Colony, existing officers should not be compelled to contribute, but should, subject to a satisfactory medical report, if they are on the pensionable establishment, or are serving on probation or on agreement in a pensionable office, be allowed to contribute if they so desire and notify their intention to do so within a period that may be prescribed. The present position as regards the provision for widows and orphans of officers who are contributors to a Provident Fund varies considerably. Some may contribute voluntarily to the Widows' and Orphans' Fund or Scheme, others must do so, while others are not allowed to contribute. For the reasons given in Section X, paragraph 112, we consider that officers who are contributors to a Provident Fund should not be allowed to contribute to a Widows' and Orphans' Fund or Scheme.

Minimum Salary Limit.

71. The opinions expressed in answer to the question whether there should be any minimum salary limit for contributors were so extraordinarily diverse that it was obvious that no common figure would be generally suitable. We feel that in the case of local Schemes or Funds the Government concerned should decide in the light of local circumstances as to whether there should be a minimum and, if so, of what amount. In the case of the Central Fund, no minimum limit of salary should be necessary.

Inclusion of Non-Europeans.

72. The replies to the question whether arrangements for widows' and orphans' pensions should include all employees of the classes concerned, irrespective of race, revealed considerable divergencies of opinion, mainly according to the geographical situation of the Colony from which the reply came. In some Colonies the stage of development of non-Europeans is much higher than in others; and

their marriage customs may differ considerably. After carefully considering the views put forward, we recommend that, on the assumption that the unified services will be predominantly European, the Central Fund should cover all members of those services; in effect, the post and not the race of the officer who holds it should be the criterion.

On the question whether local Funds or Schemes should be framed with or without racial distinctions, we feel that, in view of the varying conditions in the several Colonies, no general principle can be laid down. The matter is one which should be determined, in respect of each Colony, in the light of the structure of the public service of that Colony. As to the particular tables to be used, it is possible that the same tables will serve for a number of Colonies or for the same race in several Colonies. Nothing, however, should be assumed on this point. It should be submitted in the first instance for actuarial examination and report.

Exclusion of certain Classes of Officials.

73. It was stated in the Questionnaire (Question 4) that it was assumed that in any case the following classes of officials should not contribute to Schemes or Funds :—

Governors.

Private Secretaries and Aides-de-Camp (if not contributors before holding these positions or holders of substantive appointments entitling them to contribute).

Members of the Fighting Services other than those holding pensionable posts in the Civil Service.

Persons engaged on special missions.

Females.

The exclusion of these classes of officials is usually provided for in existing legislation and we recommend that this provision be made general. Numerous suggestions, which we now proceed to mention, were made as to other classes of officials which should either be exempted from the payment of compulsory contribution or be not allowed to contribute. Our recommendations made above as regards officers on probation, officers on agreement in pensionable offices, officers on agreement in non-pensionable offices, and officers contributing to a Provident Fund cover those suggestions which relate to persons appointed on temporary agreements, part-time or casual employees, learners and apprentices and Provident Fund contributors, and no further comment is necessary. Further, the observations we have already made as to the question of a minimum salary limit for contributors make it unnecessary for us to deal here with several suggestions that officers with salaries below a certain amount should be exempt. In several of the replies the suggestion was made that, on transfer, officers continuing to contribute to the Fund or Scheme of the Colony that they have left should be exempt,

as is provided in most of the existing Schemes or Funds, from the payment of compulsory contributions in the Colony to which they have been transferred. Our observations later in this report (paras. 95-101) as to the procedure to be followed on transfer from one Colony to another will cover this question, in so far as we have not dealt with this subject in connection with the Central Fund.

74. We are unable to accept the proposal that bachelors should be exempt. The more generous refund for bachelors which we propose in paragraph 89 demolishes most of the arguments advanced in support of this particular suggestion, and we may observe that those responsible for the proposal appear to have overlooked the fact that if and when a bachelor contributor does marry, his bachelor contributions generally buy an appreciable part of his total registered pension.

75. Another suggestion was that there should be a minimum age for contributors. It is unlikely that many persons will be appointed to the permanent establishment or appointed on probation or agreement before reaching manhood, and we do not consider that any special provision to cover such cases is necessary.

76. It has been suggested that officers seconded from other services for relatively short periods should be exempt. If such officers are already contributors in respect of their substantive offices, they should continue to contribute to their own Fund or Scheme. If they are not already contributors, they will usually be excluded from contributing in the Colony to which they are seconded by virtue of the temporary nature of their employment, and, in our view, such exclusion should be the rule.

77. A number of Governments, Associations and representative officials suggested that officers who were not restricted by law to one wife at a time should not be allowed to contribute. Where under existing arrangements such officers do contribute, only the first or principal wife is provided for, and we do not consider it necessary to recommend any departure from that practice so far as local Schemes or Funds are concerned. The matter is mainly one for decision in the light of the particular conditions obtaining in the Colony.

78. It is necessary to refer to two further important suggestions. First, it was proposed that officers who have made other provision for their dependants should be exempt from the payment of compulsory contributions. We are unable to accept this suggestion. There are obvious difficulties in deciding what would be a satisfactory provision; moreover, there could be no guarantee that the provision would continue to be made, or that if once made, it would ultimately be used in accordance with the officer's original intention. Secondly, it has been suggested that female officers should be allowed to contribute—if they are widows, for their children: if unmarried, for their dependants or prospective husbands. We

feel obliged to reject this suggestion, as that part which refers to widows presents great difficulties, while that which relates to unmarried women is wholly contrary to the fundamental principle of the system, namely, to make provision for widows who, speaking generally, are unable to maintain themselves.

79. The next question to which we invited replies was whether the Governor, subject to the approval of the Secretary of State, should have power to grant exemption in special cases to particular individuals or particular classes of officials. This question has to a great extent become irrelevant by virtue of our recommendations as to the classes of officials to be covered, but, in any case, we are unable to recommend that such power be granted.

IX.—BENEFITS TO BE AFFORDED.

80. The present system of pensions and refunds is practically uniform throughout those Colonies and Protectorates in which provision is made for benefits to the widows and orphans of Colonial Officers. As has been outlined previously (paragraph 38), the contributions paid by a member while a bachelor are accumulated with or without interest until marriage, and the resulting sum is treated as a single premium to buy a pension for his wife after his death: his further contributions as a married man pay for a further pension. Should the widow die or remarry while in receipt of a pension, the pension is continued to the children of the marriage, so long as these include a girl who is under the age of 21 and unmarried or a boy under the age of 18. Should the contributor die or leave the Scheme or Fund while a bachelor, one-half of his total contributions is refunded without interest; and should the wife of a contributor predecease him and the contributor does not remarry but dies, withdraws or retires as a widower, one-half of the contributions paid by him since his wife died, or since his youngest child ceased to be eligible for pension, whichever be the later, is refunded without interest.

There is a peculiar arrangement in East and West Africa governing the grant of pensions to the widows of certain classes of officers. Although all officers contribute for the full tabular benefits, a limited pension is paid to the widow of—

(a) a non-pensionable officer;

(b) a pensionable officer who dies either in service or after retirement, before he has served the qualifying period for his own pension.

We refer to this point later in paragraph 86.

Method of application of the Benefit Tables: Period for which contributions should be paid.

81. Before examining the adequacy of the existing system in so far as married men are concerned—and married men form the majority of the contributors—it is necessary to appreciate the method

of application of the benefit tables. The principal tables attached to the Ordinances governing the grant of widows' and orphans' pensions are as follows. The first table, generally denoted as Table A, is a table giving for each age of husband (between certain limits) and for quinquennial ages of wife the yearly pension payable by monthly instalments which a single payment of £1 will secure. This table is employed to ascertain the pension purchased by the accumulation of the member's contributions while a bachelor. The second table, which may be either a single table, or a set of similar tables, according to the regulations governing the payment of contributions, is called Table B, and gives in the same form as Table A the yearly pension payable by monthly instalments, which an annual contribution of £1, payable by monthly instalments, will provide. The application of this table is as follows. Directly a contributor marries, or a married officer becomes a contributor, Table B is brought into operation to determine the amount of pension purchased by contributions on his salary at that time which will be provided for his wife on his death, in addition to the amount, if any, purchased by his bachelor contributions under Table A; this is found by multiplying the factor in the table corresponding to the relative ages of the husband and wife at the date of marriage or entry by the annual contribution of the husband. If later the contribution of the member is increased by reason of his having been granted an increment in his salary, or from any other cause, the pension that this increment will buy is similarly ascertained by the use of the factor appropriate to the ages of the husband and wife at the date of the increase. If, however, the contributor retires on pension before the time at which contributions cease or has his salary reduced and, in either case, or for any other reason, is unable to maintain, or is not allowed to continue, the contributions on which the registered pension has been calculated, the decrement in his contributions is applied to the table at his age and that of his wife at that time and his pension is reduced accordingly. This reduction is due to the fact that by the method of construction of Table B it is assumed that the member, if surviving, will continue to pay the contributions on which his registered pension is calculated until a certain point of time. The basis of fixing this point of time varies in the different Colonies. In some, a member of the Scheme or Fund must pay for 35 years or until he attains age 65, whichever be the earlier; in others, he is required to pay until he attains a certain age (50, 55, or 60). If, therefore, a contributor retires from the service of a Colony on pension, before he has attained the limiting age for the payment of contributions, then to retain his last registered pension he will have to keep up the annual premiums which he was paying at the date of retirement; otherwise his registered pension will have to be reduced. It is unfortunate that in many Colonies the normal age of voluntary retirement, or even the age of compulsory retirement, falls short of the age at which payment of contributions ceases. For example, in the Straits Settlements

and the Federated Malay States an officer must retire at age 55 ; since, however, he is compelled to pay contributions for 35 years from entry or until he reaches the age of 65, whichever be the earlier, any officer who joins the Scheme at an age older than 20 and lives until the normal retiring age must be content to suffer a reduction in his registered pension or must keep the contribution payments at the level at which they stood at the date of his retirement. This difficulty has been appreciated by a number of the Associations and representative officials in the replies to the Questionnaire, and the members of the Malayan Government Professional Officers Association go so far as to suggest that " on retirement not before the age of 50 a pensionable married officer should be allowed to contribute on his full pension* and should cease entirely to contribute on attaining the age of 55, retaining however for his dependants the full benefits which had accrued at the time of his retirement ". On reading the full correspondence in which this passage occurs, we construed this suggestion as referring to the registered pension at the date of the officer's retirement. The proposal may be admirable from the point of view of the officer concerned, but it cannot be adopted in the case of any existing Fund or Scheme in which this feature is found, unless the members are content to submit to a general down-grading of the existing registered pensions sufficient to afford compensation for the loss of contributions it would entail.

