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Employees Pension Scheme

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1 INTRODUCTION

The Employees Provident Fund and Miscellaneous Act (EPF&MP) was passed by the Indian Parliament in 1952 to address the need of providing old age income security to India's citizens. This Act applies to all establishments engaged in the specified 182 industries and employing 20 or more members and is at the center of retirement benefit schemes in India. The scheme is mandatory for employees earning a monthly salary/wage upto Rs.6500. However the employers usually extend the scheme to all employees.

The Act requires the covered establishments to provide three kinds of benefits:

- Provident Fund known as Employees Provident Fund (EPF).
- Pension under the Employees Pension Scheme (EPS).
- Insurance in the form of Employees Deposit Linked Insurance Scheme (EDLIS).

This paper deals with Employees Pension Scheme. The Employees Pension Scheme came into force on November 16th 1995. It is a funded defined benefit scheme under which monthly pensions are paid to the member after retirement. The Scheme replaced the Family Pension Scheme that had been in existence since 1971. Accordingly all the assets and liabilities of the FPS were transferred to the EPS. Section 2 talks about the Family Pension Scheme. Section 3 talks about the membership of the EPS. Section 4 describes the operational framework of the EPS covering contributions, benefits and investments. Section 5 outlines the problems with the EPS. Section 6 concludes.

2 FAMILY PENSION SCHEME

The Family Pension Scheme came into force with effect from 1st March 1971. The scheme was compulsory for all those employees who joined the EPF on or after 1st March 1971. The then existing members of EPF were given the option to join the scheme or opt out. No additional contributions were required from the employer or employees to finance the scheme. Out of their contributions towards the EPF, an amount equal to 2.33% of employees wages was diverted to the FPS. This consisted of contribution of an amount equal to 1.16% of employees' wages by the employer and an equal amount by the employee. In addition the government also contributed an amount equal to 1.16% of the employees' wages.

The benefits under the scheme as on 1st April 1994 are as follows;

Table 1: Benefits under FPS

Pay of the member per month on which pension is payable	Monthly rate of family pension
Upto Rs.300	Rs.250
Rs.301 to Rs.700	Rs.300
Rs.701 to Rs.1600	45% of pay subject to a minimum of Rs.300 and maximum of Rs.600
Rs.1601 to Rs.2500	35% of pay subject to a minimum of Rs.600 and a maximum of Rs.850
Above Rs.2500	30% of the pay subject to a minimum of Rs.850 and maximum of Rs.1050

- In case of the death of a member before attaining the age of 60 years, family pension was paid to a surviving member of his family provided the member had contributed to the pension fund for at least 3 months. The rates at which the pensions were given are shown in Table 1. If the member had contributed to the pension fund for at least 7 years before his death the beneficiary was given an enhanced pension for 7 years or from the member's death till the date on which the member would have turned 60 had he been alive, whichever is earlier. In the enhanced pension the beneficiary got an additional amount equal to 20% of the member's pay as determined for calculating pension.
- If a member died before contributing to the pension fund for 3 months, a lump sum amount equal to Rs.5000 was given to his family as life assurance benefit.
- Retirement-cum withdrawal benefit was given to a member on his attaining the age of 60 or if he left the fund before attaining the age of 60 for a reason other than death. The extent of benefit was based on the pay last drawn by the member and the number of full years of contributions paid or was payable subject to a minimum of Rs.110 and a maximum of Rs.42,280.

The Family Pension Scheme did not provide any pension to the members after retirement. Moreover only one member of the family was provided pension benefits that too if the member died during the period of reckonable service. In other words if the member died after reaching the age of 60 his family was not entitled to any benefits. This was found inadequate. Therefore on demands from various trade unions, it was decided that a new pension scheme with much greater scope and benefits should be introduced. This led to the inception of the EPS.

Table 2: Coverage of EPS

Year	No. of members (in lakhs)
31.3.1997	203.74
31.3.1998	185.49
31.3.1999	204.81
31.3.2000	219.22
31.3.2001	235.43
31.3.2002	255.72

Source: EPFO annual reports

3 MEMBERSHIP OF EPS

- The membership of the scheme is mandatory for all the employees entering the Employees Provident Fund Scheme, 1952 after 16th November 1995.
- It is also compulsory for all those who were members of the Family Pension Scheme before the commencement of EPS 1995.
- An employee who ceased to be a member of the Family Pension Scheme between 1st April 1993 and 15th November 1995 had the option of joining this scheme from the date of their exit from employment.
- The option to join the scheme was also available to an employee who has been a member of the EPF but was not a member of the FPS.

