39

STANDING COMMITTEE ON LABOUR
(2008-2009)

FOURTEENTH LOK SABHA

MINISTRY OF LABOUR AND EMPLOYMENT

EMPLOYEES' PROVIDENT FUND ORGANISATION - EMPLOYEES' PENSION SCHEME, 1995.

THIRTY-NINTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

February 2009/Magha, 1930 (Saka)

THIRTY-NINTH REPORT

STANDING COMMITTEE ON LABOUR
(2008-09)

(FOURTEENTH LOK SABHA)

MINISTRY OF LABOUR AND EMPLOYMENT

EMPLOYEES' PROVIDENT FUND ORGANISATION - EMPLOYEES' PENSION SCHEME, 1995.

Presented to Lok Sabha on 20.02.2009

Laid in Rajya Sabha on 20.02.2009

LOK SABHA SECRETARIAT
NEW DELHI

February 2009/Magha, 1930 (Saka)

CONTENTS

COMPOSITION OF THE STANDING COMMITTEE ON LABOUR (2008-2009)

Shri Suravaram Sudhakar Reddy-CHAIRMAN

MEMBERS

LOK SABHA

2. Shri Furkan Ansari
3. Shri Ramdas Bandu Athawale
4. Shri Subrata Bose
5. Shri Santasri Chatterjee
6. Shri Thawar Chand Gehlot
*7. Shri Munawar Hasan
8. Smt. Sushila Kerketta
9. Shri Mohammad Tahir Khan
10. Shri Virendra Kumar
11. Shri Rajesh Kumar Manjhi
12. Shri Basangouda R. Patil
13. Shri Devidas Pingle
14. Shri Chandra Dev Prasad Rajbhar
15. Shri Mohan Rawale
16. Shri Dhan Singh Rawat
17. Shri Kamla Prasad Rawat
18. Smt. C. S. Sujatha
19. Shri Parasnath Yadav
20. Vacant
21. Vacant

RAJYA SABHA

**22. Chowdhary Mohammad Aslam
23. Shri Rudra Narayan Pany
24. Shri Narayan Singh Kesari
25. Shri K. Chandran Pillai
***26. Shri Gandhi Azad
27. Smt. Renubala Pradhan
28. Shri Arjun Kumar Sengupta
**** 29. Shri Rajaram
****30. Shri Mohammed Adeeb
31. Vacant

---

* Expired on 10.12.2008.

** Ceased to be a Member of the Committee consequent upon his retirement from Rajya Sabha w.e.f. 29.11.2008.

*** Ceased to be a Member of the Committee consequent upon his retirement from Rajya Sabha w.e.f. 25.11.2008.

**** Nominated w.e.f. 27.1.2009

SECRETARIAT

1.	Shri Devender Singh	-	Joint Secretary
2.	Shri R.K. Bajaj	-	Director
3.	Shri N.K. Pandey	-	Deputy Secretary
4.	Ms. Mili George	-	Senior Executive Assistant

INTRODUCTION

I, the Chairman of the Standing Committee on Labour (2008-09), having been authorised by the Committee to submit the Report on their behalf, present this Thirty-Ninth Report of the Ministry of Labour and Employment on Employees Provident Fund Organisation - Employees' Pension Scheme, 1995.

2. The Committee selected Employees' Pension Scheme, 1995 as one of the subjects for examination and report. The Committee had an initial briefing on the subject on 5th September 2008. Thereafter, two more sessions were held with the representatives of the Ministry of Labour and Employment and Employees' Provident Fund Organisation on 29th September 2008 and 05th February 2009 to have further discussion and clarifications on points wherein the Committee thought it essential to have an unambiguous view of the Government.

3 Keeping in view the importance of this subject, the Committee thought it prudent to hear the views of the Central Trade Unions. Accordingly, the Committee invited the representatives of Central Trade Unions on 29th January 2009 to have their views on the important provisions and the problem areas of the scheme. Besides, trade unions who could not come during the meeting on 29th January 2009 were sent a list of points on the subject with the request to sent their replies/suggestions in this regard.

4. The Committee considered and adopted the Report at their sitting held on 18.2.2009.

5. The Committee wish to express their thanks to the various Central Trade Unions for placing their views on the subject before the Committee.

6. The Committee also wish to convey their gratitude to the officers of the Ministry of Labour and Employment and Employees' Provident Fund Organisation for placing before them the detailed written notes on the subject and furnishing the information as desired by the Committee in connection with the examination of the subject and tendering evidence before the Committee.

7. The Committee would also like to place on record their deep sense of appreciation for the commitment, dedication and valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

8. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;

18 February, 2009
29 Magha, 1930 (Saka)

SURAVARAM SUDHAKAR REDDY,
Chairman,
Standing Committee on Labour

REPORT

Background

The Employees' Pension Scheme (EPS), 1995 is one of the three sub-ordinate legislations coming under the Employees' Provident Fund Act, 1952 and is the latest among the three, coming into effect from 16th November, 1995. On introduction of the Employees' Pension Scheme, 1995, the erstwhile Employees' Family Pension Scheme, 1971 ceased to operate and all the assets and liabilities of the old scheme were transferred and merged with the Employees' Pension Fund. The Employees' Pension Scheme, 1995 has been designed as a "Benefit defined Social Insurance Scheme" formulated following "actuarial principles" for ensuring long term financial viability. The Scheme is a defined contribution as well as a defined benefit scheme and aims at providing for economic sustenance during old age and survivorship coverage to the member and his family. The Employees' Pension Scheme, 1995 derives its financial resource by partial diversion of 8.33% from the employer's share of Provident Fund contribution. The Central Government contributes at the rate of 1.16% as done in old scheme. The benefits and entitlements to the members under the old Scheme and protected and continues under the new Pension Scheme, 1995.

