

**REPORT OF**

**THE EXPERT COMMITTEE**

**ON**

**EMPLOYEES' PENSION SCHEME, 1995**

The Central Government vide Order No. R-15025 /3/2007/SS.II dated 12.06.2009 appointed Expert Committee on Employees' Pension Scheme, 1995 to look into the Employees' Pension Scheme 1995 and to give expert views.

Sh. S. K. Srivastava Additional Secretary Ministry of Labour & Employment	Chairman
Joint Secretary(Social Security) Ministry of Labour & Employment	Member
Dr. K.C. Mishra Director National Insurance Academy, Pune	Member
Sh. Nalin Thakor President, Social Security Research Centre, Ahmedabad	Member
Sh. S.P. Subhedar Fellow of Institute of Actuaries of India, AIA(UK), Retd. M.D. of LIC of India	Member
Sh. Bhudev Chatterjee Actuary	Member
Sh. Nirmal Ghosh Organising Secretary Indian National Trade Union Congress	Member
Dr. R. Kannan Actuary Insurance Regulatory Development Authority	Member
Sh. J.P. Chowdhary Chairman & Managing Director (CIE)	Member
Central Provident Fund Commissioner Employees' Provident Fund Organisation	Member
Sh. Rajesh Bansal Addl. Central Provident Fund Commissioner (Pension) Employees' Provident Fund Organisation	Member Secretary

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# CHAPTER 1

## CONSTITUTION OF THE EXPERT COMMITTEE ON EMPLOYEES' PENSION SCHEME, 1995

1.1 In March 2008, the Government of India constituted a committee for comprehensive review of Employees' Pension Scheme 1995, giving it the mandate to look into all possible ways and means to meet the demands of the members/beneficiaries while ensuring the long term viability of the Scheme. Subsequent to the recommendations of this committee, the Government of India constituted an Expert Committee on Employees' Pension Scheme'1995 on 12.06.2009, under the Chairmanship of Shri S. Krishnan, the then Special Secretary, Ministry of Labour & Employment, Government of India.

1.2 Subsequent to the transfer of Shri S. Krishnan, the Ministry appointed Shri S.K. Srivastava, Additional Secretary, Ministry of Labour & Employment, as the Chairman of the Committee with effect from 26.11.2009. The constitution of this Committee is given on the cover page of the Report. The Committee held three meetings – on 01.12.2009, on 02.02.2010 and on 23.07.2010. The minutes of these meetings are at **Appendix-1, Appendix-2 and Appendix-3** respectively. In between these meetings, the discussion among the members continued through e-mails.

## CHAPTER 2

### **BACKGROUND OF EMPLOYEES' PENSION SCHEME 1995**

2.1 The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 provided social security benefits to the employees through Employees' Provident Fund Scheme, 1952 by creating a Provident Fund to which both the employers and the employees contribute a percentage of the wages of the employees in equal share. However, this scheme was not found adequate to meet the social security needs of the employees and there was demand for the introduction of a Pension Scheme. Accordingly on 1<sup>st</sup> March, 1971 a Scheme to provide pension to the family of the employee who died in service was introduced called the Family Pension Scheme, 1971. The important provisions of Family Pension Scheme, 1971 were as follows:

#### **2.2 BENEFITS UNDER THE PROVISIONS OF FAMILY PENSION SCHEME, 1971, THE FOLLOWING BENEFITS WERE PROVIDED TO THE MEMBERS AND THEIR FAMILIES.**

- 1 Life-long pension to spouse upon death of the member while in service.
- 2 Pension to one child (eldest) up to age 25 (or marriage, if earlier, in case of female child) upon death/re-marriage of the spouse pensioner.
- 3 Life Assurance benefit of Rs 5000/- to the widow/widower/nominee upon death of the member, provided that the contributions to the Pension Fund were received for a period of at least 3 months.
- 4 Return of employee share of contribution (with interest) to the family upon death of the member before putting in 3 months of service.
- 5 Return of employee share of contribution (with interest) to the member upon cessation of membership before putting in 1 year of service.
- 6 Retirement-cum-Withdrawal benefit to the member upon cessation of membership after putting in at least 1 year of service.

2.3 The benefits under the Family Pension Scheme were reviewed periodically and by 1995 minimum monthly pension was Rs 250/- for the lowest salary slab (up to Rs 300/-) and the maximum was Rs 1050/- for the highest salary slab (exceeding Rs 2500/-).

2.4 Quantum of Retirement-cum-Withdrawal benefit was as per the rates in the table provided in the Schedule of Employees' Family Pension Scheme 1971, which provided for a minimum of 0.2 times the wage at cessation for 1 year of contributory service and a maximum of 12.08 times the wage at cessation for 40 years of contributory service.

## **2.5 FUNDING:**

2.5.1 The Scheme was funded by contributions made from three sources viz the employee, the employer and the Central Government.

2.5.2 Each contributed 1.16% of the wage of employee every month. Thus, a total of 3.48% of the member's wage was contributed every month towards the Family Pension Fund.

2.5.3 The Employee's and the Employer's contributions came by way of diversion from PF contribution. In other words, out of the contributions made by the Employee and the Employer towards the PF account of the member 1.16% of wages was diverted to the Family Pension Fund. The Central Government's contribution i.e. 1.16% came directly to and solely for the Family Pension Fund. The Central Government in addition met the entire cost of administration of the Family Pension Scheme.

2.5.4 However, the wage upon which 1.16% was to be calculated was restricted due to a statutory limit on wages on which contributions could be made. The wage limit was revised from time and the details are in **Appendix-4**.

## **2.6 TRANSITION TO A NEW SCHEME:**

2.6.1 Soon after its launch in 1971, demands were raised that the old age security benefit should also be provided to the member. In other words, pension to the member upon retirement/superannuation, and in case of contingencies like disability was being demanded. The Government acceded to these demands by notifying a new Scheme with effect from 16.11.1995, called the Employees' Pension Scheme, 1995 replacing the erstwhile Family Pension Scheme, 1971 and the net assets of the Family Pension Scheme 1971 were transferred to Employees' Pension Fund.

## CHAPTER 3

### FEATURES OF THE EMPLOYEES' PENSION SCHEME 1995

3.1 Employees' Pension Scheme, 1995 not only provides improved benefits to the families; it also provides pension and other benefits to the member.

3.2 This scheme provides comprehensive benefits for members and within the constraints of a funded scheme is providing for various contingencies.

#### 3.3 **BENEFITS UNDER THE PROVISIONS OF EMPLOYEES' PENSION SCHEME, 1995, TO THE MEMBERS AND THEIR FAMILIES.**

- i. Member Pension upon retirement /superannuation.
- ii. Member Pension upon disablement while in service.
- iii. Withdrawal Benefit upon leaving service after putting in less than 10 years but more than six months of service.
- iv. Spouse Pension upon death of member.
- v. Spouse Pension upon death of member as pensioner.
- vi. Children Pension along with spouse pension (up to age 25).
- vii. Orphan Pension upon death or remarriage of spouse (up to age 25).
- viii. Disabled Child Pension to children/orphan (life-long).
- ix. Nominee Pension to the Nominee when no family exists.
- x. Dependent Parent Pension when no family and nominee exists.

#### 3.4 **BASIS FOR CALCULATION OF PENSION**

3.4.1 The Pension to the member for service after 15.11.1995 is calculated by a simple formula:-

Pensionable Salary x Pensionable Service

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where,

Pensionable Salary = average salary on which contributions received/ receivable during the last 12 months of service.

Pensionable Service = period of service during which contributions are received or receivable

3.4.2 For service under Family Pension Scheme, 1971 i.e. prior to 16.11.95, past service benefit is given which is added to the pension calculated as above to arrive at the total pension.

### 3.5 **FUNDING:**

3.5.1 The Scheme is funded by contributions made from two sources viz. the employer and the Central Government.

**3.5.2 The Government's contribution continued to be 1.16% of the member's monthly wage, Employees' contribution of 1.16% made in Family Pension Scheme, 1971 was discontinued in Employees Pension Scheme, 1995 and, the Employer's contribution was increased from 1.16% in Family Pension Scheme 1971 to 8.33% in Employees' Pension Scheme, 1995.** Thus, a total of 9.49% of the member's wage was contributed every month towards the Employees' Pension Fund.

3.5.3 In this Scheme also, the wage upon which 8.33% and 1.16% are to be calculated were restricted due to a statutory limit on wages on which contributions could be made. The wage limit was revised from time to time as per details in **Appendix-4**.

### 3.6 **IMPROVEMENT OVER FAMILY PENSION SCHEME'1971:**

3.6.1 Several new benefits were provided to the members under Employees' Pension Scheme, 1995. These are as follows:

1. Member Pension upon retirement/superannuation.
2. Member Pension upon disablement while in service.
3. Spouse Pension upon death of member as pensioner.
4. Children Pension along with spouse pension.
5. Orphan Pension upon death / remarriage of spouse (up to age 25).
6. Disabled Child Pension to children/orphan (life-long).
7. Nominee Pension to the Nominee when no family exists.
8. Dependent Parent Pension when no family and nominee exists.

## CHAPTER 4

### PERFORMANCE OF THE EMPLOYEES' PENSION SCHEME 1995

4.1 The Employees' Pension Scheme, 1995 was framed with the objective of providing regular old age income under the following assumptions:

- 1 The Pension Fund shall have adequate interest earnings so as to ensure reasonable pension and other benefits to the members and their families.
- 2 Members would continue with their membership and continue to contribute to the scheme so as to avail most of the retirement/ superannuation benefits in the form of regular income rather than availing premature benefits.
- 3 The statutory wage limit would only be increased with prior actuarial analysis since it was a defined benefit Scheme and the wage limit may increase the deficit in the EPS, 95. Similarly, any change in the benefits provided under the Scheme would only be made after making a proper actuarial analysis. under para-32 of Employees' Pension Scheme,1995 following the annual actuarial valuation, so as to keep the scheme viable.

4.2 However, the actual experience with the Scheme has been as follows:

- 1 The interest rate regime has fallen consistently from around 12% pa in 1996 to less than 8% pa in 2006. Interest Earnings Analysis as per the data in Valuation Reports is shown in **Appendix-5**. This has had an adverse impact on the earnings and consequently the monthly pension amounts. This has also resulted in high actuarial deficits basically because of the wide spread of benefits.
- 2 Members do not continue for long in the Scheme and like to withdraw their money whenever they are changing jobs before putting in ten years of service. There has been an unusually high incidence of early withdrawal payments. Similarly, the number of early pension optees is far more than those opting for superannuation pension. Analysis of Outgoing Payments is shown in **Appendix-6**. From the same it is seen that the premature withdrawals are as high as 34.4% of the payments.

- 3 The statutory wage limit was increased in 2001 from Rs 5000 to Rs 6500 without being backed up by an actuarial advice. This injected an instant actuarial deficit to the tune of Rs 10,000 crore in the EPS'95 Fund as no provision was made to obtain the contributions on the enhanced salary for the earlier period of service already put in on which the benefits would eventually be paid at the time of superannuation. This can be explained with the help of an illustration as follows:

**Illustration:** Suppose a member, drawing a basic wage of Rs 6500 per month in 1996, was contributing to Pension Fund @ Rs 5000 per month due to the statutory wage ceiling of Rs 5000 at that time.

In 2001, the wage ceiling was increased to Rs 6500 and the member starts contributing to Pension Fund @ Rs 6500 per month. At the time of superannuation, he becomes entitled for pension with pensionable salary of Rs 6500 and the resultant calculations thereto. Thus, whereas he contributed @ Rs 5000 for a certain period of pensionable service, he became entitled for pension at a pensionable salary of Rs 6500. This anomaly needs to be accounted for by breaking the benefit in two parts – one for the period when the pensionable salary was Rs 5000 and the other when it was Rs 6500 and the same should have been factored in.

Salary rise is normal in the career life span of an individual and the same is also taken into account during actuarial calculations. However, before effecting an amendment in wage ceiling, it should be backed by infusion of additional funds by way of additional contributions or modification in benefits calculation as may be actuarially found feasible.

- 4 The provision of voluntary contribution beyond the statutory wage ceiling with the mutual consent of the employee and the employer was introduced in 1996 without compensating for Government contribution which remains fixed at 1.16% upto wage ceiling only. This is also a cause of increasing deficit whenever such option is granted/exercised. This has also introduced an about marginal element of cross-subsidization from lower income to higher income group.

- 5 Several amendments liberalising the benefits under EPS'95 were made after the launch of the Scheme in 1995. Dependent Parent Pension was introduced in March'1999; Pension to disabled children/orphans for life was introduced in March'1999; The rates of minimum pension in respect of widow / children/ orphan pension were increased in January'2000.
- 6 Each Annual Valuation Report had called for immediate corrective steps such as:
  - i Improvement in quantity and quality of data
  - ii Increase in contributions to match the decreasing rate of returns
  - iii Disincentive for early withdrawal
  - iv Alteration in the scale of several benefits

However, necessary steps were not initiated to implement the above modifications. Some measures to check the large deficit were taken at a late stage in the year 2008.

- 7 The Pension Fund was in actuarial surplus during the first four years, ie from 1996-2000. Hence, reliefs were declared to the eligible pensioners as follows:

<b>Valuation Number</b>	<b>Date of Valuation</b>	<b>Recommended rate of relief on original pension</b>
1st Actuarial Valuation	15/11/1996	4%
2 <sup>nd</sup> Actuarial Valuation	31/03/1998	5.5%
3 <sup>rd</sup> Actuarial Valuation	31/03/1999	4%
4 <sup>th</sup> Actuarial Valuation	31/03/2000	4%

Thus, a pensioner of 1996, continuing in 2000, got an increase of 17.5% on his/her original pension.

After 2000, the Pension Fund came in actuarial deficit because of which no further relief could be announced by the Government.

