No. Pension/33rd PIC Meeting/2014/10720

Dated: 22 DEC 2014

To

All the Members,
Pension Implementation Committee,
CBT, EPF.

Sub.: Draft minutes of the 34th Meeting of the Pension Implementation Committee held on 15-12-2014.

Sir

A copy of the minutes of the meeting as approved by the Chairman, Pension Implementation Committee is forwarded herewith. It is requested to forward your comments, if any, on the minutes, with 10 days from the date of receipt of this letter.

Encl.: As above

Yours faithfully,

(CHANDRAMAULI CHAKRABORTY)
REGIONAL P. F. COMMISSIONER-I (Pension)

Copy to:
1. PS to CPFC & Chairman, PIC.
2. PS to Joint Secretary & FA, Ministry of Labour & Employment, New Delhi.
3. PS to Director (SS), Ministry of Labour & Employment, New Delhi.
4. PS to ACC (Pension)

Issued
Minutes of Meeting

34th Meeting of
Pension Implementation Committee

Date: 15-Dec-2014

Venue: 3rd Floor, Conference Hall,
EPFO Headquarters
Bhavishyanidhi Bhavan
14-Bhikaiji Cama Place
New Delhi - 110 066

Present:

1. Shri. K.K. Jalan, Central Provident Fund Commissioner - Chairman
2. Smt. Meenakshi Gupta, Joint Secretary & Financial Advisor (MoL&E) - Member
3. Shri. Shard Patil, Employer’s Representative, CBT (EPF) - Member
4. Shri. D.L. Sachdeva, Employee’s Representative, CBT (EPF) - Member
5. Shri. K. Mohan Gandhi, PFRDA (Domain Expert) - Member
6. Shri. Rajesh Bansal, Additional Central Commissioner (HQ) - Convenor

Shri. G.P. Shrivastava, Employer’s Representative, CBT (EPF), Shri. Vrijesh Upadhyay, Employee’s Representative, CBT (EPF), Shri. D.S. Negi, Director (SS), Ministry of Labour & Employment and Shri. M.G. Diwan, Appointed Actuary (Domain Expert) could not attend due to prior engagements.

Shri. Chandramauli Chakraborty, RPFC-I (Pension) EPFO, Headquarters also attended the meeting.

CPFC welcomed members of the Pension Implementation Committee (PIC) and in his opening remarks stated that there was a single agenda item before the PIC for consideration which contained a set of suggested amendments in the EPS-95. This agenda was in pursuance of the directions of the CBT in its 204th meeting held on 26.08.2014 wherein it had referred the suggestions of the Actuary regarding modifications required in the EPS-95 along with other suggestions for modifications to the EPS-95 to the Pension Implementation Committee.

2. With these remarks, CPFC requested members of the PIC to approve the minutes of the last meeting of the PIC and to deliberate on the various proposals for modification in the EPS-95 and give their views and recommendations.

Item No. 1: Suggested modifications in the Employees’ Pension Scheme, 1995

3. The PIC took up for deliberation the suggestions for modifications to EPS-95 from various sources as indicated in the agenda proposal. The suggestion for amendment received from various
quarters and the discussion and recommendations of the PIC against these suggestions were as below:

4. **Modification suggested by the Valuers in Valuation Reports**

   The following amendments have been suggested by Actuaries in various valuation reports of the EPS Fund:

   (i) Make one time lump sum contribution equivalent to revealed deficit to the Pension Fund to make good the deficit;

   or

   Revise the rate of contribution upwards for the existing members so that the deficit is met by higher future contribution;

   or

   Achieve higher return on investment of not less than 9% p.a. over the future combined with increase in contribution rate (for existing members) of not less than 3%.

   (ii) Increase the age of vesting pension to 60 years.

   (iii) Increasing the short service pension entitlement age from 50 years to 55 years of age.

4.1 **Discussion in the PIC:** The PIC noted that the agenda item mentioned that seeking budgetary support from the government for contributory, self-funded scheme would be infeasible. Similarly, increasing the rate of contribution solely for the purpose of removing the deficit without any increase of benefits would be unwarranted apart from the fact that there had to be amendments in the Act to support this initiative. Increasing the return on investment in the falling interest rate scenario in the debt market and without recourse to investments in stocks and equities this requirement cannot be met. It had accordingly been suggested that these recommendations of the actually need not be acted upon at this point of time.

