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Changing Risks, Expecting the Unexpected

17th Global Conference of Actuaries & 2015 AGFA

2nd & 3rd February, 2015 Mumbai - India

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CURRENT ISSUES IN RETIREMENT BENEFIT PRACTICE

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Current Scenarios

- **Employee Benefits**
  - **Statutory**
    - **Gratuity (Under The Payment of Gratuity Act)**
    - **Pension (Under Employees Pension Scheme 1995 or National Pension scheme of PFRDA)**
  - **Voluntary: based on Employer/Employee Relationships**
    - **Gratuity (If benefit under the arrangement is better than the provisions made under the Act) or any other benefits provided while in service.**
    - **Pension Schemes of Banks and other Financial Institutions**

Current Scenarios

- Public sector organisations can only contribute a maximum of 30% of salary in a year towards employee benefits schemes for all benefits including statutory benefits. ***(Gratuity?)***
- PSU's are contemplating to provide Post-Retirement Medical Benefit Schemes (PRMB) through a funded mechanism
- Many Banks also desire to incorporate PRMB
- Private sector is having prima facie statutory benefit schemes: Gratuity, Provident Fund, EPS 95 Pension
- Manufacturing concerns which employ less than 40 employees would be covered now under "unified employee benefit code" which is under consideration of the new government

Role of Actuaries

- Currently Actuaries are mainly involved in valuing various Employee Benefits as per requirements of National and International Accounting Standards
- Advising Banks and other PSU's with respect to the cost of providing for inflation linked pension schemes and thereby on their future cost, if the same was not factored in the last negotiation while settling the wages or if it was already involved, advise on factoring the same within the overall package of wage increase

Evolving Frontiers and Exiting Prospects Vis-à-vis Emerging Risks and Expecting the Unexpected

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- How to cope with the DB undertone in a DC scheme? For example, a minimum guarantee of Rs.1000 pm pension. This may be an issue if the EPF scheme like benefit is to be followed in NPS
- Under NPS, individuals free to decide their investment manager and annuity provider. (This will give Actuaries prospects of advising individuals or groups of individuals or employees on the choice of their Investment Portfolio and its Manager. Actuaries will be required for calculating appropriate competitive annuity rates for the annuity provider. Actuaries will be required for advising on the choice of annuity provider)

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- Opportunity of advising on how to create a balance between DB and DC schemes. (For quite some time, two schemes, one inflation linked Defined Benefit Pension scheme and another Defined Contribution scheme will be running simultaneously with the same organisation. This will pose resistance from DC members while making higher provisions at their costs for DB members because DB schemes are closed to new entrants)

Concerns and Issues in Employee Benefit Schemes

- Accounting
- Investments
- Legislation
- Economics
- General

Accounting

- Falling Interest Scenario
- Assets in a Traditional Insurance Plan are not “Mark to Market”. This may give a disadvantage to the companies when there is a drastic reduction in the discount rate
- Salary Escalation: What to take? Whether graded salary escalation or flat salary escalation?
- Attrition? Ask organisations for their retrenchment scenario? Is a long serving employee a reality?
- Volatile Accounting Income Statements
- IND AS 19: Is it a solution for the volatile income statements?

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Investments

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- Rule 67 of the Income Tax Rules
- Majority of the Investments are approximately 95% in debt securities
- Investing with Insurance companies may give more exposure to the real return
- Inflation linked annuity not available
- Unitised annuity not available
- Annuity which replicates the scheme of benefit not available

Legislation

- EPF Act is being amended as the salary ceiling is being enhanced to Rs.15,000. This will have more compulsory savings which would be available in lump-sum on retirement
- EPS 1995 will have higher pension with higher salary ceiling
- New joiners with salary above Rs.15,000 will lose out on pension benefit under EPS 1995

Legislation

- DPE circular restricting total retirement benefit cost to 30% of salary where there are both DB and DC schemes in operation
- New “Small Factories Act” likely to be gazetted for factories having employee strength of 40 or less, provides for benefit of pension, medical etc. through IRDA approved schemes. This will grow the insurance business and an provide an opportunity for advising on retirement benefits and thus conduct valuations for the same

Economics

- With the "Make in India" movement, there is likely to be a spurt in the number of people constituting the working population
- Requirement of portability in mandatory benefits, like gratuity, unveiled leave, medical eligibility for post-retirement will increase the scope of actuarial advise on transfer values
- Severance package design will be an added job with many start ups not continuing and also for implementing staff rationalisation by companies
- There may be a requirement to have different salary scales and attrition rate patterns based on the geographical location of the employees

Economics

- The current dip in the discount rate may not agree with the economic requirement as it is generally accepted that any development will lead to inflation, and inflation will lead to higher coupon rates

General

- Those companies who had not matched the duration of its investments with the duration of liability or companies invested in traditional plans of insurance companies are likely to be affected because of a dramatic fall in the yield on the government securities
- Institutions having indexed link pensions will have a tough time providing for the liability with little opportunity of earning real income
- Some of the big organisations may face a daunting task of showing statutory solvency after making an adequate provision for their pension liability

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General

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- India does not have a real trustee system for its pensions, wherein trustees are responsible for proper funding of the scheme and thereby take all recourse to protect the members rights
- Is it a time to put such a responsibility on Trustees?
- Who will guarantee the benefit in the event that the sponsor fails?
- Is it time to have a Pension Protection Fund in India, much like DICGC