A PENSION SCHEME TO THE EMPLOYEES OF KERALA STATE FINANCIAL ENTERPRISES LTD.

1. Introduction

There are 5245 employees in KSFE as on 30th November 2012. The present retirement benefits mainly include the Contributory PF and Gratuity as per the Payment of Gratuity Act. It is notable that the Gratuity is paid to the employees without any upper ceiling and hence the maximum eligible amount is being paid. The existing pension scheme is only as per the EPS 95 scheme of the EPF Department. Now, there is a mounting demand from all sections of employees to formulate a unique scheme for getting a substantial amount of pension benefits to the Company employees.

2. Attempts to introduce Pension Scheme

There were many attempts to introduce a pension scheme in the Company. However, the Pension for KSFE employees has not yet been fulfilled mainly because of the lack of consensus.

3. Exclusion from Provident Fund

The KSFE has to approach the EPF Department with a better scheme having superior pension benefits to its employees. The details of the scheme to be furnished will be arrived at in the final stage of Pension scheme formation.

Once the total exclusion is allowed by the EPF Department, the Company has to constitute trusts for managing the PF and Pension for its employees by adhering the relevant Acts, Rules and guidelines.

We have obtained the details of the amount outstanding as on 31st March 2012 under the various heads from the EPF Department as shown below:

a. Employees Contribution (EPF)	- Rs.127.12 Crores
b. Employer's Contribution (EPF)	- Rs.95.59 Crores
c. Pension Fund	- Rs.28.80 Crores

Thus, the total amount available as on 31st March 2012 for the assets part while amassing the pension corpus would be Rs.124.39 Crores (items b plus c above).

4. Pension as a Second retirement benefit for KSFE Employees

As of now, the CPF is paid to the employees on their retirement. This CPF comprises 12% of the Basic Pay and DA of the employees in each month and an equal contribution from the employer (KSFE). The PF Department is accounting the interest component which is applicable from time to time. The accounting part includes the deduction of 8 1/3 % of the employer contribution subject to a maximum of Rs.541/- towards the EPS 95 scheme.

It is true that the present EPS 95 scheme is a not so attractive considering the living cost and inflationary trends. However, the Company will not be able to fund for an additional pension scheme to its employees as a third retirement benefit. Here occurs the relevance of the pension scheme as a second retirement benefit. In this case, the employer's contribution already accrued as well as the future accretion under the head will go to the Pension fund. So, there will not be any future commitment to the Company towards the Pension scheme.

If we go for a Defined Benefit Pension Scheme (DB Pension), we should find the deficit, if any, in the initial corpus which is evident from the salient features of the scheme as given in the following paragraphs. The Actuarial calculations obtained with the available figures as on 31st March 2012 is shown in table no.1 below for a better understanding of the surplus/deficit on the initial corpus.

Table no.1

Actuarial Valuation – as on 31st March 2012 . (Rs. In Crores)

PENSION FRACTION	VALUE OF LIABILITY	VALUE OF FUTURE CONTRIBUTIONS	AVAILABLE ASSETS	TOTAL VALUE OF ASSETS	SURPLUS/ DEFICIT
50%	479.35	211.8	124.39	336.19	-143.16
45%	431.42	211.8	124.39	336.19	-95.23
40%	383.48	211.8	124.39	336.19	-47.29
35%	335.55	211.8	124.39	336.19	0.64
30%	287.61	211.8	124.39	336.19	48.58
25%	239.68	211.8	124.39	336.19	96.51

The value of available assets is already shown under the paragraph no.3 above. The value of liability is based mainly on the profile of the existing employees (here, as on 31st March 2012) and also on the various parameters as applicable in the actuarial calculations. With the calculations as above, the Company will be able to commence a Pension Scheme with 30 % benefit due to the reasons delineated in the paragraph nos. 5 and 6 below. One more final actuarial calculation is required prior to the finalization of the scheme with the latest figures. Further to the above, the table no.2 shows the deficit/surplus for every single percentage from 30% onwards upto 50% of full pension benefit to the employees.