4.2 The CPFC drew the attention of the members to the fact that the actuarial valuation reports till now have been based on an inadequate data sample size which has been commented upon by the actuaries in their reports. While the data which was provided for the last valuation was a major improvement both in terms of quality and quantity there was still scope for vast improvements in this area. The organization had taken a number of steps in filling up the gaps in its database as well as to build up records in a robust and planned manner. It had introduced the Universal Account Number (UAN) and was seeding the database with bank account numbers, PAN, AADHAAR numbers and other basic details of the members. Further with the introduction of OLRE the details of employers would also be available in digital format in the database. Over the next one or two years it would be possible to provide complete, authenticated and verified data to the actuaries for valuation and evaluation reports consequently would be more reliable and recommendations thereon could be taken up for consideration.

4.3 Shri. Shard Patil suggested that the exempted funds had far better record keeping and the data from such funds could be utilized for future evaluation purposes. The CPFC observed that the suggestion was very valid and well taken and this suggestion would be kept in mind for future valuations.
4.4 Shri. Patil also suggested that the practice of clubbing reports of multiple years should be avoided as while multiple year reports are prepared and paid for it is only the last report which is relevant and acted upon. CPFC informed the committee that this was a historical problem where the process for appointment of actuary was initiated only at the end of the year under question and the process got extended resulting into the situation where multiple year reports had to be ordered. However, The Government has recently approved the appointment of actuary for the years 2013-14 and 2014-15 and with this move it is expected that the actuarial valuation exercise would be up to date by the end of this financial year.

4.5 JS&FA, Ministry of Labour remarked that it would be desirable to have a specified time frame for the exercise of appointment of actuary. CPFC suggested that the exercise for appointment of actuary for the year 2015-16 should be initiated now itself so that the actuary would be in place in the beginning of the year itself and would have sufficient time to study the organization and the data for making the report.

4.6 Shri. Sachdeva stated that it would be incorrect to say that the Government should not provide budgetary support to the fund or increase the government's share of contributions as it had a responsibility for the welfare of the members and pensioners of EPS and there have been demands earlier from various quarters including recommendations of the Board to raise the rate of contributions of the government to support the minimum pension proposal. It was clarified that the proposal to increase the rate of contribution was only to make good the deficit and not to increase benefits and hence the context was limited in the present agenda note.

4.7 JS & FA, Ministry of Labour suggested that since the recommendations which are presently under consideration from the actuarial valuation reports were based on data which admittedly had deficiencies, as indicated in the reports itself, these modifications need not be considered at this stage.

4.8 The committee then took up the proposals for increasing the age of vesting of pension to 60 years and increasing the short service pension entitlement age from 50 years to 55 years. Shri. Sachdeva pointed out that there was a technical difficulty in increasing the age of vesting to 60 years as it would require amendments to the model standing orders which are to be carried out by the Government. He further stated that employees of PSUs, where the age of retirement the 60 years, were entitled to get pension at the age of 58 years and both shares of contribution of employer and employee was diverted to their EPF account and many were satisfied with these benefits and would not opt for the increased age.

4.9 Shri. K. Mohan Gandhi, Representative from PFRDA pointed out that under the NPS also there was a provision for deferring the payment of pension by two years. In NPS the age of vesting of pension was 60 years.

4.10 The PIC felt that these provisions would strengthen the fund and would be beneficial for the workers as they would have an option for increasing their pension by contributing for an additional two years. Further, increasing the age for short service pension to 55 years also made sense as normal retirements before 55 years are very rare, if at all, and the members also stands to gain from a higher amount of pension. However it was also decided that the Actuary could be
asked to develop a model to give incentive to those persons who opted for drawing pension at the age of 60 years.

