EVOLUTION OF EMPLOYEES PENSION SCHEME 1995 AND ITS CURRENT PROBLEM

BACKGROUND

Post – 1925 & Pre – 1952

Provident Fund Introduced

In the beginning as else where in the world there was no specific rule for payment of retirement benefit to an employee except for Government Servants where there was fixed retirement age and a scale of Provident Fund benefit on retirement. In fact most private organizations did not have a retirement age. People continued to work as long as they could. When they could not continue in service their children were absorbed. Over a period of year this system changed and some of the organization introduced retirement age and started to give retirement benefit on an adhoc basis. This differed from employer to employer. To bring parity in retirement benefit payments, Government intervened in 1925. The aim was to provide a lump sum on retirement, which when invested will provide adequate monthly income to support retiree. This was achieved by the amendment of the Income Tax Act 1925. Although payment of Provident Fund was voluntary at that stage but it was widely accepted by employers and most private companies adopted the same for their employees.

Post – 1952 & Pre – 1972

Provident Fund made Compulsory

In 1952 Government made payment of Provident Fund mandatory by enacting "The Employees' Provident Fund and Miscellaneous Provisions Act 1952" for those earning Rs. 1000/- or less. Over a period of time the salary limit for coverage was changed to Rs.1600, Rs.2500, Rs.3500, Rs.5000 and currently to Rs.6500/-.

Post - 1972 & Pre – 1976

Gratuity Introduced

With the passage of time it was felt that income from carrier average Scheme like Provident Fund payment is not adequate to support a retiree and further additional payment is required based on Final Salary Scheme. Accordingly Government of India introduced "The payment of Gratuity Act 1972" which made provision of payment of lump sum amount depending upon salary/service at exit so that income from this lump sum may further augment monthly income of a retiree.

At this juncture an opinion was gaining ground that all benefits are by way of lump sum payment. Although such lump sum may be invested judiciously by the employee, it is unlikely it will be well invested by widow. Experience showed that on the death of employee often relatives etc. took away cash from the widow in the name of looking after widow. Eventually widow becomes helpless. It was felt that provision of monthly payment would be a better alternative as compared to lump sum payment.

Employees-Family-Pension-Scheme Introduced

Government of India/State Government by this time has introduced Pension Scheme for its employees. First such benefit to be introduced for non-government employees was Employees Family Pension Scheme 1972 (EFPS 1972) being payment of Monthly Pension @ Rs.200/- on death of an employee to his widow for life. This Scheme heralded a new era in two ways namely;

i. This was the beginning of the Pension Scheme for Non-Government Employees.

ii. Government injected 1.16% of salary of each employee as Government contribution, over and above diverting 1.16% from Employer and Employees' Provident Fund Contribution, to fund the Scheme.

Post – 1976 & Pre – 1995

Employees Deposit Linked Insurance Introduced

Later on it was felt although the lump sum benefit provided was adequate to support the employee after normal retirement but this was not enough a cover for the family, on death of an employee at younger age, even taking into account payment of Family Pension. Then came Employees-Deposit - Linked - Insurance Scheme 1976 (EDLI) under which an additional amount was paid on the death of employee over and above Provident Fund and Gratuity and Family Pension payable in such case. Sailing with current idea of Government participation in Funding, Government contributed (½% of salary) so as to make the Scheme a Tripartite Scheme.

Post – 1995 Employees Pension Scheme Introduced

Although a very modest start of the Pension Scheme was made with introduction of Employees' Family Pension Scheme 1972, but at that time it was declared that over a period of time this would be developed in a full pledged Pension Scheme. It took about 23 years to fulfill this pledge and then came Employees' Pension Scheme 1995 (EPS 1995).

SCHEME ELSE WHERE

While designing the Scheme we considered the various Pension Scheme as was introduced all over the world. Analysis of these schemes show that there are three Pillars of Pension Scheme commonly used in developed countries.