The employees who ceased to be a member of the FPS between 1st April 1993 and 16th November 1995 and decided to join the EPS were required to return any withdrawal benefit availed under FPS along with a simple interest of 8.5%. The interest was charged for the period between the date on which withdrawal benefit was received and the date of joining the new scheme. The members who died during the above period were deemed to have joined the EPS and their families received higher of the benefits under EPS and FPS.

The employees who were not members of FPS but chose to join the EPS were required to remit contributions with interest for the period between 1st March 1971 and 16th November 1995.

Table 2 gives the coverage of EPS.

Table 3: Amount of contributions collected (in Rs.crores)

Year	Employers' contribu- tion	Government's contribution	Total
1996-97	2445.81	345.96	2791.77
1997-98	2850.09	370.49	3220.68
1998-99	3195.66	437.10	3632.76
1999-00	3606.78	560.00	4166.78
2000-01	3632.61	590.00	4222.61
2001-02	3964.04	485.00	4449.04
2002-03	4387.84	400.00	4787.84

Source: EPFO annual reports

4 OPERATIONAL FRAMEWORK OF EPS

4.1 Contributions

Just like in the Family Pension Scheme, no additional contributions are required by the employer or employees under the Employees pension scheme. Out of the contribution towards Provident Fund, employer's contribution equal to 8.33% of the employees' wages is diverted towards the Employees Pension Fund. This amount has to be remitted by the employer through a bank draft or cheque in favour of Employees' Pension Fund within 15 days of the close of every month. The Government continues to contribute at the rate of 1.16% of the employees' salary. If the monthly income of an employee exceeds Rs.6500 the employer and Central Government are liable to make contributions only upto the amount payable on Rs.6500. However the employer has the option of voluntarily contributing 8.33% of a higher salary to the Pension Fund. In this case both the employer and employee should agree to a higher rate of contribution

All contributions are made to the Employees' Pension Fund. The State Bank of India acts as fund collectors for the scheme and collects all employers' contributions. The contributions collected under EPS from the Government and the employers in each year starting 1996-97 have been outlined in Table 3.

Table 4: Pattern of investment

Investment head	Percentage
Central government securities	25%
State government and government guaranteed securities	15%
Bonds and securities of public financial institutions	30%
public sector companies and Infrastructure Development Finance Company Ltd and/or certificate of deposits issued by public sector banks	
In any of the above three categories	30%

Source: Ministry of Finance, 2003

4.2 Investment guidelines

Apart from contributions of the Central Government, all contributions into the Employees Pension Fund Account have to be deposited with the Reserve Bank of India or the State Bank of India or any other scheduled bank approved by the Central Government. The funds can also be invested in promissory notes, debentures or stocks of Central or state government, subject to Central Government guidelines. All contributions made by Central Government would be invested in the Public Accounts of the government of India. All the assets of the Family Pension Scheme transferred to the EPS would also remain invested in the Public Accounts of the Government of India. The funds in the Public Accounts earn an interest rate of 8.5% per year.

4.2.1 Prescribed investment pattern

SBI Investments acts as fund managers for the EPFO and all funds are invested by SBI investments according to the pattern prescribed by Government of India. The pattern of investment prescribed by Government of India with effect from 1st April 1998 is outlined in Table 4.

Out of the last 20%, a maximum of 1/3rd can also be invested in private sector bonds which have investment grade rating from at least two credit rating agencies. The total amount invested under the various heads during the four years starting 1999-00 have been outlined in Table 5. As is evident from

Table 5: Net investment of funds(in Rs.crores)

Investment head	1999-00	2000-01	2001-02	2002-03
Central government securities	1080.82	1529.73	1632.69	1845.36
State government/ government guaranteed securities	528.76	643.47	687.65	910.26
Special deposit scheme	108.81	113.44	110.25	112.02
Public sector financial institutions	1896.09	1615.78	1447.64	1079.50
Public account	1779.21	1779.21	1955.19	2048.26

Source: EPFO annual reports

Table 5, over the years there has been a sharp rise in investment in Central Government, state government and government guaranteed securities. The investment in special deposits has remained more or less constant while the investment in public sector financial institutions has actually declined. The funds in Public Accounts has also shown an increase.

Investments are made each year out of the contributions received after setting aside the required amount for meeting that year's liabilities. Thus even though EPS is a funded scheme, it tends to behave like a pay as you go DB scheme.