4.11 **Recommendations of the PIC:** After deliberations the PIC recommended that the proposal mentioned at Para 4 (i) above viz. making good the EPS Fund deficit by a lump sum contribution or increasing the rate of contribution need not be considered at this stage. In respect of the proposals at Para 4 (ii) and 4 (iii) above relating to increasing the age of vesting of pension to 60 years and increasing the short service pension entitlement age from 50 years to 55 years, it was recommended that these two should be accepted for implementation. It was also decided that the Actuary should be asked to develop a model to give incentive to those persons who opted for drawing pension at the age of 60 years.

5. **Suggestion made by the Pension Implementation Committee**

In the 33rd meeting of Pension Implementation Committee held on 25.07.2014 had considered the following suggestion for amendment:

(i) Provision of determining Pensionable Salary on the average of 36 months in place of existing 60 months.

5.1 **Discussion in the PIC:** The committee then took up the suggestion for amending the scheme whereby the pensionable salary would be determined on the average of 36 months instead of 60 months which had been introduced through the recent amendments in the scheme. The issue was deliberated and both the employers and employees representatives were of the considered view that the pensionable salary should be determined on the basis of 30 months wages.

5.2 **Recommendations of the PIC:** The committee accordingly decided to recommend amendment of the scheme to the effect that the pensionable salary should be determined on the basis of 30 months wages immediately preceding the date of exit from the scheme.

6. **Modifications forwarded to Ministry of Labour & Employment by EPFO**

The committee then took up to three recommendations that had already been made to the Ministry of Labor & Employment by the EPFO:

(i) Modification in Para 9 of EPS-95 whereby the “Eligible Service” is to be determined by substituting “Actual Service” in the place of “Contributory Service”

(ii) Modification in Para 2(xv) of EPS-95 by providing explanation below the definition of pensionable service specifying that pensionable service is the service rendered from 16.11.1995

(iii) Specifying age limit of 25 years for Orphan Pensioners

6.1 **Discussion in the PIC:** The Committee noted that the modifications as suggested in Para 6(i) above would address a situation where at present the eligibility of pension is determined only on the basis of the fact that the name of the member is retained in the registers of the employer and has no linkage to contributions received in respect of the member. It results in situations where member becomes eligible for pension but the pension amount is
fixed at very low levels due to the fact that the contributory service is less. The proposal to replace the “actual service” with “contributory service” would mean that only the service for which contributions have been received would be taken into account for determining eligibility for pension. The other two proposals provide clarity and removes obvious anomalies in the scheme provisions.

6.2 Recommendations of the PIC: After deliberations the PIC recommended that these amendments should be carried out and the Government should be requested to expedite the process of bringing out the necessary notification for these.

7. Suggestion by EPFO for amendment to EPS

An additional proposal was submitted by EPFO for consideration by the PIC. The Proposal was as under:

(i) Modification to limit the liability of the EPS-95 for pension in the event of death in the case of a member in whose respect no contribution is received for a period exceeding 36 months.

7.1 Discussion in the PIC: The committee noted that it was quite unfair that a person with even one month’s contribution stands to be protected / Insured for entire working lifetime till the age of 58 years with family pension in the event of death without making any further contributions to the fund. The intention of the scheme was to provide protection in cases where a member leaves an employment and is expected to join another employment within a reasonable time frame. This should not be utilized to give lifelong protection without any contributions to the fund.

7.2 Recommendations of the PIC: Accordingly, the committee recommended that the proposal for amendment to the scheme as contained in the agenda note should be accepted and implemented.

8. Modification/Proposals received from other sources

The following two proposals were received from different quarters:

(i) Extension of social security to all employees’ getting wages above Rs. 15,000/-
(ii) Implementation of enhancement of minimum pension to Rs. 1000/- p.m. (implemented for financial year 2014-15) in perpetuity i.e. to be continued after 2014-15

8.1 Discussions in the PIC: The committee noted that the proposal at Para 8(i) above concerned the extension of the EPF Act and Schemes framed thereunder to all employees engaged in an establishment irrespective of the wages being drawn by them but the compulsory contribution in respect of them could be restricted to the wage ceiling. The committee noted the fact that the EPS was primarily meant for the vulnerable sections of the workers and the relatively well-off employees had options like NPS and other private pension schemes to which they could subscribe voluntarily. The CPFC added that in respect of high wage earners the Government should not be required to contribute 1.16% of the wages (subject to the wage ceiling) as it in no way served the purpose of Social Security as it was essentially meant for the
vulnerable strata of workers. It was also felt that the amendments that had been brought in recently should be watched for some time and its impact studied. In respect of the proposal at Para 8(ii) above about continuing the minimum pension of Rs. 1000/- p.m. under EPS-95 in perpetuity the PIC agreed that the minimum pension should be continued in perpetuity as this social measure cannot be taken away from the pensioners.