82. The regulations governing the continuance or otherwise of payment of contributions after retirement on pension, whether through ill-health or on account of age, are varied. In most Colonies a married officer (or a widower with pensionable children) is allowed to continue to contribute either on his pension or on the salary that he was receiving immediately prior to his retirement. In East and West Africa, however, he must continue to pay on his salary or he must cease to contribute ; in the latter event his registered pension will be reduced accordingly. There would seem to be no valid reason for not allowing an officer to contribute on his pension up to the age at which he would normally cease to pay contributions, even though the percentage contribution be paid on his pension instead of on his salary and involve an appropriate reduction in the tabular benefit to which his widow will be entitled. On the other hand, if the officer has retired from the Service on account of ill-health, it is likely to be to the advantage of his widow, and is in accordance with the actuarial basis of the tables, that he should continue to contribute on his salary rather than on his pension. In the circumstances, we consider that a married officer or a widower with pensionable

* In some Colonies an officer has an option, which must be exercised within a prescribed period, of receiving a reduced pension and a gratuity in lieu of the full pension to which he would otherwise be entitled. In other Colonies this form of award is compulsory. Should the officer, after retirement, elect to contribute to the Widows' and Orphans' Fund or Scheme on his pension, he must however pay contributions on his full pension and not on the reduced amount.

children who leaves the service on pension before he has attained the age of cessation of contributions should fairly be granted an option. As a matter of administration he should continue to contribute on the salary that he was receiving immediately prior to retirement, unless and until he exercises an option to contribute on his pension, or to cease to contribute, in either of which events his registered pension will be adjusted accordingly; such option, once exercised, should be irrevocable. Further, in principle, if a contributor who has retired on pension subsequently ceases to have a wife or child who, on his death, would be entitled to a pension, he should cease to contribute and should have no claim to any benefit.

In this connection there is one point on which the constitution of all Funds and Schemes might be amended in justice to those contributors who are compelled to retire through ill-health. The actuarial basis adopted in all cases gives effect to the assumption that every married officer who dies during service or within the period during which contributions are payable (if that be the shorter) will have paid full contributions up to the time of death, and the full registered pension is accordingly provided for his widow. If, however, an officer is prematurely retired by reason of breakdown in health and thereafter contributes on his pension only, or even ceases to contribute, no reduction of his widow's pension is made, and this, being computed on the tables, is calculated as though he were an average life. This is manifestly inequitable in the case of a man who is seriously ill, and may not unfairly be said to be doubly so in the case of a man whose incapacity is attributable to the climatic or other special conditions of his service. There is, of course, a loss to the Fund or Scheme where the contributions of a member are reduced or stopped, but this is trifling compared with the loss to the widow (and the corresponding profit to the Fund) if such a man dies shortly after his retirement and his widow is entitled to the reduced pension only. Any concession in this respect must be strictly defined in order to avoid abuse, but we have come to the conclusion that if an officer has retired on pension on the ground of ill-health and has elected to contribute on his pension, the full pension for which he was registered at the date of his retirement should be paid to the widow or orphans if he die within three years from that date; while if he has elected to cease to contribute, the full registered pension should be paid if he die within two years from the date of his retirement. We are actuarially advised that these concessions would make no material encroachment upon the margins inherent in the benefit tables.

83. In some Colonies the age at which the contributions cease is below the age of compulsory retirement; for instance, in the West African Colonies an officer pays contributions up to age 50 at the latest, whereas he may remain in the Service until age 55. In other cases, as stated in paragraph 81 above, the officer pays contributions to age 65. It would seem more reasonable that

officers should contribute up to, and not beyond, the age at which they are normally called upon to retire. No difficulty would arise in the case of entrants to the proposed Central Fund, for when this was set up the age of cessation of contributions could be made to coincide with the normal age of retirement, namely, 55. Where there are local Funds or Schemes we recommend that, in regard to future entrants, the age of cessation of contributions should coincide with the normal age of retirement and, if necessary, new tables provided to give effect to this condition; for existing contributors present arrangements should stand.

Eligibility for Pension of Wife whose Marriage is subsequent to the Date of Cessation of Contributions.

84. There is a further point in connection with the period of payment of contribution to which attention must be drawn. In the Ordinances of practically all the Colonies there is a provision to the effect that the widow of a member whose marriage may have taken place subsequently to the time when the member ceased to contribute shall not be entitled to pension, nor shall the children of such marriage be entitled to benefits. Were this provision to be omitted it is obvious that the benefit tables would have to be revised.* Either the contribution for the tabular benefit would have to be increased, or, alternatively, lower benefits than those already payable would have to be granted. While some of the replies to the Questionnaire contended for an enlargement of the existing practice (presumably not recognizing the consequences), the majority were in favour of its continuance. We cannot recommend any change.

Pensions to the Widows of Non-Pensionable Officers and of Pensionable Officers who have not served their qualifying period for Pension.

85. We have recommended, in paragraph 82 above, that the widow of an officer who retires on pension on the ground of ill-health should be paid the full pension if the officer dies within a certain period after the date of his retirement. An officer on the pensionable staff may, however, retire on ill-health before he has served the qualifying period for pension. The same arguments apply in this case as in that of the officer who breaks down after having become qualified for pension. The officer on the pensionable staff who leaves the Service by reason of ill-health before he has served the qualifying period for pension should therefore be placed on the same footing as the officer who retires on pension on the ground of ill-health but elects not to contribute further, and

* In the Ordinances of the East and West African groups there is a provision to the effect that, notwithstanding that the age at cessation of contributions is 50, marriages up to the age of 55, the normal age of retirement from the service, shall be recognized. The tables were, however, constructed to provide for this condition.

we recommend that in this case also the widow should be paid the full pension for which the officer was registered at the date of his retirement should he die within two years from that date. Should an officer on the pensionable staff die in the Service his widow should be paid the full pension registered at the date of his death whatever the length of his service, subject, of course, to the point mentioned in paragraph 106.

86. Although as a general rule it is the practice that, given the same set of circumstances as regards age and marital status, similar contributions secure similar benefits under the tables of a particular Ordinance, there are arrangements in East and West Africa under which the widows of non-pensionable officers and of pensionable officers who have not served the qualifying period for pension are granted lower benefits than those of pensionable officers, although the same contributions are paid by both classes. These arrangements seem to have arisen from the following causes. The West African Scheme came into operation on 1st January, 1914, and prior to its inception it was considered that there were two classes of officials who would come under the Scheme for whom special provisions should be made. Statistics had shown that there was a large proportion of pensionable officers invalided with less than seven years' service and it was expected that the mortality rate among officers of this class would be relatively high. Secondly, there was an appreciable number of non-pensionable officers who were engaged on agreement for a short period of years. These last officers were also compelled to contribute to the West African Scheme and it was argued that if such an officer died shortly after leaving the Service, and presumably from the effects of the West African climate, his widow should receive a pension at a rate which bore some reasonable relation to the pension to which she would have been entitled had the officer died in the Service. In these cases, under the normal practice, if the officer served for, say, six years and then left the West African Service, the registered pension secured to his widow was drastically reduced directly he ceased to pay contributions, and it was this feature as applied to cases of breakdown in health that was seen to give rise to inequity. To meet the difficulty it was provided that the pension to the widow of an officer whose service was not of such a nature as would render him eligible for a pension if he retired from the West African Service on ill-health should be four-fifths of the normal pension in the event of his dying either in the Service or within a period after leaving the Service equal to one-third of the period for which he had paid contributions. The same condition was applied to officers holding pensionable posts who died or left the Service before they had become entitled to pension. On the establishment of the East African Scheme, some seven years after the date of inception of the West African Scheme, a similar provision relating to non-pensionable officers was inserted in the East African Ordinances.