4.3 Benefits

4.3.1 Monthly Pension

The minimum service which makes a member eligible to receive pension is ten years. The kind of pension a member gets under the scheme depends upon the age at which he retires and the number of years of eligible services he has rendered. If a member has rendered twenty years of service and retires after attaining the age of fifty eight he is entitled to Superannuation Pension. If he has rendered twenty years of service but retires before attaining the age of fifty eight he gets a retirement pension. Lastly a member is entitled to Short Service Pension if he has rendered services for any number of years

ranging between ten and twenty.¹ The period of eligible service is calculated as follows;

- For employees who joined the EPF scheme after 16th November 1995, the actual service rendered by them is used to determine eligible service.² A period of service exceeding six months in a year is treated as one whole year whereas a period of less than six months in a year is ignored.
- For those employees who were members of the Family Pension Scheme, the period of eligible service is the sum of past service and the actual service.³

A member is entitled to receive pension as soon as he attains the age of 58 years. This applies even if the member has retired before attaining the age of 58 years. However in case a member desires to draw a monthly pension before attaining the age of 58 years, he is allowed to do so provided he has already attained the age of 50. In this case the pension would accrue to the member at a reduced rate. The pension accruing to the member would be reduced at the rate of 3% for every year the age falls short of 58 years.

A detailed note on calculation of pensions is given in the appendix.

4.3.2 Commutation

A member is allowed to take a maximum of 1/3rd of his monthly pension as lumpsum. The value of commutation would be hundred times the amount of monthly pension the member desires to take away. Thus if a member's monthly pension is Rs.600 the maximum amount he can take as commutation is $1/3 \times 600 \times 100$. In this case the balance of pension payable on a monthly basis is Rs.400.

4.3.3 Return of capital

A member can also opt for drawing a reduced pension and avail the facility of return of capital. In this case, In this case the member gets less than the full amount of pension admissible to him and after his death a given lumpsum is returned to his nominee. There are three alternatives available to him in this case.

¹The difference in Superannuation, Retirement, and Short Service pension is only a matter of terminology. There is no difference in their calculation.

²Actual service is the total period of services rendered by an employee after 16th November 1995.

³Past service is the total period of services rendered by an employee from the date of joining the FPS till 16th November 1995.

- He can opt for return of capital on his death and receive revised pension during his lifetime. In this case he will receive 90% of his original monthly pension. On his death an amount equal to 100 times the member's original monthly pension is given to the nominee.
- He can opt for return of capital after his death and the death or remarriage of his spouse, whichever is earlier. In this case the member will receive 90% of his original monthly pension. On his death his wife would receive 80% of the pension originally payable to the member. On the death of the widow or her remarriage an amount equal to 90 times the member's original monthly pension would be paid to the nominee. In case the spouse dies or remarries before the death of the member, capital would be paid to the nominee at the rate of 90 times the original pension after the member's death.
- He has the option to draw pension for a fixed period of 20 years and receive a lump sum at the end of 20 years. In this case he would receive a monthly pension equal to 87.5% of the original monthly pension payable to him for a period of the 20 years. At the end of 20 years he would receive a lump sum equal to 100 times the original monthly pension. If the member dies before 20 years, the pension is paid to his nominee for the balance period. and at the end of 20 years the nominee would also receive the lump sum.

If the member has already availed the facility of commutation, the revised pension will be calculated on the basis of the balance monthly pension payable. Example- suppose the monthly pension payable to a member is Rs 600 and he takes 1/3rd amount as commutation. Thus the pension payable to him now is Rs.400 per month. Now if the person opts for the first alternative, he would receive Rs.340 (400-10% of 600) as monthly pension. On his death his nominee would receive a lump sum of Rs.40,000.

If a member wishes to avail the facility of return of capital in any of the above manner, he has to exercise this option while applying for pension as per the provisions of the scheme. If a member does not exercise any option, he is paid full pension and there is no return of capital.

The members have shown a preference for pension for life to return of capital. In 1998 out of a total of 1,22,093 pensionable exits sanctioned, 88,360 had opted for life pension. The corresponding figures were 1,79,061 and 139,879 for the year 1999 and 2,12,531 and 1,69,099 respectively for the year 2000.

4.3.4 Benefits in case of permanent and total disablement during service

In case of total and permanent disability, a member is entitled to receive pension provided he has contributed to the fund for at least one month.

Pension is calculated in the same manner as for any other retiree. The pension paid is subject to a minimum of Rs.250.

4.3.5 Widow's/widower's pension

In case of death of a member his widow is entitled to receive pension till her death or remarriage. In case there are more than one widows pension would be paid to the eldest surviving widow where the term eldest implies senior-most with respect to marriage. On the death of the senior-most widow, pension will be paid to the next surviving widow. The widow's pension is subject to a minimum of Rs.450.

4.3.6 Children's pension

If there are surviving children of a deceased member they are entitled to receive pension provided they are below 25 years of age. This is in addition to the monthly widow's pension. The monthly pension admissible to children is equal to 25% of pension received by the deceased member's widow subject to a minimum of Rs.115 per child per month. Starting from the eldest, maximum of two children can receive pension at a time.

