India

India: Pension system in 2012

Workers are covered under the earnings-related employee pension scheme and defined-contribution employee provident fund administered by the Employees Provident Fund Organization (EPFO) and other employer managed funds. Civil Employees of Central Government who have joined services on or after 1 January 2004 are covered under the defined contribution based New Pension System (NPS).

Key indicators

		India	OECD
Average worker earnings (AW)	INR	240 400	2 342 100
	USD	4 400	42 700
Public pension spending	% of GDP		7.8
Life expectancy	At birth	66.4	79.9
	At age 65	13.7	19.1
Population over age 65	% of working-age population	9.3	25.5

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Qualifying conditions

Normal pension age for earnings-related pension scheme is 58 with minimum of ten years of contribution and for earnings-related provident fund schemes, it is 55 years.

Benefit calculation

Employees Provident Fund Scheme (EPF)

The employee contributes 12% of his monthly salary towards this fund and the employer matches this contribution. 3.67% of the employer's share goes towards the EPF. This combined 15.67% accumulates as a lump-sum.

There is no annuity and full accumulations are paid on retirement from service after attaining 55 years of age. For comparison with other countries, for replacement rate purposes the pension is shown as a price-indexed annuity based on sex-specific mortality rates.

Employees Pension Scheme (EPS)

Of the 12% contribution payable by the employer as mentioned above, 8.33% is diverted to EPS and the Central Government contributes a subsidy of 1.17% of the salary into the EPS. This accumulation is used to pay various pension benefits on retirement or early termination. The kind of pension a member gets under the scheme depends upon the age at which they retire and the number of years of eligible service.

Monthly pension = (pensionable salary × pensionable service)/70

The maximum possible replacement rate is roughly 50%. To obtain the maximum benefit, a member would not only need to be in the scheme for 35 years, but would also need to opt for contributions at higher salary at the time of joining the scheme. This option cannot be exercised retrospectively. Otherwise, there is a ceiling to contributions of INR 6 500 per month.

Variant careers

Early retirement

The EPS can be claimed from age 50 with ten years of contribution and the benefits are reduced by 3% per year of early retirement. If a member leaves his job before rendering at least ten years of service, he is 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 of eligible services he has rendered. No pension is payable in cases where there is a break in service before ten years.

In case of EPF, there are multiple scenarios which allow for early access to the accumulation. Partial withdrawals relate to marriage, housing advance, financing life insurance policy, illness of members/family members, withdrawals are also permitted one year before retirement, etc. In addition to various permitted partial withdrawals, employees can close their account and withdraw the full corpus in case they move from one employer to another or decide to retire early.

No gratuity can be claimed before five years of service.

Late retirement

It is not possible to delay claiming pension after normal pension age.

National Pension System (NPS)

In India, in the absence of a country-wide social security system (formal pension coverage being about 12% of the working population), while the ageing and social change are important considerations for introducing pension reform in the unorganised sector, fiscal stress of the defined-benefit pension system was the major factor driving pension reforms for employees in the organised public sector (government employees).

Introduction of the New Pension System

The government had introduced the New Pension System (NPS) from 1 January 2004 through a notification dated 22 December 2003 for new entrants to Central Government service, except to Armed Forces. The government has constituted an interim regulator, the Interim Pension Fund Regulatory and Development Authority (PFRDA) through a government resolution in October 2003. The design features of the New Pension System (NPS) are self-sustainability, scalability, individual choice, maximising outreach, low-cost yet efficient, and pension system based on sound regulation.

Establishment of Institutional Framework of NPS

The National Securities Depository Limited (NSDL) has been selected as the Central Record keeping and Accounting Agency (CRA) by PFRDA and has commenced operation. The contributions under NPS are now being sent to CRA. PFRDA has appointed three pension fund managers, a custodian and a trustee bank. The accumulation and contribution of subscribers of NPS, who are Central Government Employees, are invested based on the investment guidelines prescribed for the non-government provident funds by the Ministry of Finance. However, the investment guidelines for NPS for all citizens have been prescribed by PFRDA and are available at *www.pfrda.org.in*.

Extension of NPS to State Governments, Autonomous Bodies and Un-organised Sector

NPS has also been extended to new segments (autonomous bodies, State Governments and un-organised sector). Twenty seven State Governments and Union Territories have notified adoption of NPS for their new employees. After receiving government's approval for extending the NPS to all citizens including the unorganised sector workers PFRDA has rolled out the NPS architecture for all citizens of the country on a voluntary basis from 1 May 2009.

In order to expand the reach of the NPS countrywide, Interim PFRDA invited the Department of Posts to join the NPS as a POP. The Department of Posts has been offering NPS at 807 branches as on 31 December 2011 but proposes to eventually extend its NPS network to all of its electronically connected branches. This will enable the Department of Posts to make NPS available within the easy reach of all citizens in the remotest corners of the country. Several new initiatives were started like:

1. Adding a second tier to the NPS that will serve as a savings account for the pension subscriber with effect from 1 December 2009.
2. Launch of Co-contributory Scheme NPS – Lite ("Swavalamban*") – a low cost version of NPS meant to enrol people of lower economic strata like self help groups, affinity groups, etc.
3. Increasing the maximum entry age under the NPS to 60 years, as against the prevailing 55 years to enable more people to join the NPS.

