PAPER ON THE SOCIAL SECURITY AND CORPORATE PENSIONS IN INDIA

[Submitted in June 2009 to the Japanese Society of Certified Pension Actuaries for its conference on 4-6 October, 2009, by K. Subrahmanyam, Chairperson, Advisory Group on Pension and Social Security of Institute of Actuaries of India]

Part I

1. Introduction:

1.1 First of all, on behalf of the President of Institute of Actuaries of India, we profusely thank the Japanese Society of Certified Pension Actuaries, for giving us the opportunity to participate in the Colloquium.

1.2 Institute of Actuaries of India is a legal entity established by an act of Parliament of India which recognizes the profession of actuaries in public interest. All this happened in year 2006. The Institute, which was earlier called 'Actuarial Society of India', started functioning from year 1944 for the actuarial fraternity where most actuaries were from the Institute of Actuaries, London. From 1980, the Institute started its educational and examination activities. It produced a good number of actuaries and associates. In 2006, the Actuaries Act was enacted by the Government of India and the Actuarial Society of India became the Institute of Actuaries of India.
The following tables give the details of membership.

Table 1.2.1 Membership Analysis:

Class of Membership	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Fellows	**143**	**218**	204	200	204	203	213	217	215	203
Affiliates	**0**	**4**	19	23	24	18	23	27	18	20
Associates	**106**	**122**	122	118	120	136	131	135	134	132
Students other than Associates	**471**	**604**	1494	1905	2815	3486	5552	6200	6518	8340
Total	**720**	**948**	**1839**	**2246**	**3163**	**3843**	**5919**	**6579**	**6885**	**8695**
Hon. Fellows	0	5	6	6	6	6	6	6	6	6
Grand Total	**720**	**953**	**1845**	**2252**	**3169**	**3849**	**5925**	**6585**	**6891**	**8701**

Table 1.2.2 **Age wise distribution of Members (other than Honorary Fellows) as at 31 03 2008**

Age Group	Fellows	Affiliates	Associates	Students	Total
20 & less	0	0	0	0	**0**
21-25	0	0	2	2346	**2348**
26-30	5	2	14	1678	**1699**
31-35	15	5	15	876	**911**
36-40	34	3	57	1053	**1147**
41-45	25	1	16	392	**434**
46-50	16	4	9	86	**115**
51-55	7	1	7	41	**56**
56-60	21	2	9	34	**66**
61-65	9	0	2	6	**12**
66-70	24	0	1	3	**28**
71-75	20	0	1	2	**23**
76-80	21	0	0	0	**21**
81-85	14	0	1	1	**16**
86-90	3	0	0	0	**3**
91 & above	1	0	0	0	**6**
Total	**215**	**18**	**134**	**6518**	**6885**

Table 1.2.3 Age wise distribution of Members (other than Honorary Fellows) as at 31 03 2009

Age Group	Fellows	Affiliates	Associates	Students	Total
20 & less	0	0	0	764	**764**
21-25	1	3	0	3054	**3058**
26-30	8	10	2	2033	**2053**
31-35	10	18	7	866	**901**
36-40	37	52	6	963	**1058**
41-45	22	18	2	468	**510**
46-50	13	9	0	117	**139**
51-55	7	4	2	35	**48**
56-60	20	13	0	23	**56**
61-65	5	2	1	8	**16**
66-70	20	0	0	3	**23**
71-75	23	2	0	2	**27**
76-80	19	0	0	2	**21**
81-85	15	1	0	0	**16**
86-90	3	0	0	2	**5**
91 & above	0	0	0	0	**0**
Total	**203**	**132**	**20**	**8340**	**8695**

Table 1.2.4 Analysis according to location as at 31 03 2008

Class of Members	Resident in India	Resident in rest of the world	Total
Fellows	150	65	**215**
Affiliates	6	12	**18**
Associates	122	12	**134**
Students other than Associates	6440	78	**6518**
Honorary Fellows	3	3	**6**
Total	**6721**	**170**	**6891**

Nearly 50 Fellows are in the actuarial consultancy field.