PILLAR – 1

SOCIAL SECURITY SCHEME:

This is a Social Security Scheme. Such Scheme exists to provide a minimum benefit for all including people who are not capable of taking care for themselves i.e. those whose income are not adequate such that they can make adequate provision for their post retirement benefit, during their working life. The most ideal Pension Scheme in this regard was found to be the Flat Rate Pension Scheme of U.K. which provided a flat rate of Pension for all citizens. Cost of this Scheme was covered by Government entirely from tax collected.

PILLAR – 2

OCCUPATIONAL PENSION SCHEME:

Model Pension Scheme in this regard were enacted and maintained by the respective Government. These Schemes were mainly Pension Scheme to provide Pension on superannuation and earlier on disablement or to the spouse on employees death. Part of the Pension could be commuted to provide cash. This Scheme were Non-contributory, i.e entirely funded by the employers contribution. An employer had the option to contract out of the Government Scheme provided they paid benefit at least at par with that of Government Scheme. Occupational Pension Board were created by Government to allow such contracting out and to keep control of such privately managed Pension Scheme.

PILLAR-3

INVESTMENT SCHEME:

These were mostly investment type Scheme. It was partly funded by the employer and partly funded by the employee. This is over and above the benefit provided under Pillar – 2 and such benefit were available to select people whom the employer wanted to be covered. Many self employed were also covered under Pillar –3 Scheme. This includes Insured Pension Schemes as well.

NATURE OF SCHEME

From the above study it was apparent that since Employees' Provident Fund and The Miscellaneous Provisions Act 1952 applies to the people in the lower income bracket, therefore the Pension Scheme that will be formulated should confirm to this category of people. The obvious choice was to frame the Scheme as a Pillar – 1 Scheme. However, the Pillar – 1 Scheme in entirety could not be taken since;

1. It is not covering entire population. Therefore, the cost of the Scheme could not be funded by the Government alone.

2. This is also related to working people with different salaries and period of service. Accordingly a Flat rate benefit would be unsuitable.

This required that salient features of the Pillar – 2 Scheme was necessary to be brought in. Since the people covered are with lower income group, therefore elements of Pillar – 3 Pension Scheme was not appropriate. Accordingly, it boiled down that a Pension Scheme has to be designed which will be a Multiple Employer Pension Scheme participating in a Pool Fund with one set of Rules covering all employees of all employers. This will contain essence of the Social Security nature of the Pillar – 1 Scheme as well essence of occupational Pension Scheme under Pillar – 2 with provision to contract out for employers with better Schemes.

Since in India we have already a system of Retirement Benefit Payment as Provident Fund Scheme where both Employee and Employer are contributing. It was felt that an additional scheme with additional contribution from Employer will be an additional burden on the Employer. It is unlikely that an Employer will accept such burden. To make a scheme worthwhile contribution around 10% will be required, if the Pension is not index linked. On the other hand if Pension is index linked the contribution of around 22% will be required. This will bring the total contribution by an employer varying between 22% at the minimum and 34% at the maximum. It was felt this is simply out of question as no employer would agree to this. Therefore, only option left was that the Pension Scheme to be funded out of the contribution that has already being made to Provident Fund, which is 24% of salary. The option in reality meant converting of the existing Employees Family Pension Scheme – 1972 to an Employees Pension Scheme by including additional benefits and diverting further amount of contributions.

SAMPLE SURVEY

It was felt that since we are diverting contribution from Employees Provident Fund it should be ascertained whether employees are in favour of this. To test the situation a Sample Survey was carried out by National Sample Survey Organization to find out;

i. Whether Employees/Employer were in favour of a Pension Scheme.

ii. If so, would there be a pension Scheme replacing Provident Fund in entirety.

iii. Or it will be part Provident Fund and part Pension Scheme.

The result of the survey was that employees part of the Provident Fund were mostly withdrawn by employees before their normal retirement age as to meet various exigencies. Employees were therefore, concerned that any change from the present situation would cause harness to them. Employers on the other hand was of the view that Pension Scheme is required because if a Pension Scheme is not brought the employees will take out employer part of Provident Fund as well during their working life leaving nothing as retirement benefit.