### 4.3 CAUSES OF ACTUARIAL DEFICIT

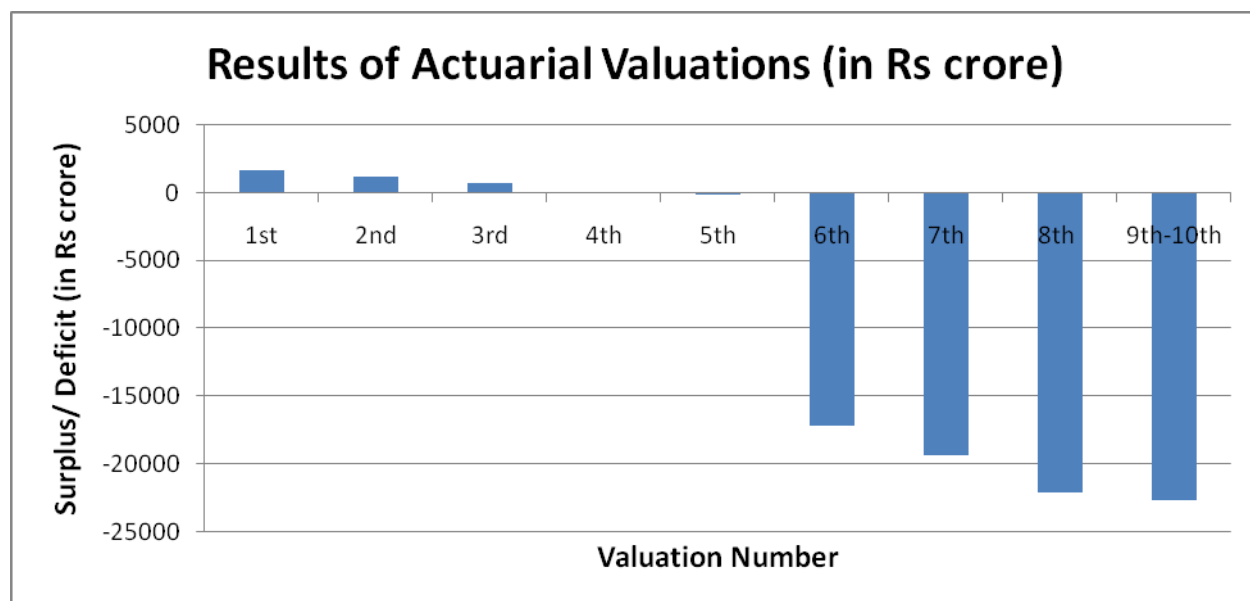
4.3.1 The following can be broadly categorized as the causes of actuarial deficit:

1. Mismatch in expected rate of investment return.
2. Mismatch in expected pattern of exit from the Scheme.
3. Amendments in the Scheme without being backed up by actuarial advice.
4. Delay in taking remedial action.

4.4 In view of the above factors, the Employees Pension Scheme, 1995 Fund came into actuarial deficit in the year 2000-01 and the deficit since then has continuously increased as shown below in the tabular as well as graphical form:

<b>Valuation</b>	<b>Period of Valuation</b>	<b>Surplus/ Deficit (in Rs Cr)</b>
1 <sup>st</sup>	16.11.1995 to 15.11.1996	+1689
2 <sup>nd</sup>	16.11.1996 to 31.03.1998	+1239
3 <sup>rd</sup>	01.04.1998 to 31.03.1999	+732
4 <sup>th</sup>	01.04.1999 to 31.03.2000	+70
5 <sup>th</sup>	01.04.2000 to 31.03.2001	- 43
6 <sup>th</sup>	01.04.2001 to 31.03.2002	-17,136
7 <sup>th</sup>	01.04.2002 to 31.03.2003	-19,291
8 <sup>th</sup>	01.04.2003 to 31.03.2004	-22,021
9 <sup>th</sup> -10 <sup>th</sup> (combined)	01.04.2004 to 31.03.2006	-22,659

The graphical depiction of the above table is as follows:



4.5 In order to address the above causes of deficit, the major recommendations of the Actuarial Valuation Reports are as follows:

1. Increase in the rate of contribution from 8.33% to 11.75%.
2. Need to take requisite measures in case of future increase in wage ceiling.
3. Increase the age of vesting from 58 to 60 years.
4. Revision of Table 'B' & 'D' (withdrawal benefit).
5. Increase in the reduction rate from 3% to 5% in early pension cases.
6. Discontinuing the option of Commutation.
7. Discontinuing the option of Return of Capital
8. Liberalising the pattern of Investment with a view to achieve higher returns.

4.6 Of these recommendations, those at S.No. 4 to 7 have already been implemented with certain modifications. As a result, the deficit in the last Valuation (9<sup>th</sup> & 10<sup>th</sup>) has remained at almost the same level as that of 8<sup>th</sup> Valuation. Here, still the cause of concern is that the deficit has only been arrested but has not declined. The recommendations at S.No. 1 to 3 have been considered in this Report. As regards the recommendation at S.No.8, the issue is a continuing process and the matter needs to be addressed by the Central Board of Trustees.

## CHAPTER 5

### CHALLENGES THROWN BY THE EXPERIENCE OF EMPLOYEES' PENSION SCHEME, 1995

5.1 At present the three basic challenges for Employees' Pension Scheme, 1995 are as follows:

- 1 Static pension, i.e. pension not linked to inflation.
- 2 Statutory ceiling of Rs. 6500/- per month on contributory wage.
- 3 The continuing actuarial deficit given the present set of benefits.

5.2 The amounts of benefit envisaged at the time of introduction of Employees' Pension Scheme, 1995 have decreased in real terms with each passing year due to the effects of inflation. Non-indexation of these benefits to inflation has resulted in decrease in real pension. Moreover, the wage ceiling on wage of Rs. 6500/- per month upon which the contributions can be made are not in tune with rising wage levels. Hence, the quantum of pension benefit being received by the pensioners is becoming increasingly insufficient to cater to the daily needs of the pensioners. On the other hand, given the existing rate of contribution and the benefits defined in the scheme, the actuarial deficit is continuously increasing with every successive valuation.

5.3 In addition to the major challenges stated above, there are number of demands from the members and pensioners directly related to Employees' Pension Scheme, 1995 as well as other peripheral demands. The Parliamentary Standing Committee on Labour on the EPFO – Employees' Pension Scheme, 1995 has also given recommendations on such demands. These demands/recommendations are listed as below:

- i. Provision for minimum pension.
- ii. Restoration of provisions of Commutation and Return of Capital.
- iii. Declaration of pension relief regularly as was done after the first four valuations
- iv. Increase in rate of contribution of employer and Govt. towards EPS'95
- v. Grant of Pension before attaining the age of 50 years
- vi. DA to pensioners linked with price index

- vii. Increase in wage ceiling.
- viii. Raising the superannuation age from 58 to 60 years
- ix. Pension at par with Central Government.
- x. Other miscellaneous demands such as providing membership option to those retiring before 01.04.1993; granting a lump-sum upon death of the pensioner; providing unused agricultural land free to pensioners, not owning houses, by the Central/State Government, free medical assistance to EPF Pensioners etc..

5.4 The Committee, during the course of its discussions in the meetings, has carefully considered all these issues and their effect on the Employees' Pension Fund especially in view of the actuarial inputs provided by the Actuary and have made its recommendations accordingly.

## CHAPTER 6

### WORKING OF THE EXPERT COMMITTEE

6.1 The Expert Committee on Employees' Pension Scheme, 1995 held three meetings. The first on the 1<sup>st</sup> December 2009, the second on the 2<sup>nd</sup> February 2010 and the third on the 23<sup>rd</sup> July 2010.

6.2 Initially, the Committee examined the status of the Employees' Pension Scheme, 1995 keeping in view the Fund position and deliberated on various suggestions and recommendations received so as to arrive at viable and feasible alternative solutions by modifying the provisions of the existing Scheme. In the second meeting, the Committee approved many proposed amendments in Employees' Pension Scheme, 1995. The proposal that the member should be given the option to authorize the employer to divert 1.16% extra from employer's contribution so that the total contribution remains 9.49% in case of voluntary contribution over the wage ceiling was approved by the Committee. Proposals to increase the pensionable age from 58 to 60 years, to disallow the option of early pension, to discontinue the provisions of Nominee Pension outside family, to raise the early pension vesting age from 50 to 55 years, merger of Employees' Deposit Linked Insurance Scheme, 1976 in Employees' Pension Scheme, 1995, to conduct valuation of the Pension Fund once in three years instead of every year and to pay interest to the member for delayed payment of pension were also approved by the Committee. The Committee also approved that the expected financial impact of these proposals shall be obtained from the Actuary before arriving at the final recommendations.

6.3 The Committee noted that other proposals relating to hike in wage ceiling, increase in minimum pension, increasing the rate of contribution under the Employees' Pension Scheme, 1995 and possibility of providing for an annual hike need to be actuarially evaluated to know the expected financial impact thereof.

6.4 The discussions between the members of the expert Committee continued via e-mail. Meanwhile, the Committee was also provided with the Actuarial impact of the various proposals approved/ considered by the Actuary M/s K.A. Pandit. As the Committee discussed the various pros and cons of the demands, suggestions and

expectations of various stakeholders it became increasingly clear that though the scheme can be made sustainable by rationalizing the existing benefits and/or scale of benefits, it may not be possible to rationalize the benefits once for all and therefore in future, there may again be a need for further amendments/modifications. The committee also noted that the higher benefits being demanded can not be given without increasing the rate of contribution and even with the increase in contribution, the benefits can not be sustained on a firm basis.

6.5 The financial impact of the various alternatives made it clear that increase in minimum pension is feasible only for future pensioners as increasing the pension of the existing pensioners enhances the financial burden manifold. The committee also found from the actuarial inputs that the increase in wage ceiling was possible only if pension is calculated separately for pensionable service and salary prior to increase in wage ceiling and post increase in wage ceiling.

6.6 The in-depth analysis of the actuarial inputs led the Committee to examine that along with arriving at feasible amendments in the existing Employees' Pension Scheme, 1995, the Committee must also attempt to find a totally new alternative solution to the existing Scheme because even though the Pension Fund is running into actuarial deficit as the benefits under the scheme are more than what the fund can sustain, still the beneficiaries are not satisfied with these benefits and have been demanding increase in benefits. These discussions led to the conceptualization of a new alternative i.e. replacement of the Employees' Pension Scheme, 1995 with a Provident Fund-cum-Pension Annuity Scheme. The committee noted that having a Defined Contribution Scheme with an element of insurance would lead to more equity and transparency in benefit accumulation and distribution.

6.7 In the final meeting of the Committee, the draft report was discussed in detail and after deliberations it was decided that two final recommendations might be made. The Committee felt that the best solution should be to replace the existing Employees' Pension Scheme, 1995 with the proposed Provident Fund-cum-Pension Annuity Scheme. However, it was agreed that in case the Central Board of Trustees does not favour the said recommendations as an alternative, a benefit package modifying the existing Employees' Pension Scheme, 1995 by increasing the rate of contribution and without changing the

basic structure of the Scheme, should also be recommended. It was also agreed that the Committee would also point out the need for collecting adequate number of data so that the sample for any valuation of the Employees' Pension Fund be adequate. It was also decided that if the existing Employees' Pension Scheme, 1995 is continued the actuarial valuation of the Employees' Pension Fund may be conducted after every three years and immediate remedial measures be initiated.

## CHAPTER 7

### THE POSSIBLE ALTERNATIVE SCENARIOS:EXISTING SCHEME

7.1 During discussions as already pointed out in previous Chapter, the Expert Committee decided to assess the actuarial impact of several possible amendments in Employees' Pension Scheme, 1995 **to have a clear and definite implication of the various suggestions being considered by the Committee and to make informed recommendations on a sound analytical basis.** The task of carrying out the actuarial effect of the suggestions under consideration was given to the M/s. K.A. Pandit Consultants & Actuaries. The Actuary submitted his report on 08.07.2010, based on the prevailing range of discount factors of 8% and 7.5%. The summary of the detailed suggestions along with actuarial impact is placed at **Appendix 7** with an average interest rate of 8% and at **Appendix 8** with an average interest rate of 7.5%.

7.2 The wage ceiling limit presently is Rs 6500 per month. However, considering the present wage trends and also the fact that wage ceiling was last revised w.e.f 01.06.2001, the Committee was of the clear and firm opinion that in any recommendation, the wage ceiling needs to be revised upwards. Hence, the Committee taking note of the fact that ESIC has recently adopted a wage ceiling of Rs 15,000/-, it decided to analyze the various scenarios keeping the statutory wage ceiling in two alternatives i.e. Rs. 10,000 and Rs 15,000 per month. In order that there is a wider scope for decision making on the basis of the Actuarial analysis, six scenarios have been worked out for a wage ceiling of Rs 10,000 and Rs. 15,000 per month. It was noted by the Committee that any such enhancement in wage ceiling limit shall have to be done prospectively and the ultimate benefit shall be paid in two parts – one accruing due to contributions made prior to wage ceiling enhancement and the other accruing due to contributions after such enhancement. Such an approach is necessary to ensure the long term sustainability of the Scheme.

7.3 It is seen that the only way the Scheme can provide for increased wage ceiling and other benefits as analyzed in the scenarios is through increased contribution rates. The Committee during discussions in the first meeting came to the conclusion that increased

contribution rates may range from 11.49% to 18.33% which can be provided for as follows:

Employer	Government	Employee	Total
10.33	1.16	0	<b>11.49</b>
10.33	2.5	0	<b>12.83</b>
10.33	2.5	2	<b>14.83</b>
12.00	2	2	<b>16.00</b>
12.00	4	2	<b>18.00</b>

*However, subsequently in the third meeting, another set of contribution rate was worked out as explained in Scenario 6. For the first five scenarios, the analysis has therefore been worked out on the basis of the above table. The exact rates that have been found feasible based on facts and actuarial inputs are mentioned in the following pages under each scenario and options considered and recommended by the Committee.*

7.4 On the basis of analysis of the projections provided by the Actuary and discussions held by the Committee, the following six different scenarios with wage ceiling of Rs 15,000/- pm and for wage ceiling of Rs 10,000/- pm; with a discounted rate of 8% have been considered for recommendations:-

**Scenario 1: Sustaining the Scheme by continuing with the present rate of contribution, i.e. 9.49%, through rationalization of present benefits.**

Option 1: for Wage ceiling of Rs 15,000/- pm

Option 2: for Wage ceiling of Rs 10,000/- pm.

**Scenario 2: Sustaining the Scheme by continuing with the present benefits, but with increased rate of contribution.**

Option 1: for Wage ceiling of Rs 15,000/- pm

Option 2: for Wage ceiling of Rs 10,000/- pm.

**Scenario 3: Sustaining the Scheme by restoring benefits withdrawn under three amendments of 2008, by increasing the rate of contribution.**

Option 1: for Wage ceiling of Rs 15,000/- pm

Option 2: for Wage ceiling of Rs 10,000/- pm.

