A Case Study – II PRC on Pensions

Chitra Jayasimha

9th Current Issues in Retirement Benefits

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Agenda

- Background
- Guidelines
- What we can do
- Case Study

2007 Pay Revision : Background

- Constitution of the II PRC in November, 2006
- Headed by Justice M.J. Rao, retired Supreme Court Judge
- Committee gave its recommendations in May, 08
- Some recommendations not accepted
- DPE O.Ms dated 26.11.2008 & 9.2.2009
- Appointment of Committee of Ministers (Chidambaram Committee)
- DPE O.M dated 2.4.2009

DPE guidelines for Superannuation Benefits

- DPE vide its O.Ms. dated 26.11.2008 and 2.4.2009 provided inter-alia the following:-
- Maximum 30% of Basic Pay plus DA as superannuation benefits.
- Superannuation benefits may include Contributory Provident Fund (CPF), Gratuity, Pension and Post-superannuation Medical Benefits.

DPE guidelines for Superannuation Benefits

- CPSEs should make their own schemes to manage these funds or operate through Insurance Companies on fixed contribution basis.
- PF and gratuity to be provided for as per the statute.
- Pension and Post-retirement medical benefits scheme will be decided based on the returns from the schemes to be operated.

Clarifications on financial viability

- Benefits Schemes would be subject to factors like affordability, capacity to pay and sustainability of the CPSE.

- Govt. budgetary support would not be provided to operate or sustain these schemes

- Dip in profit not to exceed 20% of PBT on pay revision with pension schemes.

- For regular employees on the roles of the CPSE after 1.1.07 or date of starting the scheme in the CPSE.

Clarifications on Contribution

- Employees may be given the option to contribute.

- Contribution of a CPSE to these two schemes to be limited such that the contribution to PF, Gratuity, Pension and Post-retirement medical benefit schemes does not exceed 30% of Basic Pay + DA.

- Contribution every year should not be guaranteed.

- Contribution to individual accounts for these two schemes will vary depending upon affordability.

What Actuaries can do ?

* Scheme Redesign of Post Retirement medical benefit to curtail cost

* Contribution Rate for the Defined Contribution Pension Scheme

  - Arrive at cost of Gratuity , Post Retirement Medical benefit as a % of Salary
  - Cost of DC Pension Benefit = 30% less the Cost of Provident Fund, Gratuity and Post Retirement medical benefit

Section 4

CASE STUDY

Redesign of Post Retirement Medical Benefit Scheme and Estimating Contribution rate for the Superannuation Scheme

CASE STUDY

PSU Profile

- 2500 retired employees
- Average Age – 70

- 1500 Active employees
- Average age - 45

CURRENT BENEFITS

Benefit	Description	Cost
Provident Fund	• 12% to provident fund	12% of Basic +DA
Gratuity	• 15/26 of Basic Salary and DA for each year of completed years of service subject to a upper limit of INR 10 lakhs	4% of Basic +DA
Post Retirement Benefits – Pre Redesign	• Out-patient/domiciliary benefit • Hospitalization Benefit	7.5 % of Basic +DA
Pension	• Contribution at 30% Salary (Basic + DA) less cost of above benefits	6.5% of Basic +DA

CASE STUDY

Scheme Features of Post Medical Retirement Benefits

- Hospitalization and Domiciliary treatment for all employees –   Both Retired and Existing

- Domiciliary Benefit -   Annual flat amount starting from INR 12000 to INR 25000

- Hospitalization Benefit -   full reimbursements (Indoor treatment) will be made if the treatment is taken in the empanelled hospital or government hospital recognised by CGHS and will be based on CGHS rates subject to a limit of INR INR 4 Lakhs

- The Limit is relaxed to an extent of 100% for major ailments

CASE STUDY – Public Sector Unit

Proposed Solution

The Guidance from the 2nd PRC committee to the CPSE's is to set up a defined contribution scheme for the Post Retirement Medical benefits ,either by managing the funds themselves or operate these funds through insurance companies.

Set up separate trust funds for

- Employees retiring prior to 01/01/2007

- Employees Retired / Retiring after 01/01/2007

CASE STUDY – Public Sector Unit

Employees retiring prior to 01/01/2007 (closed Group)

- Starting Fund is the Liability in the books of Accounts as at 31/03/2012
- The 2nd PRC committee recommends a contribution of 1.5% of Profit before Tax towards hospitalization expenses for employees retiring before 01/01/2007.
- The Year on Year medical expenses (both Hospitalization and Domiciliary) projected
- The annual medical cost was based on the PSU's medical data provided
- The Fund at the End of each Year calculated to ascertain the sustainability
- Factors affecting the sustainability of the fund
  - Aging of the group
  - Closed group with no new entrants and there by increasing the average age significantly year on year and as a result higher cost of medical expenses.
  - The contribution of 1.5% of Profit before tax to the fund is insufficient to cope up with the increasing medical costs.
- Final Recommendation based on the sustainability of the fund

CASE STUDY – Public Sector Unit

Employees retiring after 01/01/2007 –

- Starting Fund is the Liability in the books of Accounts as at 31/03/2012
- Contributions to the Fund -
- The Year on Year medical expenses (both Hospitalization and Domiciliary) was projected .
- The annual medical cost was based on the PSU's medical data provided
- The Fund at the End of each Year was calculated to ascertain the sustainability

CURRENT BENEFITS

Benefit	Description	Cost
Provident Fund	• 12% to provident fund	12% of Basic +DA
Gratuity	• 15/26 of Basic Salary and DA for each year of completed years of service subject to a upper limit of INR 10 lakhs	4% of Basic +DA
Post Retirement Benefits after Redesign	• Out-patient/domiciliary benefit • Hospitalization Benefit	5 % of Basic +DA
Pension	• Contribution at 30% Salary (Basic + DA) less cost of above benefits	9 % of Basic +DA

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* Thank you