



Institute of Actuaries of India

Subject

SA4 – Pensions and Other Benefits
Specialist Advanced

For 2024 Examinations

Aim

The aim of the Pensions and other Benefits Specialist Advanced subject is to instill in successful candidates the ability to apply knowledge of actuarial and related subjects as these apply to Pension, Social Security and other Employee Benefits in India (in particular and including actuarial and employee benefit work carried out in off-shored functions), UK and across the globe (in general)

Links to other subjects

Subject SP4: Pension and other Benefits Specialist Principles: provides the underlying principles upon which this subject is based. It is assumed that candidates have a good understanding of the principles covered in subject SP4.

Objectives

On completion of this subject the candidate actuary will be able to:

- (a) Define the principal terms used in India (in particular), UK and across the globe (in general)
- (b) Describe the roles of each of the following parties who may be involved in the provision of pensions in India (in particular), UK and across the globe (in general):
 - the State
 - the Pensions Regulator, PFRDA
 - NPS (Trust)
 - Taxation Authorities, CBDT
 - Employees' Provident Fund Organisation, EPFO
 - employers and groups of employers
 - individuals and groups of individuals
 - trustees
 - actuaries
 - other Employee Benefits advisers
 - Insurers particularly offering employee benefit products
 - IRDA & auditors
- (c) Describe how the legal framework for pensions & other long term employee benefits applies in India (in particular), UK and across the globe (in general) such as Gratuity, Provident Fund, Public Provident Fund, Pensions (including National Pension System, Atal Pension Yojana, Employees' Pension Fund 1995), Leave Benefits, Deferred Cash, Share Based Payments and Medical Benefits, attempt to:
 - encourage appropriate non-State provision,
 - ensure security for non-State provision,
 - ensure adequacy of non-State provision,
 - create evolving mechanisms for employee engagement.

And with particular reference to scheme entity, funding, solvency and others.

(d) Discuss the implications, for the parties in (b), of the Regulatory, Legislative and Taxation environment in which Pensions and other Employee benefits in India (in particular), UK and across the globe (in general) are provided in terms of the effect of:

- different presentation and reporting of benefits and contributions
- accounting standards; Indian (AS 15, Ind AS 19, Ind AS 102) and International including IFRS (IAS 19, IFRS 2) and US GAAP.

- discuss the issues taken into account in producing information to meet accounting standards, including - the objectives,
 - the disclosure requirements, including those for directors' remuneration,
 - the calculations of cost of benefit provision

- the professional guidance for actuaries contained in Guidance Notes/Actuarial Practice Standards mentioned below, as issued by the Institute of Actuaries of India (updated versions as on 21 July 2018);

- APS15 – Pension Fund Terminology (Ver. 1.1/ 01.01.2012)
- APS20 - Actuarial Practice for Social Security Programmes (Ver. 1.01/ 01.01.2012)
- APS27 - Employee Benefits - (Ver.1.00 / 01.01.2018)
- APS34 – General Actuarial Practice - (Ver.1.00 / 29.12.2021)
- GN29 - Valuation of Interest Rate Guarantees on Exempt Provident Funds (Ver. (2.00/ 31.03.2022)

(e) Describe the ways in which providers in India (in particular), UK and across the globe (in general) may be able to finance the benefits to be provided in terms of:

- the alternatives that exist relating to the timing of contributions relative to benefit Payments,
- the forms and characteristics of investment (including those provided by life insurers) that are available if contributions are made before benefits are due for payment.
- The alternatives to pension available to individuals – these include Regular income products available in Indian Markets including immediate & deferred annuities provided by Insurers, Small savings instruments provided by post office to Senior Citizens

(f) Discuss the factors to consider in determining a suitable design, in terms of benefits and contributions in India (in particular), UK and across the globe (in general), in relation to:

- types of pension and other employee benefit schemes (e.g. defined benefit, defined contribution, risk sharing) share-based employee benefits, deferred cash plans)
- the level and form of benefits and/or contributions to be provided,
- the method of financing the benefits to be provided,
- the choice of assets when benefits are to be funded,
- how the risk is shared between parties.

- In Indian context, considerations about investment guarantees under DB plans. I believe even NPS is toying with this idea.
- The old index linked DB government pension scheme in India, history of switching to NPS and implications of a move back to old DB schemes – considerations & issues.

