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FICCI

Employee pensions in India

Moving towards a pensioned society

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Foreword

The Indian Finance Minister, in his 2016 Union Budget speech, articulated an aspiration to move towards a pensioned society. In order to embark upon this ambitious journey, India would need a systemic approach towards designing a coherent pension system. As a reflection of the enormity of the challenge that India faces, the 2011 Census showed that only 12 per cent of the Indian working population (i.e. approximately 58 million) were covered under any pension plan.[1] Therefore, there is a wide gap in pension coverage in India. With reference to the depth of pension savings, the data contained in the latest available annual report (2014-15) of India's primary social security organisation, the Employees' Provident Fund Organisation (EPFO), suggests that the average accumulation in individual accounts is rather low. This translates into the grim reality of only a very small portion of the Indian working population being protected against old-age income insecurity. Further, the population projections suggest that the elderly residents (people aged 60 and above) will triple from 2010 to 2050 and the number of elderly will reach 331 million in India by 2050.[2] This aging of Indian population is also expected to be compounded by other socio-economic transformations. Currently, there is a significant dependence on income transfers from family members to the elderly. With increasing industrialisation and urbanisation, the joint family structure is being replaced by nuclear family. A combination of these factors makes it imperative for policymakers to pay urgent attention to the enormous challenge of providing income security after retirement.

The World Bank has highlighted two main objectives of any pension system as:[3]

- Protection against the risk of poverty in old age; and
- Building pension savings during working life to finance retirement.

The journey towards a pensioned society requires greater emphasis on implementing pension reforms. A lot of effort and planning is needed for building sufficient capacity, scalability and support for implementation of such reforms. The necessary reforms are required in governance, collections, data handling and security, ease of accessing information, transparency in asset management and benefits delivery. These reforms seem possible after establishing an enabling legal framework initially and then carefully implementing the necessary changes and building the institutional capacity along the way.

A pension system is evaluated on the parameters of adequate benefits after retirement, affordability for both the individual and the society, financial sustainability, equitability, reliability and robustness to withstand major shocks.

KPMG in India and FICCI have collaborated on this knowledge paper on the current state of employee pensions in India and the initiatives being taken by the Indian government and other stakeholders. We envisage that this knowledge paper will encourage a forward-looking debate on building a robust and sustainable pension regime in India.

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1. OECD, Pensions at a Glance 2015: OECD and G20 indicators, OECD Publishing, Paris. (http://www.oecd-ilibrary.org/docserver/download/8115201ec059.pdf?expires=1488263702&id=id&accname=guest&checksum=5BB8237B51E66BF3AEE90CA432D5E9D7); India Country Profiles – Page 277, accessed on 24 February 2017

2. United Nations, World Population Prospects-2015; (https://esa.un.org/unpd/wpp/publications/)

3. The World Bank Pension Conceptual Framework (http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept_Sept2008.pdf)

An overview of some major employee pension plans in India

The Indian pension regime has evolved over time and currently there are many different pension arrangements. An overview of some major employee pension plans is given below:

Employees' Provident Fund (EPF) regime

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (EPF Act) is the predominant social security legislation in India aimed at, inter alia, securing retirement benefits for employees. Currently, three schemes operate under the EPF Act: Employees' Provident Funds Scheme (EPFS), Employees' Pension Scheme (EPS) and Employees' Deposit Linked Insurance Scheme (EDLIS). The EPF Act is administered by EPFO.

Broadly speaking, the EPF Act applies to the following entities:

- Every establishment which is a factory engaged in any industry specified by the central government and in which 20 or more persons are employed; or
- Any other establishment employing 20 or more persons which the central government may, by notification, specify in this behalf.

Further, any establishment employing less than 20 persons can be covered voluntarily. However, not all employees in an establishment covered under the EPF Act, are required to be enrolled for contributions.

The government also allows the establishments to manage their own Provident Fund (PF) scheme and grants exemption from EPFS subject to certain conditions under the EPF Act. Many establishments have taken an exemption to opt out of the statutory EPFS with an objective to simplify the transactions and to provide better employee benefits.

Voluntary Provident Fund (VPF): This is a top-up plan for employees who are part of either the statutory EPF scheme or the exempted PF schemes. In addition to their normal contribution of 12 per cent of salary, employees can contribute higher amounts voluntarily. This instrument can be used by employees to enhance their retirement corpus. The VPF contributions get the same tax treatment like the statutory EPF. Employers do not have to pay any administrative charge on VPF contributions of employees.

National Pension System (NPS)

The NPS is a combination of different pension plans. Central civil servants who joined service on or after 1 January 2004 were automatically enrolled in the NPS. Subsequently, many state governments and quasi-government organisations have also joined the NPS platform. NPS was also opened for all citizens aged

between 18 and 60 years, in the year 2009. Contribution rates are flexible in NPS. Subscribers may choose their own investments from the prescribed asset classes in accordance with the investment guidelines.

Pension Fund Regulatory and Development Authority (PFRDA) is the regulator for NPS. PFRDA also launched a plan for the corporate sector in December 2011. Another plan targeting low-wage earners is called *NPS Swavalamban* where the government also makes a co-contribution. Partial withdrawals from the NPS are possible from the employee's share after a service of 10 years.

Superannuation Fund (SAF)

SAF is a pension arrangement where the employers usually set-up a defined contribution pension plan for their employees. Generally, employers contribute 15 per cent of employees' salary to these plans without any contribution from the employees. These plans have to be approved by the Income-tax authorities to avail tax benefits.

The SAFs can be managed in-house by the board of trustees or the fund management can be outsourced to a life insurance company. The main aim of the SAF is to accumulate a corpus and buy an annuity at the time of retirement, from an annuity service provider.

Recent developments in Indian employee pension regime

The Indian government and the two regulators, EPFO and PFRDA, have made a number of changes in the recent past for the benefit of subscribers. A summary of these changes has been captured below:[4]

National Pension System

Tax benefits:

- The withdrawals are tax exempt up to 40 per cent of the accumulated corpus (subject to the fulfillment of conditions laid down under the Income-tax Act, 1961).
- As per the Union Budget 2017, it is proposed that partial withdrawal (as permitted) by an employee from NPS to the extent of 25 per cent of the employee's contribution will be exempt from tax. This benefit is proposed to be effective from 1 April 2017.
- As per the Union Budget 2017, contribution up to 20 per cent of the gross income of the self-employed individual (individual other than salaried class) will be deductible from the taxable income as against 10 per cent earlier. This will be within the limit of INR150,000 specified in the Income-tax Act, 1961.[5] This benefit is proposed to be available from 1 April 2017.

Investment options: PFRDA has also introduced two new Life Cycle Funds - Aggressive Life Cycle Fund and Conservative Life Cycle Fund for private sector subscribers to provide a pre-programmed diversification of assets in various asset classes depending on age and risk profile of the subscriber.

Contribution and minimum balance requirements:

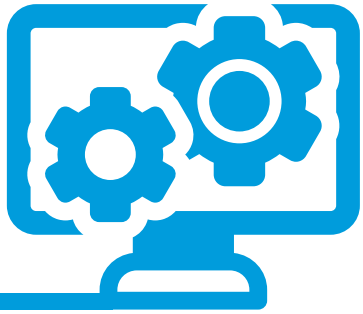
- Minimum annual contribution required to keep an NPS account active reduced from INR6,000 to INR1,000 for Tier I accounts. Minimum annual contributions reduced from INR250 to nil for Tier II accounts.
- Minimum annual balance limit to keep a Tier II account active (which used to be INR2,000) has been removed.

Mobile application: A mobile application (mobile app) for NPS is now available as 'NPS by NSDL e-Gov'. In the mobile app, the subscribers may view their NPS account details along with latest NAV, the total value of funds and the last five transactions.