MODEL SCHEME

The next choice was to decide on the nature of the Scheme, whether it will be a Defined Benefit Scheme or a Defined Contribution Scheme or the Registered Pension Scheme. Nowadays there is a trend among employers to move from Defined Benefit Scheme to Defined Contribution Scheme. Many people are of the view that Defined Contribution Scheme is a strain on the Company. In Indian circumstances this has been worse, as LICI taking advantage of Income Tax Regulation for Compulsory purchase of Pension Annuity, for Pension Funds, from LICI over last 10 years has invoked increase in the Pension Annuity rate arbitrarily as will be evident from below:

Year	**Annuity at age 58**
01.07.91 upto 01.07.2000	86.70
04.07.2000 upto 31.03.2002	100.25
01.04.2002 upto 31.10.2003	140.32
1.11.2003 onwards	167.83

e.g. you will notice from the table that over the years the Pension cost has nearly doubled. Whether it is Defined Benefit or Defined Contribution same Annuity rate shall apply. Therefore, if we opt for a Defined Contribution Scheme we will give the man 50% of the Pension as would have been otherwise payable under a Defined Benefit Scheme. In other words Defined Contribution Scheme reduces the quantum of benefit and not its cost. It is no way cheaper than Defined Benefit Scheme and does not come as savour to Employer but on the other hand is a pallbearer to Employee.

In the case of Employees' Pension Scheme, however, we don't have this problem because the Pension will be payable by the Fund itself and this will be immune to LICI whimsicals. Therefore, Defined Contribution Scheme has been ruled out. However, for earlier exits since the amount of contribution will be small therefore, equivalent Pension will be also small. Further, suppose somebody joining at age 18 leaves before age 28, he will have to wait another 30 years to receive the Pension which will hardly attract anyone to Pension Scheme. Therefore, the proposed scheme incorporates return of contribution at earlier ages. In other words, Pension Scheme is a highbred of Defined Benefit Scheme as well as Defined Contribution Scheme.

FUNDING

Bearing in mind the result of sample survey, it was decided that Pension Scheme will be so designed that,

1) No part of employees contribution is diverted to Pension Scheme.

2) Diverting part of employer contribution.

3) Diverting Government contribution to Employees Pension Scheme.

4) Existing corpus of Employees Family Pension Scheme 1972 to form the corpus of Employees Pension Scheme.

This is also welcome because with the fall of interest rate, the Pension part will be attractive and the income from Provident Fund un-attractive vise versa, mixture of both is expected to keep employees' income more or less constant, while interest rate changes.

The proportion of Provident Fund to be converted to Pension Scheme will depend upon the monthly income level that will be provided. After due deliberation between Employer and Employee it was decided that the ultimate pension could be around 60% of last salary drawn. This required approximately 9½% of salary as contribution. Accordingly it was decided that 8 % of the contribution from the employer share of contribution in the Provident Fund will be diverted to the Pension Scheme, balance being Government contribution.

CROSS SUBSIDY

This diversion was objected by a section of employees because this brought a change in the fundamental principle of Employee benefit. So far benefit was related to contribution made by and for an individual in Provident Fund Scheme. From that we moved to an aggregate scheme, where benefit was not related directly to contribution made in respect of Individual, which was evident from this phrase “Journey from My Provident Fund to our Pension Scheme”, which accompanied introduction of the Scheme.

Historical judgement of Supreme Court on Employees Family Pension Scheme 1972 says “If everyone wants to take back what ever he has put in Scheme who will look after the widow, children and helpless.” This judgement has gone long way to reinforce formulating an aggregate scheme where everybody will pull according to their weight and people will get benefit depending upon their need. Consequently this Scheme is a Scheme of Cross Subsidy, to be precise there are four Cross Subsidies in this Scheme.