For several reasons we are unable to regard this solution as satisfactory. In our opinion it is unsuitable for the officer on the permanent and pensionable staff, who should be dealt with in the manner described in paragraph 85 above. As regards the officer temporarily engaged in a non-pensionable capacity, we have already expressed the view that he should not in future be included in Widows' and Orphans' Funds or Schemes, the Provident Fund system being more suitable for this class. It is necessary, however, to consider the position of existing contributors, and we have accordingly examined the question whether, under present conditions respecting rates of mortality of members and widows, there is actuarial equivalence between the normal benefit that would be granted in the circumstances outlined above and the reduced benefit allowed by the regulations.

87. It was found that, on the new 6 per cent. tables which have recently come into force in West Africa, the capitalized value of the benefit granted by the existing Ordinance is considerably less than the capitalized value of the normal benefit, whatever the length of service of the officer. In fact the calculations showed that, in order to obtain actuarial equivalence with the tabular benefits for which the officer had paid contributions, the period of temporary cover after cessation of contributions should, for the four-fifths benefit, be approximately the full period for which the officer had contributed, and not one-third of this period.

It is realized that for purposes of permanent cover there are difficulties in keeping in touch with officers who have left the Service without pension; if the principle of limited cover be continued it is quite evident, however, that the present period is too short. One solution of the problem might be to grant a married officer an option of a lump sum refund, limited cover for full benefit or permanent cover for the smaller pension purchased by his past contributions. But, however logical and advantageous a lump sum refund might be, it is felt that there would still be requests for compassionate grants to widows and orphans of officers who had served in the Colonies and who had not used the lump sum refund to make provision for their dependants. This course cannot therefore be recommended.

Further calculations showed that in the same circumstances as outlined above the limited period for which a full pension could be granted after the date of cessation of contributions was approximately one-half the period for which the officer had contributed.

88. After reviewing these considerations we recommend that, in the case of death during service of existing officers in non-pensionable posts, the widow should receive the full tabular benefit. On leaving the Service in circumstances in which he is not eligible for pension, a married officer should have the option between

(a) being registered for the pension to which his widow would have been entitled had he died at the date of leaving

the Service, such cover to be for a period equal to one-half the period for which he had paid contributions; or

(b) being permanently registered for the pension actually earned by his past contributions.

The option must be exercised at the date of retirement and is to be irrevocable. Further, these benefits should apply only to the wife whom a contributor had married prior to the termination of his service, and to the children of such and/or an earlier marriage.

Refund in the case of a Bachelor dying or leaving the Service.

89. The comparatively small refund granted when a bachelor or widower without pensionable children dies or leaves the Service has been the subject of much comment in the replies to the Questionnaire. In view of the different circumstances of these two classes of officials, it is desirable to consider the position of each class separately. In the case of a bachelor, it is evident that, since he pays contributions to the Scheme or Fund which, while he remains a bachelor, are either notionally or in fact accumulated at interest, a reasonable refund of his contributions should be granted if he die or leave the Service never having married. While it is true that a bachelor is possessed of potential advantages in that if he does eventually marry before he has ceased to contribute he has purchased by his past contributions a pension to which his widow will be entitled on his death, no financial risk has in fact been incurred in respect of him. Under present conditions each death or withdrawal of a bachelor leaves a considerable profit either to the Fund, or in the more general case of a Scheme, to the benefit of the general revenue of the Colony.

The present refund of one-half of the bachelor's contributions is clearly insufficient. There are several alternatives which might be suggested but, after reviewing these alternatives, we recommend that the refund to be granted in the case of a bachelor who dies or leaves the Scheme or Fund from any cause should be the amount of his own past contributions with the addition of compound interest at $2\frac{1}{2}$ per cent.

90. In a few Colonies the total past contributions of a bachelor are accumulated without interest to the date of marriage and are then applied as a single contribution to purchase a yearly pension for his widow. The omission of the interest accumulations is in our view quite inequitable, and we recommend that all Colonies having this harsh provision in their Ordinances amend it, so that on his marriage a contributor will have the full advantage of the accumulations at 6 per cent. interest which his past contributions have, or should have, earned.

Position of Widowers with Pensionable Children.

91. The position of a widower is different from that of a bachelor. If he dies leaving children of pensionable age, then the pension

which would have been payable to his widow passes, temporarily, to the children; if he withdraws or retires from the Service in similar circumstances, he is registered for a pension which will be paid to the children on his death, provided that they are still of pensionable age. No refund of contribution is paid in such cases, and for all practical purposes a widower with pensionable children may be treated as a married man.

Refund in the case of a Widower, without Pensionable Children, dying or leaving the Service.

92. In the case of a widower without pensionable children, a more difficult position arises. As previously explained, it is assumed in the construction of the benefit tables that if the wife of a married man dies before the husband has attained a particular age, he at once re-marries. It follows, therefore, that when a widower of this class dies before he has attained that age, there exists a reserve hitherto available for a widow's pension, and that this reserve is a profit to the Fund, or, in the case of a Scheme, to the revenue of the Colony. When such a widower dies or leaves the Service the present refund of half the contributions paid since his wife's death is negligible compared with the value of the reserve in respect of him.

On the other hand, the method of calculating the tables is such that, if on an officer's attaining the particular age he has a wife living, there can be no profit to the Fund or Scheme on his death, if in the meantime she has predeceased him; for only the survivorship of that wife, or her children (if any) who are under the limiting age, can attract a pension. The computations take this into account.

93. In these circumstances any attempt to provide for a refund on the death of a widower of an amount based on the assumptions inherent in the tables would introduce serious complications. The only practicable course appears to be a modification of the present system, namely, the refund, with compound interest at $2\frac{1}{2}$ per cent. of all contributions paid by him since the death of his last wife or cesser of liability in respect of his children, whichever be the later.

Continuance of Contributions on Transfer (other than to the Central Fund).

94. One of the most important questions which we have had to consider is that of the provision which should be made for the continuance of contributions by an officer who transfers from the service of one Colony to that of another. If a Central Fund be set up with uniform benefits and contributions, no difficulty will arise so far as that Fund is concerned, as it will be immaterial in which

Colony a member is serving. In the absence of a Central Fund, the question is complicated by the necessity of taking into account both the marital status of the officer and the provision for widows' and orphans' pensions that is made in the Colony to which he has been transferred.

95. At present the provision for transfers varies considerably in the different Colonies. In certain of them (British Honduras, Ceylon, Fiji, Malta, and the East and West African groups) a married man or widower with pensionable children is given the option of continuing to pay contributions at the rate at which he was contributing immediately before he left the service of the Colony or of ceasing to contribute. If he ceases to contribute, any pension payable at his death is reduced to correspond with the payments that he has made. In these Colonies a bachelor or widower without pensionable children must cease to contribute and is granted the same refund of contributions as would have been granted to his representatives had he died in the Service. In other Colonies, however (British Guiana, Hong Kong, Jamaica), no distinction is made between the man who is or has been married and the bachelor, and any contributor who transfers has the option of continuing to pay contributions to the Scheme of his old Colony whatever his marital status. If the contributor is a married man or widower with pensionable children and he ceases to contribute, the pension payable on his death is reduced accordingly; if he is a bachelor or widower without pensionable children and he ceases to contribute, he receives a refund as above. A further variation occurs in the case of the Federated Malay States and the Straits Settlements. Under the Ordinances of these Colonies, an officer who is transferred to a Colony in which there is an approved Scheme must cease to contribute to the Scheme of the transferor Colony unless he obtains exemption from the Scheme of the new Colony: but should he transfer to a Colony with no Scheme, he may continue to contribute to the Malayan Scheme. In Mauritius any person who ceases to be a public officer may continue to contribute, while in Trinidad this concession is confined to married men or widowers with pensionable children only. On cessation of contributions, similar benefits to those outlined above are payable, according to the marital status of the contributor. Some Colonies make no special provision for transferred officers, but appear to treat such officers as if they had withdrawn from the Service.

96. If a bachelor who has been paying contributions to the Widows' and Orphans' Pension Fund or Scheme of a particular Colony transfers to another Colony, and if under the Ordinances of the first Colony he must thereupon cease to contribute, he is evidently at a serious disadvantage. Under existing arrangements all that he receives on leaving the first Colony is one-half of the contributions that he has paid, and if there is a Widows' and Orphans' Fund or Scheme in the second Colony, he has to

contribute as a new entrant. If he marries subsequently, the only contributions that are brought into account to determine that part of his registered pension purchased by his contributions as a bachelor are those that he has paid in the second Colony. Should there be no provision for widows' and orphans' benefits in the second Colony, his position is even more unfavourable. Cases have occurred in which an unmarried officer has been transferred to a Colony in which there was no provision for widows' and orphans' benefits after having served in two or more Colonies where such provision did exist. At each transfer the officer received a refund of part of his contributions. If he marries while in the service of the Colony where there is no Widows' and Orphans' Fund or Scheme, he will have paid no contributions while serving in that Colony and the contributions that he had made over possibly a long period of years in the Colonies in which his earlier service was rendered could not be applied, even if still available, for the purpose for which they were originally intended, namely, the purchase of a pension to his widow or orphans.

97. It is thus clear that the present position in regard to transfers is very unsatisfactory. With a view to placing it upon an orderly basis we make the following series of recommendations, which are designed to cover all the cases likely to arise in so far as the difficulties are not removed by the establishment of the Central Fund. For convenience we use the word Fund throughout, but it will be understood that the recommendations apply equally to Schemes where these continue to be maintained.