2. The Scheme on its introduction applies compulsorily to all the existing members of the Provident Fund who were contributing to the Employees' Family Pension Scheme, 1971. The new entrants to the membership of Provident Fund from 16.11.95 onwards shall also acquire membership of the Scheme on compulsory basis. The existing members of the Provident Fund who did not opt for joining the erstwhile Employees' Family Pension scheme, 1971 shall have an option to join the new Pension Scheme. The Employees' Pension Scheme though effective from 16.11.95 has a provision for retrospective application from 1.4.93 in selective cases for outgoing members of the ceased Employees' Family Pension Scheme, 1971 during the period between 1.4.93 and 16.11.95. Members of the old scheme who died between 1.4.1993 and 16.11.1995 are deemed to have joined the new scheme and their beneficiaries are entitled for pensionary benefits under EPS, 1995.

Benefits and Eligibility

3. The Employees' Pension Scheme, 1995 provides the following varied benefits to the members and their families:

(i) Monthly Member Pension

- Superannuation Pension

  With a minimum service of 10 years and attaining the age of superannuation.

- Early Pension

  With a minimum service of 10 years and any time before attaining the age of superannuation but after 50 years of age provided the member retires or otherwise ceases to be in employment. This pension will be subject to a discounting factor at a compound rate of 3% for every year failing short of 58 years.

(ii) Disablement pension

Paid to the member on permanent and total disablement during the service if atleast one month's contribution has been paid.

(iii) Widow/Widower pension

The widow or widower pension shall be payable to the spouse of the member when the member dies

While in service
Away from service
As a pensioner

This pension is payable upto the death of the spouse or upto date of the marriage whichever is earlier.

(iv) Children pension

The children pension to each child shall be 25% of the widow/widower pension and is payable to two children at a time upto their age of 25 years and will run from the oldest to the youngest in that order. This pension shall be paid concurrently along with the widow/widower pension. The legally adopted children of the member are also eligible for children pension.

(v) <u>Orphan pension</u>

The orphan pension to each child shall be 75% of the widow/widower pension and is also payable to two children at a time upto their age of 25 years and will run from the oldest to the youngest in that order on the death or re-marriage of the spouse of the member.

(vi) <u>Disable Children/orphan pension</u>

If the child or children of the member is/are permanently or totally disabled at the time of the death of the member, then a disabled children or orphan pension is payable upto the entire lifetime of the child irrespective of the age and number of children in the family in addition to the normal children/orphan pension payable to the other normal children.

(vii) <u>Nominee Pension</u>

If there is no spouse or eligible child for the member on his death, then if the nominee executed through the Nomination proforma in Form 2 for the EPS' 95 would be eligible to get a nominee pension upto his/her life time with the quantum of pension same as the widow pension.

(viii) Pension to dependent father/mother

If there is no spouse, children or a valid nominee to a member, then a pension equal to the widow pension shall be payable to the dependent father upto his death and then to the dependent mother upto her entire life time.

Administrative set up

4. For implementing Employees' Pension Scheme, 1995 work norms have been designed to provide prompt and trouble free service to the pension fund members and pensioners. In all field offices Pension Wing has been constituted consisting of Pension Section, Pension (Pre Audit) Section, Pension Disbursement Section and a Database Creation Cell to exclusively look after the different work areas of Employees' Pension Scheme, 1995. A separate software, Computerized Employees' Pension System exclusively for EPS-1995 has been developed and implemented in all field offices. As a result all functions like processing of pension claims, pension calculation, Pension Payment Order generation, disbursement, generation of MIS reports and monitoring are computerized.

Pension Implementation Committee

5. The Executive Committee of CBT constituted a sub-committee designated as `Pension Implementation Committee' to review the functioning of the Employees' Pension Scheme' 95. The Committee consists of the Chairman (Additional Secretary, Ministry of Labour), 3 employers' representatives, 3 employees' representatives, Joint Secretary (Social Security) and Financial Advisor from the Ministry of Labour and Employment and CPFC as Government representatives with the Additional CPFC (Pension) as a convenor. The Committee considers all important suggestions/proposals for amendment/improvement in the Scheme and monitors the effective implementation of EPS' 95.

Members enrolled

6. The net addition during the year 2006-07 was 33,41,630 members. The details enrollment of members are given as under:

NUMBER OF MEMBERS IN EMPLOYEES' PENSION SCHEME, 1995	
As on 431.03.2005	3,11,49,049
As on 31.03.2006	3,23,88,660
As on 31.03.2007	3,57,30,290
Net addition over previous year	33,41,630

Contribution received

7. Rs.8050.66 crores were received as Pension Fund contributions as on 31.03.2007. Out of this, Rs.6710.66 crores was Employers' Share and Rs.1340.00 crores was contribution of Central Government.