Tier I and II activation through eNPS facility:

- Any individual can open a Tier I account and contribute online through eNPS.
- Any subscriber having a Tier I account in NPS can also activate a Tier II account online through eNPS.

4. Data extracted on 13 February 2017
- Press Information Bureau, Government of India
http://pib.nic.in/newsite/PrintRelease.aspx?relid=147121,
http://pib.nic.in/newsite/PrintRelease.aspx
http://pib.nic.in/newsite/PrintRelease.aspx?relid=155055,
- Pension Fund Regulatory and Development Authority (PFRDA)
http://www.pfrda.org.in/,
http://pfrda.org.in/WriteReadData/Links/LC%2075%20and%20LC%2025d78e41ac-0f61-47e0-9a21-3663cbfc8c75.pdf,
- Employees' Provident Fund Organization
http://www.epfindia.com/site_en/index.php
5. Section 80CCE of the Income-tax Act, 1961



Facility to contribute online: Subscribers can also make NPS contribution online using the eNPS portal.

Withdrawal from a Tier II account: NPS subscribers have the facility to initiate a withdrawal from a Tier II account using their login credentials and One Time Password (OTP) authentication through their registered mobile numbers.

Employees' Provident Fund

Enrolment and establishment coverage campaign: EPFO launched Employees' Enrolment Campaign 2017 offering an opportunity to employers to voluntarily declare details of all employees hitherto deprived of social security benefits under EPFO. The declaration scheme is operational between 1 January 2017 and 31 March 2017.

Pradhan Mantri Rojgar Protsahan Yojana (PMRPY): The Ministry of Labour and Employment is implementing the PMRPY scheme to incentivise employers registered with the EPFO for new employment. Under the scheme, the government will pay the 8.33 per cent EPS contribution for these new employees for a period of three years.

Pradhan Mantri Paridhan Rojgar Protsahan Yojana (PMPRPY): In another scheme PMPRPY, wherein for the textile (apparel) sector, the 12 per cent contribution of the employer will be paid by the government. This benefit can be availed by the textile (apparel) sector establishments dealing with the manufacture of wearing apparel, in particular NIC Codes 1410 and 1430. The government, in this case, will also pay the EPF contribution of 3.67 per cent in addition to paying the EPS contribution of 8.33 per cent.

'Inoperative Accounts' under EPFS: The PF accounts of members will not become inoperative/ dormant on cessation of employment. This is expected to encourage employees not to withdraw the accumulated PF balance before retirement. Therefore, this move from the government may help augment income security in retirement.

Contribution towards Pension Fund: New changes in EPS can help members draw higher pensions by way of deferment of pension and/or by contributing to EPS till the age of 60 years.

Benefits under the EDLIS: The EDLIS facilitates grant of assurance benefits in the event of death of an employee who was a member of EDLIS. Under EDLIS, the assurance benefits has been increased to a maximum ceiling of INR0.6 million.

Universal Account Number:

- Universal Account Number (UAN) programme is designed to act as an umbrella for the multiple member accounts allotted to the same individual.
- As on 31 August 2016, EPFO has allotted around 81.1 million UAN to its members. Around 28.2 million members have activated their UAN using their mobile number.

Online Registration of Establishments (OLRE):

- As part of commitment of the Indian government to facilitate the ease of doing business, EPFO launched a facility for the establishments to apply online for allotment of a PF registration number.
- Employers can now apply online for a PF registration number and upload the digitally signed documents at the time of registration and obtain on the spot code number.

Online facilities to members:

- EPFO moved from e-governance to m-governance and launched a mobile application.
- Members who have activated their UAN receive regular messages on their mobile regarding their deposit of monthly PF contribution in their account. A message is also being sent to employers informing them the status of their contributions and returns.

Exempted establishments brought on an e-portal:

- The exempted establishments are a significant part of the EPFO compliance system and managing funds to the tune of approximately INR3,000 billion.
- EPFO launched a facility of online submission of monthly return of contributions, investments and other activities.

Update of accounts: A new mechanism to credit the interest in members' accounts has been developed for auto-update at the end of the financial year.

Facilities to International Workers (IW): Employees going abroad for their assignment in countries with which India has effective Social Security Agreements (SSAs) can file online fillable form to obtain certificate of coverage (COC).

Compliance analysis and monitoring system of EPFO: Principal employers registered with EPFO and government departments which are not registered with EPFO would be required to upload requisite details of contracts awarded, which would be available to EPFO for checking.

Factors influencing growth of employee pensions in India

It can be observed from the changes in the pension regime that the government and/or the relevant regulators have taken steps to address certain factors which were impacting the growth of employee pensions in India. The steps taken by the government are as follows:

Factors	Steps taken
Lack of portability of accumulated corpus	The accumulated corpus of EPF, NPS and SAF were not inter-plan portable earlier. The government has announced some provisions for facilitating portability among various pension schemes.
Difference in tax treatment	The tax treatment for EPF and NPS were different earlier. In order to bring parity between the tax treatments of these two retirement savings schemes, the government has allowed tax exemption on withdrawal from NPS up to 40 per cent of the accumulated corpus (subject to certain conditions). Also, in the Union Budget 2017, the government proposed beneficial tax treatment on partial withdrawals under NPS by exempting up to 25 per cent of the employee's contribution from tax, subject to conditions.
Pre-retirement withdrawals	The government has amended the provisions relating to inoperative PF accounts under the EPF law. Earlier, subscribers were forced to withdraw their accumulations, because if contributions were not made for three years, their account used to be termed as inoperative account. The provisions regarding inoperative/dormant account on cessation of employment have been amended and this would help augment income security in retirement and encourage people not to withdraw their accumulations before retirement.
NPS transactions	Earlier, changes in the fund manager/asset allocations and other such activities were done manually with the help of Points of Presence (PoPs) appointed by PFRDA by submitting necessary physical documents. Now an individual would be able to make such changes online.

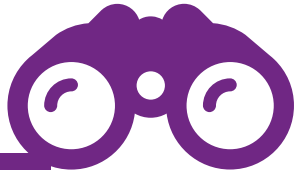
Apart from the factors mentioned on the previous page, some of the other inhibiting factors still need to be addressed by the government. These factors are mentioned below:

Factors	Points for consideration
Voluntary coverage	Voluntary coverage of organisations employing less than 20 employees has been envisaged under the EPF regime. However, strict regulation of voluntary contributions under the EPF regime are impacting participation in pension plans. For example, the consent of majority of employees is required for voluntary coverage. Once the coverage has been granted, all employees may be required to contribute irrespective of their consent. The contribution rates for voluntary coverage are also not flexible. Greater flexibility in enrolments and contribution rates (as is the case under NPS) may help increase participation in this plan.
Litigations on contribution base	A number of litigations between the employers and the EPF department are caused by confusion over salary base for PF contributions. A clear definition of the salary base for PF contribution can decrease the cost of compliance for employers covered under the EPF regime.
Lack of mandatory participation in pension plans	Generally, establishments with less than 20 employees are not required to provide any pension plan for their employees. Consequently a large number of employees in the micro and small enterprises are deprived of any pension coverage. Employees earning a monthly salary of more than INR15,000 and without the existing membership of PF may also be excluded from participation in the otherwise mandatory EPF regime.
Career interruptions-absence of catch-up pension contributions	In case of gaps in pension contribution on account of unemployment, childcare or foreign employment, there is currently no policy of catch-up pension contributions for employees. Suitable tax incentives and design flexibility in pension schemes for enabling catch-up contributions may be provided. In the case of dormant employment contract for employees on overseas assignment, the avenue of voluntary contribution on a notional salary may be provided to secure adequate pension corpus.