98.—(i) *A married man or a widower with pensionable children transferring from Colony A to Colony B, both having a Widows' and Orphans' Fund.*

(a) The officer should be allowed to contribute to the Fund of Colony A at the rate at which he was contributing at the date of transfer, and to join the Fund of Colony B, paying to that Fund the difference between the full contribution for which he would be liable under the law governing that Fund and the contribution that he continued to pay to the Fund of Colony A; or

(b) he should cease to contribute to the Fund of Colony A, remaining registered for the pension earned by his past contributions, and should join the Fund of Colony B as a new entrant.

In either event the Funds of the two Colonies would be liable for the appropriate part of the total pension payable to the officer's dependants on his death.

If the benefit tables and conditions governing the payment of contributions were the same in Colony B as in Colony A there would be no difference between these two options; it would, however, be administratively more convenient if the second option were taken.

(ii) *A bachelor or widower without pensionable children transferring from Colony A to Colony B.*

The officer should join the Fund of Colony B as a new entrant. In regard to his past contributions to the Fund of Colony A he should be granted the following options :

(a) He should be given a refund of contributions equal to that which would have been made by Colony A had he died or retired at the date of transfer ; or

(b) the contributions which he had paid to the Fund of Colony A should remain with that Fund and should accumulate to be utilized for the purchase of a pension on the tables of Colony A or a refund, as the case may be, in the event of his subsequent marriage or of his death or retirement as a bachelor.

99.—(i) *A married man transferring from Colony A to Colony C, Colony C having no provision for widows and orphans.*

(a) The officer should continue to pay the same contribution to the Colony A Fund as that which he was paying immediately before transfer, the payment of these contributions ceasing at the age at which the payment would cease had the officer remained in Colony A ; or

(b) the officer should cease to contribute and on his death the widow or children would be granted the pension bought by the officer's past contributions to the Fund of Colony A.

If at the date of transfer the first alternative be chosen the officer should be given the option of taking the second at a later date if he should so desire.

(ii) *A widower with pensionable children transferring from Colony A to Colony C.*—The same options should be granted as for a married man.

(iii) *A bachelor transferring from Colony A to Colony C.*

(a) The officer should continue to pay contributions to the Fund of Colony A on his last salary with that Colony, and if he married subsequently his widow would be entitled to the tabular benefits earned by his past and future contributions, subject to his right to cease contributing at any time : if the officer were still unmarried when he ceased to contribute he should receive the usual refund, while if he were married he should be registered for the pension earned by his past contributions ; or

(b) the officer should cease to pay contributions at the date of transfer ; he would then be entitled to a refund of his contributions with interest.

(iv) *A widower without pensionable children transferring from Colony A to Colony C.*—A widower without pensionable children is in exactly the same position as a bachelor (except that he has already been registered for a pension before he left Colony A) and the same options should be granted him as have been suggested for a bachelor.

100. In the case of transfer to public service other than to that of a Colony, similar arrangements to those outlined in the two preceding paragraphs should apply.

101. In those of the cases provided for in paragraphs 98 and 99 above where a transferred officer elects to continue to contribute to the Fund of his old Colony, it should not be a condition of such continuance that he should be required to obtain the consent of the Government of that Colony.

Continuance of Contributions on leaving the Service by Cause other than Transfer.

102. The recommendations made above are in respect of an officer who leaves the Service of a particular Colony by transfer to another Colony or other public service. Different considerations arise in the case of an officer who leaves the Colonial Service from any other cause. In the first place it is necessary to distinguish between officers who retire on pension and those who do not. In the case of an officer, who, being a married man or widower with pensionable children, leaves the Service on pension before the age at which payment of contribution ceases, certain recommendations have been made with regard to him in paragraphs 82 and 83. If he is a bachelor or a widower without pensionable children and leaves the Service on pension, there is no object in the continuance of his membership. A bachelor in these circumstances should be granted a refund with interest of his total past contributions, and a widower should be granted a refund with interest of the contributions that he has paid since the date of death of his wife or the date when his youngest child ceased to be eligible for pension, whichever be the later.

103. An officer who leaves the Service by any cause other than retirement on pension is in a different category. His connection with the Government of the Colony has ceased and he should therefore not be allowed to contribute further. If he is a married man or a widower with pensionable children, he should (subject to the special arrangement recommended in paragraph 82 with regard to officers who retire on account of ill-health) remain registered for the pension earned by his past contributions; and if he is a bachelor or a widower without pensionable children, he should receive the same refund which would have been granted to his representatives had he died in the Service at the date of his withdrawal.

Penalty on Dismissal from the Service.

104. The question circulated to the Colonies on the subject of the action to be taken in the case of dismissal from the Service evoked different replies. In many cases it was considered that the forfeiture of all contributions and the loss of all rights under the Scheme or Fund was too severe; in most of these cases the

suggestion was made that contributions should cease. Other penalties were recommended, such as the loss of interest on contributions, or the payment of a substantial fine.

After carefully considering this subject, we recommend that on dismissal from the Service all contributions should cease; that a bachelor or widower without pensionable children should receive a refund of contributions without interest, subject to deduction of any sums owing to the Government; and that a married officer or a widower with children of pensionable age should remain registered for the pension earned by his past contributions.

Penalty for making False Statements in connection with the Scheme or Fund.

105. When a contributor wilfully makes a false statement in connection with the Scheme or Fund, the effect of the offence may well have serious consequences. Neglect to comply with one of the numerous requirements as to information that must be furnished by the contributor with regard to dates of birth, marriage, etc., will generally be a much less serious offence. We consider therefore that each case should be treated on its merits. The Ordinances of many of the Colonies contain suitable provisions and we can see no reason for departing from the existing practice in, for example, East Africa, namely, that a contributor or beneficiary who fails or neglects to supply the information required under the Ordinances of a Colony shall, for each default, pay a fine; and that a contributor or beneficiary who wilfully makes a false statement in respect of any particulars required by the Ordinances to be furnished shall be liable to forfeit all or any part of his or her rights under the Scheme or Fund.

Position of Widows whose Husbands die within a Year after Marriage.

106. The Ordinances of most Funds or Schemes contain a provision to the effect that no widow of a contributor whose husband dies within a year from the date of his marriage shall be entitled to a pension unless a child is born of the marriage. Power is however granted to a responsible authority to award to the widow all or any part of the pension to which she would otherwise have been entitled. In view of the fact that there is no medical examination on marriage, we recommend the continuance of this practice, the right to grant all or any part of the pension to be vested in the Governor in Executive Council or other controlling authority.

Pensionable Age of Children.

107. It has been previously stated that if a widow dies or remarries leaving children of the marriage, her pension is continued to the children so long as these include a girl under the age of 21 and unmarried or a boy under the age of 18. Similar provisions apply in the case of a contributor who dies a widower.

In replying to the Questionnaire, several Civil Service Associations and representative officials suggested that the pensionable age might be raised, in some cases for boys alone to age 21, and in others for both boys and girls to an older age.

In the computation of the benefit tables no specific allowance is made for the continuance of the pension to the children, the margins inherent in the construction of the tables being deemed sufficient to cover the children's benefits. Under present arrangements a Scheme or Fund benefits from the fact that one-half of the contributions paid, together with the interest on the whole of the contributions, remains with the Scheme or Fund on the death or withdrawal of bachelors. Profits of a similar nature arise in the case of widowers without pensionable children. This is probably one of the considerations which led to the ignoring of the liability in respect of children in the construction of the tables. If our recommendations with regard to the refund to be granted to these classes of officials be adopted, profit from this source will be considerably reduced, and it is evident that it would be unwise to encroach further to any appreciable extent on the original margins. We are accordingly unable to recommend any drastic alteration in the pensionable age of children. Such small increase in the liability as in the opinion of our actuarial members is within the limits of safety should, we consider, be applied to increasing the limiting age for boys from 18 years to 21 years. The present limit of 18 years was originally fixed no doubt with regard primarily to the views of an earlier generation as to education. Opinion has advanced upon this subject in the last few years and we think that boys should be given the greater advantages which the increase of three years in the maximum pensionable age would provide.

X.—PROVIDENT FUNDS.

108. The establishment of Provident Funds in the Colonies is of comparatively recent growth and it is desirable to set out in some detail the objects which have actuated the Colonial Governments in adopting such schemes. There are, in certain of the Colonies, activities which require the services of officers holding technical qualifications, but which are, from the nature of the work, purely temporary. For instance, in 1927, the Colonial Office Conference had under consideration the arrangements for recruitment for the Public Works and Railway Departments in the Colonies, and it was then explained that, apart from the inadequacy of the salary which could be offered to men who possessed the necessary qualifications and experience, there was a special difficulty in those cases where officers were required for temporary employment only, particularly on constructional works, in that there was no promise of further employment in the Colony concerned. It was suggested therefore that this second difficulty might be surmounted by the

institution of a Provident Fund system. It was held that this system possessed the advantages that a man who might not be able to obtain immediate employment elsewhere at the termination of his engagement would be enabled to take with him a substantial sum, and consequently that it would attract good candidates for the temporary posts; and that, further, it would enable Colonial Governments to dispense with employees whose services were no longer required, without inflicting undue hardship on them. To that end a Committee was appointed in 1930 under the Chairmanship of the late Sir Gilbert Grindle, to consider the views expressed by the Colonial Office Conference of 1927 and to examine a draft scheme for the establishment of a Provident Fund system for members of Railways and Public Works Departments in the Colonies. This Committee presented a report in which the rationale of Provident Funds was discussed, primarily from the point of view of administrative expediency. The report was considered by the Colonial Office Conference of 1930. The Conference concluded that, in view of the variety of conditions, Colonial Governments must be left to decide each for itself in what circumstances the establishment of a Provident Fund would be advantageous and what form it should take. The draft scheme was commended as a working model for those Governments which might desire to set up a Fund.