More details can be had at the Institute's website: www.actuariesindia.org .

1.3 India: India is the second most populous country in the world, with a population of over one billion, and is the seventh largest country by geographical area. The distance from India's southern tip to its northernmost point is 3214 kms. Its distance from east to west is 2933 kms. It has 7,516 kms of coastline on three bodies of water: the Arabian sea off its western coast, the Indian Ocean to the south and the Bay of Bengal on its eastern side. India is a vast expanse of cultural, traditional and religious diversity. The Indian Subcontinent is separated from the rest of Asia by the Great Himalayan range. Indian subcontinent occupies an area of 3,268,000 sq. km which is roughly a third of the land mass of continental United States. Its geographical features are as diverse, ranging from perpetually snowcapped peaks to torrid deserts, form tropical rainforests to huge fertile plains & from rock escarpments to gentle rolling downs. Occupying most of the Indian subcontinent, India's entire north and northeast states are made up of the Himalayan Range. The rest of northern, central and eastern India consists of the fertile Indo-Gangetic plain.

Table 1.3: India at a glance:

Item	Figures
Population Growth rate	1.1 billions [estimates: 2006] 1.38% [est. 2006]
Age structure [Est. 2006] 0-14 15-64 65 and +	 30.8% 64.3% 4.9%
GDP Purchasing power parity Real growth rate Industry Services Agriculture	US$ 4.042 trillions [est. 2006] 8.5% [est. 2006] 19.3% 60.7% 19.9% [est. 2005]
Inflation rate	5.3% (est. 2006)
Unemployment rate	7.6% (est. 2006)
Annual Gross Salary* Labourer Professionals Management Legal Minimum Wage	In Indian Rupees General: 140647; Skilled: 224497 Junior: 358337; Senior: 571970 Lower:912964; Upper: 1457252 The minimum wages Act, enacted 1948 provides for minimum wages in scheduled employments. The Act aims at fixation and periodical revision of minimum wages by the government
Exchange Rates in June 2009	1 US$= Rs.47

Source: Swiss Re's Report

1.4 **Insurance Industry**: India, as on 31st March, 2008, has 22 life insurers (of which one is owned by the Government of India), 21 general insurers (of which 6 are owned by Govt. of India); and one reinsurer (owner: Government of India). Insurance Penetration is 4.7% of GDP as at 31st March, 2007. Insurance density is US$ 46 (Premium Per head per annum)[Source: IRDA's Annual Report: 2007-08].

Part II

2 Social Security and Pension and other employee benefits in India:

Social Security:

2.1 In India, most of the social security schemes are devised and administered by the government of India, and state governments in India. These generally provide death benefits, pension benefits, and indemnity benefits such as health insurance, hut insurance, boat insurance, and cattle insurance. Target population is below poverty line. Normally below poverty line are those whose annual income does not exceed about US$100. And for this, the entire cost is borne by the concerned government. There are also schemes under which, partly funded by the government (some element of subsidy) which cover certain rural and social sectors. Rural sector consists of those who live in small villages with limited means; and social sector consist of certain specified people with specific occupations mainly economically vulnerable sections of people—and usually referred to as 'un-organized sector'. About 7.1 million lives were covered under Social Security Group Insurance Schemes (Source: LIC of India's Annual Report: 2007-08).