Factors	Points for consideration
Separate investment options for voluntary contributions	Contributions above the monthly salary of INR15,000 are voluntary under the EPF regime (except for IWs and newspaper employees). However, both the mandatory and voluntary contributions are invested alike. Choice could be given to individuals to allocate their voluntary contributions differently within a set of prudent investment guidelines.
Role of employers in increasing pension coverage	Employers can play a positive role in expanding pension coverage. They may install the NPS plan wherever it has not been done so far and devise an effective communication strategy for their employees on the benefits of starting early and consistent contributions to reap the rewards of power of compounding.

International perspective:

Some recent changes in pension practices across the globe[6]



In the wake of demographic, economic and financial strains, pension reforms are being undertaken in a host of different countries across continents. A gist of pension reforms in some countries is mentioned below:

- **Malaysia:** The Malaysian government has reduced the mandatory employee contribution rate for the Employee Provident Fund to boost private consumption. The same has been reduced from 11 per cent to 8 per cent for individuals younger than the age of 60 and from 5.5 per cent to 4 per cent for individuals aged 60 or older.
- **Hong Kong:** New rules have been introduced for expansion of withdrawal options under Hong Kong's mandatory occupational pension programme - the Mandatory Provident Fund (MPF). MPF participants who reach the normal retirement age of 65 or who meet the requirements for early retirement may opt to make periodic withdrawals from their MPF accounts or may withdraw their entire account balance as a lump sum.
- **Vietnam:** The new law intends to cover part-time workers in communes, wards, and townships as well as short-term (generally seasonal) workers with contracts ranging from one to three months and employees who are foreign citizens with work permits.

  Further, contribution has been increased by including other allowances also in the employee's basic earnings. Earlier, contribution was only based on an employee's basic salary.
- **South Korea:** The South Korean government has stipulated a new minimum normal retirement age as 60 years for workers in companies with 300 or more employees. The change is effective from January 2017.
- **Japan:** Japan has introduced 'My Number', a unique 12-digit individual identification number to be used by government agencies who are dealing with social security and taxation policies. The new system of 'My Number' would replace various identification number systems used for residence, tax, social security, etc. into a centralised system to improve administrative efficiency.
- **Israel:** Israel has increased the minimum mandatory contribution rates for 'defined contribution' occupational pension plans for both employers and employees.
- **United Arab Emirates (UAE):** The early retirement age has been increased from 48 years to 50 years from February 2017. In addition to age requirement, the citizen should have at least 20 years of contributions to qualify for an old-age pension.
- **Chile:** The Chilean government has passed a new law to expand the investment avenues for its pension fund management companies and allow them to invest a greater portion of their funds in alternative assets classes.
- **Argentina:** Argentina has launched a temporary tax amnesty and proposes to use the revenue generated through tax amnesty towards payment of reparations to pensioners for unpaid benefits, increase some existing benefits and fund a new non-contributory pension.
- **Peru:** Peru has initiated new disbursement options in the country's Private Pension System which is a mandatory individual accounts programme. The new legislation allows the members to withdraw nearly all of their account balances (95.5 per cent) as lump sum when they reach the normal retirement age or meet the requirements for early retirement.
- **Denmark:** The statutory retirement age has been increased from 67 years to 68 years for younger Danish residents and the long-standing practice of including mandatory retirement ages in employment contracts has been abolished.
- **Turkey:** The Turkish government has made amendments to its Private Pension Savings and Investment System Law which would require the automatic enrolment of all wage-earning citizens younger than age of 45 years into private defined - contribution pension plans.
- **South Africa:** South Africa has introduced new tax rules which would harmonise the tax treatment of contribution in various types of employer-sponsored and personal pension plans (including pension funds, provident funds and retirement annuity funds).

6. Social Security Administration US: https://www.ssa.gov/policy/docs/progdesc/index.html accessed on 15 February 2017

Employer pension plans survey, 2017 – a comparative analysis

The employer pension plans survey was conducted in February 2017 by KPMG in India, seeking inputs from the industry on their pension plans.

This survey analysis is designed to be a guide to industry practices vis-à-vis the pension plans adopted by the respondents. Since KPMG in India had conducted a similar survey in 2015,[7] there is previous data available to benchmark and compare the results. Some of the key observations, after a comparative analysis are outlined below:

S. No.	Theme	Previous survey (2015)	Current survey (2017)	Observations
1	Participation – Industry	Total respondents – 45 companies 40 per cent of respondents were from the manufacturing sector.	Total respondents – 167 companies 24 per cent of respondents are from the IT/BPO sector and 17 per cent from industrial market; 65 per cent participation has been received from multinational group companies.	Due to larger participation of companies in the current survey, more representative conclusions can be drawn.
2	Employee strength of participating organisation	53 per cent of the respondent companies had employee strength exceeding 1,000.	42 per cent respondents had an employee strength exceeding 1,000.	A majority of the responses in the current survey are from organisations employing less than 1,000 employees.

7. KPMG in India's Employer pension plans survey 2015

S. No.	Theme	Previous survey (2015)	Current survey (2017)	Observations
3	Registration with EPFO and mandatory enrolments	100 per cent of the respondents were registered with the EPFO. 89 per cent of the companies mandatorily enrolled their employees irrespective of the salary level.	93 per cent of the respondents are registered with the EPFO. 84 per cent of the companies mandatorily enroll their employees irrespective of the salary level.	The prevalent trend continues to be that a majority of the companies are registered with the EPFO. A large majority of the registered employers mandatorily enroll all their employees for EPFO membership.
4	Registration with NPS	22 per cent of companies were registered with NPS.	Out of 144 companies that responded to this question, 36 per cent are registered with NPS.	This is an indicative trend towards higher NPS enrolment.
5	Contribution towards VPF	Nearly 73 per cent of the respondents said that employees in their organisations exercise the option of VPF.	55 per cent of the respondents have confirmed that employees in their organisations are exercising the option of VPF.	VPF has proved to be a popular savings instrument among the subscribers of EPFO.
6	Primary motivation to opt for/ consider NPS	Tax benefits were considered to be among the main reasons for NPS registration (52 per cent of respondents). However, 44 per cent respondents felt that employee empowerment for pension planning is also one of the reason to opt or consider NPS.	Apart from the tax benefits considered as a primary reason to opt for NPS (52 per cent of the respondents), around 42 per cent respondents feel that employee empowerment for pension planning is also one of the motivating reasons to opt or consider NPS.	Tax benefits continue to be a major motivator for NPS enrolments. Employee empowerment for pension planning is also seen as a strong motivator.

S. No.	Theme	Previous survey (2015)	Current survey (2017)	Observations
7	SAF for employees	Only 36 per cent of the respondents indicated that they have an SAF.	Out of the responses received only 29 per cent indicated that they have an SAF.	SAF penetration is broadly at a similar level in both survey results. SAF is mainly opted (50 per cent of respondents) by companies having a large employee base (more than 1,000 employees).
8	Employee helpdesk to address queries on PF, SAF and NPS	Majority (78 per cent) of the respondents said that they have an employee helpdesk.	Around 66 per cent respondents said that they have a helpdesk.	This is an encouraging statistic as educating employees for their retirement planning is important for increasing participation in pension schemes.
9	Adequacy of current retirement plans in the company	A significantly large population (44 per cent) felt that more could be done to provide for employees' retirement planning.	Around 44 per cent employers believe that more can be done to provide for the employees' retirement planning.	Employers continue to maintain that more emphasis can be given to employees' retirement planning.

