



Employer Pensions

Landscape, issues and reform agenda

Pensions Workshop
New Delhi
February 2015



Agenda

□ Landscape

□ Issues

□ Agenda for reforms

Plans

Mandatory Plans

- ❑ Employees Provident Fund
- ❑ Employees Pension Scheme
- ❑ Employees Deposit Linked Insurance
- ❑ Gratuity

Voluntary Plans

- ❑ Superannuation
- ❑ National Pension System



Landscape

Scheme	Regulation	Coverage	Funding	Benefit
Employees Provident Fund	Employees Provident Fund and Miscellaneous Provisions Act	Employers above 20 employees; Proposed to be lowered to 10 employees	24% of basic salary	Lumpsum on vesting with portability of balances
Employees Pension Scheme	- Do -	- Do -	8.33% of Rs. 15,000 Basic (Included in the above);	Pension on vesting
Employees Deposit Linked Insurance	- Do -	- Do -	0.5% of Rs. 15,000 Basic	Life cover on death of employee

Regulatory Framework

Scheme	Regulation	Coverage	Funding	Benefits
Gratuity	Payment of Gratuity Act	Employers above 10 employees;	Not mandatory	DB Lumpsum equivalent of half months salary for every year day; Payable on cessation of service after 5 years
NPS	PFRDA Act	Voluntary	No caps	Pension on vesting
Superannuation	Income Tax Act	Voluntary	Upto 15% of basic pay	Pension on vesting

Regulatory Landscape

Scheme	Regulation	Design and benefits regulator	Funding regulator
Employees Provident Fund / Employees Pension Scheme/ Employees Deposit Linked Insurance	EPF & MP Act	EPFO	EPFO/ Income Tax Dept/ IRDA
Gratuity	Payment of Gratuity Act	Labour Commissioner	Income Tax Dept/ IRDA

Regulatory Landscape

Scheme	Regulation	Design and benefits regulator	Funding regulator
Superannuation	None	None	Income Tax Dept/ IRDA
NPS	PFRDA Act	PFRDA	PFRDA/ Income Tax Dept

Issues

Benefit design defects

- ❑ Problems of one-size fits all design
- ❑ High contribution rates that force real recipients to view PF as a tax
- ❑ Benefits leakages – impact of premature withdrawals
- ❑ Perils of defined benefits; EPS, administered interest rates; Gratuity
- ❑ Unwilling beneficiaries – Expatriates
- ❑ Cross subsidization; dormant accounts, expatriate PF

Regulation and governance design defects

- ❑ Absence of choice and competition; regulatory capture of the EPFO
- ❑ Multiple regulators (EPFO, CBDT, IRDA, Labour Commissioner, PFRDA)
- ❑ Regulation and supervision of gratuity and superannuation ignored
- ❑ Absence of regulation governing Trustees
- ❑ Regulation has not kept pace with Employer requirements (M&A etc)

Issues

Asset side issues

- ❑ Limited employee choice in asset allocation
- ❑ Asset allocation of mandatory plans largely fixed income centric
- ❑ Passive investment style bias
- ❑ Expenses borne by sponsors
- ❑ PF – An expensive (458 bps) G-Sec fund?

Impact on outcomes

- ❑ Inadequate pensions
- ❑ Low coverage
- ❑ Poor delivery
- ❑ Over regulation and under supervision

Reform agenda

Scheme changes

- ❑ One mandatory plan
 - Employees choose between NPS and EPF
 - Permit portability between NPS and EPF
 - Permit Group Term cover in lieu of EDLI in case of matching benefits
- ❑ Sunset Gratuity and EPS
 - Redirect existing funding allocations to mandatory plans
- ❑ Retain superannuation – permit portability between superannuation and NPS

Design changes

- ❑ Lower contribution rates of EPF
- ❑ Remove pre-mature withdrawals in all schemes
- ❑ Align taxation treatment of all schemes
- ❑ Consider partial annuitization of PF benefit

Reform agenda

Regulation and Regulators

- ❑ One regulator that is as focussed on development as compliance
- ❑ Competing administrators and vendors for delivery of benefits
- ❑ Expenses shared by employers and employees
- ❑ Enhance governance frameworks (Employers, Trustees etc)
- ❑ Enhance focus on beneficiary communication and financial literacy
- ❑ Recast laws and align to stakeholder needs

Asset side changes

- ❑ Retain current design of the EPFO asset allocation (interest bearing products are easier understood in certain segments of beneficiaries)
- ❑ Encourage employee choice in asset allocation

Conclusion

- Significant changes have occurred in employer pensions in the recent past
 - Regulatory (NPS, PFRDA)
 - Administrative (IT-ization of the EPFO)

- Next wave of changes will require mindset changes from stakeholders
 - Employers – Paternalistic outlook to pensions
 - Employees – Realize the importance of pensions
 - Government - Look beyond labour laws

- Otherwise, long term risk of old age savings crisis



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