Pension benefits:

2.2 Pension is a mandatory benefit for those who work in Central or State governments. It is a voluntary benefit for others who work in public or private sector. In India, many employers provide pension benefits to attract labor force. In India, Provident Fund is a statutory benefit for all employees working in any organization which employs not less than 20 persons. This also provides pension as additional benefit. Provident fund is a lump sum benefit which is payable on death, resignation, or retirement from service. Whereas pension is a benefit under defined contribution scheme—under which the accumulated monies during service till cessation would be utilized to purchase pension benefit in the form annuity policies. Till year 2004, for government servants, it was a defined benefit under which pension was related to final salary and length of service. Many pension schemes in India have switched over to and are in the form of 'defined contribution scheme'. A new pension system is being introduced in India, and is under legislative process; and will be regulated and developed by PFRDA (Pension Funds Regulatory and Development Authority). The new pension system is defined in the proposed legislation frame work. It covers all governments' pension schemes and also private pension schemes. It takes care of accumulation phase of all the contributions made during the period up to retirement age (or 58 or 60 for private pensions). It also allows others (who are self-employed and belong to un-organized sector) to join new pension system. Contributions are invested in three types of funds—safe (all government paper), balanced (government paper and equity in equal proportions), and growth (substantial portion in equity), as per the choice of customers. Necessary infrastructure is being created for this purpose –points of presence (which are usually banks)---who are involved in selling the product to others (other than government employees), that is general public; fund managers who would manage funds, depositary system for administration (record keeping) of monies of customers, and other. PFRDA would regulate, monitor and develop the systems. At the specified age of retirement, about 60% of the accumulated fund could be en-cashed, and the balance for purchase of life annuity from any life insurer registered with IRDA (Insurance Regulatory and Development Authority). As such life insurers would be assured of good annuity business in India in future. Lowest fund management charges, as small as .01% of fund (It is a matter of surprise, and it has to be seen whether fund managers could sustain such lower fee amounts!). Greater transparency to the customers and also good service to customers expected. Minimum individual contributions have been specified for viability of the scheme. Tax incentives are being proposed for this. This new pension system is a boon for the self-employed and un-organized persons who could have pensions in old age. More details in this regard could be had from the PFRDA's website: www.pfrda.org.in .

Private pensions

2.3 Private pensions are provided by employers (on voluntary basis). Such schemes need to be approved by the local revenue authority for tax incentives. Tax incentives are: Employer's contribution is an expense (amount of annual contribution is limited); investment income which is tax free for approved pension (or superannuation) schemes, where accrued in the pension fund. For approval by the revenue authority, the scheme needs to satisfy certain criteria: It should be a trust with trustees who are responsible for administration of the scheme; Contributions by employers should be limited (annual contributions to provident fund and superannuation scheme shall not exceed 27% of salary); if scheme is not insured with any life insurer, then (1) the investments must be made in specified investments which are usually government paper and fixed deposits with public sector banks; (2) contributions must be accumulated till cessation of service, and the member-employee/beneficiary must be provided with an annuity policy from any life insurer. Revenue Authority is empowered to permit schemes to pay pensions from the fund under certain circumstances—normally they do not permit; besides all superannuation schemes which offer define benefits must be certified by an actuary with regard to accrued liability and expense recognized in the financial year, as per accounting standards of the Institute of Chartered Accountants in India, which is of mandatory nature. There is a fringe benefit tax which is imposed on the annual contributions for each member if the amount exceeds Rupees 100,000, and this has to be borne by employer. Currently the government is considering the abolition of this tax. Commutation of pension is permitted and this amount (upto certain amount) is also tax free. Annuity policy (which the member/beneficiary could choose) could be any one of the following:-

(1) life annuity
(2) Annuity certain and for life thereafter
(3) Life annuity with return of purchase price on death
(4) Joint Life and Last survivor annuity
(5) Increasing annuity (where increases are limited to 5% p.a, normally)

Life insurers are having over 5% of their new premium income from pension business.

The number of private pension schemes is not known as these are not insured with any life insurer. It is believed that the number is about 10,000.