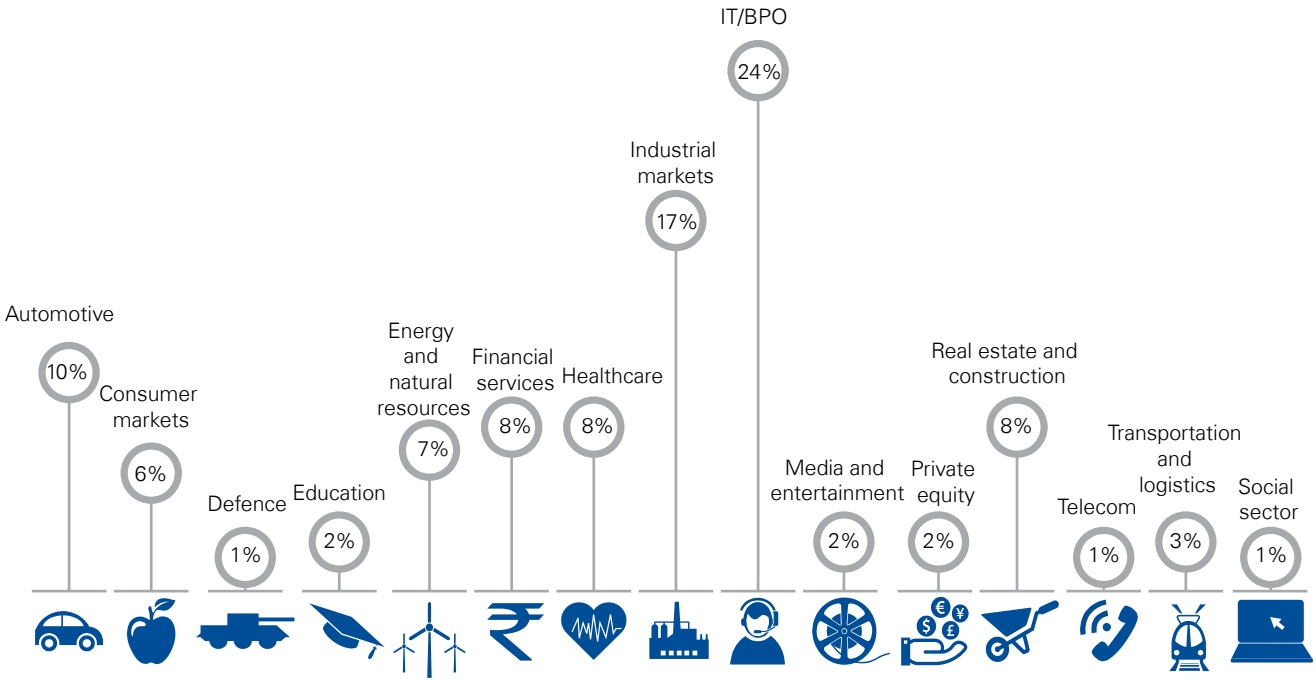
While the data gathered in the survey provides useful insights, it is imperative to note that certain information is distinctive and might be linked to the specific circumstances of each of the respondent companies. It is recommended to make an independent assessment before taking any policy decision.

Survey results - analysis

Responses from 167 companies were received, on the practices followed by them regarding pension plans for their employees. The responses have a healthy representation across diverse sectors.

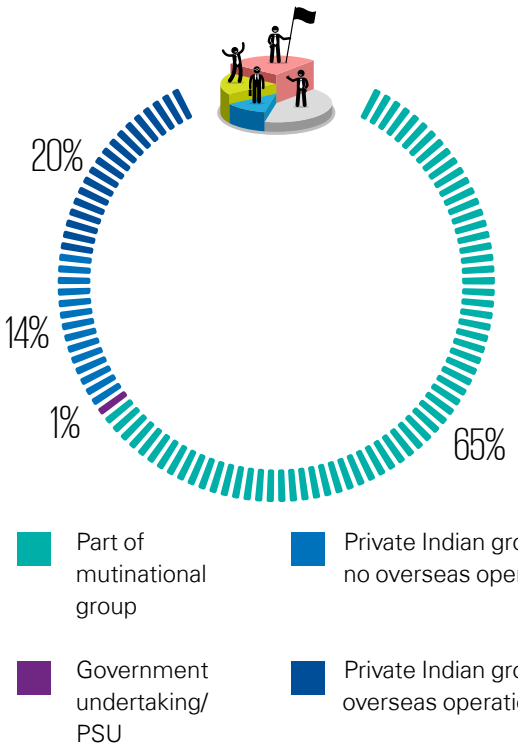
Types of sector and organisation

The sector-wise responses are depicted in the diagram below.



Source: KPMG in India's employer pension plans survey, 2017

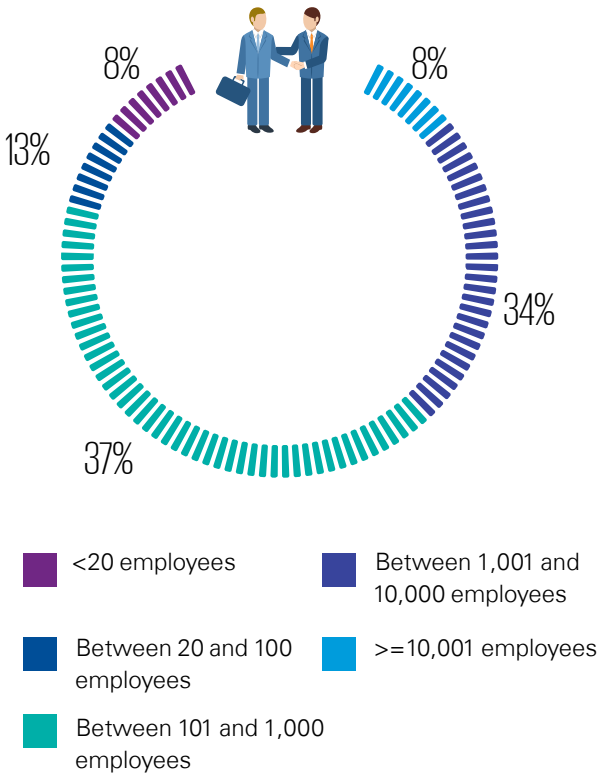
Further, the responses comprised a majority (65 per cent) from multi-national groups whereas the private Indian group companies with overseas operations formed around 20 per cent of the total participation.



Source: KPMG in India's employer pension plans survey, 2017

Employee strength of the respondent organisations

Out of the 167 respondents, 42 per cent of the organisations had an employee strength exceeding 1,000. This indicates that significant responses are from the organised sector. We also received representation from companies employing less than 20 people (around 8 per cent of the respondents). The diagram below depicts the details.

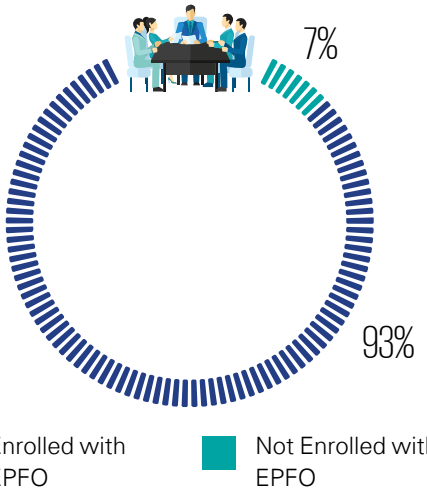


Source: KPMG in India's employer pension plans survey, 2017

Employees' Provident Fund

Enrolment of employees with EPFO

A large majority of the respondents (93 per cent) said that their companies are registered with EPFO.