8.2 **Recommendations of the PIC:** The PIC recommended that the proposal for extension of the Act and Schemes irrespective of the wages drawn by employees of an established should be taken up later after watching the impact of the recent amendments in the Scheme. Regarding continuation of the minimum pension in perpetuity the PIC did not make any specific recommendation as the matter is being placed before the Board separately.

9. In respect of the modifications suggested by the Ministry of finance the committee noted the position mentioned against each in the agenda note.

**Confirmation of Minutes of 33rd Meeting held on 25.07.2014.**

10. Pension Implementation Committee considered and approved the Minutes of the 33rd Meeting of the Pension Implementation Committee held on 25.07.2014 which was circulated vide letter No. Pension/33rd PIC/Meeting/2014/10720 dated 31-Jul-14.

The meeting ended with a vote of thanks to the chair.
To,

All Members,
Pension Implementation Committee
CBT, EPF

Sir,

It has been decided to convene the 34th meeting of the Pension Implementation Committee on 15.12.2014 at 3.00 p.m. at Conference Hall, Employees Provident Fund Organization, Headquarter, 14 Bhikaji Cama Place, New Delhi – 110066. The Agenda and Agenda notes for the meeting are enclosed.

Kindly make it convenient to attend the meeting at the designated time.

Yours faithfully,

(C. Chakraborty)
Regional P.F. Commissioner – I (Pension)

Copy to:

1. PS to CPFC & Chairman, PIC
2. PS to Joint Secretary & FA, Ministry of Labour & Employment, New Delhi.
3. PS to Director (SS), Ministry of Labour & Employment, New Delhi.
4. PS to ACC (Pension)
AGENDA ITEM FOR 34th PENSION IMPLEMENTATION COMMITTEE MEETING

ITEM NO. 1:  Suggested modifications in Employees' Pension Scheme, 1995.

The Central Board of Trustees, EPF (CBT) in its 204th meeting held on 26.08.2014, had deliberated on the 14th, 15th & 16th (Combined) Actuarial Valuation Report on Employees' Pension Fund for the three year period pertaining to the position of the EPS Fund as on 31.03.2010, 31.03.2011 and 31.03.2012 respectively which was submitted by M/s. K.A. Pandit, Consultants & Actuaries, the appointed Valuer/Actuary by the Central Government.

2. The CBT after deliberations decided that the recommendations of the Actuary regarding modifications required in the EPS, 95 should be considered along with other suggestions/directions for modifying the Pension Scheme and for this purpose a meeting of the Pension Implementation Committee (PIC) be convened.

3. The PIC may be aware that the Valuers/Actuaries appointed by the Central Government for annual valuation of Employees' Pension Fund have been making suggestions/recommendations in their valuation reports on amendments/modifications to be made in the EPS-95 in the nature of corrective measures to curb the increasing deficits revealed in such valuations so that the EPS Fund can be made self-sustainable and viable. The recommendations made by the Actuaries in some of the previous years' valuation reports are given at Annex I.

4. Apart from the recommendations made by the Actuaries certain amendments in the EPS-95 to remove anomalies and to plug leakages in the EPS Fund from unintended benefits have been forwarded by EPFO to the Ministry of Labour & Employment for consideration over a period of time and it is felt that these amendments would ensure smooth functioning of the Scheme. In addition to shoring up the resources of the Fund it is expected that these amendments would also enable EPFO to avoid as well as to defend effectively a large number of litigation of which the cases relating to allowing weightage of 2 years under Para 10(2) is particularly relevant.
5. It is also a fact that the Ministry of Finance, Department of Expenditure vide their OM No 1(1)/EV/2013 dated 21.01.2014 had while concurring with the proposals for revision of wage ceiling from Rs. 6,500/- per month to Rs. 15,000/- per month in respect of all the three schemes and ensuring minimum pension of Rs. 1,000/- per month under EPS-95 had made a number of suggestions for modifications in the EPS-95 to ensure the long term viability of the EPS Fund. The Ministry of Finance OM under reference is given at Annex II to this note.