1. Younger people subsidising the older people.

2. Future generation of subscribers subsidies the current generation of subscribers.

3. People contributing at higher salary level subsidizing the people contributing at lower salary level.

4. Superannuation exits at Earlier years of the Scheme will be subsidized by continuing employees.

With the passage of time the quantum of subsidy between various groups will change, e.g. when the Scheme was framed the people who received Pension, hardly made any contribution. Therefore, the quantum of subsidy was much higher at the outset compared to that required over successive years.

Even then it is desirable that with the passage of time the periphery of the Social Security dragant should be increased to cover as many people as possible. The Employees’ Pension Scheme can be utilized to this effect by covering worker from Un-organised Sector/Worker of Self Employed Sector and to those who have already crossed working age but has not contributed at all like war widows etc.

PARAMETERS

The Scheme was designed in 1990, at the time when interest rate was rising and salary increase were modest. However, no scheme is designed based on current parameters. Since it is customary that the change in the parameter will take place over a period of time, Actuary while designing the Scheme does not base on current parameters. He takes the long term view of parameters. Therefore, if a Scheme as designed by an Actuary remains unaltered, change in parameter will have no affect. In this context we mention parameters used in costing:

i. Demographic conditions.

ii. Economic conditions.

iii. Investment opportunities.

iv. Age/Salary/Service distribution of the employees to be covered.

v. Investment.

We analyse the experience of movement of parameters over next 10 years:

i. DEMOGRAPHIC CONDITIONS:

The main item is mortality. Employees Provident Fund Organisation has come into existence for nearly 25 years and has a membership of about 1,80,00,000 at the time of costing. Accordingly experience of EPF would be adequate enough to arrive at mortality table for valuation purpose. Further, because of the upper limit of salary the large majority of members covered under the Scheme would not attempt to take Life Insurance Policy at all. Therefore, the mortality rate as shown by LICI will be totally unsuitable for this category of people. Therefore, it was decided to opt for experience based mortality. Comparison of this mortality with that of LICI mortality shows that two rate have criss-crossed each other in many places.

ii. ECONOMIC CONDITIONS:

There has been a vast change in economic conditions. Variance to such a degree was not anticipated. Interest rose to as high as 14% thereafter interest rate has plummeted from 14% to 7% currently. However, the accompanied reduction in salary growth is yet to be seen. Although reduction in interest rate has resulted to lower Consumer Price Index resulting in smaller DA relief, however, increase in basic salary has remained same varying between 3% to 4%, because salary scale in respect of large majority of organization have been fixed on a long term basis. It will take quite sometime before scales are altered. Therefore, the real rate i.e. difference between interest and inflation has not reduced appropriately.

We expected this, that is why the Fund was costed at net rate of 1%. Subsequently valuation of the Fund has been followed consistently, carried out at the net rate of 1% where real rate has varied between 3% to 1%. In other words, the Fund has hidden Reserve. Part of the reserve has been eaten away by paying withdrawal benefits, where tables were fixed at higher rate of interest which is no more valid. These tables need to be amended immediately to stop strain on the Fund. There was no commitment for DA Relief to Pension. It has been suggested and agreed that DA Relief to Pension will be apportionment of emerging profit if any. In the changed circumstances there could be lesser or no emerging profit at all. However, pension payment as per rule of the scheme will remain unaffected, until such time the real rate is lower than 1% which is very very unlikely.

iii. ***INVESTMENT OPPORTUNITIES:***

The investment pattern is determined by Government. Over the period Government has changed the pattern by varying the proportion of the investable money among investment in approved securities. Even though the securities are all fixed coupon rate, there is a very wide spectrum of investment with varying terms from 1 to 20 years and Coupon rates also varying from high yielding security of coupon rate of 12.60% to low Coupon rate as 5.54%. Any judicious investment would have secluded the fund from market variation to great extent. Government has also allowed investment in Infrastructure Bonds.. Further liberalization of investment are now being talked about. Government's new Pension Scheme will have a major investment in equity. Government is creating Central Depository Scheme. Therefore, it is expected that the Fund earning will substantially increase over a period of time.

iv. ***AGE/SALARY/SERVICE DISTRIBUTION OF THE EMPLOYEES TO BE COVERED:***

We summarize the expenses of the Fund.