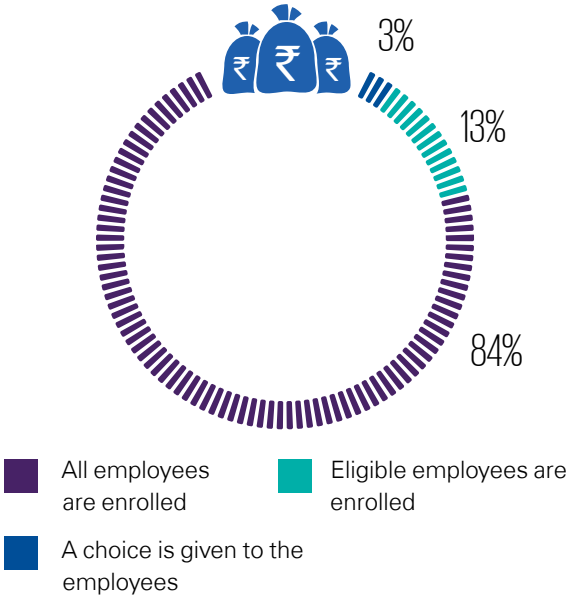


Source: KPMG in India's employer pension plans survey, 2017

Enrolment of employees under PF, irrespective of their salary

Similar to the survey results of 2015, this year also, the results indicated that the system of automatic enrolment of employees under the EPF regime irrespective of the salary level, is largely prevalent in corporate India (done by 84 per cent of 134 companies who responded to this question). Three per cent of the companies provide a choice to their employees on whether or not they want to enroll.

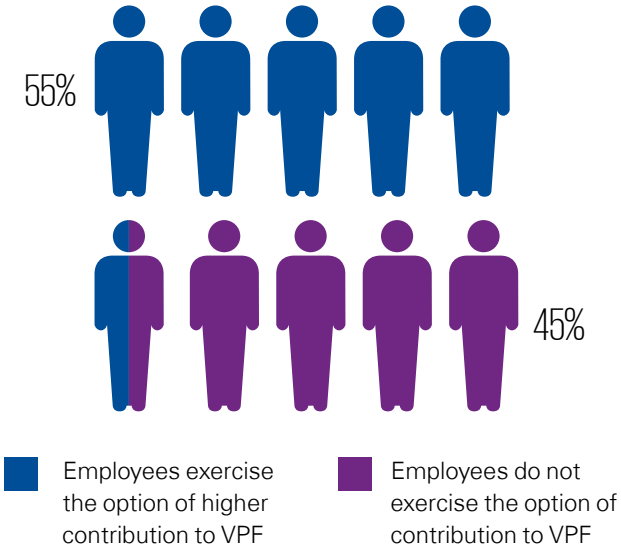
The same is depicted in the diagram below.



Source: KPMG in India's employer pension plans survey, 2017

Number of employees exercising the option of higher contribution to VPF

Nearly 55 per cent of the survey respondents who took this question confirmed that employees in their organisations exercise the option of contribution to VPF.

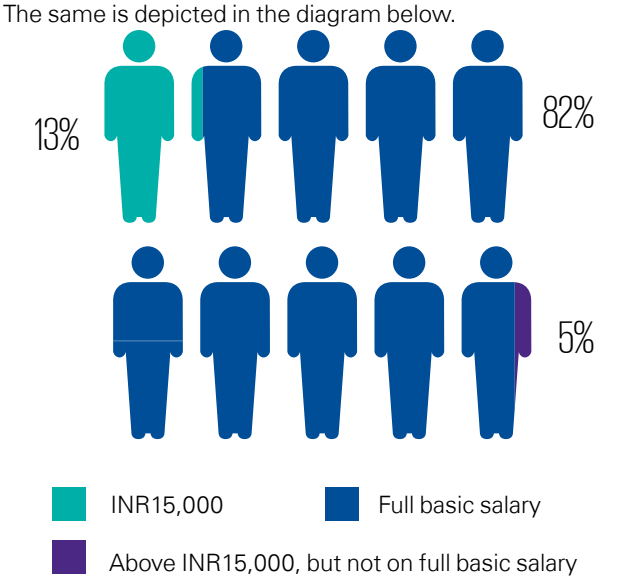


Source: KPMG in India's employer pension plans survey, 2017

Salary for calculation of monthly PF contribution for Indian employees in the organisation

Nearly 82 per cent companies who responded (134 respondents) said that PF is contributed on employees' full basic salary. About 13 per cent companies calculate the same on the statutory limit of INR15,000.

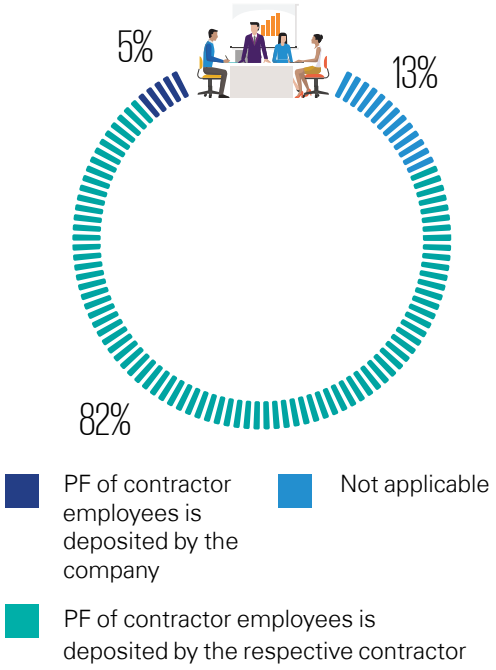
The same is depicted in the diagram below.



Source: KPMG in India's employer pension plans survey, 2017

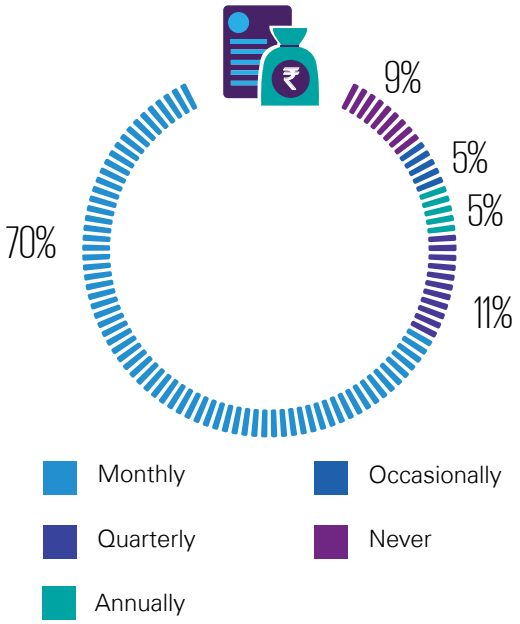
PF contributions for contractor employees

The below diagram denotes the practice of depositing PF contributions for contractor employees of the 134 companies who responded.



Source: KPMG in India's employer pension plans survey, 2017

Further, as depicted in the diagram below, a majority of the respondents carry out a monthly check to ensure that PF has been deposited for contractor employees. About 9 per cent do not check on the same.



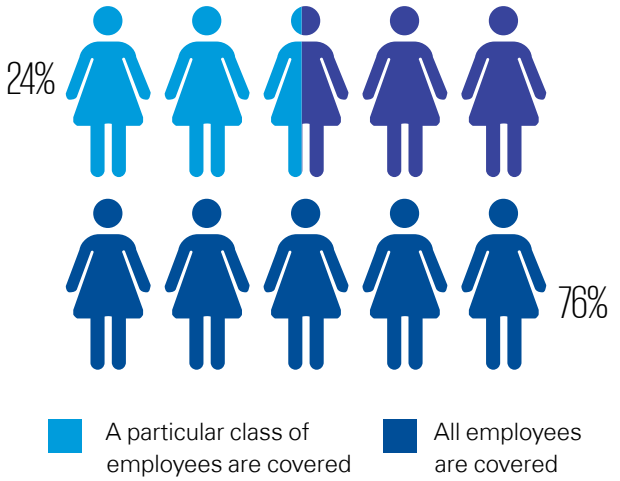
Source: KPMG in India's employer pension plans survey, 2017

Organisations having their in-house PF Trust and class of employees covered under the PF Trust

Around 13 per cent of the 134 respondents who answered this question indicated that they have an in-house PF Trust.