In addition to the above, if there is a totally and permanently disabled child in the deceased member's family he is entitled to receive children's pension irrespective of his age.

If the deceased member is survived only by his children, then the children will be entitled to receive a monthly Orphan's Pension. This pension will be paid at the rate of 75% of the amount of monthly widow's pension payable subject to a minimum of Rs.250 per month per child. Even if a widow dies or remarries after her pension has been sanctioned, the children would be entitled to receive Orphan's Pension in lieu of Children's Pension. The Orphan's Pension is payable to a maximum of two children at a time, starting from the eldest.

4.3.7 Benefits to nominees

In case a member is unmarried or has no living spouse or children, he can nominate a person who would receive pension benefits on the death of the member. The nominee would receive pension benefits equal to the monthly widow's pension. The nomination would remain valid only till the

Table 6: Beneficiaries of the scheme

Year	Member pension	Widow pension	Orphan pension	Children pension	Nominee pension	Total
1995-96	26,193	12,725	51	10,639		49,598
1996-97	66,369	26,689	238	27,181		1,20,477
1997-98	1,36,421	48,254	632	50,886		2,36,193
1998-99	2,22,554	79,086	1,197	86,851	193	3,89,881
1999-00	3,23,886	2,75,486	1966	1,35,827	833	7,37,998
2000-01	4,33,914	3,09,676	2975	1,87,961	2600	9,37,126
2001-02	5,76,612	3,48,276	4,260	2,35,218	4,413	11,68,779
2002-03	7,50,657	3,67,752	5808	2,90,916	6537	14,41,670

Source: EPFO annual reports

member acquires a family. Thus if the member subsequently acquires a family the nomination would stand void. In case the member dies without any nomination, the widow's pension will be paid to dependent father or dependent mother. If the father dies after his pension is sanctioned, the dependent mother receives pension lifelong.

The beneficiaries are entitled to receive pension from the date of death of the member.

Table 6 shows the number of beneficiaries of the scheme since its inception.

The total number of pensioners as well as the number of pensioners under each head has shown a consistent increase over the years. This indicates an ever increasing responsibility of the EPS to meet the pension requirements of an increasing number of people.

4.3.8 Benefits if member leaves service before being eligible for monthly pension

If a member leaves his job or attains the age of 58 before rendering at least 10 years of service, he will be entitled to a withdrawal benefit. The amount he can withdraw is a proportion of his monthly salary at the date of exit from employment. This proportion depends on the number of years

Table 7: Return of contribution on the date of exit from employment

Years of service	Proportion of wages at exit
1	1.02
2	2.05
3	3.10
4	4.18
5	5.28
6	6.40
7	7.54
8	8.70
9	9.88

of eligible services he has rendered. The proportions are indicated in Table 7. If a member leaves a job before attaining the age of 58, he also has the option to receive the Scheme Certificate. The certificate indicates the pensionable salary and the amount of pension due on the date of his exit from employment. In case he subsequently gets employment in an establishment covered under the EPF Act, this certificate will be taken into account to calculate his full pensionable service.

If an employee was a member of the erstwhile Family Pension Scheme he would receive additional withdrawal benefits. The additional amount he can withdraw is a proportion of his wage on the date of exit from the membership from FPS multiplied by the applicable factor for computing past service benefit. The proportion of wage withdrawable and the factors for contributing past service benefits are given in Table 8 and Table 9 respectively.

The number of non pensionable exits have been quite high. In fact the number of non pensionable exits have been higher than pensionable exits. In 1996 non pensionable exits were 7,31,813 as compared to only 79,887 pensionable exits. The corresponding figures were 11,19,288 and 1,22,093 for the year 1998 and 17,17,619 and 2,12,531 respectively for the year 2000. This is not a very good sign as it defeats the very purpose of the scheme.

The number of people opting for Scheme Certificates has been very less in

Table 8: Withdrawal benefit

Number of years of full contribution paid	Proportion of pay payable at cessation of membership	Number of years of full contribution paid	Proportion of pay payable at cessation of membership.
1	0.20	21	5.21
2	0.41	22	5.52
3	0.62	23	5.83
4	0.84	24	6.14
5	1.06	25	6.46
6	1.29	26	6.79
7	1.51	27	7.12
8	1.75	28	7.46
9	1.98	29	7.81
10	2.23	30	8.16
11	2.47	31	8.52
12	2.72	32	8.89
13	2.98	33	9.26
14	3.24	34	9.64
15	3.51	35	10.03
16	3.78	36	10.43
17	4.05	37	10.83
18	4.34	38	11.24
19	4.62	39	11.66
20	4.92	40	12.08

Source: EPFO annual reports

compared to non pensionable exits. Out of the total non pensionable exits only 1500 opted for Scheme Certificates in 1996. The corresponding figures were 24,548 for the year 1998 and 76,632 for the year 2000.