(g) Discuss the issues surrounding sponsor covenant in India (in particular), UK and across the globe (in general) in terms of

- what is meant by sponsor covenant
- how to measure the willingness of the sponsor to contribute
- how to measure the ability of the sponsor to contribute
- when the other parties involved should consider the sponsor covenant
- providing alternative benefit options to promote take up rates.
- Role of trustees, their responsibilities, governance and their powers in India is again a subject which does not get enough coverage (perhaps this is included in SP4) but I think the specific circumstances prevailing in India should get covered adequately.
- section on trust act, trust set, amendment, and overall governance of trusts in the retirement context

(h) Describe the risks and uncertainties affecting:

- the level and incidence of benefits,
- the level and incidence of contributions,
- the level and incidence of return on assets,
- the extent to which assets are exhausted during a member's lifetime
- the overall security of benefits in India.
- Risk mitigation tools for DB pension plans can include a variety of tools : from insurance (which gets covered in section n), conversion to hybrid of DC, longevity swaps, Liability Driven Investments (LDI), etc.

(i) Analyze the investment strategy of a provider in India (in particular), UK and across the globe (in general) of pensions and related benefits in relation to:

- any asset-liability matching requirements
- the trade-off between risk and reward,
- the applicable accounting standard's forbearance to volatility, if any
- an awareness of adding value to the shareholders of the business, and
- describe how projection models may be used to develop appropriate strategies.

(j) Describe the issues that arise from the transfer/amendment of pension and/or other employee benefit rights in the event of a significant corporate activity such as an acquisition or scheme merger, including matters relating to:

- the interests and responsibilities of the parties involved,
- the terms that might be set out in the Pensions Clause of a Sale and Purchase agreement,

- financial aspects, such as the calculation of the bulk transfer value (if relevant) and benefits provided.
- accounting impact of the transaction e.g., goodwill and tax effects.

(k) Determine an appropriate method and appropriate financial and demographic assumptions for the valuation of defined benefit scheme open or closed to new entrants in India (in particular), UK and across the globe (in general) and placing values on benefits and contributions.

(l) Discuss the principles behind the determination of discontinuance terms in respect of benefits from an occupational pension scheme in India (in particular), UK and across the globe (in general), in relation to how the following may be taken into consideration when determining discontinuance terms:

- rights of beneficiaries,
- other benefit expectations,
- the availability and selection of a method of provision of discontinuance benefits, the level of available assets.

(m) Discuss how to determine values for assets, past and future benefits and future contributions in India (in particular), UK and across the global (in general) environment, including:

- the data requirements,
- the need for placing values on assets, past and future benefits and contributions and the extent to which values should reflect investment/risk management strategy,
- the reasons why the assumptions used may differ in different circumstances, the reasons why the assumptions and methods used to place a value on guarantees and options may differ from those used for calculating the reserves needed,
- how sensitivity analysis can be used to check the appropriateness of the values and be able to perform calculations to demonstrate an understanding of the valuation methods.

(n) Discuss the principles underlying the use of insurance, as an investment avenue, and the choice of insurance contract, as a means of reducing some of the risks and uncertainties associated with the provision of pensions and other employee benefits.

(o) Discuss the benefit options typically available to individuals:

- Before retirement,
- At retirement
- After retirement

And discuss how to set appropriate terms and consent requirements for these options (where appropriate), taking into account the risk and reward for all relevant parties.

(p) Identify the sources of surplus/deficit for a benefit provider and discuss the factors that affect the application of this surplus/deficit.

- (q) Discuss the accounting related obligations on measurement, recognition and disclosure across all employee benefits including post-employment benefits, other long-term benefits and share based payments.
- (r) Describe the Indian tax position in respect of employee benefits.
- in particular, provisions related to tax-sheltered trusts for provident fund, superannuation/ pension fund and gratuity fund.
 - For employer's tax obligations and planning.
- (s) Practical considerations for various aspects of accounting for special events such as benefits improvements, curtailments & settlements. Some of these vary as per accounting standards. Especially in case of USGAAP things get complicated and I feel it is topic which should get covered under SA4.
- (t) Describe how the financial significance of deviations from expectations should be monitored and assessed, in terms of:
- the reasons for monitoring,
 - the data required,
 - the process of analysis of the various factors affecting the experience,
 - the use of the results of to help develop solutions to the problems faced in pension provision.
- (u) Solve complex problems associated with:
- pension scheme design,
 - setting funding rates,
 - monitoring asset adequacy,
 - investment policy,
 - protecting members rights.