6. The various suggestions and proposed amendments in EPS-95 with a view to the long term viability of the Fund and to remove existing anomalies in the scheme are presented below in tabular form for consideration and recommendations of the PIC:

I) **Modification suggested by the Valuers in Valuation Reports**

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<tr>
<th>No.</th>
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| 1   | Make one time lump sum contribution equivalent to revealed deficit to the Pension Fund to make good the deficit;  
    or  
    Revise the rate of contribution upwards for the existing members so that the deficit is met by higher future contribution;  
    or  
    Achieve higher return on investment of not less than 9% p.a. over the future combined with increase in contribution rate (for existing members) of not less than 3%. | While it would be ideal to have the deficit, as revealed through actuarial valuation, made good through infusion of funds, it would be infeasible to make a demand for budgetary support for this purpose from the Government for a contributory, self-funded scheme.  
    Further, it would not be possible to increase the rate of contribution either of employers or from employees without amendment in Section 6A (2) the Act. It would be infeasible to seek increase in the rate of contributions without any increase of benefits solely to remove the deficit.  
    Increasing the returns on investment in falling interest rate scenario does not appear feasible without going in for investment in stocks which has added risks involved.  
    **EPFO Views:** These suggestions of Actuary need not be acted upon at this point of time. |
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<td>2</td>
<td>Increase the age of vesting pension to 60 years.</td>
<td>In the report of the Valuer appointed for the Expert Committee on EPS, it had been reported that this measure would reduce the shortfall to the extent of Rs. 27,067 crores for a wage ceiling of Rs. 15,000/- per month and 8% discounting rate. The relevant extract of the report of the Valuer for Expert Committee is enclosed at Annex III. This measure would reduce the deficit and would also increase the pension benefits of members as there would be two additional years of service. However, in those establishments were the normal age of retirement is less than 60 years there might be some misgiving as normal pension would be delayed by 2 years. EPFO Views: The PIC may consider adopting this recommendation.</td>
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<td>3</td>
<td>Increasing the short service pension entitlement age from 50 years to 55 years of age</td>
<td>This measure would reduce the shortfall to the extent of Rs. 12,028 crores for a wage ceiling of Rs. 15,000/- per month and 8% discounting rate. [Refer Annex III]. This measure would reduce the deficit and would also increase the pension benefits of members as there would be lesser reduction (@4% for each year short of 58 years) for short service pension. EPFO Views: The PIC may consider adopting this recommendation.</td>
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II) Suggestion made by the members of Pension Implementation Committee

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<td>4</td>
<td>Provision of determining Pensionable Salary on the average of 36 months in place of existing 60 months.</td>
<td>In the 33rd meeting of Pension Implementation Committee held on 25.07.2014 while discussing the major proposed changes in EPS-95, the</td>
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<td>members of the Committee opined that the provision of determining pensionable salary on the average of 60 months needed to be reviewed as both the Pension Implementation Committee and the Central Board of Trustees, EPF had earlier agreed on recommending the pensionable salary on the basis of average for 36 months.</td>
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<td><strong>EPFO Views</strong>: The Ministry of Finance had recommended that the pensionable salary should be determined on the basis of 60 months average and the same has been implemented. The PIC may consider and make such recommendations as deemed necessary.</td>
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### III) Modifications forwarded to Ministry of Labour & Employment by EPFO