109. At present there are some seven Provident Funds, which were either in existence previously to the report of the Committee referred to above, or which were set up subsequently. Of these Funds, the Kenya Local Civil Service and the Nigerian European Officers' Provident Funds are confined to Europeans; the Kenya and Uganda Railways and Harbours Administration, the Tanganyika Railways, and the Trinidad Funds are for certain classes of non-pensionable employees, whatever their race; while the Nigerian Railway and the Tanganyika African Civil Service Funds are for non-Europeans only. The reasons for the establishment of a Provident Fund for non-Europeans are different from those which govern the establishment of such a Fund for Europeans, and the rationale of Provident Funds for native personnel will be discussed in a subsequent paragraph.

In these Funds a periodical deduction is made from the salary or wages of the employee, who is known as the " depositor " or " contributor ". This deduction, which is in the form of a prescribed percentage of salary or wages, is described as the " deposit " or " compulsory deposit ".

The employer (Government or Administration as the case may be) credits the account of the depositor at certain prescribed intervals with a sum, known as " bonus ", also representing a prescribed percentage of the officer's salary. These deposits and bonuses are accumulated at interest. The rates of interest at present allowed differ in the various Colonies. In most cases it is provided that the rate shall be fixed annually by the Governor, generally not later than a certain stated date and it is usually stipulated that this rate

shall be not less than 3 per cent. In some cases, however, compulsory deposits are accumulated at one rate, voluntary deposits, if such are allowed, at another, and bonuses at a third.

The total amount standing to the credit of the depositor's account is paid to him on his leaving the Service except in certain specified circumstances, or to his estate in the event of his death in the Service.

110. Under no two Ordinances of existing Provident Funds are there uniform conditions governing the rates of contribution paid and the benefits granted. For instance, a contributor to the Trinidad Fund pays 4 per cent. of his salary and the Government a like amount, while the member's and Government's contributions to the Tanganyika African Civil Service Fund are $8\frac{1}{3}$ per cent. and $6\frac{1}{2}$ per cent. of the member's salary respectively. Further, as already stated, in some Funds a fixed rate of interest is allowed on deposits, while in others this rate is determined annually by the Governor.

Classes of Officials to be included in a Provident Fund.

111. In view of these and many other divergencies and of the fact that, as previously explained, there appeared to be a definite interlocking between these Funds and provisions for widows' and orphans' pensions, we have examined the position of Provident Funds afresh, and in the first place we considered the classes of officials who should be included in a Provident Fund as opposed to those who come under the ordinary pension system. We have already suggested that Widows' and Orphans' Funds or Schemes should extend not only to all officers on the pensionable establishment of a Colony, but to officers on probation and officers on agreement in pensionable offices. In other words, officers recruited from overseas who occupy permanent posts should normally be pensionable, and should also contribute to the Widows' and Orphans' Scheme or Fund of the Colony. Provident Funds should, we consider, be confined to personnel occupying subordinate posts and to officers recruited from overseas in a temporary capacity. In many Colonies there are manifest difficulties in the application of Widows' and Orphans' Schemes or Funds to locally recruited staff: where such provision has been made as, for example, for the widows and orphans of officers who are members of the Asiatic staff in the Uganda Protectorate, the financial structure of the system does not rest on an actuarial foundation. Statistics relating to the mortality experience of the members and their widows were not available when the Scheme was started and the relation between the contributions and benefits is therefore no more than arbitrary. There are, further, difficulties in connection with the administration of a Scheme for the widows and orphans of native personnel where officers are allowed by law to have more than one wife at a time. In all the circumstances, therefore, we think that it will be generally found that a Provident Fund is a more suitable provision for such officers than a Widows' and Orphans' Fund.

It is the present practice to exclude from membership of a Provident Fund those officers whose salaries are below some fixed minimum. We think that this practice should be maintained, the salary limit to be left to the discretion of the Government concerned.

112. The application of a system of widows' and orphans' pensions to officers recruited from overseas for temporary posts presents problems of a different kind. There have been complaints in the past that large bodies of personnel recruited only for a particular undertaking in a Colony have been compelled by existing Ordinances to contribute to the Widows' and Orphans' Scheme of the Colony. The term of the agreement has been comparatively short and the benefit purchased by the officer's contributions, even under such a special provision for temporary officers as appears in the East and West African Ordinances, has, on the whole, been of limited value. As a result, many officers concerned have expressed dissatisfaction with these arrangements and would doubtless have preferred to contribute to a Provident Fund, from which they would have derived some more tangible benefit. It would appear that there is justification for this attitude and, as has been stated previously, we consider that a Provident Fund would be a more suitable provision than a Widows' and Orphans' Fund for officers on agreement in non-pensionable posts. In making this recommendation we have not overlooked the fact that if an officer who is a Provident Fund contributor dies early in his term of service there is no provision for his widow other than the amount standing to his credit in the Provident Fund.

Objects of a Provident Fund.

113. It follows from what we have said above, that while the object of such a Fund is primarily to make provision—to the extent which may be practicable and appropriate—for the officer himself on his retirement, the Fund should also be regarded as affording the assistance which the Government is prepared to grant to the officer and his dependants in the event of his death in service. In the case, therefore, of officers employed upon Provident Fund terms there should be no question of any further Government provision either for the superannuation of the officer himself or for benefits to his dependants.

Officers transferred to Pensionable Posts.

114. It may be that an officer appointed on Provident Fund terms is transferred to a pensionable post, and we have given consideration to the appropriate treatment of such an officer's Provident Fund moneys. We suggest that on transfer to a pensionable post, the officer should be granted an option between two alternative courses :—

- (a) The Provident Fund account might be closed and the amount standing to the officer's credit left to accumulate until

his retirement, the period of service on Provident Fund terms to be reckoned, we presume, as qualifying for pension but not towards the calculation of pension. If appointment to a pensionable post carries with it the obligation to contribute to a Widows' and Orphans' Pension Fund or Scheme, provision might be made for the officer to make a lump sum contribution to the Widows' and Orphans' Fund or Scheme from his Provident Fund account, such sum not to exceed the accumulation of contributions that would have arisen had he been a member of the Widows' and Orphans' Fund or Scheme during the whole of his Provident Fund service. We suggest that this provision should apply not only to a married man, but to any officer, and that any balance remaining in the officer's account after making the lump sum payment should accumulate with interest until his retirement. The election to make this contribution should be exercised at the date of transfer to the pensionable post.

(b) Alternatively, the officer might elect to remain on Provident Fund terms instead of becoming pensionable. Such election, if made, would have to be irrevocable.

Rates of Contribution.

115. In superannuation funds to which both employer and employee contribute it is the usual practice for the annual contribution of the employer in respect of every member of the Fund to be the exact equivalent of the contribution of the employee. If the member pays, say, 5 per cent. of his pensionable salary and emoluments throughout a particular year, the employer contributes a like amount. In existing Colonial Provident Funds, however, this method does not appear to be universal. For instance, a male member of the Kenya Local Civil Service Provident Fund pays 5 per cent. of his salary to the Fund throughout his membership. The Government contribution varies with the length of service of the officer. During the first ten years of membership, the Government pays 5 per cent. of the member's salary, during the next ten years $7\frac{1}{2}$ per cent., and thereafter 10 per cent. In the Kenya and Uganda Railways and Harbours Administration Provident Fund the Government contribution may vary between 75 per cent. and 100 per cent. of the member's contribution in the year; and the Government of the Tanganyika Territory pays to the credit of the members of the Tanganyika Railways Provident Fund one-and-a-half times as much in any one year as the officer has contributed. As against these, the Government contribution to the Tanganyika African Civil Service Provident Fund is only three-quarters of the officer's contributions. In addition to the provision for payment of compulsory contributions, there are provisions in most of the regulations for voluntary extra contributions that may be made by the members: these are not reckoned in fixing the Government's contributions. Although no hard

and fast rule can be laid down with regard to the relative amounts to be contributed by the members and the Government, we consider that, in principle, these should be equal. In this connection it may be remarked that the rate of 8 per cent. or $8\frac{1}{2}$ per cent. which is at present paid by the contributors in five of the existing Provident Funds appears to be unnecessarily high, and we suggest that if existing Funds are reconstructed on the basis of equal contributions by the members and the Government, and when new Provident Funds are set up, a rate of 5 per cent. of the member's salary, payable by the member and by the Government respectively, should be adequate. We understand that this rate has been adopted in a new Provident Fund which is in course of being established.

Conditions of refund of Contributions and payment of Bonus.

116. In the ordinary course an officer whose association with the Service is severed in the circumstances detailed below is entitled to the return of his own contributions with interest. Generally the Government contribution (bonus) is paid over with interest at the same time and this should be the common rule.

The circumstances are :—

- (1) ill-health ;
- (2) satisfactory completion of contract ;
- (3) abolition of office ;
- (4) reaching retiring age ;
- (5) determination of contract by or with the consent of the Government (not involving dismissal) ;
- (6) death.