**Scenario 4: Sustaining the Scheme by providing for minimum pension Rs. 1000 for future pensioners.**

Option 1: for Wage ceiling of Rs 15,000/- pm

Option 2: for Wage ceiling of Rs 10,000/- pm.

**Scenario 5: Sustaining the Scheme by providing for minimum hike of 3% p.a.**

Option 1: for Wage ceiling of Rs 15,000/- pm

Option 2: for Wage ceiling of Rs 10,000/- pm.

**Scenario 6: The scenario worked out in the 3<sup>rd</sup> and final meeting of the Expert Committee on the basis of wage ceiling of Rs. 10,000/-.**

**Detailed analysis of the Six scenarios:** These scenarios are discussed in detail in the following pages.

It may be noted that the scenarios have been worked out based upon a small sample of members. The relevant extracts from the Actuary's Report is given below:

“The total membership of the EPS, 95 Scheme as on the valuation date is **44,547,765**. On a thorough scrutiny, the information about **2,439,558** members was found consistent and complete. Based on this sample, after a careful study of the exits on various counts from the Employees' Pension Scheme, 1995 and Employees' Provident Fund Schemes, a projection was made to arrive at the estimate of information of all members in respect of age, salary and duration since entry. The valuation was made on the basis of this projection.”

“.....on a careful analysis of this data a projection was made about the likely distribution of the total membership of the Scheme age wise along with duration since entry and salary.....” .

For a scheme covering establishment having diverse employees age profile, diverse salary structure and diverse duration of service, any projection of the total population on the basis of 5.48% data and that to not a representative sample data, would have its own limitation and need recognition in decision-making.

It is agreed that in a Pension Scheme covering 44,547,765 members, data maintenance is a huge task and there would always be some deficiencies in the data. However, these deficiencies are of enormous proportions in the case of Employees' Pension Scheme, 1995 and the authorities need to address this issue on priority basis if the scheme is to be continued in its present form of defined benefits or else there will always be a lurking uncertainty about its long term sustainability.

## SCENARIO 1

### TO SUSTAIN THE SCHEME WITH THE PRESENT RATE OF CONTRIBUTION

#### Option 1: with Wage ceiling of Rs 15,000

- 1 In order to retain the total contribution at the present rate of 9.49% and to wipe out the actuarial deficit of Rs 69,834 cr (as on 31.03.2009) as indicated at page 70 at Appendix-7, the following five modifications in Employees' Pension Scheme, 1995 will have to be effected:
- 1) Pensionable Salary should be the average of last 3 years instead of 1 year as at present
  - 2) Withdrawal Option, i.e. exit from the Scheme by taking a lump-sum before rendering 10 years of service should be deleted.
  - 3) Bonus of 2 yrs upon 20 years of service (at superannuation) should be discontinued..
  - 4) Superannuation age should be from 58 to 60 years.
  - 5) Early Pension before age 55 years should not be allowed.
- 2 Based on the projections provided by the Actuary, the Committee has been able to find that with the above modifications, it would also be possible to provide a Minimum Pension of Rs 1000/- per month to all types of future pensioners, as may be seen in the Table below:

All figures are in Rs crore

Base Deficit	-69,834
Saving due to Pensionable Salary of 3 years	8,774
Saving due to deletion of Withdrawal Option	6,776
Saving by disallowing bonus of 2 years	20,178
Saving due to raising of age of Superannuation to 60 years	27,076
Saving due to raising the age for Early Pension	12,028
Addition Burden for providing Minimum Pension of 1000/-	-3012 (14042)*
Net Surplus	1,986 (-9044)*

\* The Committee also finds that if the benefit of minimum pension is to be extended to the existing pensioners, the surplus of Rs. 1986 crore shown in the above table would turn into deficit of Rs. 9044 crores because the additional burden for providing minimum pension of Rs. 1000/- would be of the order of Rs. 14042 crores in lieu of Rs. 3012 crores.

**Option 2: with Wage ceiling of Rs 10,000**

In order to retain the present contribution rate of 9.49% and to wipe out the actuarial deficit of Rs 27,040 crore (as on 31.03.2009) at Appendix - 7, the following two modifications in Employees' Pension Scheme, 1995 will have to be effected:

1. Withdrawal Option, i.e. exit from the Scheme before rendering 10 years of service should be deleted.
2. Superannuation age should be raised from 58 to 60 years.

This would leave the fund with a surplus of Rs 2,770 crore, as per the projections provided by the Actuary. The detailed calculations are shown in the Table below:

(All figures are in Rs crore)

Base Deficit	-27,040
Saving due to deletion of Withdrawal Option	6,447
Saving due to raising of age of Superannuation to 60 years	23,363
Net Surplus	2,770

It is seen that the net surplus is just marginal.

## SCENARIO 2

### TO SUSTAIN THE SCHEME WITHOUT ALTERING THE CURRENT BENEFITS

#### **Option 1: with Wage ceiling of Rs 15,000**

In order to continue with the present structure of benefits, the Total Contribution to EPS Fund would have to be raised to 11.75% (i.e. 2.26% extra). *It would leave the Fund with an estimated actuarial surplus of Rs 1,782 crore. This has been worked out on the basis of projections provided by the Actuary, as shown in the Table below:*

(All figures are in Rs crore)

Base Deficit	-69,834
Funds generated by raising the contribution to 11.75% (i.e., due to 2.26% extra contribution)	71,616
Net Surplus	1,782

The break up of the contribution rate of 11.75% be as follows:

Employer	= 10.59 %
Government	= 1.16% (Existing)
Employee	= 0%

#### **Option 2: with Wage ceiling of Rs 10,000**

In order to continue with the present structure of benefits, the total contribution to EPS Fund would have to be raised to 10.49% (i.e. 1% extra). It would still leave the Fund with an estimated actuarial surplus of Rs 620 crore, *This has been worked out on the basis of the projections provided by the Actuary, as shown in the Table below:*

(All figures are in Rs crore)

Base Deficit	-27,040
Funds generated by raising the contribution to 10.49% (i.e., due to 1% extra contribution)	27,660
Net Surplus	620

The break up 10.49% contribution rate be as follows:

Employer	= 9.33 %
Government	= 1.16% (Existing)
Employee	= 0%

## SCENARIO 3

### TO SUSTAIN THE SCHEME IF THE BENEFITS WITHDRAWN UNDER THE AMENDMENTS OF 2008 ARE TO BE RESTORED

#### Option 1: with Wage ceiling of Rs 15,000

The Government of India, vide its Notification No. 688(E) dated 26.09.2008 had made the following amendments in Employees' Pension Scheme, 1995 with a view to reduce the continuing large deficit in the Scheme:

- 1 The factor of reduction for Early Pension was increased from 3% to 4%.
- 2 Option for Return of Capital was removed.
- 3 Option for Commutation was removed.

In order to restore the benefits withdrawn under the above amendments and retain the present benefits, the Total Contribution to EPS Fund would need to be raised to 17%. It would leave the Fund with an estimated actuarial surplus of Rs 2,228 crore. *This has been worked out on the basis of the projections provided by the Actuary, as shown in the Table below:*

(All figures are in Rs crore)

Base Deficit	-69,834
Corpus generation by raising the contribution to 17% (i.e. due to 7.51% extra contribution)	2,37,981
Cost of restoring the Reduction Factor & Option of Commutation	-17,399
Cost of restoring the Option of Return of Capital	-1,48,520
Net Surplus	2,228

The breakup of 17.00% contribution rate can be as follows:

Employer	= 12 %
Government	= 2.5%
Employee	= 2.5%

### **Option 2: with Wage ceiling of Rs 10,000**

For retention of the present benefits along with the restoration of the benefits withdrawn under above three amendments, the Total Contribution to EPS Fund would need to be raised to 14.83%. This rate of contribution would also enable the Fund to provide a Minimum Pension of Rs 1000/- pm to all types of future pensioners. *This has been worked out on the basis of the projections provided by the Actuary as shown in the Table below:*

(All figures are in Rs crore)

Base Deficit	-27,040
Corpus generation by raising the contribution to 14.83% (i.e. due to 5.34% extra contribution)	1,47,707
Cost of restoring the Reduction Factor & Option of Commutation	-14,033
Cost of restoring the Option of Return of Capital	-99,223
Cost of providing the Minimum Pension of Rs 1000/- pm	-3,012
Net Surplus	4,399

The break up of the contribution rate of 14.83% is provided in the table at para 7.3.

## SCENARIO 4

### TO SUSTAIN THE SCHEME IF THE PROVISION OF MINIMUM PENSION OF RS. 1000 IS MADE FOR FUTURE PENSIONERS

#### Option 1: with Wage ceiling of Rs 15,000

**For providing minimum pension of Rs 1000/- per month to all types of future pensioners :** Presently, the Widow, Children & Orphan pensioners are entitled to a minimum pension of Rs 450 Rs 250 and Rs 150 pm respectively. In order to raise all these minimum pensions to Rs 1000/- p.m.

The total contribution would have to be raised to 12%. This leaves a marginal surplus of Rs 6692 crore. *This has been worked out on the basis of the projections provided by the Actuary, as shown in the Table below:*(All figures are in Rs crore)

Base Deficit	-69,834
Corpus generated by raising the contribution to 12% (i.e. due to 2.51% extra contribution)	79,538
Cost of providing the Minimum Pension	-3,012
Net Surplus	<b>6,692</b>

The breakup of the contribution rate of 12% be as follows:

Employer	= 10.84 %
Government	= 1.16% (Existing)
Employee	= 0%

**Option 2: with Wage ceiling of Rs 10,000**

The total rate of contribution with a wage limit of Rs. 10,000 would need to be increased to 10.75%. This leaves a marginal surplus of Rs 4800 crore. *This has been worked out on the basis of the projections provided by the Actuary, as shown in the Table below:*

(All figures are in Rs crore)

Base Deficit	-27,040
Corpus generated by raising the contribution to 10.75% (i.e. due to 1.26% extra contribution)	34,852
Cost of providing the Minimum Pension	-3,012
Net Surplus	4,800

The break up of the contribution rate of 10.75% be as follows:

Employer	= 9.59 %
Government	= 1.16% (Existing)
Employee	= 0%

## SCENARIO 5

### SUSTAINING THE SCHEME BY PROVIDING FOR MINIMUM HIKE OF 3% P.A.

#### Option 1: with Wage ceiling of Rs 15,000

**For providing a pension hike of 3% per annum (compounded) to all types of future pensioners:** The Committee considered the demand of increasing the pension each year on the basis of cost of price index and found that instead of providing an index-based increase every year, an annual hike of 3% would be more practical as per the following details:

In this case, it would be possible to provide both the above benefit if, along with the five amendments specified in Scenario 1, the total rate of contribution is increased to 16.75%. This has been worked out on the basis of the projections provided by the Actuary, as shown in the Table below:

(All figures are in Rs crore)

Base Deficit	-69,834
Corpus generated by raising the contribution to 16.75% (i.e. due to 7.26% extra contribution)	2,30,059
Saving due to Pensionable Salary of 3 years	8,774
Saving due to deletion of Withdrawal Option	6,776
Saving by disallowing bonus of 2 years	20,178
Saving due to raising of age of Superannuation from 58 to 60 years	27,076
Saving due to raising the age for Early Pension	12,028
Cost of providing 3% annual hike	-2,27,616
Cost of providing Minimum Pension of 1000/-	-3,012
Net Surplus	4,429

The break up of the contribution rate of 16.75% be as follows:

Employer	= 12 %
Government	= 2.5%
Employee	= 2.25%

### **Option 2: with Wage ceiling of Rs 10,000**

In this case i.e. with wage ceiling of Rs. 10,000, only the total rate of contribution will need to be maintained at 16.75% and the five amendments specified in Scenario 1 can be avoided. *This has been worked out on the basis of the projections provided by the Actuary, as shown in the Table below:*

(All figures are in Rs crore)

Base Deficit	-27,040
Corpus generated by raising the contribution to 16.75% (i.e. due to 17.26% extra contribution)	2,00,815
Cost of providing 3% annual hike	-1,73,688
Net Surplus	87

## SCENARIO 6

### THE SCENARIO WORKED OUT IN THE 3<sup>RD</sup> MEETING OF THE EXPERT COMMITTEE ON THE BASIS OF WAGE CEILING OF RS. 10,000/-.

This scenario contemplates a package of benefits as follows :

- increase in wage ceiling from Rs. 6500/- to Rs 10,000/- .
- provision of annual relief of 3% ; and
- a minimum Pension of Rs. 1000/- to all categories of pensioners.

Providing these higher package of benefits necessitates increase in rate of contribution which may go upto 18-20%. As this much higher contribution rate is not feasible, the following six modifications would also need to be implemented.

- Pensionable Salary to be calculated as an average of last 3 years of service.
- Withdrawal option to be deleted
- Bonus of 2 years to be disallowed
- The age of superannuation to be raised from 58 to 60 years; and
- The age for early pension to be raised from 50 to 55 years
- Nominee Pension to be disallowed.

With the above modifications, the rate of contribution would come down to 14.75% from 18-20%. The required rate of contribution in the pension fund shall be met as follows:

S.No.	Establishment contributing @	Diversion from Employer contribution	Government contribution	Diversion from Employee contribution	Total contribution
1.	12%	12%	2.75%	Nil	14.75%
2.	10%	10%	2.75%	2%	14.75%

<b>Present Values</b>	<b>Rs. in Crores</b>	<b>Rs. in Crores</b>
Base shortfall		27,040
a. Provision of annual relief of 3%	1,73,688	
b. A minimum Pension of Rs. 1000/- to all categories of pensioners	3,012	1,76,700
<b>Total Requirements</b>		<b>2,03,740</b>
a. Saving due to Pensionable Salary of 3 years.	6,962	
b. Saving due to deletion of Withdrawal Option.	6,447	
c. Saving by disallowing bonus of 2 years.	16,123	
d. Saving due to raising of age of Superannuation to 60 years.	23,363	
e. Saving due to raising the age for Early Pension.	8,997	
<b>Total Savings</b>		<b>61,892</b>
<b>Net Deficit</b>		<b>1,41,848</b>
5.26% contribution		1,47,299
<b>Surplus after additional contribution</b>		<b>5,451</b>

## CHAPTER 8

### PROVIDENT FUND-CUM-PENSION ANNUITY SCHEME – AN ALTERNATIVE

8.1 The Committee initially attempted to address the challenges being faced by Employees' Pension Scheme, 1995 by arriving at possible amendments in the existing Employees' Pension Scheme, 1995. However, the Committee felt that a defined contributory scheme with elements of insurance shall be more realistic, equitable, sustainable and in line with the emerging trends in social security schemes world over.