Source: KPMG in India's employer pension plans survey, 2017

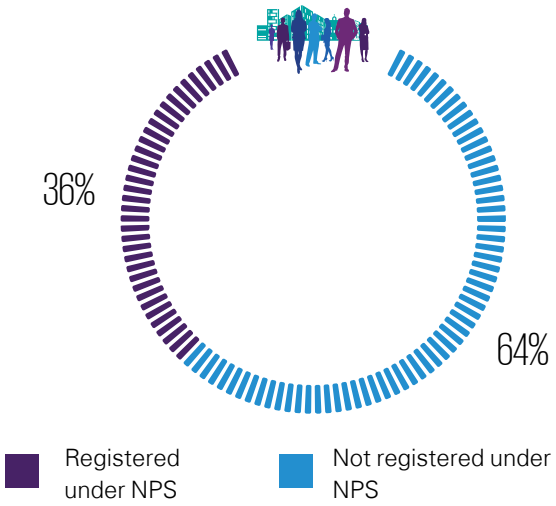
The diagram below provides information of how the employees are covered in PF Trusts. Of the companies that have an in-house PF Trust, a large majority covers all employees in their in-house PF Trusts.



Source: KPMG in India's employer pension plans survey, 2017

Organisations registered for NPS

Of the 144 respondents to this question, only 36 per cent of the organisations have registered for NPS.

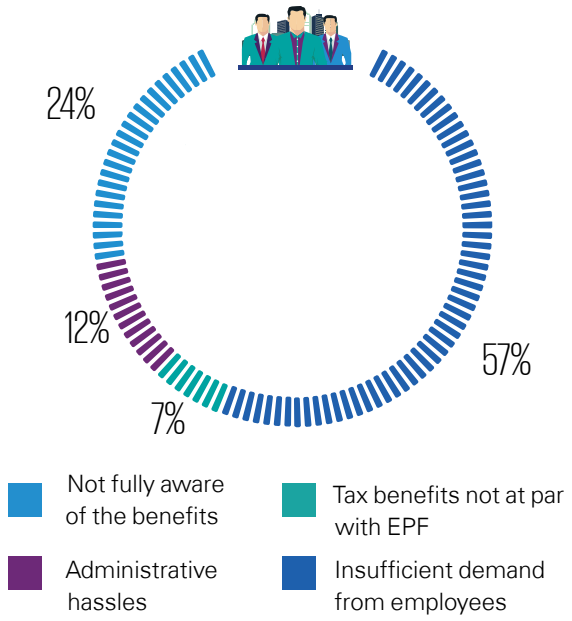


Source: KPMG in India's employer pension plans survey, 2017

Further, of the total 92 organisations not registered under NPS, almost 33 per cent are considering to register for NPS.

Primary reason for not adopting or opting for NPS

Insufficient demand from the employees for NPS, was a major reason for not adopting NPS (57 per cent respondents cited this reason). The diagram below shows the other reasons.

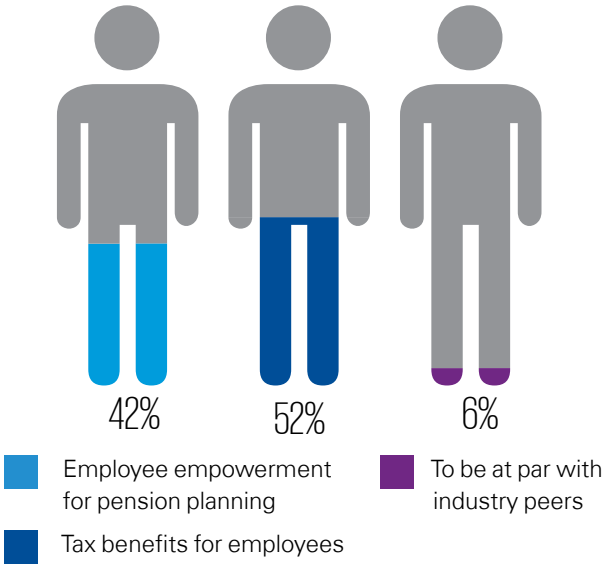


Source: KPMG in India's employer pension plans survey, 2017

Primary motivation to opt for/consider NPS

Further, tax benefits for employees continues to be a primary motivator for employees to opt or consider NPS. However, 42 per cent of the respondents view employee empowerment for pension planning as well, as one of the motivating factors for taking up/considering NPS.

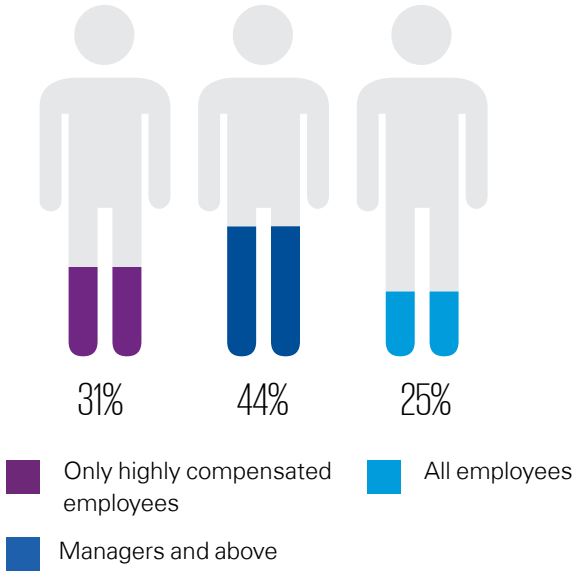
The same is depicted in the diagram below.



Source: KPMG in India's employer pension plans survey, 2017

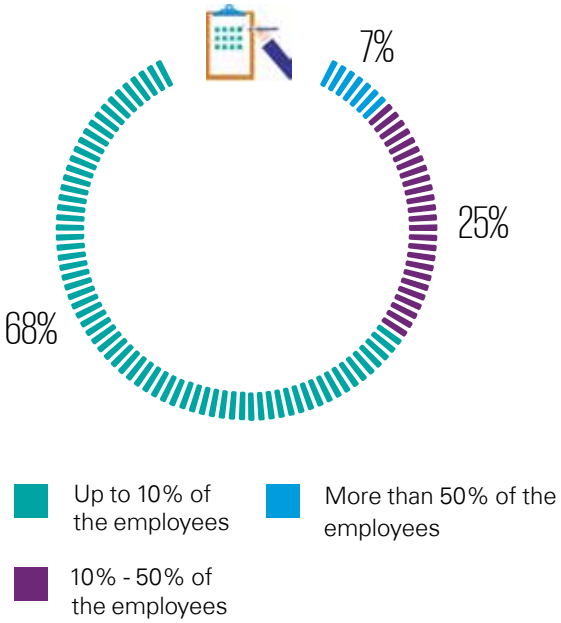
Class of employees opting for NPS

Nearly 75 per cent respondents to this question said that only managers and senior level employees are opting for NPS, whereas almost 25 per cent said all employees are opting for NPS. The same is depicted in the diagram below.



Source: KPMG in India's employer pension plans survey, 2017

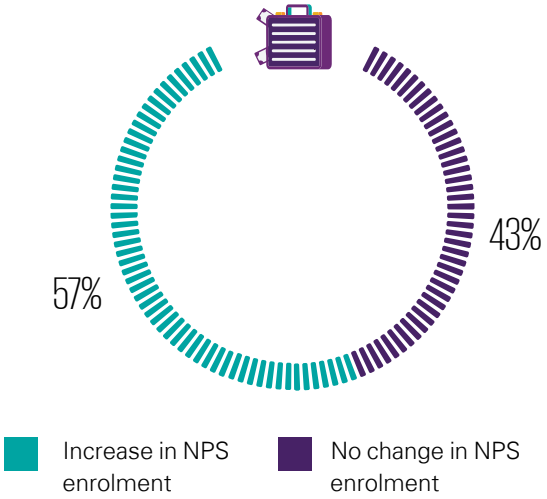
Further, the survey results indicated that in a majority of the organisations (68 per cent) who responded to this question, only up to 10 per cent of the employees have opted for NPS.