Pension fund

8. The ceased Employees' Family Pension Scheme, 1971 mandated 1.16% of pay from employers and equivalent contribution by employees to Family Pension Fund. All accumulations in the ceased Family Pension Fund formed the corpus of Pension Fund for new scheme. In the Employees' Pension Scheme, 1995 no additional contribution is payable either by the employers or the employee for the Pension Fund. The Scheme is financed by diversion of 8.33% of wages from the employer's share of the Provident Fund contribution and Central Government contributes 1.16%. As on 31.03.2007 the corpus (Securities + Public Account) stands at Rs.80766.222 crores.

9. The position relating to contributions received, corpus and total pensioners year-wise commencing from 1996-97 is as under:

Year	**Contribution received cumulative (Rs. In crores)**	**Corpus (Rs. in crores)**	**No. of pensioners (including EFPS, 1971) - Cumulative**
2002-2003	33213.17	45045.21	1441670
2003-2004	39155.72	52743.87	1758841
2004-2005	45667.57	61318.23	2071168
2005-2006	52553.02	70749.13	2335883
2006-2007	60603.68	80776.22	2653181

Investment of Pension Fund

10. The Scheme provides for investment of the Pension Fund as per pattern indicated below:

- Family pension corpus as on 15.11.1995 and the Central Government contribution from 16.11.1995 onwards shall be invested in the public account of the Government of India.
- Other accretions to the pension Fund shall be invested as per pattern prescribed by the Government from time to time.

The details of the investment of Pension Fund during the year 2006-07 and total corpus of Pension Fund as on 31.03.2007 are given in the table below:

(Rs. in crores)

INVESTMENT OF PENSION FUND DURING 2006-2007		
I.	**As per Investment Pattern**	
(i)	Central Government Securities	3949.09
(ii)	State Governments/Government Guaranteed Securities	2089.27
(iii)	Special Deposit Scheme	-
(iv)	Public Sector Financial Institutions	900.53
	Total investment	**6938.89**
II.	**Public Account**	**3918.20**
	Total during the year (Public Account & Securities) (I+II)	**10857.09**

(Rs. in crores)

TOTAL CORPUS OF PENSION FUND	
Net Investment in Securities as on 31.3.2007	41732.50
Add. Net Investment during the year	6938.89
Net Investment in Securities as on 31.3.2007	**48671.39**
Deposit in Public Account as on 31.3.2007	29016.63
Add. Government contribution	1340.00
Add. Interest received during the year	2578.20
Balance in Public Account as on 31.3.2007	**32934.83**
Total Corpus (Securities +Public Account) as on 31.3.2007	**81606.22**

Contribution Arrears

11. At the end of financial year 2005-2006, there was an outstanding arrears of Rs.578.33 crores on account of Pension Fund contribution from employers. The total workload for the year 2006-2007 for recovery becomes Rs.905.17 crores. Rs.302.27 crores has been recovered through recovery action leaving behind an outstanding arrears of Rs.602.91 crores.

Valuation of Pension Fund

12. The para 32 of Employees' Pension Scheme, 1995 states that Central Government shall appoint a Valuer for Annual Valuation of the Employees' Pension Fund. Accordingly, when the Employees' Pension Fund so permits the Central Government may alter the rate of contributions payable, scale of any benefit admissible and periods for which such benefits be given;. The result and the recommendations of the Eight Valuations done so far are as follows:

Valuation	Period of Valuation	Name of the Valuer	Recommendations	Date of submission of report	Surplus deficit (in crores)
1.	16.11.95 to 15.11.96		Valuer recommended 4% pension relief.	30.4.1998	1689
2.	16.11.96 to 31.03.98		Valuer recommended pension relief of 4% plus proportionate increase for excess period. Relief declared @ 5.5%	30.3.1999	1239

3.	01.04.98 to 31.03.99	Sh.Bhudev Chatterjee	Recommended pension relief of 4%. Recommended minimum widow pension @ Rs.450/- p.m minium children pension @150/- p.m. and minimum orphan pension @ Rs.250/- p.m.	04.01.2001	732
4.	01.04.99 to 31.03.2000		Recommended pension relief of 4%. Commuted value. ROC Value, Table for withdrawal benefits to be reduced taking note of reducing interest rates	20.08.2001	70
5.	01.04.2000 to 31.03.2001	M/s K.A. Pandit	The retirement age for member may be increased from 58 to 60 years. To revise Table B and D. Increase in reduction rate from 3% to 5% in early pension cases. Liberal pattern of investment may be allowed to increase the return. Withdrawal under the scheme need to be controlled.	November, 2003	-13

6.	01.04.2001 to 31.03.2002			November , 2003	-17136
7.	01.04.2002 to 31.03.2003			12.08.2004	-19291
8.	01.04.2003 to 31.03.2004			25.04.2005	-22021

13. The review of the valuation were carried out once in three valuations and the review report submitted by the panel of actuaries are as follows:

Re-valuation	Period of Valuation	Name of the Actuaries in the Panel	Recommendations
1st	16.11.95 to 15.11.96	Sh. Debabrata Basu & Sh. Liyaquat Khan	Did not agree with the concept of pension relief. Though agreed with enhancement of benefits @ 4% showed favour to slightly lesser increase so as to provide for margin for future adverse experience. Recommended outgo of benefits from Public Account as to maximize yield. Clearly recommended that any enhancement of benefit should be out of emergent surplus only.
2nd	01.04.99 to 31.03.2000	Sh.N.R. Kapadia & Sh.R. Ramakrishnan	Reported need for brining down the pension relief. Commented that granting of increase of 4% cannot even be imagined. Recommended putting in place a viable

			system of funding additional liability arising out of increase in wage ceiling. Till then future wage ceiling to be frozen. Recommended Pensionable Salary to be defined as the average salary of the last 60 months of salary or last 36 months of salary of the service. Recommended increase in reduction factor (for reduced pension) to not less than 5% per annum.

Committee for Comprehensive Review of EPS, 1995

14. Various Valuation reports and review reports had been placed before the Central Board of Trustees. On its suggestions, the views of the Central Trade Unions and the Employer's Associations were also taken. The Central Board approved some of the remedial measures by way of the revision of the factors of Table B and Table D and these changes have been notified by the Government Further, the Government of India had constituted a Committee under the Chairmanship of the Additional Secretary (Labour & Employment) comprising of an Employer representative an Employee Representative, the consultant actuary and the Valuing actuary to conduct a comprehensive review of the Employees' Pension Scheme, 1995. The first meeting of the Committee was held on 17.04.2008 and the various suggestions/views received on the subject were discussed during the meeting. The details of the composition of the Committee along with its terms of reference are placed as Annexure – I.

1. <u>Increase in the wage ceiling</u>

15. The Committee note that Employees' Pension Scheme, 1995 on its introduction applies compulsorily to all the existing members of the Provident Fund who were contributing to the EFPS, 1971. The new entrants to the membership of Provident Fund from 16.11.95 onwards shall also acquire membership of the scheme on compulsory basis. The wage ceiling for the purpose of eligibility is Rs. 6,500/- pm.

16. When the Ministry of Labour and Employment was asked about the number of times revision in wages for the purpose of eligibility under the scheme has been carried out and the date of such pegging it at Rs.6500, they stated in their written reply that the wages were revised only once for the purpose of eligibility and the last revision in wages was carried out on 1st June, 2001.

17. When enquired whether when the Employees' Provident Fund Organisation proposed to enhance the ceiling on the pattern of ESIC i.e. Rs. 10,000/-, the Ministry in a written reply stated that there is no such proposal under consideration with EPFO.

18. In this context, it was stated that the valuer while valuing the Employees' Pension Fund has inferred that the increase in wage ceiling for the purpose of pension eligibility will outgrow the pension liability vis-à-vis the contribution. The Ministry when asked to explain the criteria adopted by the valuer in reaching such a conclusion, they stated that:

> "The increase in the pension eligibility salary from Rs. 5000/- to the figure of Rs. 6500/- made effective from 1st June, 2001 has increased the liability, to the extent of about Rs. 10,000/- crores. Though there will be corresponding increase in receivable contribution in the future, there is no way of collecting the additional contribution from members who has already been members of the scheme before the date of the change."

19. On being asked about the reasons for not carrying out amendments in wages despite sea changes in the salaries of the employees and employment pattern in the country, the Committee were apprised by the Ministry that**:**

> "In 2001, the maximum pensionable wage was increased from Rs 5000 to Rs 6500 per month. The same has not been increased till now because it would create an actuarial deficit as happened during 2001. Members who would have been contributing on the ceiling of Rs 6500 per month would suddenly shift to an enhanced contribution rate, say Rs 10,000 per month, and would get the benefit on the basis of enhanced contribution in spite of having contributed this quantum only during a short period of their

> pensionable service. This would create a deficit in the Fund and avoiding such deficit would require appropriate correction either in the form of benefit to be given to those members who had earlier been contributing on Rs 6500 per month or in the form of enhanced contribution rate for all members. Accordingly, actuarial advice will be sought about the manner to enhance the maximum pensionable wage. However, under Para 11(3) of the scheme, an option is made available to facilitate contribution on higher salary from the date a member's salary exceeds Rs.6500/-."

20. On this vital issue of enhancing the wage ceiling, one of the Trade Unions while deposing before the committee submitted as under:

> "Today, the Employees' Provident Fund Organization has got an income threshold or ceiling of Rs.6500. The Employees' Pension Scheme, 1995 when it was introduced the ceiling was Rs.5000/- per month under which the pension will be calculated on which contribution to the pension from the employers will be diverted. Later, it was increased to Rs.6500/-. The Employees' Pension Scheme, 1995 contained provisions that in case workers covered by the Employees' Provident Fund Organization acceded that limit of Rs.5000/- now Rs.6500/-, if the employers as well as employee in any industry or establishment agree to continue their contribution beyond Rs.5000 or Rs.6500/- also that should be permitted and they will be entitled for pensionary benefits of such higher income on which contributions are paid both by the employer as well as employee. This again is very narrowly interpreted in the sense that on the day the worker crosses Rs.6500/-, if the employer does not start contributing on the higher income they cannot come under the scheme and contribute for the higher income subsequently. You will appreciate that these are issues that will require some negotiation between the workers organization and the employer of the concerned establishment because employer cannot be expected to automatically enhance their contribution which is presently 12 per cent. So, it requires some time for the unions to negotiate with the employer and persuade them to contribute on the higher income if we succeed in that and approach the Employees' Provident Fund Organization saying that together we will pay from the day the employee crosses Rs.6500/-, that is not being accepted. It is being stonewalled. That is an unfortunate provision. So, contribution on the higher income which is the provision in the existing scheme is also being interpreted in a way which is not benefiting the workers' interest.
>
> One more issue that is there is that Employees' State Insurance Corporation is also an institution under the Ministry of Labour and Employment. The Employees' Provident Fund Organization also is an autonomous body under the Ministry of Labour at a given time the income parameters were identical for both the schemes but today in the

case of ESI from Rs.5000 to Rs.6000, from Rs.6000 to Rs.7500 and from Rs.7500 to Rs.10,000 the income ceiling has been enhanced but in the case of provident fund, it is pegged at Rs.6500. It has not been increased. So, at least, the two institutions under the same umbrella should have common provision. In fact, one of the issues that we have adopted in the Tripartite Labour Conference as well as the Standing Labour Committee is that the various income parameters in various labour registrations, etc. but at least this one of social security institutions under the same Ministry should have the same thing. Possibly, the employers said that how long you expect us to contribute on a higher income. So, there can be also optional provision saying that upto a particular level, it could be brought on par with ESI and if it goes beyond that, it could be optional for the workers to contribute his contribution and it can be calculated. There can be some provisions for that."

2. Rate of contribution

21. The Ministry of Labour and Employment furnished in their written reply that one of the salient features of the new Pension Scheme is that no contribution from the member is taken.

22. Employees' Pension Scheme, 1995 is a funded Scheme essentially based on the assets and liability factors. The higher the accruals, the greater the benefits. When the Ministry was asked to state the reasons for not bringing in structural changes in the rate of contribution from the persons coming in the category of higher wage slabs, they furnished in a written reply that:

> "In the EPS, 1995 both contribution and benefits are defined. It works on the concept of solidarity based upon the principle of pooling of resources and sharing of risk. It has uniform rate of contribution and is redistributive in nature. The design of the Scheme is as per actuarial principles adopted in design of any uniformly applicable scheme to all members. Therefore, no further structural changes, as suggested, is possible."

23. The Committee observed that in the existing EPS, 1995, the contribution being made by the Government of India to the Scheme is 1.16 per cent. It is approximately 14 years and there is no revision/amendment in the rate of contribution of the Government of India. When the Committee asked the Ministry to furnish the reasons for non-revision of the contribution by the Government and the time by when the contribution is likely to be enhanced, the Ministry in their written reply furnished the information as follows:-

> "The rate of contribution by employer and employee is 12% each. Out of the employer contribution, 8.33% is diverted to pension fund. Government also contributes 1.16% to the pension fund. Neither of the above rates of contributions has been increased.
>
> However generally the Government contribution is increasing. The contribution of the Government made during the last four years are as under:

Year	**Rs. in crores.**
	Amount of contribution payable by the Government
2004-05	823
2005-06	854
2006-07	934
2007-08	1117

Presently, there is no proposal to enhance the contribution of the Government".

24. On the issue of contribution of the Government, a representative of the Ministry during course of sitting of the Committee submitted:

> "…the first issue I want to touch upon is the issue pertaining to the contribution of the Government. The Central Board of Trustees under the law that has been passed by the Parliament is an empowered Board. However, the recommendations with regard to matters which concern money etc. definitely have to go to the Ministry of Finance and then they get endorsed and then we proceed further in the sense that for fixation of rate of interest etc. we have to go to the Government. The Central Board of Trustees' recommendations are usually never turned down. But the Government do look at it.
>
> The one very major step which we have taken which will involved very great involvement of the government on account of this contribution of 1.16 per cent is to bring the ceiling down from 20 to 10. At the present point of time, it may be recalled that when the law was passed the coverage was for 50 and above. Then it was brought down to 20 and above. Now the Board has taken a decision on 5th July to bring the coverage down to 10. We are now in the process of drafting the Cabinet Note, the Bill etc. and that will automatically mean much more money out of the Government exchequer.
>
> ….it was in view of this that we have been looking not at increasing the contribution from the government for this reason as also from the reason that if we do ask for an increase from 1.16, at most we can make a change with available small percentage. That may nor may not solve the problem."

25. Regarding enhancement of Government contribution, one of the Trade Unions representatives' commented during the course of deliberations with the Committee as under:

> "Employees' Provident Fund, 1995 was the aftermath of the Employees' Provident Fund, 1971. While in the Employees' Provident Fund, 1971 there were equal contribution, 1.16% per cent from the employer, 1.16 per cent from the employee and 1.16 per cent from the Government. But in the EPF, 1995, there is no contribution from the employee, only the employer contributes at the rate of 8.33 per cent and the Government is still adamant on 1.16 per cent. In the previous case it was 3.5 per cent; in the present case it is 9.5 per cent. Though the employer contribution has increased in EPF contribution, yet the Government contribution remains to be the same and that too restricted to statutory limits."