8.2 This is a defined contribution scheme with a mix of appropriate insurance with the following advantages:

8.2.1 This step would be in tune with similar developments in the country and across the world.

8.2.2 It would ensure individual accounting of the members, thus addressing their long-standing demand of transparency in pension fund accounts and commensurate benefits. The Committee felt that individual accounting will motivate an individual member to retain funds in the Scheme till superannuation as the Scheme is not being pooled together. It will also provide flexibility to the individual to decide on an annuity amount by pooling in funds from the provident account also.

8.2.3 The insurance factor will cover the risk of death and disablement.

8.2.4 The Scheme will be transparent and easy to understand

8.2.5 The benefits will be easily portable.

8.2.6 It will also ensure long term sustainability on a firm basis. Thus it will provide a sound platform for enlarging Scheme by reducing the threshold from 20 employees to 10 and also for increasing the wage ceiling from time to time.

8.3 The Committee therefore attempted a draft of a Provident Fund-cum-Pension Annuity Scheme as follows:-

8.3.1 Two accounts shall be maintained in respect of each member: Provident Fund Contribution Account (PFCA) and Annuity Contribution Account (ACA).

8.3.2 In order to ensure reasonable pension amount as also to increase the EDLI purpose for larger benefit, the Committee felt that the overall contribution rate be increased to 14% as per the following breakup :

S.No.	Establishment contributing @	Diversion from Employer contribution	Government contribution	Diversion from Employee contribution	Total contribution
1.	12%	11.5%	2.0%	Nil	13.5%
2.	10%	9.5%	2.0%	2%	13.5%

The remaining 0.5% of employer's share shall be diverted into EDLI Fund.

8.3.3 There shall be a statutory salary limit for coverage under the scheme upon which the contributions shall be calculated. To start with, this limit fixed at Rs 10,000/- per month.

8.3.4 The member and the employer shall be free to contribute at salary beyond the statutory limit without the approval of EPFO. However, Government's contribution shall be limited to the statutory wage ceiling.

8.3.5 Withdrawals, disbursements and nomination under PFCA shall be largely governed by the provisions similar to those under the present Employees' Provident Fund Scheme, 1952. In other words, PFCA shall cater to the Provident Fund benefit for the members under the Scheme.

8.3.6 The old age regular income benefit to the members shall be provided in the form of annuity purchased through the accumulations in ACA. This shall be allowed only at superannuation.

8.3.7 In case of death, the spouse of the member will be entitled to get accumulations in PFCA and purchase annuity from the accumulations in ACA. In addition, the spouse will also get a lump sum from EDLI for purchasing annuity.

- 8.3.8 In case of disability, the member will be entitled to get accumulations in PFCA and purchase annuity from the accumulations in ACA. In addition, the member will get the EDLI benefit and add it to the amount for purchasing annuity.
- 8.3.9 With diversion of 0.5% employer's share into EDLI Fund, the accumulation payable to spouse/member in case of death/disablement will increase. It is expected that the benefit will atleast become Rs. 2,00,000. This can be verified by conducting a valuation of EDLI Fund.
- 8.3.10 Default by the employer in ACA, if any, to be made good from EDLI Fund to the extent possible. However, this would not absolve the employer of the statutory obligation to submit the dues under ACA. As and when the amount is recovered, the same shall be credited to the EDLI Fund with interest & damages received. This will bolster the shock-absorbing capacity of the EDLI Fund in case of contingencies of death and disability.
- 8.3.11 Pensioners existing as on cut-off date (say, 01.04.2011) or those eligible for pension on or before the cut-off date shall be compensated by providing a lump-sum commensurate with the age and amount of pension of the pensioner. On the other hand, the existing members shall be compensated by providing the transfer of accumulations as per Tables E, A & B, as applicable.
- 8.3.12 As and when the transfer of accumulation shall be done, there is a possibility of some balance, positive or negative, remaining in the fund. Such fund can be merged into the EDLI fund from where the insurance element of the scheme shall be administered.
- 8.3.13 In case of exempted establishments, PFCA accounts shall be maintained by the employer. Exempted establishments can also maintain ACA accounts, provided they pay the Government's contribution.

8.3.14 The provisions related to enrollment of members, allotment of account numbers, deduction and payment of contributions and processing of interest under PFCA/ACA shall remain same as those in the present EPF Scheme, 1952.

8.3.15 A sample calculation for various annuity scenarios as per Jeevan Akshay Policy of LIC is as follows.

Value of monthly Annuity:

Age at Entry	Wage at Entry	Period of Service	Wage at Exit	Age at Exit	Accumulations in ACA	A1	A2	A3	A4
20	3500	35	18387	55	2085270	15035	14138	11844	12262
20	3500	40	23467	60	3355981	26143	24163	21075	19901

A1 = Annuity payable for life at a uniform rate.

A2 = Annuity for life with a provision of 50% of the annuity payable to spouse during his/her lifetime on death of the annuitant.

A3 = Annuity payable for life increasing at a simple rate of 3% p.a.

A4 = Annuity for life with return of purchase price on death of the annuitant.

**This is only an illustrative table and the benefits are indicative.**

Assumptions:

- (i) Contribution Rate: 13.5%, Salary Escalation Rate per annum: 5%
- (ii) Wage ceiling is increased regularly.
- (iii) Interest Earning Rate during contributory period: 8.5%

8.3.16 The annuity at the time of superannuation/exit from the scheme would be purchased from insurance providers as approved by Central Board of Trustees.

8.3.17 The Scheme is expected to address the various grievances as follows:

S.No.	Grievance	Redressal
1	No information to the member about his/her accumulations in Pension Fund.	Due to individual accounting, complete account statement of the member in ACA shall be available.
2	Unrealistic statutory limit on salary on which contributions can be made.	Members and Employers shall be free to decide their own limits of upper contributions without any approval from PF authorities.
3	Static rates of pension.	The member will have the option to choose an increasing annuity.

8.4 After the second meeting of the Committee, the members have continuously exchanged views and discussed the matter further through e-mails. The comments of the members on the above concept have been summarized in **Appendix-9**.

8.5 For better appreciation of the concept a comparison of the proposed Provident Fund- cum- Pension Annuity Scheme with the New Pension System of Government of India (for non-government employees) is given in **Appendix-10**.

## CHAPTER 9

### SUMMARY OF FINAL RECOMMENDATIONS

9.1 The Committee has looked into the Employees' Pension Scheme, 1995 and the expert views have been explained in detail in the earlier chapters. After contemplating the detailed analysis provided by the Valuer, the Committee has arrived at the conclusion that the final two recommendations be made to the Government i.e.

Recommendation 1: Introduction of Provident Fund-cum-Pension Annuity Scheme; and

Recommendation 2: Modifications in the existing Employees' Pension Scheme, 1995.

#### **Recommendation 1: Introduction of Provident Fund-cum-Pension Annuity Scheme**

9.2 The Committee considered various ways out of the present imbroglio and felt that the minimum pension level and the statutory wage limit being prescribed would again fall short of pensioners' expectations after some years as the real value of the benefits being envisaged now would come down in future. This would again necessitate the increase in contributions in future. However, periodic increase in contributions may not be forthcoming regularly from the various stakeholders. Hence, such exercises would have to be repeated in future to find new ways to meet the pensioners' demands while ensuring the sustainability of the Scheme.

9.3 The Committee feels that the proposed Provident Fund-cum-Annuity Scheme is a better option to tide over the problems being faced by the Employees' Pension Scheme, 1995, as it has the base advantages as elaborated at para 8.2 of Chapter 8:

9.4 Hence the Committee, as the first option, would recommend the Provident Fund cum Pension Annuity Scheme as elaborated at Chapter -8.

**Recommendation 2: Modifications in the existing Employees' Pension Scheme, 1995**

9.5 To continue with the existing Scheme framework, the Committee considered the six Scenario as analysed in the earlier Chapters. The committee further noted that no increase in wage ceiling is possible unless the pension benefits are calculated in parts separately for pensionable service in respective wage ceilings as and when these are changed.

9.6 Accordingly, after contemplating the six scenarios worked out in Chapter 7, the Committee recommends that the sixth scenario may be adopted i.e. a package of benefits consisting of :

- Increase in wage ceiling from Rs. 6500/- to Rs 10,000/- .
- provision of annual relief of 3% ; and
- a minimum Pension of Rs. 1000/- to all categories of pensioners.

alongwith the following modifications to offset the cost of above benefits as much as possible:

- Pensionable Salary to be calculated as an average of last 3 years of service.
- Withdrawal option to be deleted
- Bonus of 2 years to be disallowed
- The age of superannuation to be raised to 60 years; and
- The age for early pension to be raised to 55 years
- Nominee Pension to be disallowed.

For the above package of benefits the contribution rate required shall be @ 14.75%.

**9.7 However, the Committee would again like to emphasize that in order to make the scheme sustainable on a long term basis, it shall be better to switch to a defined contribution scheme as proposed in first recommendation i.e. Provident Fund-cum-Pension Annuity Scheme.**

## 9.8 Other Recommendations:

In addition, the Committee would also like to suggest that the quantity and quality of data in respect of EPS members, pensioners and their family must be improved significantly and data collection should be given priority. An adequate number of data shall ensure that valuation of the pension fund reveals a true and correct picture and shall reduce number of assumptions as far as possible.

9.9 The Committee also recommends that the actuarial valuation of the Fund may be conducted after every 3 years rather than making it an annual exercise that is burdensome and time consuming.

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# **APPENDICES**



## APPENDIX 1

### **Minutes of the 1<sup>st</sup> meeting of the Expert Committee for review of Employees' Pension Scheme 1995.**

**Date** : 01-12-2009

**Venue** : Mini-Committee Room, Ministry of Labour and Employment, Shram Shakti Bhawan, New Delhi.

**Time** : 11.00 am.

The first meeting of the Expert Committee for review of Employees' Pension Scheme 1995 was held on 01-12-2009 in the Mini-Committee Room of the Ministry of Labour & Employment, Shram Shakti Bhawan, New Delhi. The meeting was chaired by **Shri S.K. Srivastava**, Addl. Secretary, Ministry of Labour & Employment, Government of India.

The following members were present in the meeting:

1. Shri Nirmal Ghosh, Organising Secretary/ INTUC Kolkata, Member.
2. Shri S.P. Subhedar, Retd. MD. LIC of India, Member.
3. Shri Rajesh Bansal, Addl. CPFC, Member Secretary.

The following members could not attend the meeting:

1. Shri K. Chandramauli, CPFC
2. Joint Secretary (Social Security), Ministry of Labour & Employment
3. Shri Nalin Thakor, member
4. Shri Bhudev Chatterjee, Member
5. Dr. R. Kannan, Member
6. Shri J.P. Chowdhary, Member
7. Shri K.C. Mishra, Member

Following officers from Ministry of Labour & Employment and Employees' Provident Fund Organization were also present:-

1. Shri S.D. Xavier, Under Secretary, Ministry of Labour & Employment.
2. Shri P.U. Kulkarni, RPFC-I (Pension)
3. Shri Vikram Angurala, RPFC-II (Pension)
4. Shri Vineet Gupta, RPFC-II (Actuarial)

2. The Chairman welcomed the members of the Committee and requested the officers to introduce themselves to the committee members. He appreciated the background papers circulated for the meeting and requested the members to tender their expert views on the problems being faced by the EPS.

3. The Chairman said that the benefits under EPS did not match up to the level of prevailing Consumer Price Index and yet the Actuarial Deficit was constantly increasing. He called for practical measures within reasonable boundaries to address the various problems being faced under EPS, 1995.

4. Shri S.P. Subhedar said that the two advantages of EPS from the point of view of financial viability were that the pension was not index linked & that the past service prior to 16-11-1995 was not a strain upon the scheme.

5. Shri Subhedar also said that the responsibility for Actuarial Deficit should be fixed – whether it was low rate of contribution or the generous nature of benefits or the low rate of returns that was causing the deficit. He suggested that a roadmap for the adjustment of contributions and benefits could be laid down.

6. The Chairman said that our basic concern should be to make EPS self sustainable and one of the measures was through rationalization of benefits. He suggested that the portfolio of benefits could be rationalized in such a manner that the benefits are viable. At the same time, he stressed the need to increase the corpus of the Fund. He also observed that the rate of return being generated by the investment of Pension Fund was satisfactory.

7. Shri Nirmal Ghosh agreed with the need to curb the Actuarial Deficit. He suggested that the benefits should not be rationalized further. Instead, the Central Govt. should raise its contribution. He asked that if Govt. could give fifty thousand crores for NREGA, why could it not support EPS by a few thousand crores? He said that India being a socialist state, a minimum pension according to Govt. standards should be fixed to provide a life support to the husband and wife. He cited the example of international standards in this regard. Reacting to

this the Chairman said that most of the pension schemes in Europe were under severe financial stress.

8. Shri S.P. Subhedar said that the maximum of 50% pension in government comes from a contribution rate of around 22%. Hence, a contribution rate of mere 9.49% can't meet the expectations of bringing the pension under EPS at par with Govt. rates.

9. After listening to various other observations and in consultation with the members, the Chairman directed that the surplus or deficit under following scenarios should be worked out by the Consultant Actuary of EPFO for further consideration by the expert members of the Committee:-

Scene	EMPLOYER (%)	EMPLOYEE (%)	GOVERNMENT (%)	Total (%)
1	10.33	-	1.16	11.49
2	10.33	-	2.5	12.83
3	10.33	2	2.5	14.83
4	12.33	2	4	18.33

10. Shri S.P. Subhedar suggested that the following additional scenarios should also be worked out simultaneously:

- (a) Scrapping the provision of granting 2 years weightage to those whose pensionable service is more than 20 years.
- (b) Increasing the vesting age from 58 to 60 years.
- (c) Calculating the pensionable salary from the average of last 36 months instead of 12 months.

11. The Chairman agreed with the suggestion and directed that each of the scenario should be worked out separately.

12. Concluding the discussion, the Chairman invited further suggestions from the members through post or e-mail so that the report could be finalized at an early date.

The meeting ended with a vote of thanks to the Chair.