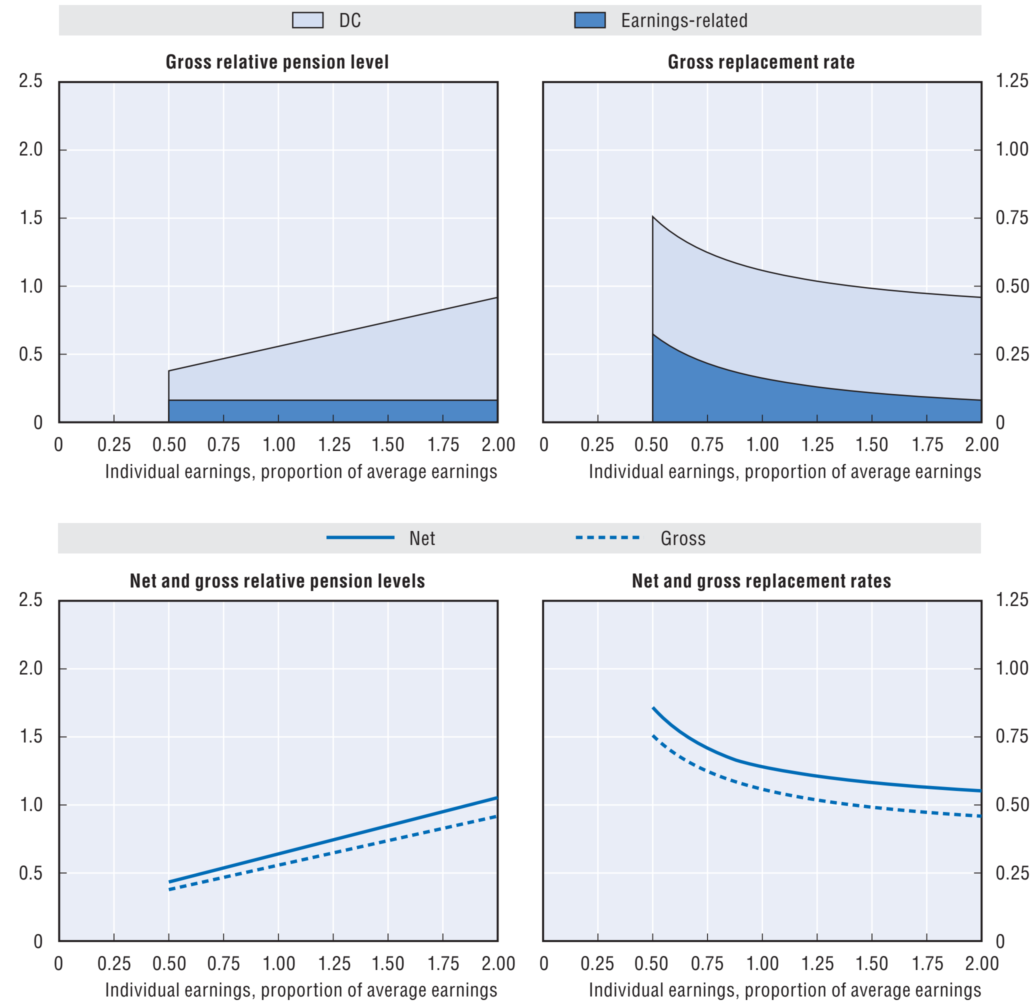
Government's NPS Swavalamban initiative is an important initiative to test if co-contributions can motivate higher voluntary participation among low income unorganised workforce. Following the central government initiative, state governments like Haryana and Karnataka have announced additional co-contributions over and above what central government has promised. Workers in these States can get up-to INR 2 200 annually as co-contribution.

National pension system status, March 2013

	Employer/sector	Number of subscribers	Corpus under NPS (in USD million)
1	Central government	1 125 871	3 099
2	State government	1 585 349	1 778
3	Private sector	202 679	228
4	NPS-Lite	1 579 690	75

* To encourage people from the unorganised sector to voluntarily save for their retirement and to lower the cost of operations of the New Pension System (NPS) for such subscribers, a co-contributory scheme called "Swavalamban", was launched on 1 April 2010 by the Central Government. The Scheme is to be administered by PFRDA. The Central Government contribute INR 1 000 per annum to members. Membership in the Swavalamban scheme is possible if the member is not a part of any statutory pension scheme of the Government and if he or she contributes between INR 1 000 and INR 12 000 per annum. The Swavalamban Scheme is open until the financial year 2016-17. PFRDA expects that the scheme will benefit about 7 million NPS subscribers of the unorganised sector during this period.

Pension modelling results: India



Men *Women (where different)*	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	48.9	37.8	46.8	55.8	73.8	91.8
(% average gross earnings)	*45.6*	*35.6*	*43.7*	*51.8*	*68.0*	*84.1*
Net relative pension level	56.2	43.4	53.7	64.1	84.7	105.4
(% net average earnings)	*52.2*	*40.7*	*49.9*	*59.2*	*77.7*	*96.2*
Gross replacement rate	60.4	75.6	62.4	55.8	49.2	45.9
(% individual gross earnings)	*56.3*	*71.2*	*58.3*	*51.8*	*45.3*	*42.1*
Net replacement rate	68.7	85.9	70.9	64.1	58.2	55.2
(% individual net earnings)	*64.0*	*80.9*	*66.2*	*59.2*	*53.5*	*50.5*
Gross pension wealth	10.0	12.4	10.3	9.3	8.2	7.7
(multiple of individual gross earnings)	*10.4*	*13.0*	*10.7*	*9.6*	*8.4*	*7.9*
Net pension wealth	10.0	12.4	10.3	9.3	8.2	7.7
(multiple of individual gross earnings)	*10.4*	*13.0*	*10.7*	*9.6*	*8.4*	*7.9*

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