Source: KPMG in India's employer pension plans survey, 2017

Impact on NPS enrolment due to Finance Act, 2016 announcement regarding tax benefits on withdrawal of NPS contributions

Out of the respondents already registered with NPS, almost 57 per cent stated that there has been an increase in NPS enrolment.

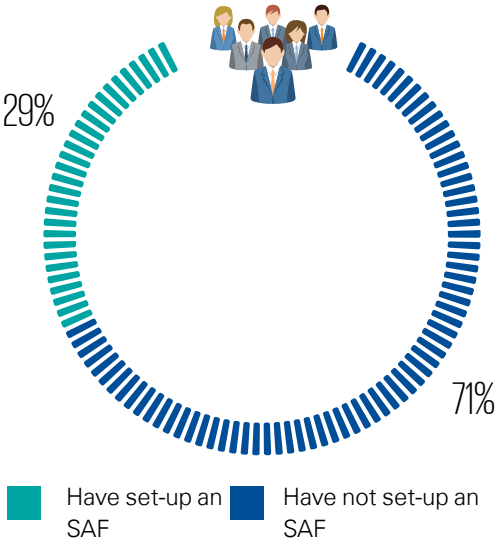


Source: KPMG in India's employer pension plans survey, 2017

Superannuation Fund

SAF set-up for employees

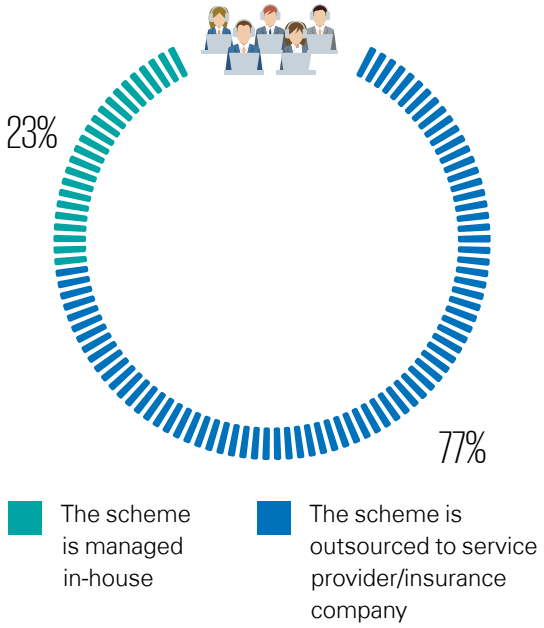
About 29 per cent of the respondents (total 133 respondents) have set up an SAF.



Source: KPMG in India's employer pension plans survey, 2017

Of the 94 organisations (71 per cent depicted in previous diagram) which do not have an SAF, only 10 organisations have plans to set-up an SAF.

The following diagram shows that of the total 39 respondents that have an SAF scheme, about 77 per cent responded that the management of the SAF scheme is outsourced to a service provider/insurance company.

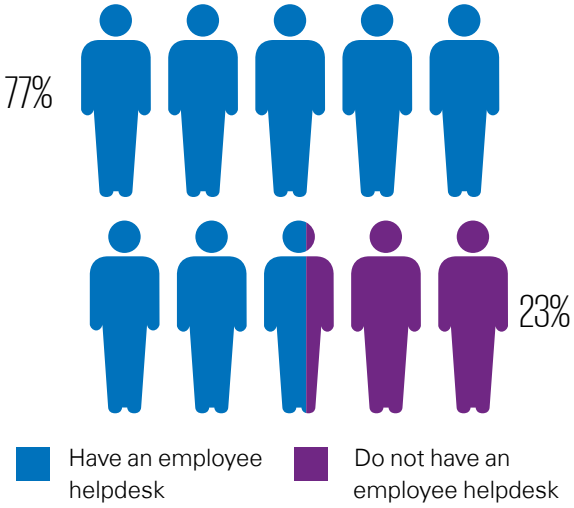


Source: KPMG in India's employer pension plans survey, 2017

General

Employee helpdesk to address queries on EPF, NPS and SAF

The diagram below depicts that of the 112 respondents to this question, 77 per cent organisations confirmed that they have an employee helpdesk.

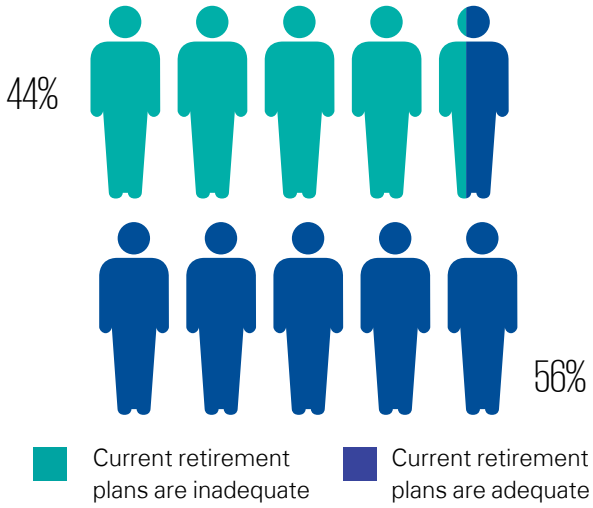


Source: KPMG in India's employer pension plans survey, 2017

Adequacy of the current retirement plans in the company to meet the retirement requirements

The diagram below depicts that a significantly large population (44 per cent of the 117 respondents) feels that they can do more to provide benefits to their employees for their retirement planning.

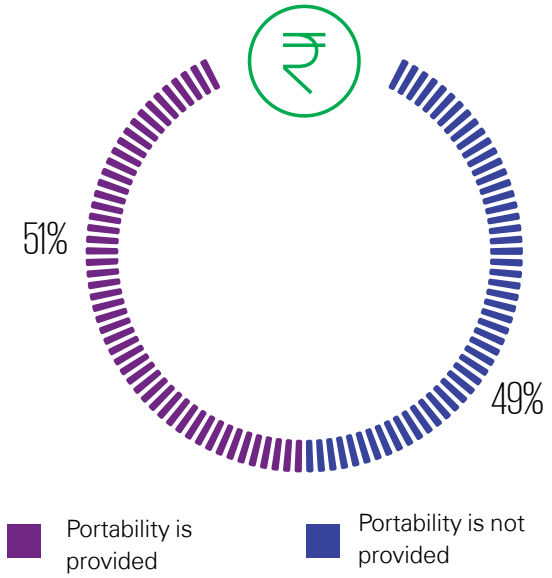
The same is depicted in the diagram below.



Source: KPMG in India's employer pension plans survey, 2017

Portability from SAF scheme to NPS

Almost half the organisations, as depicted below, who have an SAF have given the option of portability from SAF to NPS (51 per cent of the total organisations having an SAF).