Table 9: Factors for computation of past service benefits

Years of service left	Factor	Years of service left	Factor
Less than 1	1.049	Less than 13	3.292
Less than 2	1.154	Less than 14	3.621
Less than 3	1.269	Less than 15	3.983
Less than 4	1.396	Less than 16	4.381
Less than 5	1.536	Less than 17	4.819
Less than 6	1.689	Less than 18	5.301
Less than 7	1.858	Less than 19	5.810
Less than 8	2.044	Less than 20	6.414
Less than 9	2.248	Less than 21	7.056
Less than 10	2.473	Less than 22	7.761
Less than 11	2.720	Less than 23	8.537
Less than 12	2.992	Less than 24	9.390

Table 10: Payment of penalty

Period of default	Rate of damages as percentage of arrears
Less than two months	17
Above two months but less than four months	22
Above four months but less than six months	27
Six months and above	37

4.4 Default

If an employee defaults in payment of contributions or any other charges, he is liable to pay damages at the rates given in Table 10. Apart from this the employer is also liable to pay a simple interest at the rate of 12% on the amount from the date the amount was due till the time when the payment is actually made.

The idea behind making the employers liable to pay damages and interest is to

Table 11: Arrears (in Rs.crores)

Year	Arrears
31.3.96	31.8
31.3.97	51.09
31.3.98	88.19
31.3.99	131.81
31.3.00	161.15
31.3.01	236.66
31.3.02	302.28
31.3.03	342.95

Source: EPFO annual reports

ensure timely payment of contributions. However this clause has not deterred the employers from defaulting. Over the years there have been establishments that have made no contributions or partial contributions during one or more years. The number of establishments from which no contributions were received was as high as 56,974 at the end of the first year ie. on 15.11.96. This number had declined to 7,467 by 31.3.98. However it rose again to 30,874 by 31.3.99. At the end of the year 1999-00 the number of establishments from which no contributions were received stood at 14,469. The amount in arrears at the end of various years are given in Table 11.

4.5 Administration

Since the inception of EPS, the working setup of EPFO have been modified in order to ensure proper implementation of the new scheme and to provide prompt and trouble free service to the Pension Fund members and pensioners. Pension Wing has been constituted in all the field offices of EPFO. This wing comprises of Pension (Monitoring) Section, Pension (Audit) Section, Pension (Disbursement and Reconciliation) Section and a Database Creation Cell to look into the different work areas related to pensions. The offices have been equipped with application software programs to assist in monitoring, maintenance of accounts and record keeping.

An actuarial valuation of the Pension Fund is carried out on an annual basis to examine the relative positions of the assets and liabilities and asses the viability of the scheme. The pension rates may be revised based on such

valuation.

4.6 Accounts

The Employees' Pension Fund Account records all contributions into and disbursements made out of the fund. The scheme provides for the maintenance of a separate account for recording administrative expenses. However only one account is maintained-the Pension Fund Account

An amount equal to 16% of administrative expenses can be met out of the Employees' Pension Fund. This includes costs of remittance of pension which is to be charged exclusively from the Pension Fund. The balance of administrative expenses are met out of administration accounts set up under the Employees' Provident Fund Scheme.

4.7 Taxation

The employers' contribution towards provident fund is treated as a deductible business expense as per Section 36(1)(iv) of the Income Tax Act 1962. The fund income is tax exempt. However the monthly pensions are taxable.

4.8 Exemption

Under Section 17 of the EPF & Misc Act, exemption can be granted to an establishment from the scheme provided the members of such an establishment are or propose to be members of a pension scheme that provides benefits at least at par with those in the EPS. The EPFO has been very strict in this matter and only three establishments have received exemption so far. They are;

- M/s TELCO (Maharashtra).
- M/s Malaysian Airlines(Tamil Nadu).
- M/s Oil India (Assam).

5 PROBLEMS WITH EPS

The Employees' Pension Scheme is a defined benefit scheme or a final salary scheme where the pension that is paid to a member is dependent on the salary

at the time of exit from EPS and the number of years of service. Defined benefit schemes have been very popular across the world for a long time. Both Government and private companies across the globe have offered DB schemes in the past. These schemes gained public approval mainly because of guaranteed returns. However recently in many countries there has been a shift away from defined benefit to defined contribution schemes. DC schemes are those where the amount of retirement benefits available to a member/his family depends on the accumulation of contributions in his account and the returns on investment of his funds.