It is necessary to consider the procedure to be adopted generally when an officer is dismissed the Service or resigns without notice or permission. Under existing regulations an officer who leaves the Service in such circumstances is entitled only to the return of his own contributions with interest. This would appear to be equitable, and we recommend that a member of a Provident Fund who leaves the Service in these circumstances should receive his own contributions with interest less any debt due to the Government. As regards his accumulated bonus, all or any part of this should be withheld as the Government may direct and should be repaid to Revenue.

In the case of female officers who are contributors to a Provident Fund, it is suggested that the provisions relating to male officers should be applicable to them, with the addition that they should be eligible for Government contributions with interest on retirement on account of marriage after not less than three years' service.

Gratuities.

117. A prominent feature of certain Provident Funds as at present constituted is the grant of gratuities to members of the Fund. These gratuities take the form of a proportion of salary

for each year of service, becoming payable on death, retirement, or retrenchment after a specified number of years has been served. In some cases these gratuities are definitely paid by the Government, while, in others, the position is obscure. If our recommendations below are adopted, there will be no surplus in the Fund from which gratuities could be paid; but in any event we think that, on the assumption that the Fund is so constructed as to provide a reasonable scale of benefits, there is little or no justification for award of gratuities by the Government in addition to its making substantial contributions to the Fund.

Withdrawal of deposits.

118. Many of the existing Ordinances contain provisions to the effect that, in certain circumstances, a member may withdraw temporarily part of the contributions and bonuses standing to his credit. We consider that this privilege should be continued and recommend that advances from the Fund be allowed for such specific purposes as the payment of the passage of any member of a depositor's family coming from abroad or leaving the Colony invalided or from other similar cause; the payment of funeral expenses of the depositor's father, mother, wife or children; and the payment of hospital or other expenses incurred through the illness of the depositor or his father, mother, wife, or children. The total amount withdrawn should not exceed, at any one time, one-half of the depositor's compulsory deposits and bonuses, and any sum withdrawn should be repaid by the depositor in equal monthly instalments over such period as may be found most appropriate in the local circumstances, commencing from the month following the withdrawal.

Financial Arrangements.

119. As regards the financial arrangements and management of a Provident Fund, the same general considerations apply as in the case of a local Widows' and Orphans' Pensions Fund, with which we have dealt in paragraphs 45 and 46. A Board of Management should be set up, and the Treasurer should be responsible for the actual management of the Fund in accordance with regulations made by the Governor in Council. Separate accounts should be kept and should be subject to audit by the Government Auditor, and these should, as in the case of a local Widows' and Orphans' Pensions Fund, be included in the annual report of the Treasurer, the balances being also shown in the Colony's annual statement of assets and liabilities. In addition each depositor should be informed annually of the precise position of his individual account.

120. The Fund would consist of the contributions of the members and of the Government, which would be deposited in the Treasury as they fell due, to be invested in approved securities, or used for the purposes of the Fund. The amount standing to the credit of each depositor should accumulate at compound interest with annual rests, at a rate to be fixed for each year by the Board of Manage-

ment. In this connection a suggestion has been made, which we think worthy of careful consideration by Colonial Governments, that the moneys of the Fund should be deposited in the Government Savings Bank of the Colony. While the yield of interest under such an arrangement might not be so favourable as if the moneys were invested in securities, it is probable that the costs of management of the Provident Fund would be reduced, and this reduction would offset to some extent the charging against the Fund of management expenses, a course which seems to us no less proper with a Provident Fund than with Widows' and Orphans' Pensions Funds. Changes in the value of securities would also be avoided, a specially desirable feature in Provident Funds. Interest for each month would be allowed on the accounts of individual depositors at one-twelfth of the rate fixed for the year, and no interest should be allowed for broken periods of a month. We recommend the discontinuance of the practice by which in some Funds the officer's compulsory contributions are accumulated at one rate of interest, his voluntary contributions (where these are allowed) at another, and the Government's contributions at a third. A uniform rate is, in our opinion, desirable.

XI.—SUPPLEMENTARY SUGGESTIONS REGARDING WIDOWS' AND ORPHANS' PENSIONS RECEIVED FROM THE COLONIES.

121. As has been previously stated, the Secretary of State in his Circular despatch of the 17th of August, 1934, explained that answers might be accompanied by comments on points not specifically mentioned in the Questionnaire. A number of suggestions were received relating to matters to which reference has been made previously in this Report. Various other proposals were put forward, e.g.

- (a) that the widow be allowed to divide her pension into a reduced pension and a lump sum ;
- (b) that the pension be separated into a pension for the widow and pensions for the children ;
- (c) that dependants other than widows and children be admitted to benefit ;
- (d) that bachelors should pay reduced contributions.

There is no evidence of a general demand for these proposals, while to some of them we can see considerable objections. We have therefore felt it unnecessary to report upon them in detail.

XII.—SUMMARY OF RECOMMENDATIONS.

122. In this report we have endeavoured to give consideration to the requirements of all grades of officials concerned, and many of our recommendations are of necessity interdependent. If, therefore, existing Ordinances are amended in accordance with the proposals made in this report, care must be taken to introduce all recommendations that are obviously dependent one on another.

123. We give below a summary of the principal recommendations which we have submitted in the previous pages. The numbers of the relative paragraphs are added for convenience of reference.

A.—Widows' and Orphans' Pensions.

(i) CENTRAL FUND.

(1) As regards the unified branches of the Colonial Service and other grades of corresponding status, appointments to which are made by or with the approval of the Secretary of State, the system of local or regional Schemes should be discontinued in the case of new entrants to the Service, and a Central Fund should be established, to cover all such officials irrespective of Colony. (Paragraph 53.)

(2) The Central Fund should be constituted by Act of Parliament and vested in a Board of Management appointed by the Secretary of State. (Paragraph 55.)

(3) The Board should have control of the investments and be responsible for the general administration of the Fund, the actual management of which should be in the hands of the Crown Agents for the Colonies. (Paragraph 55.)

(4) The cost of administration should be borne by the Fund. (Paragraph 55.)

(5) The balances of the Fund, after making provision for outgoings, should be invested in approved securities or made available for borrowing by the participating Governments at the discretion of the Board. (Paragraph 55.)

(6) The accounts should be audited by the Comptroller and Auditor General and an Annual Report, showing the transactions of the Fund during the year of account, should be presented by the Board. (Paragraph 55.)

(7) The membership of the Central Fund would be based upon a list of posts comprising the offices scheduled in the various unified services and such other posts as the Secretary of State might from time to time direct. In respect of duly qualified officers:—

(a) Officers appointed to listed posts after the inception of the Fund would automatically become contributors to the Fund;

(b) Officers who at the date of establishment of the Fund were not contributing to an existing Scheme or Fund would have the option of joining the Central Fund;

(c) Serving officers who at the date of establishment of the Fund were already contributing to an existing Scheme or Fund would have the option of remaining entirely with that Scheme or Fund or of joining the Central Fund as new entrants.

(d) Officers who had not elected to join the Central Fund on its inception would, on subsequent transfer to another Colony, join that Fund, being granted certain options as to payment of contributions to the Scheme or Fund of their old Colony and the Central Fund respectively. (Paragraphs 56-58.)

(8) Payment for pensions actually in payment and contingent pensions to dependants of officers who were not eligible or who did

not elect to join the Central Fund should continue to be made by the Government or local Fund concerned. (Paragraph 59.)

(9) The same rates of contribution should be paid by all members of the Central Fund and the same tables of benefits should apply to them. (Paragraph 60.)

(10) The Government subsidy should take the form of a percentage of the officer's salary, paid concurrently with the officer's own contributions. Additional voluntary contributions by the officer should not be allowed. (Paragraphs 61-62.)

(11) A valuation of the Central Fund should be made at quinquennial intervals by the Government Actuary. (Paragraph 63.)

(ii) LOCAL FUNDS OR SCHEMES.

(12) The nature and scope of any provision to be made for benefits to the widows and orphans of officers not included in a Central Fund must necessarily be a matter for consideration by the individual Governments concerned. (Paragraph 67.)

The following recommendations ((13) to (19)) are applicable to all local arrangements, whether these are designed to cover only personnel excluded from participation in a Central Fund or—in the event of our recommendation for the establishment of a Central Fund not being accepted—to cover also officers who we have contemplated should be included in the Central Fund.

(13) In the case of a Colony which has at present no provision for widows' and orphans' benefits, the financial arrangements should take the form of a Fund. (Paragraph 43.)

(14) Existing Schemes should be funded where possible and as soon as possible. (Paragraph 44.)

(15) If an existing Scheme be funded, the starting amount of the Fund should be the net liability at 6 per cent. interest the amount so obtained to be acknowledged as a part of the public debt of the Colony. (Paragraph 44.)

(16) Where local Funds are continued or created general control should be exercised by a Board of Management, the actual management being in the hands of the Treasurer. The balances of the accounts should be shown in the Colony's annual statement of assets and liabilities, and the accounts themselves should be audited by the Government Auditor and included in the Treasurer's Annual Reports. (Paragraphs 45-46.)

(17) When a new Fund is set up the Government subsidy should take the form of a percentage of the officer's salary. (Paragraph 46.)

(18) If the difficulties of replacing in the immediate future an existing Scheme by a Fund are insuperable, detailed accounts of income and expenditure should be kept, showing the balance of income and expenditure accumulated each year at 6 per cent. interest, thus setting up a hypothetical fund. (Paragraph 47.)

