INSTITUTE OF ACTUARIES OF INDIA

EXAMINATIONS

November 2025

SA4 - Pensions and Other Benefits

Time allowed: 3 Hours 15 Minutes

Total Marks: 100

Q. 1) Government of India (GOI) is reviewing the pension environment & the role of Pension Fund Regulatory Authority of India (PFRDA) with the aim of reforming the pension arrangements prevailing in India.

i) Describe briefly the key characteristics of the pension vehicles available in India for the working population & the general public. (10)

GOI is considering to consolidate the different pension vehicles provided to employer-employee group. In this direction it proposes to study in detail on the feasibility of converging the pension arrangements provided under EPS'95 & NPS (corporate) under a single regulatory supervision of PFRDA. You, as a consultant actuary, have been selected for this professional work.

ii) Compare the risk profile of the two schemes i.e. EPS'95 & NPS (corporate) & state the points to be included in your report about the convergence. (16+4= 20)

GOI is considering extending the EPS'95 pension to all "employer-employee" groups. By this proposal, it becomes compulsory for all employers to join EPS'95. However, in order to encourage employers to provide more generous pension payouts, GOI proposes to give exemption to the employers from the participation in EPS'95 if they establish/join pension scheme offering higher benefits than EPS'95. The task of giving exemptions to the employers is to be vested with PFRDA. It is also proposed to use the services of actuaries to ensure the compliance for getting exemptions.

iii) Discuss how PFRDA will be verifying the level of benefits using the actuarial services & discuss the aspects to be included in the proposed guidelines of PFRDA for getting exemption from the provisions of EPS'95, for Defined contribution arrangements such as NPS (corporate) and privately administered DC schemes. (6)

iv) How the proposed guidelines of PFRDA will vary, in case of privately administered defined benefit pension (DB) arrangements? (5)

Trustees of Employees Provident Fund Organization (EPFO) are observing emergence of surplus in the EPF funds over a period of time. They intend to use the surplus for improving benefits for EPF members. They are considering increasing the death benefits under EDLI 1976 and /or pension increases under EPS'95. They seek the opinion of a consultant actuary on the use of surplus for improving the above benefits.

v) Discuss the aspects to be considered while using surplus & comment on the proposal of the Trustees to increase death benefits under EDLI 1976 & pension increases under EPS'95.

(9)

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Q. 2) Company X, a manufacturing firm established in India in 2010, provides gratuity benefits to its employees in accordance with the Payment of Gratuity Act, 1972 with 20 Lacs ceiling. Until the financial year 2023–24, the company has not created a dedicated fund to meet its gratuity obligations and has instead paid gratuity benefits directly from its operating revenues as and when the need of payments arise. The management is now considering transitioning to a funded gratuity scheme.

i) Discuss the possible reasons why Company X may have opted to keep its gratuity liabilities unfunded until now and discuss the factors should the company evaluate while initiating a funded gratuity arrangement? (3+5= 8)

The company has purchased a Unit Linked Group Gratuity Policy during FY 2024-25 through an approved trust and started funding their gratuity liabilities. As an actuary, you have just completed the actuarial valuation of the company X for Ind AS19 purpose for the FY 2024-25 and the key results are as follows:

Present Value of Obligation for 3200 employees	Rs. 5200 Lakhs
Fair Value of Plas Assets	Rs. 3300 Lakhs
Average past Service	12 years
Average expected duration of liabilities	21 years

The Finance Director of the Company (FD) expressed concerns over the assumptions used for the valuation. He felt that these assumptions may significantly alter the cost of providing the gratuity benefits and suggested alternate set of assumptions with his justifications for the same. The set of assumptions you have used and the alternate assumptions are given below:

parameters	**assumptions used by you**	**Alternative assumptions suggested by FD**	**Justification of FD**
Discount Rate	7% per annum	9% per annum	Group Gratuity Unit Linked Policies Investment Return for the past three years
Salary Escalation Rate	5% per annum	3% per annum	Consistent with industry standards
Attrition Rate	5% per annum (Uniform for all ages)	15% per annum for all ages	Consistent with employee turnover of previous year

ii) Discuss the points to be included while drafting a response to the Finance Director addressing his concerns and the suitability of his proposed assumptions in the context of Ind AS19. (12)

The company X is planning to acquire another manufacturing company Y. The Company Y is providing gratuity benefits as per Gratuity Act but with uncapped gratuity benefits. The key details of the gratuity scheme of Company Y as per its annual report for the FY 2024-25 are as follows:

Company Start Year	2015
Present Value of Obligation for 1200 employees	1720 Lacs
Fair Value of plan Assets including assets held by the unapproved Trust	1950 Lacs
Assumptions	Discount Rate – 7.5% pa Salary Escalation Rate – 3% pa Attrition Rate- 1% pa for all ages
Average past service	8 years
Average expected duration of liabilities	25 years

The Finance Director of company X has asked you on the relevance of using the accounting figures to place a value on the gratuity fund for acquisition purpose and asked you to do due diligence on the accounting figures for accepting the transfer of gratuity liabilities and Fund.

iii)

a) Discuss the relevance and limitation of accounting liabilities of the scheme while considering for acquisition purpose and discuss the aspects of the Company Y gratuity Scheme arrangement to be examined in the due diligence exercise. (10)

The Finance Director wishes to keep a single Fund which is the Linked Insurance Policy to make all the benefits payout post-acquisition and agreed to keep the accrued benefits of company Y as protected but future liabilities accrue as per the Company X benefits.

b) Discuss the merits and challenges of keeping a single fund to meet all the benefits payouts post-acquisition. (10)

After acquisition, the Company X added the employees of company Y in the insurance policy and transferred all the assets backing the liabilities to the insurance policy. The valuation of the scheme post-acquisition shows a reduction in deficit. The valuation also suggested a modified contribution rates (MCR) to manage the deficit. But the Finance Director (FD) has requested the Trustees of gratuity scheme to allow a three years contribution holiday and the FD is seeking your opinion on this issue.

iv) What could be the possible reasons for the company X to make this request and What are the concerns of the Trust related to the company's request and how the company can address the concerns of the Trust? (10)

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