3. Maintaining of records of pensioners by EPFO

26. The Committee noted that the existing members of the Provident Fund who did not opt for joining the erstwhile Employees' Family Pension Scheme, 1971 have option to join the new pension scheme. When the Ministry was asked to supply the number of applications received/pending for disposal who have requested to opt the new scheme, they replied that no such data is maintained.

27. When further enquired as to the time by which all applications so received will be disposed of, the Ministry furnished that all applications received for membership of EPS, 1995 in correct format and fulfilling the conditions have been disposed off.

28. On being asked about the rationale of the feature in the absence of any data of members giving options to join new pension scheme, the Ministry submitted in their written reply that:

> "As per the provision of EPS, 1995 the members of the Provident Fund who are not members of the erstwhile Family Pension Scheme, 1971 can opt to join the EPS, 1995. These members of the Provident Fund would have joined the service prior to the implementation to the Family Pension Scheme, 1971 w.e.f. 1.3.1971 and as such would have completed more than 37 years of service as on date and got the due benefits. Such of those members who would be eligible to opt i.e. being less than 58 years old and not got their PF account settled would be very few in number and whenever any option as such is received from these members, such option is considered and granted pension under EPS, 1995 duly regulating their membership w.e.f. 1.3.1971. Hence no data as such is being maintained with regard to number of options received and pension sanctioned to them."

29. The Ministry when further prodded as to the manner in which data of pensioners of erstwhile Family Pension Scheme, 1971 who joined the new EPS, 1995 are maintained, they gave in their written reply as follows:

> "It is reiterated that the details of those members of provident fund who have not opted for FPS'71 and EPS'95 is not maintained".

30. When asked to state the manner in which data regarding different kinds of pensioners, including time since when various categories of pensioners are in receipt of such pension, are maintained, the Ministry furnished the following information:

> "Data regarding different kinds of pensioners and their status at different times are maintained with the help of pension claims received from the members and their families and the progress is then monitored through the Consolidated Monthly Returns submitted by the Regions to Head Office".

31. The Committee further enquired as to how in the absence of authentic data, the calculation regarding pensionary liability every month/year are arrived at and in what way the audit of such accounts are being done. To this, the Ministry replied as under:

> "The Valuing Actuary uses the available authentic data to arrive at the pensionary liability by projecting the figures with the help of accepted actuarial practices. As regards the audit of such accounts, auditing is done on the basis of the principle of pooled liability".

32. When the Committee sought to know the category-wise number of existing pensioners as on 31.1.2009, the Ministry supplied the following information:-

> "As per the latest figures available (as on 31.3.2008) the category-wise figures are as under:

Member Pensioners	1805012
Spouse Pensioners	597940
Children Pensioners	520625
Orphan Pensioners	13226
Nominee Pensioners	7620
Dependent Parents Pensioners	8199
Total	**2952622**

33. On the question regarding number of pensioners who are getting pension in the following brackets:

Less than Rs.100/- per month.
Between Rs.101/- and Rs.200/- p.m.
Between Rs.201/- and Rs.300/- p.m.
Between Rs.301/- and Rs.400/- p.m.
Between Rs.401/- and Rs.500/- p.m.
Between Rs.501/- and Rs.1,000/-p.m.

the Ministry of Labour and Employment in their written reply furnished the following information:

"

Upto Rs.300/- p.m.	182790
Between Rs.301/- and Rs.400/- p.m.	226807
Between Rs.401/- and Rs.500/- p.m.	243654
Rs.501/- and above	866705

"

4. Practical actuarial valuation

34. Para 32 of Employees' Pension Scheme, 1995 states that Central Government shall appoint a valuer for Annual Valuation of the Employees' Pension Fund. Accordingly, when the Employees' Pension Fund so permits the Central Government may alter the rate of contributions payable, scale of any benefit admissible and periods for when such benefits be given.

35. In reply to a question regarding valuation of the performance of the old pension scheme, it has been stated that three valuations were done of which the last was carried out on 15.11.95. The result of the last valuation are as under:

Actuarial Liability of existing pensioners

(Rupees in crores)

	Annual Pension	**Actuarial Liability**
Existing Pension	124.33	1338.81
Pension Increase	3.78	237.51
Expense	0.25	22.28
Provision for pension due but not vested	0.62	6.01
		1604.61

Accordingly, Rs.1605 crore to be notionally apportioned from Employees' Pension Scheme corpus to cater for Family Pension Scheme Pensioners.

36. From the above data, the Committee noted that there is huge variation in figures of annual pension and actuarial liability. When the Ministry was asked to reconcile the figures, they furnished in their written reply as follows:

> "Please consider the first row in the above Table. The Actuarial Liability of Rs 1338.81 crore means that according to the current annual pension liability of Rs 124.33 crores, it is expected that Rs. 1338.81 crore will be paid out in future till the last of the existing pensioners dies.
>
> A similar explanation applies to the rest of the three categories. Thus, a total of Rs 1605 crore is the actuarial estimate of the pension liability required to be earmarked in respect of all the FPS'71 pensioners existing as on 15.11.95 whose current annual liability is Rs 16.98 crore".