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**Minutes of the 2<sup>nd</sup> Meeting of the Expert Committee for  
Review of the Employees' Pension Scheme, 1995**

The second meeting of the Expert Committee on Review of Employees' Pension Scheme, 1995 was held at 11 A.M. on 02.02.2010 in the Mini-Committee Room of the Ministry of Labour & Employment, Shram Shakti Bhawan, New Delhi. The meeting was chaired by **Shri S.K. Srivastava** Additional Secretary, Ministry of Labour & Employment, Government of India. The following members were present in the meeting:

Sh. Nirmal Ghosh, Member (Organising Secretary/INTUC, Kolkata and Member, Central Board of Trustees, EPF)

Sh. S.P. Subhedar, Member (Actuary and Retd. Managing Director, LIC of India)

Sh. K.C. Mishra, Member (Director & CEO, Lal Bahadur Shastri Institute of Management, New Delhi)

Sh. Nalin Thakor, Member (President, Social Security Research Centre, Ahmedabad)

Sh. Rajesh Bansal, Member Secretary (Addl. Central Provident Fund Commissioner, EPFO)

The following members could not attend the meeting:

Sh. Uday Kumar Verma, Member (Central Provident Fund Commissioner)

Joint Secretary (Social Security), Ministry of Labour & Employment, Member

Sh. J.P. Chowdhary, Member (Member, Central Board of Trustees, EPF)

Sh. Bhudev Chatterjee, Member (Independent Actuary)

Dr. R. Kannan, Member (Member Actuary, IRDA)

Following officers from Ministry of Labour & Employment and Employees' Provident Fund Organisation were also present:

Shri S.K. Verma, Director (SS), Ministry of Labour & Employment

Shri S.D. Xavier, Under Secretary, Ministry of Labour & Employment

Shri P.U. Kulkarni, RPFC-I (Pension)

Shri Vineet Gupta, RPFC-II (Actuarial)

2. The Chairman welcomed the members and thanked them for sparing time to tender their valuable suggestions. He regretted the absence of Sh. Bhudev Chatterjee and other members. Thereafter, he asked Addl. CPFC (Pension) to take up the items for discussion.

**ITEM 1: CONFIRMATION OF MINUTES OF THE 1<sup>ST</sup> MEETING HELD ON 01.12.2009**

Shri Nirmal Ghosh submitted his comments on the minutes of the first meeting. The Committee approved to include the comments of Sh. S.P. Subhedar, Sh. Bhudev Chatterjee and Sh. Nirmal Ghosh in the minutes. The draft minutes of the first meeting of the Expert Committee were accordingly confirmed.

## **ITEM 2: SUGGESTIONS RECEIVED FROM THE MEMBERS OF THE EXPERT COMMITTEE**

Initiating the discussion on the item, Sh. S.P. Subhedar said that the item was well prepared and presented, particularly the Annexure-5. Further, referring to the 9<sup>th</sup>-10<sup>th</sup> combined Valuation Report on EPS'95, he said that discussing the findings and suggestions of an actuarial valuation carried out on about 4% of member data would not serve much purpose. He also pointed out that the design, if any, of the sample used for Valuation should have been specified.

2.2 The Chairman shared the concern of the member and regretted the data constraints. He directed that in view of the special exercise undertaken by EPFO, the quantity and quality of data should improve substantially this time.

The following observations were made by the members regarding the Valuation process in general and the 9<sup>th</sup>-10<sup>th</sup> combined Valuation Report of EPS'95 in particular:

2.3 The average salary of Rs 2789 stated in the 9<sup>th</sup>-10<sup>th</sup> combined Valuation Report did not seem to be consistent with the salary distribution given in Appendix A & B of the Report.

2.4 The gap between the salary growth rate and the interest rate is a crucial factor for Valuation and the basis for arriving at their assumptions should be spelt out in detail. The salary growth rate could be higher than stated in the 9<sup>th</sup>-10<sup>th</sup> combined Valuation Report in view of the Indian economic prospects.

2.5 There should be a consensus in the assumption of parameter values and the authority to decide the same should also be fixed. However, another view was that a Valuing Actuary cannot be forced to use the assumptions given by his client and that the Valuer should have professional freedom in arriving at his assumptions.

2.6 Statistical regression model should be used in arriving at these values.

2.7 The Chairman agreed with the views of the members and said that the methodology used in arriving at these assumptions should be fully specified. He advised the members to submit their queries about the 9<sup>th</sup>-10<sup>th</sup> combined Valuation Report and asked Addl. CPFC (Pension) to get back with the replies from the Valuing Actuary.

2.8 Shri Nirmal Ghosh said that the rationalization of benefits had two aspects: stopping the benefit altogether and alteration in scale of benefits. He observed that the latter should be adhered to as far as possible.

2.9 The Chairman said that the Committee would look into the rationalisation of benefits in an overall framework, while giving preference to the subscribers in the relatively lower income brackets.

Thereafter, the Chairman requested the members to discuss the suggestions at Item No.3 of the Agenda.

**ITEM 3: SUGGESTIONS TO AMEND EMPLOYEES' PENSION SCHEME, 1995 TO MEET THE DEMANDS OF THE SUBSCRIBERS AND TO KEEP THE SCHEME VIABLE IN THE LONG RUN.**

**Suggestion 1: Delete provision to para-11(3) for disallowing contribution over statutory limit without government's share of contribution.**  
**and**

**Suggestion 2: Introduce sub-para 11(4) for voluntary contribution over the statutory limit.**

3.1.1 Introducing the item Addl. CPFC (Pension) said that according to the existing provisions voluntary contribution to EPS'95 over the statutory limit (presently Rs 6500/-) is allowed with the consent of the employee and the employer, but the government contribution of 1.16% is restricted to the statutory limit. Hence, voluntary contribution over the statutory limit is deficient by 1.16%. This results in lower income members cross-subsidizing the pension of higher income members. In order to remove this anomaly, provision should be made to obtain 1.16% contribution over that part of the salary which exceeds the statutory limit. He explained that Suggestion 1 is meant to remove the existing provision and Suggestion 2 seeks to bring in the new provision. He also pointed out that the proviso to para-3(2) of the Scheme was in contradiction with proviso to para-11(3) and that an amendment in the form of deletion of the words "the employer and" was required in proviso to para-3(2) of EPS'95.

3.1.2 The members, while supporting the suggestions, asked if the existing members would be allowed to continue under the existing provision even after the date of amendment. Addl. CPFC (Pension) replied that the members currently contributing on higher salary would not be allowed to contribute on higher salary from the date of amendment. However, the benefits accruing to them till the date of amendment can be quantified and frozen for release at the time of exit. The Chairman, too, ensured that the amendment would not apply from retrospective date. He further stated that the suggestion should be accepted as it would stop the cross-subsidization to the upper income groups at the cost of lower income groups.

3.1.3 Sh. Nirmal Ghosh said that he supported the proposal as it was in favour of lower class members. However, he advised that the proposal should also be placed before the CBT (EPF).

3.2.1 With these discussions the Committee approved the proposals specifying that the member should be given the option to authorize the employer to divert 1.16% extra from employer's contribution, so that the total diversion from employer's contribution to EPS Fund is 9.49% and to EPF is 2.51% in case of voluntary contribution over the statutory limit. The suggested amendment of deleting the words "the employer and" in proviso to para-3(2) shall also be carried out simultaneously.

**Suggestion 3: Amending para-11(1) for determination of pensionable salary**

3.3.1 The Chairman desired to know the international practice in this regard. The members stated that the general norm was 36 months. It was suggested that the actuarial impact of the proposal could be calculated for a new entrant aged around 20.

The Committee approved the proposal for 36 months while agreeing to study its actuarial impact.

**Suggestion 4: Amend para-10(2) to disallow the bonus of two years in pensionable service**

3.4.1 The Chairman enquired if the erstwhile FPS'71 had the provision of providing two-year bonus in pensionable service. RPF (Pension) replied that it was not there in FPS'71 and even in EPS'95 the provision would come into effect not earlier than 2015. The Chairman further enquired if the proposed amendment would make a substantial impact. Sh. S.P. Subhedar, Actuary, replied that it would make a substantial financial impact.

3.4.2 In response to an apprehension that withdrawing the provision might act as a disincentive for staying in membership, it was stated that the rule increases pension by over 2.857% of pensionable salary and increases the cost for no rational reason. Unearned service credit and conservative vesting right was justified to contain turnover and/or reward long service. However, studies show that conservative vesting rights help retain mediocre. Moreover, the reasoning can not apply to a legislated plan covering thousands of units with portability. Hence, it was very appropriate to discontinue unearned service credit procedure at the earliest.

3.4.3 The Chairman suggested that the proposal should be got actuarially assessed before taking the final decision.

**Suggestion 5: Amend para-2:1(ix) & para-12 of EPS'95 to increase the pensionable age from 58 to 60**

3.5.1 The members supported the proposal saying that it was worth implementing in view of the increasing life expectancy because the contributory period would increase while the benefit period would decrease. However, a doubt was raised that implementing the suggestion would pose problems in establishments where the retirement age was less than sixty. Responding to this the Chairman said that such employees could either wait for two years before claiming pension or they could opt for early pension at age 58.

3.5.2 The members further observed that in establishments where the superannuation age is more than the superannuation age under EPS'95, the pension should commence from the later of such dates so that the employee does not receive pension along with the regular salary. They also pointed out that the trade unions have earlier fought for higher retirement age. Hence they should not oppose it here. Instead, they can persuade the various employers to increase the normal retirement age of their employees to sixty years.

With these deliberations the Committee approved the proposal of increasing the pensionable age from 58 to 60 years under EPS'95.

**Suggestion 6: Amend para-14 to discontinue the option of withdrawal benefit.**

3.6.1 Addl. CPFC (Pension) said that the Preamble of the Legislation in the form of EPF & MP Act, 1952 has been thoroughly defeated due to the provision of option of withdrawal benefit in EPS'95. He said that of all the pension claims settled in a year, over 80% pertain to early withdrawal – thereby defeating the purpose of providing regular old age income. In order to provide a worthwhile old age income, there is an urgent need to carry out the proposed amendment.

3.6.2 The Chairman desired to know the fate of the members who would leave service before putting in ten years of service. Addl. CPFC (Pension) replied that such members are issued “Scheme Certificate” containing all the service details at the time of leaving service and they can come back and join any time before the age of superannuation. However, we would have to work out the modalities for people who would superannuate before putting in ten years of service.

3.6.3 The Chairman expressed apprehension that disallowing the withdrawal option would amount to denying a contingency help to the members when they are in financial straits.

Addl. CPFC (Pension) replied that this need was taken care of by the provisions of withdrawal available in Provident Fund Scheme and that the early withdrawals from Pension Scheme are primarily against the philosophy of strengthening the “pool” of a Pension Fund so as to increase its shock-absorbing capacity.

3.6.4 The members supported the proposal saying that the provision of withdrawal increases the cost of a family pension plan. It is not justified also because EPS'95 provides pension for life to surviving spouse of a member/pensioner – a benefit the spouse would be robbed off if the member withdraws from the Scheme. They said that the proposed amendment is long overdue and early action will help contain the Pension Fund deficit.

The Committee thus approved the proposal of disallowing the option of early withdrawal from EPS'95.

**Suggestion 7: Delete para-16:5(a) to discontinue the provision of Nominee Pension**

3.7.1 At the outset the Chairman desired to have an estimate of nominee pensioners. RPFC (Pension) replied that about 8000 out of 32 lakh beneficiaries in 2008-09 were nominee pensioners. The Chairman observed that such a small number would not affect the Pension Fund too adversely. However, the members said that financial impact should not be a determinant if the Defined Benefit structure of the Scheme is to be retained.

3.7.2 The Chairman enquired if Nominee Pension outside family was available in government pension rules. RPFC (Pension) replied that nomination under government pension rules is allowed only to family members.

3.7.3 One of the members observed that the contribution of a member would go in vain if the facility of nomination outside family was withdrawn. Addl. CPFC (Pension) replied that one of the basic concepts of any Pension Scheme is the "Pooling of Risk" whereby the members share the risk of each other's death or disability. Hence, there was nothing wrong if a member dies without any family and his contribution is used to fund the pension of fellow members.

With these discussions the Committee approved the proposal for discontinuing the provision of Nominee Pension outside family.

**Suggestion 8: Amend para-16:3(c) to reduce the number and maximum age for children pension**

3.8.1 One of the members suggested that only the age should be restricted and not the number. However, after discussing the various aspects of the proposal the Committee decided that the existing provision should be continued and accordingly rejected the proposal.

**Suggestion 9: Amend para-12(7) to disallow early pension before 55 years of age.**

3.9.1 Addl. CPFC (Pension) observed that pension was essentially an old age security benefit and allowing it before superannuation amounted to ignoring this vital aspect of a pension scheme. He also said that the design of any pension scheme is such that the benefits accruing to the members compound in the closing years of their service. However, members are often ignorant of this fact and they settle at a lower amount of pension by opting early. Hence, the option for early pension should not be allowed. However, keeping in mind the myriad of industries catered to by EPS'95 and the varying ages of retirement in such establishments, option for early pension after age 55 should be allowed.

3.9.2 The members also suggested the proposal saying that if the superannuation age is increased to sixty years then the eligibility for other provisions such as early pension should also move up.

With these discussions the Committee approved the proposal of raising the age for early pension from 50 to 55 years.

**Suggestion 10: Merger of EDLI Scheme in EPS'95.**

3.10.1 Addl. CPFC (Pension) said that the Valuing Actuary for EDLI has recommended the merger of the Employees' Deposit Linked Insurance Scheme '76 with EPS'95, saying that with the present level of EDLI benefit, the merger would go a long way to mitigate the deficit in the Pension Fund.

3.10.2 A member suggested that the present benefit under EDLI Scheme should be scrapped. Instead, the quantum of benefit of the total disability pension should be increased. However, the Committee approved the proposal as proposed in the agenda.

**Suggestion 11: Amend para-3(2) of EPS'95 and para-2:f(ii) of EPF Scheme'52 to increase the statutory wage ceiling from Rs 6500/- to Rs 15,000/-**

3.11.1 Introducing the proposal the Chairman said that a correction in the statutory wage ceiling is long overdue as the last amendment of increasing the wage ceiling from Rs 5000/- to Rs 6500/- was carried out in 2001. The economic conditions since then have changed substantially and the amount of pension with above wage ceiling is often meager. Wage ceilings in similar organizations such as the Employees' State Insurance Corporation have been revised from time to time. The Chairman also suggested that in addition to the proposed limit of Rs. fifteen thousand, the proposal for Rs. ten thousand should also be assessed actuarially.