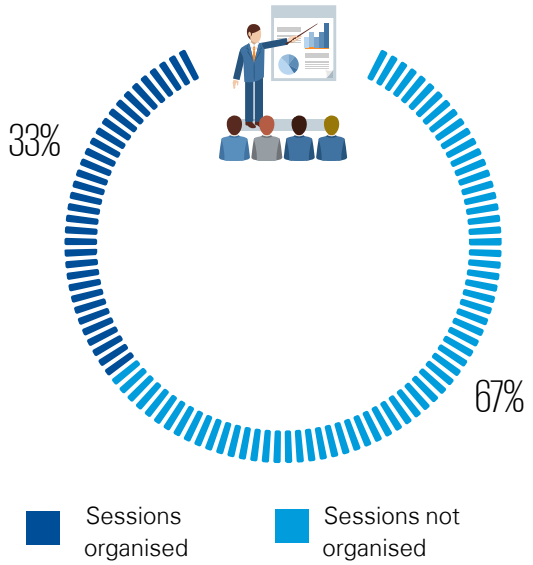


Source: KPMG in India's employer pension plans survey, 2017

Arrangement of regular sessions/workshops for educating employees on the need for adequate savings for retirement planning

Of the 117 respondents, only 33 per cent respondents said that they organise awareness sessions/workshops to keep their employees well informed about the various retirement plans for an adequate retirement planning.

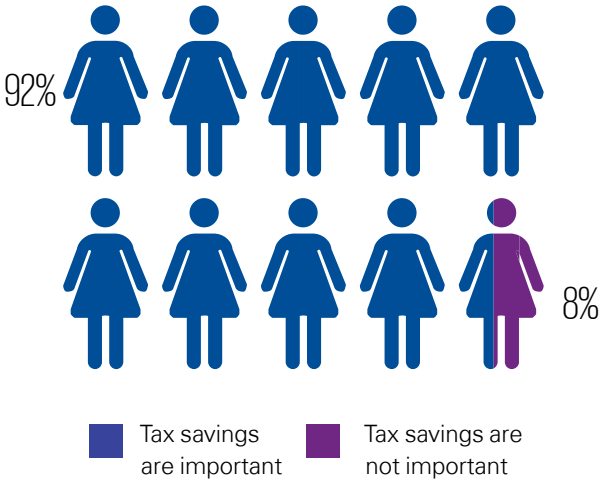
The same is depicted in the diagram below



Source: KPMG in India's employer pension plans survey, 2017

Importance of tax savings as a consideration for employees who volunteer to contribute to pension plans (PF, NPS and SAF)

A significant percentage of the respondents (117 respondents) agree on the importance of tax savings (92 per cent respondents) as an important consideration for voluntary contributions to retirement plans.

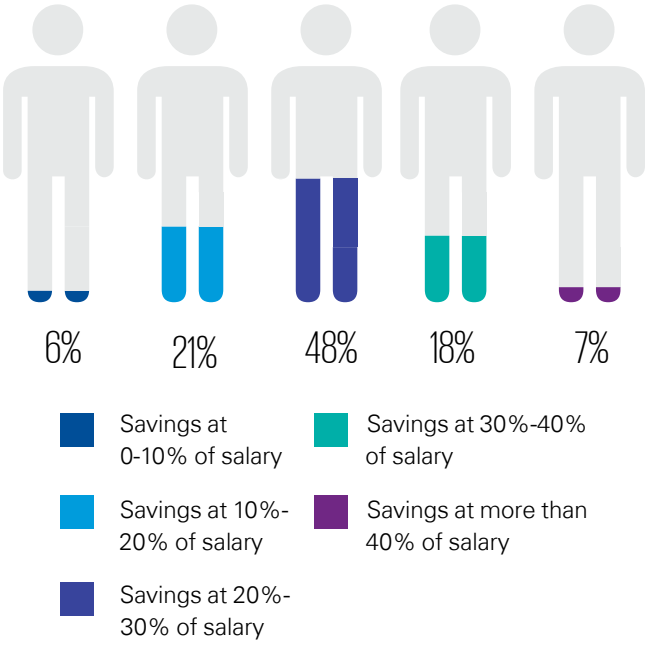


Source: KPMG in India's employer pension plans survey, 2017

Further, a majority of the respondents do not have any other social security scheme for their employees in addition to EPF, VPF, NPS and SAF.

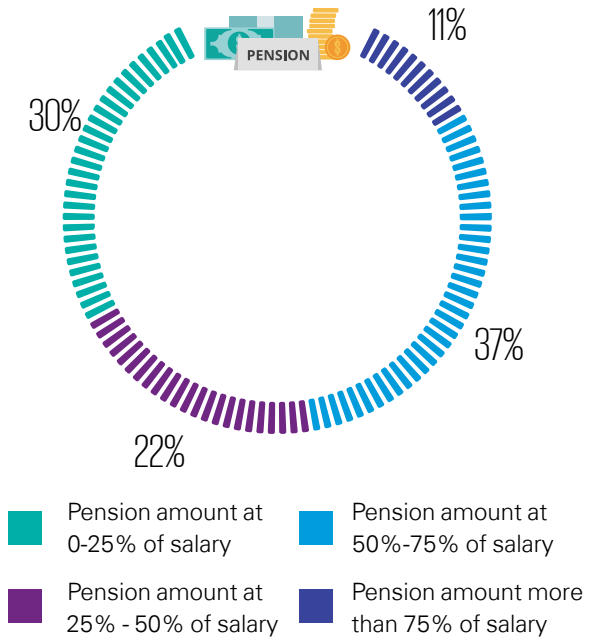
Source: KPMG in India's employer pension plans survey, 2017

Ideal monthly savings rate to generate sufficient retirement income (in percentage of salary terms)



Source: KPMG in India's employer pension plans survey, 2017

Ideal pension amount (in percentage terms) vis-à-vis the final salary of the employee at retirement:



Source: KPMG in India's employer pension plans survey, 2017

Key takeaways from the survey

- A significant percentage of employers feel that more can be done towards employees' retirement pension planning.
- There is a significant increase in NPS registration by companies.
- Tax benefits are considered as a primary reason to opt for NPS. However, a significantly large percentage of respondents also feels that employee empowerment for pension planning is one of the motivating reasons to opt or consider NPS.
- With respect to NPS, the survey results indicate that senior level employees are opting for NPS.
- A majority of respondents feel that the contribution for retirement savings should be in the range of 20 to 30 per cent of one's salary. This indicates that there is an inclination to contribute to retirement savings.
- Tax savings remain the biggest motivator for enrolling into the retirement savings schemes.

Conclusion

The survey results and our research reflects that there is a need for enhanced retirement planning and the industry is willing to make contributions for the same. However, unless mandated, subscription to pension schemes remain low vis-à-vis the junior level employees. Though, tax incentives remain one of the most important factors in increasing the enrolment to the pension plans, they are not able to motivate the junior level employees who may not have tax liabilities. The government has made significant changes to the current pension regime to simplify the processes and to attract employees in lower income brackets. However, substantive results of the changes are yet to be seen.

The two major pension regulators (EPFO and PFRDA) will have to play a large role in providing pension avenues to the Indian working population. Given the massive pension coverage gap, both these regulators, in tandem with the government and other stakeholders need to continue improving the design to enhance pension penetration in India. Employers will be required to engage more proactively with their employees for enabling them to take effective and timely pension planning decisions. Employees need to exercise greater care in availing the pension planning avenues to ensure a financially stable retirement.

About KPMG

KPMG in India, a professional services firm, is the Indian member firm affiliated with KPMG International and was established in September 1993. Our professionals leverage the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG has offices across India in Chandigarh, Gurgaon, Noida, Ahmedabad, Vadodara, Mumbai, Pune, Bengaluru, Kochi, Chennai, Hyderabad and Kolkata. KPMG in India offers services to national and international clients in India across sectors. We strive to provide rapid, performance-based, industry-focussed and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 250,000 companies from various regional chambers of commerce.

FICCI provide a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

Our Vision: To be the thought leader for industry, its voice for policy change and its guardian for effective implementation.

Our Mission: To carry forward our initiatives in support of rapid, inclusive and sustainable growth that encompass health, education, livelihood, governance and skill development.

To enhance efficiency and global competitiveness of Indian industry and to expand business opportunities both in domestic and foreign markets through a range of specialised services and global linkages.

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