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<td>5</td>
<td>Modification in Para 9 of EPS-95 whereby the “Eligible Service” is to be determined by substituting “Actual Service” in the place of “Contributory Service”.</td>
<td>At present the definition of “Eligible Service” in Para 9 under which the eligibility of a member for pensionary benefits is determined based on the “actual service” which effectively means the period of service rendered without any linkage to the contributions received in respect of the member. It is proposed to replace the “actual service” with “contributory service” in which case only the service for which contributions have been received would be taken into account for determining eligibility for pension. Presently it is possible for a member to be shown as being a member for a period exceeding 10 years but in whose case the contributory service can be less than even 1 year. In such cases the pension is...</td>
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<td>6</td>
<td>Modification in Para 2(xv) of EPS-95 by providing explanation below the definition of pensionable service.</td>
<td>Recently there have been many consumer cases wherein pensioners have petitioned for treating past service also as pensionable service inter-alia for getting the additional weightage of 2 years under Para 10(2) of EPS-95. Many Courts and the District, State and National Consumer forums have taken the view that since Para 10(1) states that pensionable service is the service for which contributions have been received in the Fund and since the Employees Family Pension Fund, 1971 has been merged into the EPS the service under the Employees Family Pension Fund, 1971 is also to be treated as pensionable service. This was obviously not the intention as calculated for service period less than one year and can be extremely low. It is felt that the intention was to provide pension to members who had contributed for more than 10 years only. With the recent increase in minimum pension, it is possible that manipulation can be made with existing provision and a member can be made eligible for pension to take advantage of minimum pension clause without remitting even 10 years contribution. <strong>EPFO Views:</strong> The amendment proposed would ensure that pension is granted only in cases where contributions have been received for more than 10 years and not merely on the ground that the name was kept in the muster roll of the establishment without any contribution. This would remove a major anomaly in the scheme and prevent leakages in the form of unintended benefits. PIC may consider the proposal favourably.</td>
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<td>benefits under the Employees Family Pension Scheme has been provided separately under Para 12 and only the service under the EPS-95 i.e. from 16.11.95 is to be counted towards Pensionable Service. The proposed amendment is to append an explanation under Para 2(xv) making it clear that &quot;As the Employees' Pension Scheme, came into force and Employees' Pension Fund came into existence on 16th day of November, 1995, only contributory service after that day shall be considered while determining pensionable service.&quot; EPFO Views: The amendment proposed would ensure that only service rendered after 16.11.95 is taken for arriving at the Pensionable Service and not the service rendered under the Employees Family Pension Scheme, 1971. This would remove a major anomaly in the scheme and prevent leakages in the form of unintended benefits. PIC may consider the proposal favourably.</td>
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| 7   | Providing age limit for Orphan Pensioners. | As per the EPS, 95 scheme provisions only eligible children are eligible to get pension as orphan (in lieu of children pension upto the age of 25 years only) in case of death/remarriage of the widow/widower pensioner. As the age criteria has not been separately mentioned for orphan pension in the scheme, the orphan pension to a normal child should be paid only till the age of 25 years. However, there are instances of demands to grant orphan pension even after the age of 25 years. EPFO Views: The amendment proposed would ensure that Orphan Pension is
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<td>Proposed Modification / Suggestion</td>
<td>proposed modification is limited to the age of 25 years and advantage of this lacuna is not taken. This would remove a major anomaly in the scheme and prevent leakages in the form of unintended benefits. PIC may consider the proposal favourably.</td>
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**IV) Additional Proposal for amendment by EPFO**

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<td>8</td>
<td>Modification to limit the liability of the EPS-95 for pension in the event of death in the case of a member in whose respect no contribution is received for a period exceeding 36 months.</td>
<td>At present as per Para 12(8) of the scheme if a member ceases to be in employment by way of retirement or otherwise earlier than the date of superannuation the member at his option can be paid pension on attaining the age of 50 years or be issued a scheme certificate. If the member is subsequently employed then his earlier service would be counted for pension along with the fresh spell of service. Further, if the member does not take up employment and dies before attaining the age of 58 years then, the widow(er) /children are entitled to a widow(er) / children pension. In the case of member leaving employment or there being no contribution in respect of the member the Fund continues to carry the liability of death pension which is more than the member pension in most cases. It has been seen that a large number (it is estimated to be more than 90%) of the non-contributory members do not have sufficient service for normal pension but the fund carries a liability of death pension in their case.</td>
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### V) Modification/Proposals received from other sources