The shift from DB to DC schemes abroad have been fuelled by the changing macro-economic environment which has exposed the inability of the Governments and the private companies to meet their promises in a consistent manner. Tremendous improvements in medical science have taken place during the 20th century. There has also been an improvement in the level of living. The two together imply that there has been a substantial reduction in mortality rates in many countries. Life expectancy has increased steadily. This implies not only an increase in the number of beneficiaries but also the fact that these beneficiaries will have to be supported for a much longer period of time. This has increased the ultimate cost of providing a given pension scheme benefit thus raising doubts whether employers who have provided pension benefits to their employees in the past would be able to continue providing a similar level of benefits. Another reason for the widespread shift towards DC schemes is the fact that financial volatility has increased in recent years making it more difficult to predict the cost of funding retirement benefits. This lack of predictability has created problems for employers attempting to provide adequate funding for DB plans. In the wake of these problems many countries and companies within countries have shifted from DB to DC schemes. The trend has been very strong in the US in the past two decades. According to an estimate in 2001, 97% of the companies were under DC schemes. The number of workers covered by DC plans increased by 600% during 1987 and 2002 from 7 million. to 42 million. In Australia only 5% of the superannuation fund assets remain in pure DB scheme according to a 2001 estimate by Australian Prudential Regulation Authority. In UK the change has accrued mainly in state and private pensions and this trend is likely to accelerate. The widespread shift reflects the fact that it is essential to look at the viability of EPS in the context of economic changes.

India has not remained untouched of the macro-economic changes that have swept through the world. There has been a considerable increase in the life expectancy and a decline in the death rates over the years. The financial

Table 12: Life expectancy at birth

Year	LE of male	LE of female	Average LE
1995	58.5	59.6	
1998	62.1	63.7	
2000	61.89	63.18	62.5
2002	62.55	63.93	63.23
2003	62.92	64.37	63.62

sector has shown major developments in the past decade. In the light of these changes we need to look at the working of the present scheme.

5.1 Death rates and life expectancy

There has been considerable medical advancement in India as a result of which death rates have declined and life expectancy has increased. There has been a drastic improvement in life expectancy from a scant 20 years during 1911-20 to around 58 years in 1995. Since 1995 the life expectancy has been increasing slowly but steadily. The figures for life expectancy are given in Table 12. The death rates have also shown a drastic decline from 48.8 per 1000 in the period 1910-20 to 8.88 per 1000 in the year 2000. The death rates further declined to 8.62 per 1000 in 2002 and 8.46 per 1000 in 2003.

5.2 Trends in interest rates

The interest rate structure in India has undergone major changes. There has been a sharp decline in the various rates of interest. This is evident from the interest rates on government securities, banks, financial institutions and special deposit rates. The trends in redemption yield on Central Government securities and deposit rates of commercial banks are given in Table 13 and Table 14 respectively. The deposit rates are the average of the rates offered by five major public sector banks.

Table 13: Annual gross redemption yield on Government of India securities

Year	Short term (1-5 years)	Medium term (5-15 years)	Long term (15 years and above)
1995-96	6.00-14.28	5.75-14.07	11.84-14.02
1996-97	5.21-16.21	5.75-14.44	09.00-14.40
1997-98	5.50-17.69	5.20-14.00	09.00-13.17
1998-99	4.45-17.73	5.75-13.74	10.00-13.48
1999-00	3.16-14.30	6.50-13.84	09.79-13.11
2000-01	4.94-16.66	9.37-12.50	10.58-11.89
2001-02	5.32 -10.96	5.14-13.85	07.41-10.86
2002-03	5.12-10.98	5.60-10.9.27	06.10-8.26
2003-04	3.93-07.16	4.41-06.78	05.44-07.72

Source: RBI Handbook of Statistics

Table 14: Deposit rates of commercial banks

Year	1 to 3 years	3 to 5 years	Above 5 years
1995-96	12.00	13.00	13.00
1996-97	11.00-12.00	12.00-13.00	12.50-13.00
1997-98	10.50 -11.00	11.50-12.00	11.50-12.00
1998-99	09.00-11.00	10.50-11.50	10.50-11.59
1999-00	08.50-09.50	10.00-10.50	10.00-10.50
2000-01	08.50-09.00	09.50-10.00	09.50-10.00
2001-02	07.50-08.50	08.00-08.50	08.00-08.50
2002-03	04.25-06.00	05.50-06.25	05.50-06.25
2003-04	04.00-05.25	05.25-05.50	05.25-05.50

Source: RBI Handbook of Statistics, 2004

5.3 Deficits

The fiscal position of the Central and the state governments continue to be in a precarious state inspite of the efforts in recent years to bring down the deficits. The gross fiscal deficit of the Central government in the past ten years is given in Table 15. The Gross fiscal deficit figures in some of the states