	1996	**1998**	**1999**	**2000**	**2001**	**2002**
Average Age	37.32	38.28	40.26	39.83	36.68	37.18
Average Service	11.29	7.79	18.43	19.93	13.07	11.97
Average Salary	1335.78	1493.12	1779.70	1840.85	2667.00	2723.00

No significant difference has been found between actuarial bases assumed in costing and subsequent experience of the Fund, save and except that the number of Non-pensionery benefit is almost equal to the number of pensionery benefit which was not thought of and which is unwanted. Since this is not an age specific contribution rate based Pension Scheme but an average age contribution rate based Pension Scheme, consequently, if the employee at younger ages enter in lower proportion and or leaves the Scheme at early stages then the funding of the scheme would be affected because,

i. Younger people would have paid a contribution at a rate higher than that required for that age.

ii. They would have paid contribution rate for a longer period.

The problem has been intensified because of the higher withdrawal benefit based on tables worked out at higher rates of interest as was applicable in the terms of costing of the Scheme. As pointed earlier this needs to be remedied immediately.

v. *INVESTMENT:*

The Fund consists of two parts.

i. A portion of the Fund belonging to The Employees Family Pension Scheme 1972 lies with the Government of India. Government contribution is credited to this account as well interest @ 8½% p a. In the beginning this rate of interest was lower than the Fund was earning. Accordingly in the past we have advocated that all benefits shall be paid out of the Fund because benefits were mostly due to Past Service and corpus related to Past Service is corpus of Employees Family Pension Scheme 1972 which, lies with the Government of India. However, the position has now changed. The market rate is lower than 8½%. It will now be beneficial to pay entire payment from the income of the year then allowing the balance money in the Government Fund to accumulate. Consequently Mode of funding will change from time to time depending upon the market rate of interest rate.

ii. The second Fund consists of the Employers' part of the contribution as diverted from Provident Fund. All expenses are debited to this fund and the balance fund is invested as per format of investment as discussed earlier. The moribund investment policy is followed i.e. securities are purchased and kept till maturity. In the costing as well we have assumed that moribund Investment Policy will be followed and accordingly investment will be taken at Book Value.

Funding of investment has scope for improvement. It is desirable that Fund should be invested to optimise the yield.

It will appear from above that there is not much difference between the original assumption used in the costing and the changed circumstances except to the lowering of net rate. As explained earlier that this will affect the DA relief to the pension but will not dilute the benefit as per provision of the scheme, it therefore, needs to enquire what has gone wrong if anything.

AMENDMENTS

An aggregate Pension Scheme which is based on cross subsidy is very finely balanced. Any small change in the structure of the Scheme will affect the benefit, then rigorously affecting finances of the Scheme and even make Scheme unviable.

But however, from my experience of designing about 200 Pension Scheme spread over 3 continents. I have never come across a case where a Pension Scheme as designed by an Actuary has been accepted in TOTO. This is neither desirable because although Actuary designs the Scheme based on the outcome of Sample Survey but it is still pre-dominant of the theoretical concept of the Actuary . But Labour Leaders who are in constant touch with the workers, are more aware of their requirement and aspiration. Consequently, opinion of such experts necessarily are to be taken into account and the Scheme modified accordingly. Therefore, although I was not convinced, sometime that the change was required, still amended the Scheme, as I thought that these would be at the best interest of the workers. In the process we have calculated the strain for each such item and compute if the balance reserve is adequate to take the strain. This has resulted in very thin reserve left in the Scheme.

In this context we examine the changes that has taken place in Employees Pension Scheme since inception.

Original Proposal 1 : Pensionable Salary will be taken over 5 years average.

Existing Rule : Pensionable Salary is taken as 12 months average.

This was taken to even out the fluctuation in the salary over period of years. Salary increases by 3 methods:

i. Industry wise settlement.

ii. Annual increase due to rise in cost of living.

iii. Change in salary scale due to promotion.