The Committee agreed to have an actuarial assessment of both the wage ceilings, ie Rs 10,000/- as well as 15,000/-. Keeping in consideration the various amendments which have been approved in the present meeting since the entire issue has to be taken as a total package.

**Suggestion 12: Amend para-3(1) to increase the rate of contribution under the Scheme to 13.16%. Provide an annual hike of 3% in the pension amount being received by the beneficiary.**

3.12.1 The members observed that providing an inbuilt indexation of benefits could have a serious impact on the Pension Fund. They suggested that instead of providing an annual hike we should provide an increased minimum pension. The Committee agreed and suggested that the actuarial impact of providing a minimum pension of seven hundred rupees per month should be studied.

The Committee agreed to study the actuarial impact of providing a minimum pension of Rs 700/- per month.

**Suggestion 13: Amend para-32 of EPS'95 regarding annual actuarial valuation of EPS'95**

3.13.1 Addl. CPFC (Pension) said that the exercise of actuarial valuation is a strenuous task as it involves collection of data from all the field offices spread across the country. The exercise invariably spills over to next year thereby causing delay in the subsequent year's valuation. Often, therefore, several valuations are commissioned together. He suggested that to make the exercise more practical and meaningful, the actuarial valuations should be carried out every five years.

3.13.2 The Chairman observed that the exercise of annual valuation is lagging behind by more than three years and it would be more appropriate to have the valuation every three years. He cited the example of Employees' State Insurance Corporation where a similar amendment has been made to provide for actuarial valuation every three years.

The Committee agreed approved the proposal accordingly.

**3.1 Summing up the discussion on the item, the Chairman urged the members that they should support the suggestions keeping in mind that at primarily benefits the lower earning segment of workers covered by the Employees' Pension Scheme, 1995 and with a view to provide larger benefits for the larger whole. Committee further desired that the impact of all the above suggestions should be assessed actuarially.**

In addition, the following observations were made by the members:

3.2 While conducting such actuarial studies EPFO should take help of ILO and other bodies of international repute.

3.3 In response to a suggestion that help could be taken from LIC or the Institute of Actuaries of India (IoA), it was stated that while the LIC did not have the necessary expertise, the IoA may not certify such studies, particularly with such poor data. Hence, EPFO should take steps for improvement of data. An apprehension was expressed that the relief provided in the past was possibly ill-conceived due to poor quality of data.

#### **ITEM 4: COMPENSATING A MEMBER FOR DELAYED PAYMENT OF PENSION.**

4.1 Introducing the item the Addl. CPFC (Pension) informed that the existing manual provisions state that the pension for a particular month should be credited to the beneficiaries' account within the first week of the following month. It is suggested that in case the pension for a particular month is not credited within the stipulated period, EPFO should pay interest on such period of delay. He further suggested that the rate of interest can be one percent less than the prevailing rate of interest declared by the Government under EPF Scheme'52 during the corresponding period.

4.2 A point in question was whether the reckoning of the date of delay should be from the date of entitlement of pension i.e. attaining 58 years of age or from the date of submission of pension claim by the member. It was suggested that even if the member makes a delay in

presenting his claim for the pension, the compensation should be granted from the date of entitlement.

The Committee discussed the proposal and approved that the rate of interest to be given on delayed payment of pension shall be one percent less than the prevailing rate of interest declared by the Government under Employees' Provident Funds Scheme, 1952 during the corresponding period.

5. In the end, Chairman requested all the members to give any other suggestions over and above the proposals which have been considered and decided upon in the present meeting. The same can also be sent by e-mail (latest by 15<sup>th</sup> March, 2010).

**The meeting ended with a vote of thanks to the Chair.**

**Draft Minutes of the 3rd Meeting of the Expert Committee on  
Review of the Employees' Pension Scheme, 1995**

The third meeting of the Expert Committee on Employees' Pension Scheme, 1995 was held at 11.30 A.M. on 23.07.2010 in the chamber of Sh. S.K. Srivastava, Addl. Secretary & Chairman of the Expert Committee, Ministry of Labour & Employment, Shram Shakti Bhawan, New Delhi. The members present in the meeting were as per list enclosed.

The following members intimated their inability to attend the meeting:

Sh. J.P. Chowdhary, Member (Member, Central Board of Trustees, EPF)  
Dr. R. Kannan, Member (Member Actuary, IRDA)  
Sh. Nalin Thakor, Member (President, Social Security Research Centre, Ahmedabad)

The following members could not attend the meeting:

Sh. Samirendra Chatterjee, Member (Central Provident Fund Commissioner)  
Sh. Bhudev Chatterjee, Member (Independent Actuary)

2. The Chairman welcomed the members and stated that the objective of the meeting was to finalise the draft report after taking into account the suggestions received from the members. Thereafter, he asked Member Secretary to take up the items for discussion.

**ITEM 1: CONFIRMATION OF MINUTES OF THE 2<sup>nd</sup> MEETING HELD ON 02.02.2010**

The draft minutes of the second meeting of the Expert Committee were confirmed after consideration of members' comments.

**ITEM 2: Draft Report of the Expert Committee on Employees' Pension Scheme, 1995.**

**&**

**ITEM 3: Examining the expectations/suggestions received.**

The revised draft report prepared after taking into account the proceedings of the first and second meetings of the Expert Committee, the discussions among the members via e-mail and Actuary's report was placed before the Expert Committee for their consideration and approval.

Initiating the discussion, the Chairman stated that the decision of the Committee to assess the actuarial impact of the proposals approved and/or considered, has ensured that the

draft report is reliable as well as is definite and concise in its recommendations. He invited the members to suggest modifications in the draft report so that the final report be in accordance with the mandate given to the Committee. He pointed out that the members may suggest inclusion of further scenarios in the draft report. He informed the members that in order to discuss the contents of draft report thread-bare, a Power point presentation has been prepared.

The Member Secretary gave the presentation bringing out the major observations, findings and recommendations contained in the draft report. He explained the various scenarios which have been worked out with a view to provide a number of alternatives so that a final recommendation may be made by the Expert Committee.

Dr. K.C. Mishra remarked that rise in contribution rate while retaining the present set of benefits will be a cross subsidization from future generation to present generation of pensioners. He also shared the case of General Motors which was running a defined benefit scheme and having accumulated 20 billion dollar deficit have to declare itself insolvent.

Sh. Nirmal Ghosh stated that the proposed Provident Fund-cum-Pension Annuity Scheme can be considered by the workers and workers unions only if there be some minimum pension. In addition, the wage ceiling may be increased to atleast Rs. 10,000 per month and the EPF & MP Act, 1952 may be made applicable to the establishments employing 10 or more employees.

After detailed discussions on the two main alternatives i.e. amendments in the Employees' Pension Scheme, 1995 viz-a-viz its replacement with new Provident Fund-cum-Pension Annuity Scheme, it was decided that the Committee shall recommend Provident Fund-cum-Pension Annuity Scheme as its first recommendation.

In order to provide a reasonable annuity upon superannuation, the Committee decided that in the proposed Provident Fund-cum-Pension Annuity Scheme, total rate of contribution should be at least 13.5%. Out of 13.5%, the 11.5% shall be diverted from the employer's share of contribution and 2% shall be contributed by the Central Government. However, in cases where the rate of contribution is 10% each from employer and employee, the diversion from employer's share would be 9.5%, and employee's share would be 2%, making a total of 11.5%. The remaining 0.5% of the employer share shall be diverted to EDLI from

where the accumulation for providing insurance in case of death and disablement are to be provided.

The Committee felt that by providing insurance in case of death and disablement, the proposed scheme is an improvement over New Pension Scheme. The proposed scheme is also transparent, easy to understand and every member will get full benefit out of his contributions. This will also ensure that in synchronization with the wage-trends, the wage ceiling may automatically escalate ensuring that the contributions and corresponding benefits may also increase. Most important of all, it will ensure easy portability of benefits.

Sh. S.P. Subhedar stated that though the amendments in existing scheme may make the scheme attractive and viable for few years, further amendments shall be required again after few years and the contribution rate will have to be enhanced further. He felt that the best solution may be to go with the proposed PF-cum-Pension Annuity Scheme. He added that the Committee can not suggest a minimum pension for the proposed PF-cum-Pension Annuity Scheme. As it is neither feasible nor practical. He gave certain suggestions to add to the draft report of the Expert Committee relating to the sample data based upon which the actuarial projections have been made.

It was also decided that in case Central Board of Trustees does not favour the new scheme and decides to continue with the existing defined benefit scheme i.e. Employees' Pension Scheme, 1995, the other recommendation of modifying the existing Employees' Pension Scheme, 1995 may be submitted as second recommendation. The modifications in the existing scheme have been proposed keeping in view the three main demands of the existing pensioners and member:

- increase wage ceiling from Rs. 6500/- to Rs 10,000/- .
- provision of annual relief of 3%; and
- a minimum Pension of Rs. 1000/- to all categories of pensioners.

Providing these higher benefits necessitates increase in rate of contribution which may go upto 18-20%. As this much higher rate appears not feasible, the following six modifications would also need to be implemented.

- Pensionable Salary to be calculated as an average of last 3 years of service.
- Withdrawal option to be deleted
- Bonus of 2 years to be disallowed
- The age of superannuation to be raised to 60 years
- The age for early pension to be raised to 55 years
- Nominee Pension to be disallowed.

It was informed by Actuary that the rate of contribution for the above benefits package should be 14.75%.

It was agreed that out of the required rate of 14.75%, 12% may be met by diverting 12% employer share in Pension Fund. However, in cases where the rate of contribution is 10% each from employer and employee, the diversion of employer's share would be 10% and employee's share would be 2% making total of 12%. The Central Government may contribute remaining 2.75%.

The members accordingly finalised the above two recommendations for inclusion in the draft report. It was decided that as the content of the report has been finalised, the report should be submitted to the central government as early as possible.

**The meeting ended with a vote of thanks to the Chair.**

**LIST OF MEMBERS/OFFICERS WHO ATTENDED THE MEETING  
OF THE EXPERT COMMITTEE ON  
EMPLOYEES' PENSION SCHEME, 1995  
HELD ON 23.07.2010**

S.No.	Name of the Member of the Committee
1.	Sh. Nirmal Ghosh, Member (Organising Secretary/INTUC, Kolkata and Member, Central Board of Trustees, EPF)
2.	Sh. S.P. Subhedar, Member (Actuary and Retd. Managing Director, LIC of India)
3.	Dr. K.C. Mishra, Member (Director & CEO, Lal Bahadur Shastri Institute of Management, New Delhi)
4.	Sh. Rajesh Bansal, Member Secretary (Addl. Central Provident Fund Commissioner, EPFO)
5.	Joint Secretary (Social Security), Ministry of Labour & Employment, Member, represented by Sh. S.K. Verma, Director (Social Security), Ministry of Labour & Employment

**OFFICERS FROM EMPLOYEES' PROVIDENT FUND ORGANISATION**

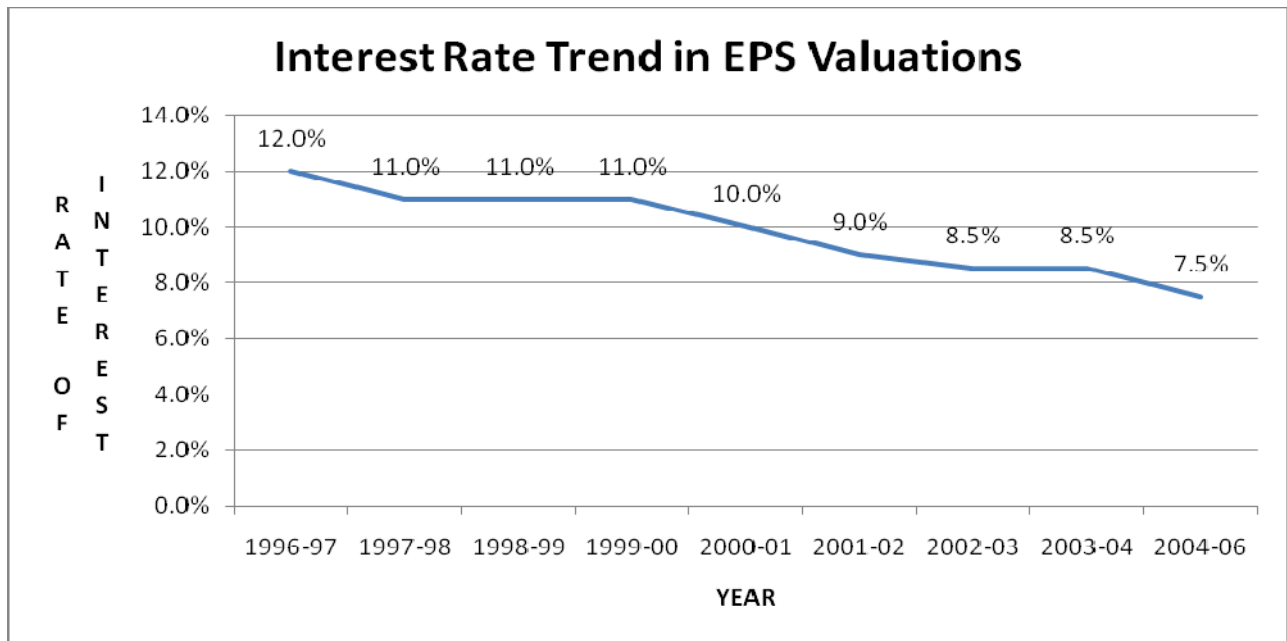
1.	Shri P.U. Kulkarni, RPFC-I (Pension)
2.	Smt. Aprajita Jaggi, RPFC-II (Actuarial)
3.	Shri Vineet Gupta, RPFC-II

Sh. Jayesh Pandit, Actuary attended the meeting as special invitee on behalf of M/s. K.A. Pandit, Consultant and Actuaries.