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<td>9</td>
<td>Extension of social security to all employees' getting wages above Rs. 15,000/-</td>
<td>EPFO Views: Sh. Jagadiswara Rao, Hon'ble Member, CBT, EPF vide letter dated 23.09.2014 has submitted that Bharatiya Mazdoor Sangh demands not to give exemption to any category of employees from statutory EPF &amp; EPS-95 scheme and the wage ceiling should not come into the way. It is stated that the Government can put restriction on compulsory contribution from employers upto a ceiling of Rs. 15000/- per month for all category of employees without any exemption. EPFO Views: The EPS-95 is meant for the vulnerable sections of the workers and it should not be imposed on others particularly in view of the fact that the Fund is in distress at this point of time. PIC may consider the proposal and make such recommendations as deemed necessary.</td>
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<td>10</td>
<td>Implementation of enhancement of minimum pension to Rs. 1000/- p.m. (implemented for financial year 2014-15) in perpetuity i.e. to be available only for this year i.e. 2014-15</td>
<td>Apprehensions/concerns were conveyed by EPS beneficiaries that it would be available only for this year i.e. 2014-15</td>
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<td>continued after 2014-15.</td>
<td>w.e.f. 1&lt;sup&gt;st&lt;/sup&gt; September, 2014 and raised their voice for implementation of the provision of providing minimum pension to Rs. 1000/- in perpetuity. An agenda item is being placed before CBT, EPF for consideration of the issue.</td>
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V) Modification/Proposals suggested by Ministry of Finance

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<tbody>
<tr>
<td>11</td>
<td>The contribution of 1.16% from the Government should be restricted only to such workers who join the scheme below the wage ceiling and only up to Rs. 15000/-.</td>
<td>Accepted and implemented.</td>
</tr>
<tr>
<td>12</td>
<td>Calculation of pension benefits on higher wage ceiling be done only prospectively, pension to be determine on pro-rata basis taking into consideration the contributions in both the periods.</td>
<td>Accepted and implemented.</td>
</tr>
<tr>
<td>13</td>
<td>MoL&amp;E is advised to examine the possibility of introducing the following measures: Deletion of withdrawal option;</td>
<td>Removal of withdrawal option would not be justifiable since the Government does not guarantee continuity of service or alternative job/work for any member who loses his employment.</td>
</tr>
<tr>
<td>14</td>
<td>Disallowing bonus of two years;</td>
<td>A view will be taken after actuarial evaluation. This suggestion will form a part of the terms of reference for the actuary.</td>
</tr>
<tr>
<td>15</td>
<td>Raising of age of superannuation to 60 years; and</td>
<td>Discussed in item No 2 above</td>
</tr>
<tr>
<td>16</td>
<td>Raising the age for early pension.</td>
<td>Discussed in item No 3 above</td>
</tr>
<tr>
<td>17</td>
<td>Calculation of pensionable salary should be based on an average of last five years.</td>
<td>Accepted and implemented</td>
</tr>
<tr>
<td>18</td>
<td>Early pension should not lead to cross subsidization for any sub-category.</td>
<td>A view will be taken after actuarial evaluation. This suggestion will form a part of the terms of reference for the actuary.</td>
</tr>
</tbody>
</table>
| 19  | In case the Fund shows surplus in the future, the same should be retained in the Fund. | Every member has a right to the surplus that comes up in the fund, and if it is held back for meeting liabilities of minimum pension of Rs. 1000/- it would entail cross-subsidization from pensioners drawing more than Rs. 1000/- to
should be aligned with that notified by Ministry of Finance.

An annual report disclosing details of actuarial evaluations and analytical report on the implementation of this scheme should be disclosed along with any other disclosers for ensuring accountability and transparency.

A fresh actuarial evaluation, taking into account the impact of proposed changes to be carried out.

Proposal: The modifications/suggestions/directions on EPS, 95 are placed before Pension Implementation Committee, for consideration and recommendations for placing the same before the CBT, EPF.
13. Recommendations

1. Make one time lump sum contribution of Rs.41120 Cr. to the Pension Fund to make good the deficit

   OR

   As the current contribution rate of 9.49% of pensionable salary (Employers’ 8.33% & Govt. 1.16%) is inadequate, revise the rate upwards to 13% for the existing members so that the deficit is met by higher future contribution.

