

be so determined and related that such consequences could not arise. We cannot in any event consider contributions very far without taking a look at benefits.

The determination of the actual contributions and the actual benefits is usually based on some status, as, age, length of service, salary. So long as the difference in status of two employees is one of degree, I would say that the difference in benefits and contributions should be one of degree and not of kind. Further, for small differences in the determining status the difference in the contributions or benefits should proceed regularly and without arbitrary breaks. These principles are sound and I think commend themselves to one's reason, and I would follow them so long as they do not lead in practice to manifest absurdities. It is hard to understand why for a small difference in age, for example, two employees should be treated in a wholly different manner as to contributions and benefits. I shall refer to this again.

In general there are two methods in vogue in determining benefits. First,—the benefit at retirement is a fixed percentage of the final salary, or, more often, the average salary for the last three, five, seven or ten years of service. This may be called the "Fixed Salary Method" as distinguished from the second,—which bases the benefit on the average salary throughout the whole period of service, a percentage of the average salary being taken for each year of service. Basing the benefits on the average salary, though, does not limit the maximum benefit, for the percentage may be fixed sufficiently high to insure an adequate benefit.

An objection which has been urged against the final salary methods is that increases are sometimes made in salaries shortly before retirement for the purpose of giving a larger pension. This objection must be almost non-existent when the average salary for, say, ten years is used. An objection to the average salary method is that the benefits do not respond quickly enough to increases in salaries, and when general increases in salaries are made as, for instance, on account of increased cost of living, benefits on retirement do not bear the relation to fixed salaries which they should. For reasons which I shall endeavor to show I prefer the average salary basis for a composite service. I do not say that I would not use it pretty generally; but whatever system is used I think you will agree that the system of contributions should accord therewith and that a system of contributions suitable for the one would almost necessarily be inapplicable to the other.

Probably you will further agree that if the employees as a whole are to pay approximately one-half of the cost, then each individual should pay approximately one-half of his benefits. Under the final salary method, the basis of contribution is usually a percentage of salary, fixed as at age of entry, and formerly it was common to use the same percentage for all ages at entry. Now, under this basis, I may tell you there is absolutely no relation between benefits and contributions of the individual. One individual may instead of paying for half his benefits, pay for only one-quarter or less, while another may pay three-quarters or more. This will readily be apparent when it is remembered that the benefits are based on salary received for a few years immediately preceding retirement; whereas the bulk of the contributions will be made from the smaller salary of earlier years, but bearing no necessary relation to the salary on which benefits are based. Notwithstanding what I have said, I think this system of benefits and contributions may be defended in the case of a uniform service, such as a bank, where it may be reasonably asserted that the employees start the race of