## **APPENDIX-4**

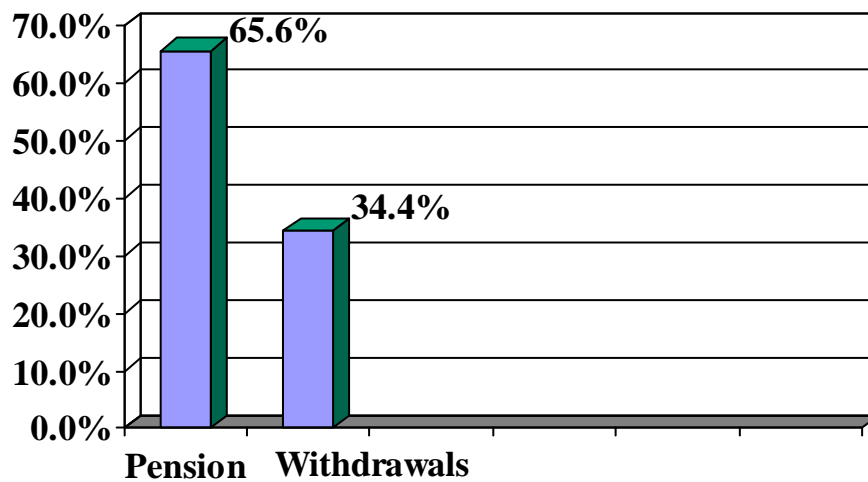
### **Chronology of the changes in Wage Limits for the purpose of contributions to be made under the Schemes in EPF&MP Act, 1952**

<b>Period</b>	<b>Wage limit per month</b>
01.11.1952 to 31.05.1957	Rs. 300/-
01.06.1957 to 30.12.1962	Rs. 500/-
31.12.1962 to 10.12.1976	Rs. 1,000/-
11.12.1976 to 31.08.1985	Rs. 1,600/-
01.09.1985 to 31.10.1990	Rs. 2,500/-
01.11.1990 to 30.09.1994	Rs. 3,500/-
01.10.1994 to 31.05.2001	Rs. 5,000/-
01-06-2001 onwards	Rs. 6,500/-

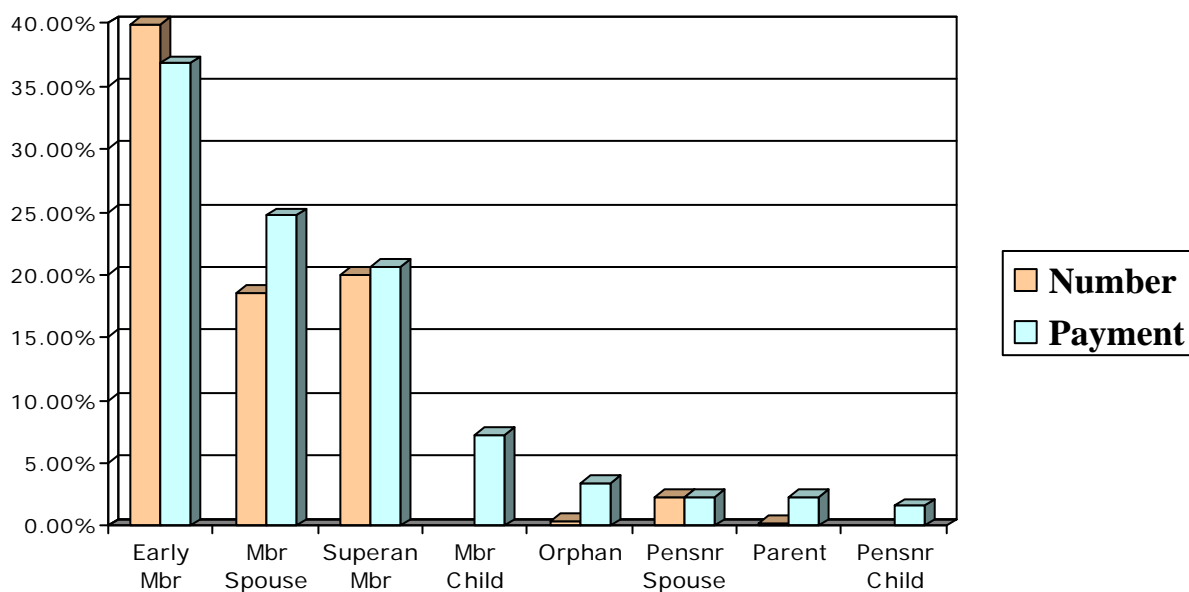


**Analysis of Outgoing Payments**

- Payments under EPS'95 can be classified into two broad categories:
  - (i) Monthly Pension Payments (including Commutation & RoC).
  - (ii) Early Withdrawal Payments.
- *As can be seen, more than 1/3<sup>rd</sup> of what goes out from Pension Fund is withdrawn prematurely.*



- We saw above that of the Total Pension Payments, 66% goes in the form of pension. Its category-wise break-up is shown above.
- ***We see that Early Member Pensioners account for 40% of the pensioners and 37% of the payments.***



**APPENDIX - 7**

<b><u>Report of the Valuer on various proposals under consideration of the Committee @ 8% :</u></b>				
<b>Sr. No.</b>	<b>Proposed Amendment to Employees' Pension Scheme, 1995</b>	<b>is only for future service Impact on the Pension Fund when compared to the present status (when Statutory Wage ceiling is Enhancement for future service only)</b>		
		<b>Rs. 6,500</b>	<b>Rs. 10,000</b>	<b>Rs. 15,000</b>
	<b>Base shortfall</b>	<b>12,822</b>	<b>27,040</b>	<b>69,834</b>
	The below figures are increase/(decrease) in shortfall			
1.	Delete Provision Para- 11 (3) of EPS' 95 : There should be no option to contribute beyond the statutory wage ceiling as the Scheme is primarily targeted at the lower income group. Government contribution is limited to 1.16% of the statutory limit. This gap in contribution remains un bridged and the loss is made up through cross-subsidy by the members with relatively low salary levels.	(15.08)	(5.56)	(2.63)
2.	Introduce Sub-para-11(4) of EPS'95 :  If benefit is enhanced from Future For voluntary contribution over the statutory wage ceiling: Contributions over the statutory limit can be allowed provided the employee and the employer agree to contribute for the salary exceeding the statutory limit, including the 1.16% contribution that does not come from the government in such cases.	<u>(Note -1)</u>  - 174,068.00  174,068.00	<u>(Note -1)</u>  - - 159,850.50	<u>(Note -1)</u>  - - 117,056.50

3.	Amend Para-11(1) of EPS'95 For determination of pensionable salary to increase the period of average monthly pay drawn from 12 months to 36 months.	(5,186)	(6,962)	(8,774)
4.	Amend Para-10(2) of EPS'95 To disallow the bonus of two years in pensionable service by deleting the option of granting 2 years bonus upon completion of 20 or more years of service.	(14,926)	(16,123)	(20,178)
5.	Amend Para-2:1(ix) & Para-12 of EPS'95 To increase the pensionable age from 58 to 60.	(18,250)	(23,363)	(27,076)
6.	Amend Para-14 of EPS'95 To discontinue the option of withdrawal benefit for less than ten years of service, except at superannuation.	(5,967)	(6,447)	(6,776)
7.	Delete Para-16:5(a) of EPS'95 To disallow nominee pension.	<b><u>Negligible</u></b> <b><u>(Note -2)</u></b>	<b><u>Negligible</u></b> <b><u>(Note -2)</u></b>	<b><u>Negligible</u></b> <b><u>(Note -2)</u></b>
8.	Amend para-12(7) To disallow early pension option before 55 years of age.	(6,822)	(8,997)	(12,028)
9.	Merge the Employees' Deposit Linked Insurance Scheme, 1976 in to the Employees' Pension Scheme, 1995. The merger will result in the following benefits:	Note -3		
	(i) The employer contribution of 0.5% received under the EDLI Scheme will be credited to EPS'95, thereby raising its level of funding.			
	(ii) The current surplus in the EDLI Fund and the future surplus, if any, will bolster the stability of the Pension Fund.			

	(iii) The administration charge of 0.01% and inspection charge of 0.005% paid by the employer will be discontinued.			
10	Provide a minimum members pension of Rs. 1000 to all.	3,012	3,012	3,012
11	Valuation of different contribution enhancement options as follows:	<b>Note-4</b>		
	Addition to normal contribution	2.00	2.00	2.00
	Option 1:	44,308	55,321	63,377
	Addition to normal contribution	3.34	3.34	3.34
	Option 2:	73,994	92,386	105,840
		5.34	5.34	5.34
	Option 3:	118,302	147,707	169,217
		7.34	7.34	7.34
	Option 4:	162,610	203,028	232,594
		10.84	10.84	10.84
	Option 5:	240,149	299,840	343,503
12	Provide for at least one year contribution instead of one month. In cases where less than one year service is rendered before death of the member, the contribution may be returned with interest (declared under Employees' Provident Fund Scheme for that year).	<b>1.01</b>	<b>1.01</b>	<b>1.01</b>
13	What will be the financial implication of introducing the provision of giving a pension rise of 3% (compounded) per annum to all pensioners	<b>98,653</b>	<b>173,688</b>	<b>227,616</b>

14	What will be the financial implication of restoring back the Commutation Option as per erstwhile para-12A of EPS'95	<b>Note 5</b>	<b>Note 5</b>	<b>Note 5</b>
15	What will be the financial implication of restoring back the Return of Capital Option as per erstwhile para-13 of EPS'95	<b>64,697</b>	<b>99,223</b>	<b>148,520</b>
16	What will be the financial implication of decreasing the Early Pension Reduction Factor to 3% (presently 4%) under para-12(7) of EPS'95	<b>10,144</b>	<b>14,033</b>	<b>17,399</b>
17	What will be the financial implication of restricting Children Pension to only 1 child at a time and that too upto only 21 years of age? (presently children pension can be given to 2 children at a time and upto 25 years of age)	<b>(769)</b>	<b>(1,082)</b>	<b>(1,397)</b>

**Note :**

- 1) It is assumed that all will contribute on last drawn salary without ceiling and will get benefit on that salary
- 2) Since the data in respect of the employee who have nominated other than their family as a beneficiary is not available and the number of such cases are assumed to be few the effect is not given.
- 3) As the EDLI is valued separately the surplus of the EDLI will get transferred to EPS 1995 fund.
- 4) Effect is the additional contribution being generated and not related to shortfall
- 5) Since the commutation is the present value of future pension the impact on the liability is nil as the commutation will happen from the present vale only
- 6) We feel that by freezing the past service there will be loss to some section of employees who are going to receive the benefit for salary less than 6500 pm and it may be administratively hampering to maintain records

## APPENDIX - 8

<b>Report of the Valuer on various proposals under consideration of the Committee @7.5%:</b>				
Sr. No.	Proposed Amendment to Employees' Pension Scheme, 1995	is only for future service impact on the Pension Fund when compared to the present status (when Statutory wage ceiling is Enhancement for future service only)		
		Rs. 6,500	Rs. 10,000	Rs. 15,000
	Base shortfall	21,938	34,048	79,009
	The below figures are increase/(decrease) in shortfall			
1.	Delete Provision Para- 11 (3) of EPS' 95 : There should be no option to contribute beyond the statutory wage ceiling as the Scheme is primarily targeted at the lower income group. Government contribution is limited to 1.16% of the statutory limit. This gap in contribution remains unbridged and the loss is made up through cross-subsidy by the members with relatively low salary levels.	(16)	(6)	(3)
2.	Introduce Sub-para-11(4) of EPS'95 : If benefit is enhanced from Future  For voluntary contribution over the statutory wage ceiling: Contributions over the statutory limit can be allowed provided the employee and the employer agree to contribute for the salary exceeding the statutory limit, including the 1.16% contribution that does not come from the government in such cases.	<u>(Note -1)</u> - 183,035.00  183,035.00	<u>(Note -1)</u> - -  170,924.75	<u>(Note -1)</u> - -  125,964.25

3.	Amend Para-11(1) of EPS'95 For determination of pensionable salary to increase the period of average monthly pay drawn from 12 months to 36 months.	(3,888)	(4,640)	(5,601)
4.	Amend Para-10(2) of EPS'95 To disallow the bonus of two years pensionable service by deleting the option of granting 2 years bonus upon completion of 20 or more years of service.	(12,620)	(14,760)	(18,315)
5.	Amend Para-2:1(ix) & Para-12 of EPS'95 To increase the pensionable age from 58 to 60.	(17,626)	(19,850)	(23,410)
6.	Amend Para-14 of EPS'95 To discontinue the option of withdrawal benefit for less than ten years of service, except at superannuation.	(4,249)	(4,650)	(4,931)
7.	Delete Para-16:5(a) of EPS'95 To disallow nominee pension.	<u>Negligible</u> <u>(Note -2)</u>	<u>Negligible</u> <u>(Note -2)</u>	<u>Negligible</u> <u>(Note -2)</u>
8.	Amend para-12(7) To disallow early pension option before 55 years of age.	(4,916)	(6,814)	(8,485)
9.	Merge the Employees' Deposit Linked Insurance Scheme, 1976 in to the Employees' Pension Scheme, 1995. The merger will result in the following benefits:	Note -3		
	(i) The employer contribution of 0.5% received under the EDLI Scheme will be credited to EPS'95, thereby raising its level of funding.			
	(ii) The current surplus in the EDLI Fund and the future surplus, if any, will bolster the stability of the Pension Fund.			

	(iii) The administration charge of 0.01% and inspection charge of 0.005% paid by the employer will be discontinued.			
10	Provide a minimum members pension of Rs. 1000 to all.	3,209	3,209	3,209
11	Valuation of different contribution enhancement options as follows:	<b><u>Note-4</u></b>		
	Addition to normal contribution	2.00	2.00	2.00
	Option 1:	46,079	57,770	66,469
	Addition to normal contribution	3.34	3.34	3.34
	Option 2:	76,952	96,476	111,003
		5.34	5.34	5.34
	Option 3:	123,031	154,246	177,471
		7.34	7.34	7.34
	Option 4:	169,110	212,016	243,940
		10.84	10.84	10.84
	Option 5:	249,748	313,114	360,260
12	Provide for at least one year contribution instead of one month. In cases where less than one year service is rendered before death of the member, the contribution may be returned with interest (declared under Employees' Provident Fund Scheme for that year).	<b>1.01</b>	<b>1.01</b>	<b>1.01</b>
13	What will be the financial implication of introducing the provision of giving a pension rise of 3% (compounded) per annum to all pensioners	<b>101,896</b>	<b>192,746</b>	<b>246,038</b>

14	What will be the financial implication of restoring back the Commutation Option as per erstwhile para-12A of EPS'95	<b>Note 5</b>	<b>Note 5</b>	<b>Note 5</b>
15	What will be the financial implication of restoring back the Return of Capital Option as per erstwhile para-13 of EPS'95	<b>65,109</b>	<b>109,121</b>	<b>155,392</b>
16	What will be the financial implication of decreasing the Early Pension Reduction Factor to 3% (presently 4%) under para-12(7) of EPS'95	<b>10,871</b>	<b>14,702</b>	<b>18,400</b>
17	What will be the financial implication of restricting Children Pension to only 1 child at a time and that too upto only 21 years of age? (presently children pension can be given to 2 children at a time and upto 25 years of age)	<b>(681)</b>	<b>(950)</b>	<b>(1,246)</b>

**Note :**

- 1) It is assumed that all will contribute on last drawn salary without ceiling and will get benefit on that salary
- 2) Since the data in respect of the employee who have nominated other than their family as a beneficiary is not available and the number of such cases are assumed to be few the effect is not given.
- 3) As the EDLI is valued separately the surplus of the EDLI will get transferred to EPS 1995 fund.
- 4) Effect is the additional contribution being generated and not related to shortfall
- 5) Since the commutation is the present value of future pension the impact on the liability is nil as the commutation will happen from the present vale only
- 6) We feel that by freezing the past service there will be loss to some section of employees who are going to receive the benefit for salary less than 6500 pm and it may be administratively hampering to maintain records

**Summary of the Comments of the Members of Expert Committee On the Proposed Conceptual Draft of Provident Fund-cum-Pension Annuity Scheme**

**Sh. Nalin Thakor**

Nature of the Scheme

- The proposal suggests conversion of EPS, a defined benefit final salary type of pension scheme into a defined contribution type of pension scheme.
- The proposal needs favourable consideration as it will resolve the issue of (future) actuarial deficit of EPS. Also, it is in line with changes effected by Central Government for its 'new' employees through New Pension Scheme (NPS).