Table 15: Gross fiscal deficit of Central Government

Year	Deficit
1995-96	60243
1996-97	66733
1997-98	88937
1998-99	113349
1999-00	104716
2000-01	118816
2001-02	140955
2002-03	145072

Source: RBI Handbook of Statistics, 2004

Table 16: Fiscal deficit of States (in crores)

State	1995-96	2000-01	2002-03	2003-04 BE
Andhra Pradesh	2,416.8	7,305.9	7341.4	7,338.1
Maharashtra	4150.8	8975.8	13,454.3	8421.5
Uttar Pradesh	4380.6	10,179.5	13,315.1	19,803.2
Karnataka	1456.8	4,219.2	5759.7	6032.8
Kerala	1,302.7	3,877.8	2,845.0	3,306.9
Tamil Nadu	1,255.9	5,076.0	8,105.7	65145.5
Gujarat	1,745.6	7,987.6	10,686.3	9,457.2
Madhya Pradesh	1633.4	2712.1	4569.4	4000.3

Source: RBI Handbook of Statistics, 2004

where EPS has invested large volumes is given in Table 16. The investment of EPS funds in the securities of the government of these states as on 31.3.2003 is given in Table 17.

- The increase in life expectancy implies that pensions will have to be paid to the members/their family for longer periods. This implies that the monetary

Table 17: Exposure of EPS funds

State	Investment of EPS funds
Andhra Pradesh	504,34,62000
Maharashtra	375,11,27000
Uttar Pradesh	308,64,60000
Karnataka	285,08,98000
Kerala	277,49,00000
Tamil Nadu	276,28,66000
Gujarat	255,24,44000

Source: EPF annual report, 2002-03

requirements would increase substantially.

- The decline in interest rates imply that the returns from investment are lesser than it would have been in the past.
- The fact that the number of members are increasing at a lower rate than the number of beneficiaries imply that outflow from the funds are likely to increase at a higher rate than the inflows.
- The high fiscal deficit of the Central and state governments imply that it would be difficult to run down the investments if the need arises.

Together these things imply that the EPS is delicately poised as far as meeting the future requirements is concerned. The actuarial valuation showed a decline in the estimated surplus in the pension fund from Rs.1689 crores in 1996 to Rs.1,239 crores in 1998, Rs.732 crores in 1999 and just Rs.70 crores in the year 2000. This was with the assumption of an interest rate of close to 10.5 to 11.5%. The surplus if at all would be much less if we assume the more realistic prevailing interest rates. The mounting arrears have created further problems. A latest actuarial report of the EPS shows a shortfall of Rs.17,000 crore in the EPS fund. From this it looks like it will be difficult to maintain the prevailing rates of benefits for long with the given rates of contribution.

6 CONCLUSION

While the EPS was established with intentions of providing a lifetime pension for all its members, its ability to do so will be increasingly suspect in the coming years. The last two actuarial valuations of the EPS have also not

been made available in the public domain. It would be fair to expect the management of the EPS to make available to the public the status of the funding of the EPS. The managers of the EPS also need to urgently take into account the changes in the macro-economic fundamentals of the economy and accordingly make changes in the scheme.

APPENDIX

7 CALCULATION OF PENSIONS

7.1 Pension payable to a member on retirement

The amount of pension payable to a member is calculated on the basis of pensionable salary and pensionable service. Pensionable service is the period of service for which contributions have been made on his account. In case of members who retires after attaining the age of 58 or after rendering at least 20 years of service the pensionable service is increased by adding a weightage of two years.

Pensionable salary is the average monthly pay drawn during the contributory period in the span of 12 months preceding the date of exit from the Employees Pension Scheme. If a member was not drawing his full monthly pension during the last 12 months, then pensionable salary is calculated as the average salary of the last 12 months of contributory period for which full pay was drawn. The maximum pensionable salary is limited to Rs.6500. However if an employee's salary exceeds Rs.6500 and the employer contributes 8.33% of this higher salary into the pension fund, pensionable salary will be calculated on the basis of the higher actual salary.

Pensions are calculated as follows;

1) In case of a new entrant the superannuation or retiring pension whichever is applicable is calculated according to the following formula-

$$\text{Monthly pension} = (\text{pensionable salary} \times \text{pensionable service}) / 70$$

2) If an employee was earlier a member of the Family Pension Scheme and was less than forty eight years old on 16th November 1995 he would receive retirement/superannuation/short service pension equal to the sum of

- An amount calculated according to the above formula or Rs.635 per month, whichever is greater. The pensionable service in this case is determined on the basis of the services rendered by the employee after 16th August 1995.
- Past service pension benefit.