37. On being asked about the objective behind actuarial valuation of the scheme, the Ministry in a written reply stated that the objective behind actuarial valuation of the Scheme is to estimate the liability under the Scheme so as to take necessary steps to ensure that the estimated assets are enough to meet this liability.

38. When further asked to give the factors that become the subject of consideration of actuary, the Ministry furnished the information in their written reply as follows:

> "The major factors underlying the consideration of an actuary are:
>
> - Mortality Table, i.e. the expected death rate and the expected longevity of the members/pensioners, as the pension liability in respect of any member is directly proportional to his/her longevity.
> - Interest Rate, i.e. the rate at which the present assets are expected to grow in future. On the other hand, the future income is also discounted at this rate so as to reduce the total liability accordingly.
> - Salary Escalation: Since the pension liability is calculated on the terminal salary, it is important to estimate the rate of salary hike and arrive at the pension liability accordingly.
> - Exit Rate: Members often exit before superannuation due to various reasons. It is important to estimate this rate of exit as it amounts to "premature withdrawal" – thereby giving rise to

strain on the pension fund which works under the philosophy of long term investments.

- Besides these, several other factors are also considered by the Actuary, as for example, the hazard rate in the industry where the employee works; the rate of remarriage in the society; the average size of family of the member; etc".

39. The Committee again enquired as to whether any exercise was ever undertaken to ascertain the difference between actuarial evaluation and actual performance of the scheme and the details of such exercise alongwith the lesson learnt from such exercise, the Ministry in a written reply stated:

> "An actuarial valuation takes into consideration a long-term scenario and estimates various aspects. Thus comparison does not arise."

40. When enquired about the details of the parameters being adopted by actuary in evaluation of the scheme, the Ministry in their written reply furnished the information as follows:

> "The details of the parameters adopted by the Actuary in the last valuation (ie 8th valuation as on 31.03.2004) are as follows:

(i) **Mortality Rate:** The Mortality Tables of the Life Insurance Corporation of India, for the year 1994-96, have been used by the Actuary for the determining the mortality rate of EPF members/beneficiaries.

(ii) **Exit Rate:** A general withdrawal rate for the Schemes experienced by small establishments (less than 100 employees) and large establishments is used as exit rates.

(iii) **Salary Escalation Rate:** The actuary has used an average salary escalation rate of 7.5% per annum in respect of the members of EPS'95.

(iv) **Interest Rate:** Keeping in view the investment instruments available under the Scheme, the actuary has used an interest/discount rate of 8.5% per annum.

(v) **Other assumptions:** The actuary has used the data through censuses for assumptions in respect of the parameters like proportion of married members; difference in age of spouses; number of children in the family; chances of remarriage of widows/widowers, etc.

(vi) In addition to this, provisions have been made in the valuation in respect of expenses the Fund has to incur and for reserve to take care of any inaccuracies resulting from incomplete data.

41. The Committee asked the Ministry to furnish the details of the information sought for by the actuary and supplied by the organisation for conducting the evaluation of the scheme. In this regard, the Ministry replied as follows:

> "The information sought by the Actuary and supplied by EPFO for the 8th Valuation is as follows (for the period 2003-04):

(i) Details of coverage of establishments and members under EPS'95.

(ii) Details of contributions received.

(iii) Details of exits from EPS'95 during the year.

(iv) Details of beneficiaries and the benefits paid to them under various provisions of EPS'95.

(v) Data on members and beneficiaries, such as their date of births, date of joining, salary details, etc".

42. When asked about the reasons on account of which valuation has not been done after 2004, the Ministry replied as under:-

> "The exercise for appointment of Valuer for 9th Valuation was initiated soon after the receipt of the 8th Valuation Report in 2005. The selection process of valuing Actuary took some time. However, the selected Actuary declined the offer as the Actuary had in the time had joined the regulatory body IRDA. Therefore, another Actuary had to be selected, which was done only in January, 2008. Now, the work for 9th, 10th & 11th Valuation of EPS' 95 for the period 2005-07 is underway".

43. The Committee observed that the objective behind actuarial valuation of the pension scheme is to estimate the future liability under the scheme with a view to facilitate necessary steps for ensuring that assets are sufficient to meet the future pensionary liabilities. This is an exercise wherein current and present assets are weighed *vis-à-vis* future liabilities within certain parameters like mortality rate, exit rate, interest rate, salary escalation rate and other real and imaginary presumptions. In interest rates, future income is discounted at the rate at which present assets are estimated to grow. When asked to explain why some minimum future income cannot be estimated with certainty, the Ministry submitted in a written reply as follows:-

> "Future income cannot be estimated with certainty as the presently contributing member may stop contributing any time in future due to death, early retirement, disablement, withdrawal etc. Also, the future interest rates – which determine the rate of income growth – cannot be stated with certainty".