(19) In the case where such a hypothetical fund is set up, periodical valuations should be made as though the hypothetical fund existed in fact, and bonuses granted, where a surplus is found, after reserving part of the surplus as a safeguard against adverse contingencies. (Paragraph 47.)

(20) New benefit tables at 6 per cent. interest should be incorporated in the laws governing the Schemes. In some cases, the adoption of these tables might affect adversely the position of existing members; in that event, the 8 per cent. tables should be kept in force as far as these members are concerned and, where necessary, the law should be modified to ensure the preservation of their existing rights. (Paragraphs 34-35.)

(iii) CLASSIFICATION OF OFFICERS FOR THE PURPOSES OF WIDOWS' AND ORPHANS' PENSIONS.

(21) The recommendations made in paragraph 70 with regard to the classes of officials to be included in pension provisions can conveniently be set out in tabular form thus:—

<i>Class of Officer.</i>	<i>Included in—</i>
Pensionable officers of the unified services and corresponding classes.	Central Widows' and Orphans' Pension Fund.
Other pensionable officers	Local Widows' and Orphans' Pension Fund or Scheme, if practicable, either for Europeans and non-Europeans separately or for both together.
Non-pensionable officers recruited from overseas.	Provident Fund.
Non-pensionable officers recruited locally.	Provident Fund.

(22) The following classes of officials should not contribute either to the Central Fund or to a local Fund or Scheme:—

Governors.

Private Secretaries and Aides-de-Camp (if not contributors before holding these positions or holders of substantive appointments entitling them to contribute).

Members of the Fighting Services other than those holding pensionable posts in the Civil Service.

Fersons engaged on special missions.

Females. (Paragraph 78.)

Officers seconded from other services for relatively short periods. (Paragraph 76.)

(23) Contribution to any Fund or Scheme should be compulsory for all officers to whom the provisions apply, and no exemptions should be permitted. (Paragraph 79.)

(iv) PROVISIONS REGARDING CONTRIBUTIONS AND BENEFITS.

NOTE:—*These recommendations ((24) to (33)) apply equally to members of the proposed Central Fund and to members of local Funds or Schemes.*

(24) If an officer retires on pension on account of ill-health, he should have the option of paying contributions on his salary or on his pension, or of ceasing to contribute. (Paragraph 82.)

(25) If an officer retires on pension on account of ill-health and elects to contribute on his pension, his widow should receive the full registered pension for which he was registered at the date of retirement if he dies within three years of that date; while if he elects to cease to contribute, the full registered pension should be paid if he dies within two years from the date of his retirement. (Paragraph 82.)

(26) The age of cessation of contribution should coincide with the normal age of retirement. (Paragraph 83.)

(27) Only those marriages contracted during the period of payment of contribution should give a title to benefit. (Paragraph 84.)

(28) If a pensionable officer retires on account of ill-health before he has served the qualifying period for pension, and dies within two years of the date of retirement, his widow should receive the full pension for which he was registered at the date of retirement. (Paragraph 85.)

(29) The refund to be granted in the case of a bachelor who dies or leaves the Scheme or Fund from any cause should be his own past contributions with the addition of compound interest at $2\frac{1}{2}$ per cent. (Paragraph 89.)

(30) The refund to be granted in the case of a widower without pensionable children who dies or leaves the Scheme or Fund from any cause should be all contributions (with compound interest at $2\frac{1}{2}$ per cent.) paid by him since the death of his wife or cesser of liability in respect of his children, whichever be the later. (Paragraph 93.)

(31) If an officer is dismissed from the Service, all contributions should cease; a bachelor or widower without pensionable children should receive a refund of his contributions without interest, subject to the deduction of any sums owing to the Government; and a married man or widower with pensionable children should remain registered for the pension earned by his past contributions. (Paragraph 104.)

(32) No widow whose husband dies within twelve months of the marriage without issue of such marriage should be entitled to pension except with the approval of the Governor in Executive Council or other controlling authority. (Paragraph 106.)

(33) The pensionable age for boys should be raised to 21. (Paragraph 107.)

(v) SPECIAL PROVISIONS FOR OFFICERS NOT QUALIFIED FOR PENSION INCLUDED IN LOCAL FUNDS OR SCHEMES.

(34) If an officer on the pensionable staff dies in service, the widow should receive the full tabular pension whatever the length of his service. (Paragraph 85.)

(35) When a non-pensionable married officer leaves the Service he should have the option of being registered for the full pension for which he was registered at the date of retirement, for a period equal to one-half the period for which he had paid contributions; or of being permanently registered for the pension actually earned by his past contributions. (Paragraph 88.)

(vi) SPECIAL PROVISIONS FOR OFFICERS OTHER THAN MEMBERS OF THE CENTRAL FUND TRANSFERRED FROM ONE COLONY TO ANOTHER.

(36) A summary of our recommendations with regard to the provision that should be made for the continuance of contributions by an officer on transfer is given in the Table below. They should apply in the case of transfer to public service other than to that of a Colony. (Paragraph 100.) Where alternative proposals are made, the officer should have the option of choosing between them.

<i>Marital Status of Officer.</i>	<i>Officer transfers from Colony A, which has a Widows' and Orphans' Fund to</i>	
	<i>Colony B, which has a Widows' and Orphans' Fund.</i>	<i>Colony C, having no provision for Widows' and Orphans' Pensions.</i>
Married man	The officer should be allowed to contribute to Fund of Colony A at the rate at which he was contributing at the date of transfer and to join the Fund of Colony B, paying to that Fund the difference between the full contribution for which he would be liable under the laws governing that Fund and the contribution that he continued to pay to the Fund of Colony A; or he should cease to contribute to Fund of Colony A and contribute to Fund of Colony B as a new entrant. (Para. 98)	Officer should continue to contribute to Fund of Colony A at the same rate as he was contributing immediately before his transfer; or he should cease to contribute. (Para. 99)
Widower with pensionable children.	As for married man. (Para. 98)	As for married man. (Para. 99)
Bachelor	The officer should join the Fund of Colony B as a new entrant. He should be given a refund of contributions equal to that which would have been made by Colony A had he died or retired at the date of transfer; or the contributions which he had paid to the Fund of Colony A should remain with that Fund and should accumulate to be used for the purchase of a pension on the tables of Colony A or a refund. (Para. 98)	Officer should continue to contribute to Fund of Colony A at the same rate as he was contributing immediately before his transfer; or he should cease to contribute at date of transfer. (Para. 99)
Widower without pensionable children.	As for bachelor. (Para. 98)	As for bachelor. (Para. 99)

(vii) PENALTIES.

(37) The penalty for failure or neglect to supply information required under the Ordinances should be a fine; while a contributor or beneficiary who wilfully makes a false statement in respect of any particulars required by the Ordinances should be liable to full or part forfeiture of his or her rights. (Paragraph 105.)

B.—Provident Funds.

(38) Equal contributions of 5 per cent. of the member's salary should be made by the member and by the Government. (Paragraph 115.)

(39) The Government bonus and interest thereon should be paid to the officer if he leaves on account of—

- (a) ill-health;
- (b) satisfactory completion of contract;
- (c) abolition of office;
- (d) reaching retiring age;
- (e) determination of contract by or with the consent of the Government (not involving dismissal).

If he dies in service, it should be paid to his estate. (Paragraph 116.)

(40) If a member of a Provident Fund leaves the Service in any circumstances, he should receive his own contributions with interest less any debt due to the Government. (Paragraph 116.)

(41) If a Member of a Provident Fund is dismissed the Service, or resigns without giving the prescribed notice or having the permission of the Government, all or part of the bonus and interest thereon should be withheld as the Government may direct. (Paragraph 116.)

(42) Female contributors should be eligible for Government contributions, with interest, on retirement on account of marriage after not less than three years' service. (Paragraph 116.)

(43) Temporary withdrawals up to one-half of the depositor's compulsory deposits and bonuses should be allowed in certain circumstances. (Paragraph 118.)

(44) The Fund should be under the general control of a Board of Management appointed by the Governor-in-Council, the actual management being left to the Treasurer. The contributions should be deposited in the Treasury to be invested or used for the purposes of the Fund. The moneys might be deposited in the Government Savings Bank. (Paragraphs 119-120.)

(45) The accounts should be subject to audit and included in the Treasurer's Annual Report, the balances being shown in the Colony's annual statement of assets and liabilities. The cost of management should be met from the Fund. (Paragraphs 119-120.)

(46) The amount standing to the credit of each depositor should accumulate at compound interest with annual rests at a rate to be fixed for each year by the Board of Management. (Paragraph 120.)

(47) There should be a uniform rate of interest for all contributions, whether compulsory, voluntary or Government contributions. (Paragraph 120.)

(48) On transfer to a pensionable post, a Provident Fund contributor should be allowed to elect either (a) to have his Provident Fund account closed, or (b) to remain on Provident Fund terms instead of becoming pensionable.

If the officer elects under (a), the amount standing to his credit in the Provident Fund should be left to accumulate until his retirement; his period of service on Provident Fund terms should be reckoned as qualifying for pension (but not towards the calculation of pension); and if he is required to contribute to a Widows' and Orphans' Pension Fund or Scheme, he should be allowed to contribute such sum from his Provident Fund account as he would have done had he been a member of the Widows' and Orphans' Pension Fund or Scheme throughout his previous service. (Paragraph 114.)