Table no.2

Actuarial Valuation – as on 31st March 2012 . (Rs. In Crores)

PENSION FRACTION	VALUE OF LIABILITY	VALUE OF FUTURE CONTRIBUTIONS	AVAILABLE ASSETS	TOTAL VALUE OF ASSETS	SURPLUS/ DEFICIT
50%	479.35	211.8	124.39	336.19	-143.16
49%	469.76	211.8	124.39	336.19	-133.57
48%	460.18	211.8	124.39	336.19	-123.99
47%	450.59	211.8	124.39	336.19	-114.4
46%	441	211.8	124.39	336.19	-104.81
45%	431.42	211.8	124.39	336.19	-95.23
44%	421.83	211.8	124.39	336.19	-85.64
43%	412.24	211.8	124.39	336.19	-76.05

42%	402.65	211.8	124.39	336.19	-66.46
41%	393.07	211.8	124.39	336.19	-56.88
40%	383.48	211.8	124.39	336.19	-47.29
39%	373.89	211.8	124.39	336.19	-37.7
38%	364.31	211.8	124.39	336.19	-28.12
37%	354.72	211.8	124.39	336.19	-18.53
36%	345.13	211.8	124.39	336.19	-8.94
35%	335.55	211.8	124.39	336.19	0.64
34%	325.96	211.8	124.39	336.19	10.23
33%	316.37	211.8	124.39	336.19	19.82
32%	306.78	211.8	124.39	336.19	29.41
31%	297.2	211.8	124.39	336.19	38.99
30%	287.61	211.8	124.39	336.19	48.58

The final decision on the percentage of pension benefits will have to be reached soon for proceeding further so as to finalise a well defined scheme with all the necessary rules and regulations.

5. Defined Benefit Government pattern Pension (DB Pension)

The main features of this scheme are:

I Superannuation Pension: due on exit at Normal retirement age.

(a) A Basic Pension for an employee at the time of exit from service after at least ten years of such service.

(b) The Basic Pension shall be reckoned on the basis of the 10-month average of the Basic Pay of an employee at the time of exit from service.

(c) The qualifying service for pension shall be reckoned as the completed years of service rendered by the employee to K.S.F.E. at the time of his exit.

(d) Basic Pension – Average Basic Pay as in (b) multiplied by Qualifying Service as in(c) above and divided by 60.

(e) Dearness Relief on such Basic Pension shall also be payable in the same rate at which employees in service are being paid DA reckoned on Cost of Living Index.

II Retirement Pension: due on voluntary exit after a minimum service of 20 years. Pensionary Benefit is calculated the same way as for Superannuation Pension.

III Family Pension: due on death of employee after one year of service while in service.

IV Disability Pension: due on exit from service on total disablement with no scope of gainful employment: The Pension is at the same rate as applicable to Family Pension.

V Reversionary Pension: All Pensions except family pension will continue to the spouse upon the death of the pensioner at a rate 50% of the pension being received by the employee.

VI Commutation of Pension: An employee on superannuation pension or retirement pension can commute once in his life time a part of the basic pension not exceeding one-third of the basic pension for a lump sum commuted value determined according to the Commutation Table in force at the time of such option to commute. The commuted portion of the pension will be restored after 15 years to the pensioner if he is alive.

A detailed discussion is warranted so as to adopt such essential components and necessary changes as applicable to the KSFE employees.

6. Conclusions:

(1) If the choice is for a government pattern DB Pension, a pension @30 % of the Final Basic Pay of the employee can be considered with the available figures.

(2) Whatever type of pension was chosen to be implemented, there should be a built in safeguard in the Rules to ensure that in the event of the fund turning permanently deficit, such deficit can be corrected by the trustees by scaling down the benefits being accrued and benefits being paid.

(3) Since pension is a more difficult post retirement benefit for the employer to correctly evaluate, it is imperative that whenever the wage structure is to be revised the impact of the pension liability following such revision should also be taken into account to ensure sustainability of the compensation package to employees being contemplated. This is actually in the interests of the employees. If unwittingly a highly unsustainable compensation package for services rendered by employees got through, then the fund position of the pension scheme can seriously get hurt and the consequences would have to be borne by all the employees. To ensure solvency of the Pension Scheme annual examination of the financial status of the fund is required.

(4) It is to be noted here that the additional costs to the employer will not be considered on account of the possibility of a different interpretation of a benefit definition than was intended.

(5) All the employees should join the scheme and all new recruits should be compulsorily participated in the Scheme.

(6) The initial deficit is technically termed as unfunded past service cost. This initial liability will be very considerable for this company. This is so because the average age of the existing staff is quite high to the extent of 42.13 years now. There are now 5245 employees as on 30th November 2012. The older employees constitute nearly half of the current staff strength. Hence the unfunded past-service-load to the employer company should be discussed in detail.