And, through integrating and critically evaluating the results, draw conclusions there from, in particular in relation to:

- the risks undertaken,
- the level of funding,
- ownership of surplus and handling deficiencies,
- future contributions,
- mergers and takeovers, winding up a scheme, sponsor covenants.

Study Materials

Study Material supplied by Actuarial Education Company - Year 2024

Study material for subject SA4- supplied by Actuarial Education Company for usage of the Institute and Faculty of Actuaries, UK subject to the following; Chapter 1: Introduction – included only Section 1 and 2

Chapter 5: Professional Guidance- Replace professional guidance of IFoA with that of IAI Other Chapters included without any exclusion

India Specific Material

1. India Specific Legislation, Environment and Practices – Pension and Other Retirement Benefits by G N Agarwal – Version 1.07 (August 2010).
2. Supplementary Note (updated) on India Specific Legislation, Environment And Practices – Pension and Other Retirement Benefits by Anuradha Sriram
3. Employee Pension Scheme, 1995 (EPS) and Employees’ Deposit Linked Insurance Scheme, 1976 (EDLI) (available in the market)
4. Payment of Gratuity Act 1972 (including amendments till March 2018) (available in the market)
5. Part A, B and C of Fourth Schedule of Income Tax Act, 1961. (available in the market)
6. Part XII, XIII and XIV of Income Tax Rules, 1962 (available in the market)
7. Approaches for Valuing Interest Rate Guarantees under AS 15 (revised, 2005) by Dr. K Sriram – Version 1.00 (April 2008)
8. National Pension System and Atal Pension Bima Yojana – Benefit design, features, investment norms, role of intermediaries & delivery mechanism (available in the market)
9. Code on Social Security, 2020 (available in the market)
10. Funded Products available in Indian Insurance market, Benefits & features (IRDAI Regulations available in the market)
11. Annuity products (both immediate & deferred) available in Indian Market, Small savings products available to Senior citizens
12. Features of the Social pension benefits promoted by Government of India through the Schemes PM Laghu Vyapari Maan Dhan Yojana (PM_LVMY), PM Kissan Maan_Dhan Yojana (PM_KMY), PM Shram Yogi Maan Dhan Yojana (PM_SYM)
13. leave under the Shop & Establishment Acts of various states. (Arpan)
14. trust act, trust set, amendment, and overall governance of trusts in the retirement context

GNs and APSs issued by IAI

1. Professional Code of Conduct Version 3.0
2. APS9 – Continuing Professional Development (CPD) and the Actuary (Ver. 3.00/ 21.07.2018)
3. APS15 – Pension Fund Terminology (Ver. 1.1/ 01.01.2012)
4. APS20 – Actuarial Practice for Social Security Programmes (Ver. 1.01/01.01.2012)
5. APS27 – Employee Benefits (Ver. 1.00/01.01.2018)
6. APS34 – General Actuarial Practice - (Ver.1.00 / 29.12.2021)
7. GN29 - Valuation of Interest Rate Guarantees on Exempt Provident Funds (Ver. (2.00/ 31.03.2022)

Accounting and Other Standards

1. Accounting Standard AS 15 (revised, 2005) and Ind AS 19 on Employee Benefits issued by ICAI
2. AS 15 (revised, 2005) – Guidance on implementation issued by ICAI
3. AS 15 (revised, 2005) – Opinion on Transitional Liability issued by ICAI
4. AS 15 (revised, 2005) – Opinion on Leave valuation issued by ICAI
5. Ind AS 102 on share-based transactions issued by ICAI.
6. GN 18 (Amended) issued by ICAI
7. International Accounting Standard 19 (IAS 19) on Employee Benefits (including Amendments issued up to January, 2016) issued by IASB
8. Section 715 of ASC (FAS 158)
<https://asc.fasb.org/subtopic&trid=223501>
9. ASC 710 as per USGAAP on compensated absences.
10. DPE Guidelines
11. OPS Pension & CPS of Government Pension (updated CSS rules)