124. Finally, we have much pleasure in referring to the zealous services which have been rendered to us by our Secretaries, Mr. F. R. Fairclough and Mr. H. Freeman. Our problems have been many and diversified, and in addition to the highly efficient performance of the ordinary duties of the Secretaries their special knowledge, respectively, of the historical and administrative and of the actuarial sides of the questions we have had to review has been of great value to us.

We have the honour to be, Sir,

Your obedient Servants,

ALFRED W. WATSON,
J. E. W. FLOOD,*
C. J. JEFFRIES,
J. G. KYD,
E. W. H. MILLAR,
H. K. PURCELL,
G. F. SEEL,
R. W. TAYLOR.

F. R. FAIRCLOUGH,
H. FREEMAN.

20th April, 1936.

* Subject to reservation on page 61.

Reservation by Mr. Flood.

I regret that I am not able to agree with my colleagues on the Committee in regard to their main recommendations. In the present circumstances of the Colonial Services I am of opinion that Schemes (amended where necessary as proposed by the Committee) are preferable to Funds and I do not consider that a Central Fund, such as is suggested, is desirable or practicable.

With the other recommendations as regards modification of the present legislation I agree, and I think that Schemes on the present system, with those amendments, should prove equitable both towards the contributor and towards the Colonial taxpayer.

APPENDIX.

Circular despatch to all Colonies and Protectorates (including Malta),
Tanganyika Territory, and Palestine.

Downing Street,

17th August, 1934.

SIR,

I have the honour to inform you that I have recently had under my consideration a number of questions of principle which had been raised in connection with the existing arrangements for the grant of pensions to the dependants of deceased Colonial officers. As it appeared to me that some of these questions required careful scrutiny, I decided to appoint a Committee under the Chairmanship of Sir Alfred Watson, K.C.B., the Government Actuary, with the following terms of reference:—

“ To review the existing arrangements for the grant of pensions to the widows and orphans of officers in the Colonial Service; and to make recommendations as to any changes in the present policy in this matter which Colonial Governments should be advised to adopt, with special reference to:—

- (a) the classes of officials to be covered;
- (b) the benefits to be afforded;
- (c) the nature of the financial provisions to be made.”

2. After their first meeting the Committee represented to me that, in view of the importance of Provident Funds and of the fact that in some cases there seemed to be a definite interlocking between those Funds and the provision for the grant of pensions to widows and orphans, it might be advisable that the consideration of Provident Funds should be brought within their purview. I accordingly requested that the Committee should include the question of the establishment or extension of Provident Fund systems in the Colonies in the scope of their enquiry.

3. The Committee have intimated that it would be of advantage to them to have an expression of opinion on the matters which they have to consider both from each Colonial Government and (where this can conveniently be obtained) from any organization which is representative of the officers in its employment. For this purpose the Committee have prepared a questionnaire, relating to widows' and orphans' pensions, of which copies are enclosed with this despatch.

4. I have therefore to request that you will be good enough to furnish me with a statement of your views on the questions contained in the questionnaire, and also that the local Civil Service Associations or, where that is not possible, representative officials may be invited to submit, through you, separate replies to the questionnaire. It is desired that, whenever possible, the reasons for each answer should be fully explained, and it should be understood that the answers may be accompanied by comments on points not specifically mentioned in the questionnaire, as the Committee will be glad to have before them expressions of opinion on any matter which may concern their enquiries.

5. I have also to request that in the case of those territories which at present have a Widows' and Orphans' Pension Scheme, as opposed to a Fund, a statement may be forwarded showing in respect of each year since the inception of the scheme (a) the income from contributions, (b) the expenditure on benefits, (c) the amount of contributions refunded, and (d) management expenses.

6. It is, I consider, desirable that all Colonial Governments and organizations representative of members of the Colonial Service should be given the same opportunity for comment on a matter which is of general interest

and I have decided, therefore, to address this despatch to the Officers Administering the Governments of all the Dependencies including those of territories in which there is at present no provision for dependants' pensions.

7. It would be convenient if the replies to the questionnaire could be forwarded so as to reach me not later than the 31st December, 1934.

I have, &c.,

P. CUNLIFFE-LISTER.

QUESTIONNAIRE.

(A) CLASSES OF OFFICIALS TO BE COVERED.

1. It is assumed that, subject to any general exceptions or exemptions which may result from the replies to subsequent questions, any Scheme or Fund would extend to all officers on the pensionable establishment of the Colony.

Should provision be also made for the payment of either compulsory or voluntary contributions to the Scheme or Fund by any or all of the following classes of officers not on the pensionable establishment:—

- (a) Officers on probation;
- (b) Officers on agreement in pensionable offices;
- (c) Officers on agreement in non-pensionable offices;
- (d) Officers who are contributors to a Provident Fund?

2. Should there be any minimum salary limit for contributors and, if so, to which of the classes of employees mentioned in Question 1 should this apply?

3. Should the arrangements include all employees of the classes covered irrespective of race or should separate arrangements be made for Europeans and for other staff? In the latter case what should be the position of non-Europeans appointed under terms of service ordinarily applicable to Europeans?

4. It is assumed that in any case the following should not contribute:—
- Governors;
 - Private Secretaries and Aides-de-Camp (if not contributors before holding these positions or holders of substantive appointments entitling them to contribute);
 - Members of the Fighting Services other than those holding pensionable posts in the Civil Service;
 - Persons engaged on special missions;
 - Females.

Should any other classes, and, if so, what classes,

- (a) be exempted from the payment of compulsory contributions;
- (b) be not allowed to contribute?

5. Should the Governor, subject to the approval of the Secretary of State, have power to grant exemption in special cases to

- (a) particular individuals;
- (b) particular classes of employees?

(B) BENEFITS TO BE AFFORDED.

The basis of any future arrangements, whether they take the form of a Scheme or a Fund, would continue to be the payment of pension in accordance with tables computed actuarially. The points which arise under this head of the questionnaire relate mainly to such matters as the right to continue contributions on transfer or cessation of service and the benefits to be accorded in such cases if continuance of contributions is not allowed.

1. Generally speaking, it would be assumed that, given the same set of circumstances as regards age and marital status, similar contributions would secure similar benefits in return, irrespective of the status of the officer (pensionable or non-pensionable) who pays the contribution. In some Colonies, however, it is the practice at present to grant benefits on a reduced scale in respect of non-pensionable officers, although they pay the same contributions as pensionable officers. Is it considered desirable that this practice should be maintained, and, if so, why?

2. What provision should be made for the continuance of contributions (a) on transfer, (b) on leaving the service of a particular Government for any other cause? The answer on this point should deal separately with the case in which the officer is transferred or leaves the service as

- (1) a bachelor or widower without children of pensionable age;
- (2) a married man;
- (3) a widower with children of pensionable age.

Separate replies should also be given according to whether the officer has or has not acquired pensionable status at the time of his leaving the service of the particular Government.

3. What refunds or other benefits should be given to officers not allowed to continue or permitted to discontinue contributions in the cases described in Question B.2?

4. Should (a) dismissal from the service, (b) the making of a false statement in connection with the Scheme or Fund, involve forfeiture of all contributions and loss of all rights thereunder; or should some less severe penalty, and, if so, what penalty, be inflicted?

5. Should the wife whose marriage took place (a) after cessation of contributions or (b) after the officer attained a stated age, and the children of such marriage, be eligible for benefits?

[*Note.*—In the event of the benefits being so enlarged an increase in the rate of contribution would probably be required.]

(C) THE NATURE OF THE FINANCIAL PROVISIONS TO BE MADE.

1. Should contributions be paid to a Fund or to the general revenue of the Colony under a scheme of guaranteed benefits?

[*Note.*—The existing arrangements take the form of one or other of the following alternatives:—

- (i) Contributions are funded as they are received;
- (ii) Contributions are paid to the general revenue of the Colony.

Under (i) the accumulations are either (a) held as a loan to the Government, carrying a prescribed rate of interest sufficiently high to include a Government subsidy, or (b) invested in securities, with such Government grant as will be necessary to bring the yield up to some guaranteed rate. Where a Fund is established a valuation is made periodically and this generally reveals a surplus which is applied as a bonus to the members of the Fund. In the unlikely event of a deficiency arising the benefits would be reduced or the contributions increased. Under (ii) (i.e., a "scheme") the Government takes the contributions as revenue and guarantees the benefits. This plan is greatly to the advantage of the Revenue at the outset and may be correspondingly to its disadvantage in later years. No valuation is made and no question as to the treatment of a surplus or deficiency arises.]

2. Having in mind the facts given in the following note, is it advisable to base the calculations for the rates of benefit on a rate of interest of, say, 6 per cent. instead of the present rate of 8 per cent.?

[*Note.*—When it was thought that the increased rate of 6 per cent. at which Governments could borrow would be maintained for a long period, the pensions were put up to an 8 per cent. basis. Colonies can now borrow at a much lower rate of interest than was the case when the benefits were calculated on this high interest rate. Moreover, owing to the fact that the present tables contain a heavy margin of safety* and to the improvement in mortality which has taken place in the period that has elapsed since the tables were constructed, it is probable that, were the rate of interest reduced from 8 per cent. to 6 per cent., the tabular benefits would not be materially reduced.]

* Due to certain assumptions which the actuaries consulted had to make owing to the special type of benefits and the impossibility of obtaining data for valuation of the liabilities when computing the contributions.