Other employee benefits:

2.4 In India, the following are the statutory benefits:-

1. Provident Fund
2. Gratuity

2.5 And the following are the voluntary benefits, in place, in most employments:-

1. Leave Encashment
2. Medical benefits
3. Leave Travel Concession and encashment if not availed;
4. and other benefits (which could be unique for employers)

2.6 **Provident Fund** is a mandatory benefit and into which both employers and employees contribute. The contributions, from each, would be in the range of 10-12% of salary. The fund is managed by a government body—Employees Provident Fund Office (EPFO). EPFO also gives exemptions for those employers who wish to manage themselves with certain terms and conditions. Employer has to provide a minimum rate of interest which is offered by EPFO (otherwise, the exempted status would be removed). In case of exempted provident funds, any short fall in the interest rate (difference between the actual rate earned and the guaranteed minimum rate of interest that is required to be given by the employer) has to be met by the employer. As per the Accounting Standards in India, an employer has to make actuarial provision in this regard. EPFO also provides disability benefits, death benefits, and also pension benefits which are related to salary and length of service.

2.7 **Gratuity** is a statutory benefit. It has to be provided by all employers who employ at least 10 persons. It can be stated as golden shake-hand! The benefit is computed for each year of service at the rate of 15 days' salary for the rendered service at the date of cessation, (any fraction of a year which is 0.5 or over is taken as one year) and the maximum amount of gratuity is twenty months' salary or Rupees 350,000, whichever is higher. It is liked that this limit of Rs. 350000 would be enhanced to Rs. 1 million. Employers can pay higher amounts of gratuity. Tax has to be borne on the excess amount-over and above the statutory amount of benefit. Suppose the salary at the date of retirement is Rs. 10,000; and the number of years of service is 20, and then the gratuity amount is Rs. 100,000/-. The gratuity plans can be classified under three heads : [a] Unfunded Plans [b] Self Administered Plans and [c] Insurer Managed Plans. While funding is not mandatory, funding is a pre-requisite if the employer wants to treat the contributions to the gratuity plan as a tax-deductible expense. As per the Accounting Standards in India, an employer has to make actuarial provision for accrued gratuity liability.

2.8 **Leave Encashment** is a benefit offered by most employers in India, on voluntary basis. This is available during the period of service, and also on retirement (ill-health, voluntary, or age retirement) or on death, and in some case on resignation. Leave encashment benefit is the amount of leave converted into cash (number of days' salary). Generally a cap is made on the amount of benefit, such as 90 days' or 180 days' salary on retirement or death. During the period of service, the cap is still less, it could be 15 days' or 30 day's salary, subject to a condition, that there should be specified amount of leave to the credit of employee (for instance, twice the amount of leave being cashed). This leave is referred to as 'privilege' or ‘earned’ leave. As per the Accounting Standards in India, an employer has to make actuarial provision for accrued liability.

2.9 **Medical Benefits:** These are more common and also on voluntary basis for employers (who bear the entire cost). Benefits could be ‘domiciliary’ [in-house] and ‘non-domiciliary’ [in-patient at hospital]. This is available to family members. There is a ceiling on the amount of domiciliary benefit, with certain terms and conditions. Non-domiciliary benefits could be provided through a group health insurance policy. In some establishments, in lieu of these, they provide cash benefits at the end of every year. It is also non uncommon in India, to provide benefits during post-retirement. The benefits could vary according to category of employee. As per the Accounting Standards in India, an employer has to make actuarial provision for accrued liability.

2.10 **Leave Travel Concession**: Employees are given option to avail LTC or cash in lieu of LTC. This is usually given once in two years. As per the Accounting Standards in India, an employer has to make actuarial provision for accrued liability.

2.11 **Other benefits:** These could be compensated benefits, for encashment of casual leave, lunch coupons, club expenses, etc. As per the Accounting Standards in India, an employer has to make actuarial provision in its accounts.

3. Actuarial Profession and Guidance Notes:

3.1 The actuarial profession is disciplined by the Institute of Actuaries of India, Mumbai. The Institute has issued a number of guidance notes on various subjects of practice. For Pension and other employee benefits, a good number of guidance notes have been issued. For some guidance notes, the actuarial professions discusses with the accountancy profession, so that the consulting actuaries could render proper actuarial services to clients. For details on guidance notes, the Institute’s website: www.actuariesindia.org may be visited.

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[Brief CV is also enclosed separately]