Past service benefits are calculated according to Table 18. For employees attaining the age of 58 after 16.11.1995, past service benefits are arrived at by multiplying the amount applicable as per the above table by the factor corresponding to the number of years of services left as given in Table 9.

Table 18: Past service benefits to a person attaining 58 years of age on 16th November 1995

Years of past service	Salary upto Rs.2500 per month	Salary above Rs.2500 per month
Upto 11 years	80	95
More than 11 years but upto 15 years	95	105
More than 15 years but less than 20 years	120	135
More than 20 years	150	170

3) If the employee was earlier a member of the Family Pension Scheme and was at least 48 years old but less than 53 years old on 16th November 1995 he is entitled to a superannuation/ retirement pension equal to the sum of

- Pension calculated according to the formula in (1) or Rs.438 per month, whichever is greater. Pensionable services in this case are determined on the basis of the services rendered by the member after the 16th of November 1995.
- Past service benefits in the manner discussed above.

4) If the employee was earlier a member of the Family Pension Scheme and was at least 53 years old on 16th November 1995, he is entitled to a monthly pension equal to the sum of -

- Pension calculated according to the formula in (1) for the period of service rendered after 16th November 1995, or Rs.335 per month whichever is greater.
- Past service benefits.

The total benefits computed under each of the categories 2,3 and 4 are subject to given minimum amounts. The minimum amount payable under each category is given in the following Table;

7.2 Calculation of widow's pension

If a member dies while in service, his widow is entitled to receive pension provided that at least one month of contribution has been made to the Employee Pension Fund on his account. The widow would receive a pension

Age as on 16.11.95	At least 24 years of service	less than 24 years of service
Less than 48 years	Rs.800 per month	Minimum benefits reduced proportionately.. This minimum amount payable after this reduction is Rs.450 per month
Between 48 and 53 years	Rs.600 per month	Minimum benefits reduced proportionately. The minimum amount payable after this reduction is Rs.325
Above 53 years of age	Rs.500	Minimum benefits reduced proportionately.The minimum amount payable after this reduction is Rs.265 per month.

equal to what the member would have received had he retired on the day he died or Rs. 450 or the amount indicated in the Table19,whichever is greater.

If a member leaves his job prior to attaining the age of 58 and dies before the age of 58 i.e. before he started receiving pension, his widow will get a monthly pension equal to what he would have got had he retired on the date of his exit or Rs.450 or an amount as indicated by the above Table 19.

If a member dies after the commencement of monthly member's pension,the widow would receive a monthly pension equal to 50% of what was payable to the member when he died subject to a minimum of Rs.250

Table 19: Equivalent widow's pension

Salary at the time of death not more than Rupees	Equivalent pension Rupees	widow's	Salary at the time of death not more than Rupees	Equivalent pension Rupees	widow's
Upto 300	250		3400	1441	
350	327		3450	1461	
400	343		3500	1481	
450	359		3550	1501	
500	375		3600	1521	
550	391		3650	1541	
600	408		3700	1561	
650	425		3750	1581	
700	442		3800	1601	
750	459		3850	1621	
800	476		3900	1641	
850	493		3950	1661	
900	510		4000	1681	
950	527		4050	1701	
1000	544		4100	1721	
1050	561		4150	1741	
1100	578		4200	1751	
1150	595		4250	1761	
1200	612		4300	1771	
1250	629		4350	1781	
1300	646		4400	1791	
1350	664		4450	1801	
1400	682		4500	1811	
1450	700		4550	1821	
1500	718		4600	1831	
1550	736		4650	1841	
1600	754		4700	1851	
1650	772		4750	1861	
1700	797		4800	1871	
1750	808		4850	1881	
1800	826		4900	1891	
1850	844		4950	1896	
1900	862		5000	1901	
1950	880		5050	1906	

Salary at the time of death not more than	Equivalent pension	widow's	Salary at the time of death not more than	Equivalent pension	widow's
2000	898		5100	1911	
2050	916		5150	1916	
2100	935		5200	1921	
2150	954		5250	1926	
2200	973		5300	1931	
2250	992		5350	1936	
2300	1011		5400	1941	
2350	1030		5450	1946	
2400	1049		5500	1951	
2450	1068		5550	1956	
2500	1087		5600	1961	
2550	1106		5650	1966	
2500	1125		5700	1971	
2650	1144		5750	1976	
2700	1163		5800	1981	
2750	1182		5900	1991	
2800	1201		5950	1996	
2850	1221		6000	2001	
2900	1241		6050	2006	
2950	1261		6100	2011	
3000	1281		6150	2016	
3050	1301		6200	2021	
3100	1321		6250	2026	
3150	1341		6300	2031	
3200	1361		6350	2036	
3250	1381		6400	2041	
3300	1401		6450	2046	
3350	1421		6500	2051	