   OR

   Achieve (through professional investment management) return on investment of not less than 9% p.a. over the future combined with increase in contribution rate (for existing members) of not less than 1%.

   (Before taking any decision with respect to the above recommendation an actuarial valuation based on truly representative data of adequate volume and quality is necessary to assess the deficit with a greater degree of certainty)

2. Consider raising the superannuation age to 60 years from 58 years. However, the effect on the liability will depend on how the change will be structured, having regard to the expectation of members.

3. Investment Management

   Investment of funds needs to be separated for assets supporting liability of current pensioners (including beneficiary pensioners) from those of members in service (for the reasons stated in section 10.2.1.4) and further to be streamlined with clear objectives to manage efficiently and effectively having regard to Asset-Liability matching requirements of the two groups (viz members in service and current Pensioners) and optimizing returns on investment to meet the expectation of Scheme members and Pensioners.

   The Fund assets are wholly invested in fixed interest instruments. The pension benefits of the Scheme being in real terms (related to salary) though mitigated to some extent by pensionable salary cap of Rs.6500 p.m., it makes sense to invest in real assets like Equities (with prudent investment policy approved by Trustees) as these assets over a long term provide higher returns through dividend income and capital appreciation over fixed interest securities and match the real time cost of Defined Benefit liability and could also give rise to surplus in the fund which may be utilized to meet the expectation of pension increases. It may be worth reviewing the investment strategy for the Pension Fund in light of investment regulations/guidelines proposed for NPS by PFRDA. Even within the portfolio of fixed interest securities inclusion of investment in Rated Corporate Bonds/ Debentures and limited trading in Govt. securities will help improve the returns as borne out by the experience of LIC in its management of insurance funds.

4. Control on Fund inflows and outflows

   It is not known what process is in place to exercise control on the contribution receivable towards the Pension Scheme from employers in respect of every employee enrolled into the Scheme and if there are gaps in contribution (which need to be treated as...
provided in the Rules of the Scheme) as this is relevant for allowing past service credit. A comprehensive and properly designed electronic data file relating to every member, Pensioner and beneficiaries capturing basic information (including contribution) required for administration of the Scheme and periodical actuarial valuation, needs to be created and maintained.

There is need to review the procedure to ensure timely reporting and recording of death of pensioners and beneficiaries as the related control statistics indicate otherwise (which could distort experience analysis.

5. One time exercise needs to be undertaken with simultaneous setting up of Statistical Section at HQ and all Regional Offices to complete data entry of all physical forms of existing members received at point of entry into the Scheme, initiate validation process to capture missing data. (A separate Note on the set up and functions of Statistical Section is appended). This needs to be time bound so that future valuation may be carried out with substantial volume of complete, accurate and consistent data the results of which would enable drawing firm conclusions on the financial position of the Pension Scheme emerging based on which appropriate review of contribution and benefits could be made.

6. Any improvement to the provision of benefits like increasing the pensionable salary cap (from the existing limit of Rs. 6500) should be considered only after investigation of the financial position of the scheme and evaluation through actuarial valuation.

14. Reliance and limitations

14.1 In producing this report I have relied upon data in CDs and information, both written and verbal, supplied by the officials of EPFO HQ. I relied upon the general completeness and accuracy of this information without independent verification. The accuracy of the results presented in this report is dependent on the accuracy of data and information.

14.2 I have reviewed the data for valuation provided for overall reasonableness and consistency with my knowledge of the EPS'95 and I have not carried out independent checks of the data supplied to me. The conclusions set out in this report are dependent on the accuracy and completeness of the information provided to me and constrained by the limitation of data provided. This report and the opinions and conclusions are for the internal use of EPFO only.

14.3 This report has been prepared on the basis as set out in the report and its annexure. Judgments as to the information contained in the report should be made only after studying the report in its entirety as it may be inappropriate to draw conclusions by review of a section or sections on isolated basis.

14.4 Actual future results will vary from this report as the results of the valuation have been based on limited data made available and certain assumptions and parameters. Supply of higher volume of complete accurate and consistent data as also deviations from these assumptions and parameters could alter the results significantly. These assumptions