Contribution rate

- A pension based on employer and Government contributions at 12% or 13.16% of salary is not likely to provide reasonable pension especially when consideration is given to inflation, increasing medical care costs, increasing life expectancy.
- Employer contribution rates (12% or 12.50% + about 4.50% as administrative charges) are already high and an increase in the rates do not seem appropriate.
- It seems appropriate to transfer employee contribution at 6% of salary to ECA. It will increase contributions for annuity to 18.50% or to 19.16% with employer contribution at 0.50% to EDLI account, which may be merged with ECA/AA.

**Sh. S.P. Subhedar**

Nature of the Scheme

- Replace the unsustainable DB Scheme, set up in 1995 in lieu of the DC Scheme, by a DC scheme providing for annuities.
- In favour of the structure of the proposed scheme.

### Contribution rate

- The EPS, 95 gets only 9.49% contribution, it is better placed than the DC schemes because pension is not index linked and pension for service prior to 16.11.95 is related to pension accrued under Family Pension Scheme, 1971.
- The Government was contributing 1.16% to the Employees' Family Pension Scheme, 1971, as it was a DB scheme. The same was continued perhaps because the EPS, 95 is essentially a DB Scheme. Would the Government continue that contribution for the proposed scheme, which would be a DC scheme?

### Annuitisation of the Accumulations

The way the proposed scheme is designed, it would appear that the full accumulation will have to be mandatorily annuitized. However, if it is not so, and if any option were to be provided to the retirees, about the quantum of accumulation to be annuitized, it would be exercised against the annuity provider as retirees in good health (bad risk for annuity providers) would go in for annuitisation of higher proportion of accumulation and those in indifferent health (good risks for annuity providers) would chose to annuitize only the minimum amount as mandatorily required.

### In case of disablement

The annuity providers must provide appropriate annuity rates as applicable to disabled lives.

### Purchasing of Annuity

- Buyer will have the choice of annuity provider.
- Would the annuity provider be of retiree's choice or as decided by the EPFO? It would be desirable to leave the choice of annuity provider to the retiree.

### Default by the Employer

Currently, EDLI does not provide for making good the default by an employer in paying PF contributions. How appropriate it would be to use EDLI funds for making good the employer defaults in paying PF contributions. Further, many employers would have been granted exemption from the EDLI because of their having taken insurance scheme from life insurers.

### Pensioner as on cut off date and after cut off date

Currently, the pensions are paid from EPS, 95 fund, i.e. the demographic and economic risks are borne by the EPS, 95 fund. The annuities are not purchased from the approved annuity providers as is envisaged in the proposed scheme. The number of existing pensioners is not large and one a closed group, it would dwindle over time, making it difficult for EPS, 95 fund to bear the demographic risks, it would therefore be desirable and necessary to purchase from the approved annuity providers appropriate annuities for the existing pensioners as well.

### Transfer of amount in ECA and GCA

When a DB scheme is converted to DC Scheme, the transfer value of the accrued benefits is credited to individual accounts in DC scheme. The Table 'E' is used for transfer of contributions from EPS'95 to exempted or other pension funds or vice-versa. Thus it essentially gives transfer values and can be used as envisaged here.

### On assumptions

The three Pension Fund Managers who are managing the government employees' pension money under the NPS have given more than 11% return. If the proposed scheme goes through, legislative changes would be needed to amend/replace the EPS, 95 scheme and it may be possible then to bring about legislative changes needed to entrust the fund management under the proposed scheme to the Pension fund Managers under NPS. It is reported in the newspapers that the SBI Pension Fund was likely to entrust management of Rs. 2000 cr. to PF Managers under NPS.

### **Sh. Bhudev Chatterjee**

#### Nature of the Scheme

- It is Defined Contribution Scheme instead of existing Defined Benefit Scheme for existing members of EPS, 95.
- The Defined Contribution Scheme favours Employer since it aims to limit the rate of contribution.

### Contribution rate

- The shifting of comparing from 9 ½% to 13 1/6% will not result in a substantial increase in benefit (compare contribution for New Pension Scheme is 20% whereas 27% of salary is contributed to Consolidated Fund of India for Government Employees)
- We have one Provident Fund Scheme which is Defined Contribution Scheme why do we need another. We may only increase contribution to the Provident Fund.

### Average Salary

Career average salary scheme like Provident Fund is only a part replacement of salary at retirement, consequently is not adequate of maintenance. The Government of India is aware of this. Thus all the schemes designed after Employees' Provident Fund and Miscellaneous Act, 1952 like, Employees' Family Pension Scheme, 1971, EDLI, 1976, Payment of Gratuity Act, 1972, Encashment of Leave are all based on final salary.

### Disadvantages of Defined Contribution Scheme

- Fluctuation of yield on investment effects the accumulation of contribution, which is converted to annuity.
- Changes in annuity rate affects amount of Pension to the beneficiary. Members retiring at different dates with same accumulation will receive different Pension.
- The administrative expertise of Trustees plays an important part on investment of fund leading to quantum of pension.
- No minimum pension to members.
- Death at early age and disablement retirement will have a raw deal.
- Annuity market is not at all developed. The LIC issues one type of plan, 3% increase in annual annuity which is not very satisfactory. It has not received much patronage.
- Accrued benefits can not be altered without consent from the members.
- Defined Pension Scheme be properly funded for existing employees because this is more beneficial to employees. If required employees will also contribute to the fund like the New Pension Scheme of the Government.

## **Sh. Nirmal Ghosh**

### **Contribution rate**

We could consider for raising contribution from Employer and Employees presently 12% to 15% and difference of 3% may form additional corpus of EPF Pension Scheme to pay more pension to the pensioners. This enhancement is subject to acceptance by the trustees. But equally I should opine that the government contribution for such social security scheme (EPS, 95) should be increased to fulfill the socio-economic commitment for the old age people.

### **Annuitisation of the Accumulations**

The way the proposed scheme is designed, it would appear that the full accumulation will have to be mandatorily annuitized. However, if it is not so and if any option were to be provided to the retirees about the quantum of accumulation to be annuitized, it would be exercised against the annuity provider as retirees in good health (bad risks for annuity providers) would go in for annuitisation of higher proportion of accumulation and those in indifferent health (good risks for annuity providers) would chose to annuitize instead of minimum amount, it should be appropriate and/or standard amount

### **Comments on sample calculation for various annuity scenarios**

My foremost suggestion is to the enhancement of contribution as already been proposed by which we can have a clear calculation for achieving better benefit for the Pensioners as well as to reduce persistent deficit also and make comprehensive review to find out a comparative rate chart of interest from institutions like LIC and other similar institutions just to select higher interest paying institutions so that pensioners may earn more money to overcome all crisis at their old age entering into New Pension Scheme. While considering the calculations as has been envisaged in the Table 'E' like actual benefit from the value of monthly annuity which should be most progressive.

## APPENDIX - 10

### Comparison of The Proposed Scheme With New Pension Scheme, 2009

S. No.	Title	Provident Fund-cum-Annuity Scheme	New Pension Scheme, 2009 (voluntary for other citizens)
(1)	(2)	(3)	(4)
1.	Date of applicability	01.04.2011 (proposed)	w.e.f. 01.05.2009
2.	Category of Scheme	Defined contribution	Voluntary contribution (with minimum contribution prescribed)
3.	Nature of Scheme	Mandatory contribution by Employer and Employee	Voluntary contribution by subscriber.
4.	<b>Disability Benefit</b>	<b>In case of disability, the member will be entitled to get accumulations in Provident Fund Contribution Account and purchase annuity from the accumulations in Annuity Contribution Account.</b>  <b>In addition, the member will be entitled to a lump-sum from EDLI and add it to the amounts outstanding in Annuity Contribution Account for purchasing the annuity.</b>	<b>Not available.</b>
5.	<b>Benefit to the family in case of death in service</b>	<b>In case of death, the spouse of the member will be entitled to get accumulations in Provident Fund Contribution Account and purchase annuity from the accumulations in Annuity Contribution Account.</b>  <b>In addition, the member will be entitled to a lump-sum from EDLI and add it to the amounts outstanding in Annuity Contribution</b>	<b>Not available.</b>

S. No.	Title	Provident Fund-cum-Annuity Scheme	New Pension Scheme, 2009 (voluntary for other citizens)
		<b>Account for purchasing the annuity.</b>	
6.	Recurring Benefit to the employee/member on superannuation/retirement.	Subscriber to purchase annuity on completion of the age of 60 years by utilizing the full accumulations i.e. contribution given above with interest earned thereon.	Subscriber to purchase annuity on completion of the age of 60 years by utilizing at least 40% of accumulations in the account.  Subscriber may purchase annuity at any age, at his option before completion of the age of 60 years by utilizing at least 80% of the accumulations in the account.
7.	Quantum of benefit to member	Annuity value shall be based upon the final accumulation in <b>Annuity Contribution Account.</b>	Annuity value shall base on the percentage of accumulation in the account utilized for purchase of annuity and the type of annuity opted for.
8.	Benefit in case of default by the employer	Member/family to get the same accumulations in Annuity Contribution Account as if the default by the employer would not have occurred. However, the employer shall not be absolved from his liability and the amount due from him shall be recovered and deposited to EDLI as soon as possible.	Annuity purchased by the subscriber is linked with accumulated savings, since voluntarily subscribed.
9.	Withdrawal benefit	No withdrawal permitted except on exit from Scheme.	No withdrawal permitted except on exit from Scheme.
10.	Annual Increase in the benefit	Annuity value purchased may be Fixed or incremental, as opted for, by the subscriber.	Annuity value purchased may be Fixed or incremental, as opted for, by the subscriber.
11.	Commutation of pension.	Does not apply.	Does not apply.

S. No.	Title	Provident Fund-cum-Annuity Scheme	New Pension Scheme, 2009 (voluntary for other citizens)
12.	Eligibility for Registration/ Membership/ enrolment.	Non-Government Employees working in establishments covered under EPF & MP Act, 1952 (without any wage ceiling).	Any citizen of India whether employed/self-employed/unemployed including NRI
13.	<b>Age criteria for Registration/ Membership/ Enrolment</b>	<b>Any time on joining EPF Scheme 1952/Exempted PF Scheme but below 60 years of age.</b>	<b>Age at entry is not less than 18 years and not more than 55 years</b>
14.	Age of Exit (for eligibility for benefit in normal course)	60 years	60 years
15.	<b>Registration /Membership/ Enrolment formalities</b>	<b>Through employer, from the date of joining the establishment.</b>  <b>No registration fee.</b>	<b>Through Point of Presence -Service Provider. Subscriber to obtain Permanent Retirement Account Number (PRAN) and complete other registration formalities. Charges payable Rs.100/-.</b>
16.	Contribution	Total rate of contribution in Annuity Contribution Account would be 13.5%. Out of 13.5%, the 11.5% shall be diverted from the employer's share of contribution and 2% shall be contributed by the Central Government. However, in cases where the rate of contribution is 10% each from employer and employee, the diversion from employer's share would be 9.5%, and employee's share would be 2%, making a total of 11.5%. The remaining 0.5% of the employer share shall be diverted to EDLI from where the accumulation for providing insurance in case of death and disablement are to be provided.	Mandatory subscription Rs.500/- per transaction or Rs.6000/- p.a.  Minimum 4 transactions in a year.  Failing which Rs.100/- will be charged (as penalty).  Government contribution @Rs.1000 p.a. to be credited in each account as announced in Budgetary speech for three years.

S. No.	Title	Provident Fund-cum-Annuity Scheme	New Pension Scheme, 2009 (voluntary for other citizens)
17.	Maintenance of accounts	The two accounts in respect of each member shall be maintained separately and the interest on the outstanding accumulations in these accounts shall be added every year.	Individual account maintained with additions of interest every year.
18.	Cost of administration	<b>Borne by employer during contribution period. Borne by the subscriber while receiving the annuity (built in).</b>	<b>Borne by the individual while subscribing &amp; also while receiving the annuity (built in).</b>
19.	Adm. Charges/ fees by CRA/ PoP	No charges payable by member. Administration charges are paid by employer on month to month basis, linked to wages earned by employee, while employed.	payable by individual @ Rs. 30/- per transaction and annual maintenance charges of Rs.350/- p.a.
20.	Fund management charges	No charges payable by member. Charges paid from central administration account.	Payable by subscriber @ 0.0009% per annum of amount invested, through NAV deduction.
21.	Tax exemption for contribution by employee/employer/subscriber	EEE shall apply to the amounts in Provident Fund Contribution Account and Annuity Contribution Account.	Subscriber contribution is covered in prescribed investments u/s 80 C of Income Tax Act.  Not applicable in case of Central Government contribution/subsidy. However, lump-sum withdrawal from account and annuity is taxable income.
22.	Annuity providers	To be designated by EPFO.	Yet to be decided.
23.	Nature of saving plan	Social Security plan having insurance benefit in contingencies of death and disability.  On other counts, it is a defined contribution pension scheme.	Financial plan linked with returns on investments and future economic conditions.