Industry wise salary scale is revised on an interval of 5 and 10 years and each revision brings a hefty increase. Last increase in Public Sector Units salary scale was nearly a 100% increase. This immediately increases the past liability of Pension Scheme by 100%, which obviously leads to an insolvency. The DA relief also varies from year to year resulting in increase of liability. This also increases the liability which is not determinable because salary increase on promotion is not a determinate thing. It varies from company to company/age at promotion/grade at promotion. To iron out all this problem, it is suggested that the salary should be averaged over 5 years. It would have reduced the Pension cost by 15% assuming average increase of 6% p.a. in salary as compared to salary averaged over 12 months. Consequently, strain has come on the Fund.

Original Proposal -2 : Pensionable Service is the actual service.

Existing Rule : Pensionable Service has been taken as actual service increased by 2 years.

It as argued that the retirement age taken as 58 where as in most cases it was 60. Accordingly 2 years bonus service should be given. It was also felt that the final Pension should be 60% of the pensionable salary. Since Pension fraction is equal to 1/70 and maximum service which is normally accepted as 40 years, therefore, 2 years bonus was given to the service to make it 42 so that final Pension is 42/72 = 60%. The increase in Pension liability due to addition of the 2 year is therefore not been funded. This will be a cause of strain to the Fund. Further it was originally decided that this 2 years will be added to service only for exits. However, it is gathered that the 2 years has been added for all causes of retirement which has caused further strain on the Fund.

Original Proposal– 3 : Pension to be reduced actuarially i.e. 6% for each year age at vested of pension fall short of retirement age.

Existing Fund : Pension has been reduced only by 3% and maximum reduction is 25%.

If a Pension is paid earlier than superannuation it causes the Fund in two ways:

i. The Pension is to be paid for a longer period. Therefore, Pension cost is higher.

ii. The reserve in respect of such person will fall short of Pension Cost because the Fund was built to pay the Pension at normal retirement age.

Therefore, if the Pension is reduced actuarially by taking into;

i. Number of years of short fall from age at vesting till superannuation age.

ii. Reduction in the reserve for non-accumulation till superannuation age.

Then there will be no strain on the Fund. Such a reduction will be around 6% by each year, age at vesting of Pension fall short of superannuation age.

It will appear from above that nearly 50% of Actuarial Reserve was lost in the process.

Country is going through a phase where a large number of VRS is taking place. Under the provision of the scheme, employees leaving at ages 50 and above can opt for pension. As pointed out Pension payable on ages earlier than superannuation, has not been reduced actuarially. Consequently, each VRS has caused substantial strain on the Fund and we have seen quite a number of VRS. If the fund becomes stationery after passage of time, this diviation would not have been source of strain. But at the beginning of the Scheme they positively contributed to the dilution of the Scheme reserve. This is a difficult choice as to how far to plug the VRS strain because as explained earlier this scheme is mixture of a Social Security Scheme (Pillar – 1 Scheme) and Occupational Scheme (Pillar – 2 Scheme) where Social Security concept will require VRS payment to continue unreduced whereas Occupational Scheme will require this to be reduced on actuarial basis. Balance has to be struck so that the operation of Fund does not hurt its basic tenants.

I considered 50% strain can be borne, thus reduce the maximum reduction to 25%.

Original Proposal– 4 : The Past Service Pension to be limited at the date of changes.

Existing Rule : The Past Service Pension to be given interest addition.

Since Past Service Pension is equivalent of Past Service contribution which was at much lower rate, therefore, further increase in this benefit was not actuarially justifiable, even if such accrual would have been allowed, this would have been at much lower rate.

However, this could not be adhered to.

Original Proposal – 5 : Minimum Pension to be paid only for age retirement.

Existing Rule : Minimum Pension is paid for all causes of exits earlier.

When the Pension Scheme was introduced the people aged 48 and above could not complete the minimum eligible period of 10 years. Further since the future service counting from 1995 would be small at date of superannuation, therefore a minimum Pension was calculated for age group 53 to 58, 48 to 53 and those below 48. This would have normally applied if one would have completed up to superannuation age and given adequate service. Accordingly minimum Pension was meant for this category only. However, minimum Pension has been sanctioned to early retirees who have left at their own volition. Consequently, there has been some strain on the Fund.

Original Proposal – 6 : Nominee Pension to be Excluded.

Existing Rule : Nominee Pension to be included.

Nominee Pension was not originally included in the Scheme because it was expected that nominee will be of younger age. Therefore, cost of Pension payable to a nominee will be higher than the cost of Pension payable by the employee. Employee has paid the contribution to receive pension for his life. If the nominee pension would have been pension equivalent to the cost of employee pension, there would have been no strain. However this was not adhered to.

Original Proposal – 7 : Commuted Pension to be excluded.

Existing Rule : Commuted Pension included.

At the inception there is a fund crunch. Almost every fund has adequacy problem during the early years. Commutation of Pension is the present value of pension payable for life. If commutation of a portion of pension is allowed, then this will surpass the monthly payment many times over. Accordingly, at the initial stages this cause severe strain to the Fund. In the original Scheme there was no commutation granted. Later on commutation was granted after three years of start of the Fund. Even then the Fund has suffered.

Original Proposal – 8 : Withdrawal benefit, Commuted Pension, the ROC are to be based on interest earning of the Fund.

Existing Rule : Proposal for change in effect are being awaited.

Withdrawal benefit, Commuted Pension, ROC etc. in other words are capital payment in lieu of Pension. Such capital payment should be based on the current rate of interest, current mortality table etc. In every actuarial valuation these tables need to be checked and amended accordingly. We are awaiting for one such amendment.

Original Proposal – 9 : On successive revision of upper limit of salary for coverage, the past contribution to be transferred from Provident Fund.

Existing Rule : It is advised that practically this is not feasible.

Every time the salary limit is increased for coverage purpose, then the increase in future benefit would be funded by increase in future contribution due to increase in salary limit. However, there will be no contribution to offset the increase in Past Service Liability due to salary increase. In this regard, there are three options:

1) In each occasion, transfer from Provident Fund equivalent amount of contribution. This is only legally correct postion eg. consider someone was paying contribution at the salary level of Rs.7000/- when the limit was Rs.5000/-. Another man, although his salary was Rs.6000/- he was contributing at the rate of Rs.5000/-. When the salary limit is increased the second man will get pension based on Rs.6000/- even then he was contributing, salary based on Rs.5000/-. This is grossly unfair.

2) Alternative would be to base the pension related to the salary for a particular period of service.

In the second case up to the date of revision, the pension should be based on Rs.5000/- salary and from the date of revision Rs.6500/- salary. This will keep the benefit contribution equation more or less unaltered.

3) Base salary of 5 years average instead of 12 Months.

If nothing is done, since the salary limit of the scheme is increased from 5000 to 6500 but Government contribution will still be limited to Rs.5000/- only. This will need the subsidy for the higher paid people, for payment of pension, from lower paid people which is not desirable. This will affect also the minimum pension payable on various contingencies of exit.

Original Proposal – 10 : Stress will be on the pre payment of contribution, transfer of Pension Benefit rather than exit to next employer.

Existing Rule : In practice this has is not happening. Non-Pensionable exits an exceeding exits Pensionable.

This is a very difficult proposition. Many people are taking out contribution after completing 9½ years of service to avoid 10 years deadline and they rejoin again. Until such time Unique Accounting Number principal is enclosed, it will not be possible to stop this.

We thus conclude that the changes in,

i. Parameters over the years has not really affected the Fund and is unlikely to affect in future.

ii. Certain concession which were granted at the time of prosperity of the Fund are to be curtailed.

iii. Administrative measures are to be taken so that non-pensionable exits are controlled. This in my mind will be adequate for the Fund to provide the benefits as per rules of the Fund. However, Pension Relief to the Pension will be only feasible if there is an emerging surplus.

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