44. When further asked to give the reasons for discounting the future income at the present rate of growth to reduce the total liability, the Ministry replied as under:-

> "Actuarial Valuation is done at a given date which is called the "present date of valuation". The value of all the future income and liability has to be "brought down" (called discounting) to this date of valuation so as to make them comparable to each other. For example, Rs 1000 expected to be received after one year from valuation date (ie present date) will be counted as Rs 909 in assets today if the current discounting rate is 10% per annum, because notional Rs 909 booked today will inflate to Rs 1000 after one year. Similarly, Rs 900 liable to be paid after one year from valuation date will be counted as Rs 818 today at the same discounting rate. Thus, the surplus/deficit on present date will be Rs. 91 (909-818) and not Rs 100 (1000-900)".

45. The Ministry when asked to state the number of lump sum withdrawal due to non-entitlement of pension for less than 10 years of service under the scheme during the last three years, their written reply stated as under:

> "The number of lump sum withdrawals due to non-entitlement of pension for less than 10 years of service under EPS, 1995 is as follows:

Year →	**2007-08**	**2006-07**	**2005-06**
Number of withdrawals	21,81,300	17,06,661	16,76,596

46. When further asked as what is the usual time taken for disposal of such cases and the number of applications pending under this head as on date, the Ministry replied that an application complete in all respects is usually disposed off within 30 days and the number of Retirement/Withdrawal Benefit cases pending as on 31.03.2008* were 1,66,869 ***(* Provisional)***.

47. On being enquired about the reasons for their pendency, the Ministry stated as under:-

> "As there is a continuous inflow of fresh claims, certain claims are bound to be pending at any given point of time. As per Scheme provisions, the claims received complete in all respect are settled within 30 days. However, delay in certain cases occur on account of non-submission of returns/non-remittance of dues by the employer, non-attestation of forms by authorised signatory, etc. Settlement of cases is a continuous process".

48. When the Ministry was asked to furnish the steps taken to clear the backlog, it replied as follows:-

> "The total number of applications received during the year 2006-07 is 26,95,681. The data provided as on 31.3.2008 relates to the number of withdrawal applications pending with various offices as on that particular date, which constitute around 6% being less than a month workload. However, these applications would have been either settled or returned/rejected as there is a prescribed time limit of 30 days for the disposal of the above claim applications."

49. The Committee find that one of the reasons given for pendency of applications for lump sum withdrawal is non-remittance of dues by the employer. When the Ministry was asked to explain the mechanism in place to detect such non-remittance of dues by the employer along with the number of such cases reported during the last three years and the action taken against such defaulters, the written reply given by the Ministry is as follows:

> "An in-house software programme Computerised Compliance Tracking System (CCTS) is in operation for detecting the non-remittance of dues by the employers. The reports generated by the software are got verified by human intervention, wherever necessary.
>
> The number of confirmed cases detected on the basis of mechanism mentioned above, against which action under section 7A of the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 was initiated during the last three years is given below:

	2004-05	**2005-06**	**2006-07**
No. of 7A cases initiated	37127	31144	28222

> The details of action taken by the Organisation against such employers are as under:

(i) Assessment of dues under section 7A of the Act.
(ii) Recovery action under section 8 of the Act / IInd and IIIrd Schedule to the Income Tax Act.
(iii) Action under section 14B for levy of damages for belated remittances.
(iv) Prosecution cases under section 14 of the Act.
(v) FIR under section 406/409 of the IPC filed with the police in respect of employees' share of default.
(vi) Action under section 110 Cr.P.C. for filing applications before Executive Magistrate against persistent defaulters to execute bond for rendering good behaviour.
(vii) Recovery of Interest under section 7Q of the Act".

50. The Ministry when asked to explain the manner in which the exit rate affected the pension paying capacity of the organization as it also effectively stopped the number of pensioners for whom organisation did not have any responsibility, they replied as follows:-

> "The EPS'95 was primarily designed with the objective of giving long term benefits to a member in old age. The provision of "early withdrawal" was envisaged for exceptional cases only and not as a rule. Hence, early exits diminish the quantum of the Fund more than they reduce the liability of the Fund, thereby reducing the shock absorbing capacity of the Fund. Further, in the last few years, exit payments due to early withdrawal which are calculated as per Table D, were being returned @ 10%, whereas the Pension Fund was earning around 8%. This was causing a loss to the Fund. Hence, the Table D factors have been revised assuming the Pension Fund earning of 7% (with effect from 10.06.2008)".

51. When the Committee further enquired about the details of payable dues at the time of premature withdrawal, the percentage of exit rate from EPS, 1995 during the last five years, year-wise and the total amount paid as a result of such exit, the Ministry of Labour and Employment replied as under:

> "The details of payable dues at the time of premature withdrawal is assessed on the basis of Table 'D' of EPS'95 by using the wage at exit and length of service. The Table D is as follows:

Years of Service	**Proportion of wages at exit**
1	1.02
2	1.99
3	2.98
4	3.99
5	5.02
6	6.07
7	7.13
8	8.22
9	9.33

	%
2003-2004	**7.36**
2004-2005	**6.68**
2005-2006	**5.72**
2006-2007	**5.14**
2007-2008	**4.93**

Year	**Amount paid in Rs crores**
2003-2004	1145.26
2004-2005	1130.21
2005-2006	1262.58
2006-2007	1574.89
2007-2008	1713.75

52. When the representatives of the Ministry of Labour & Employment and EPFO deposed before the Committee, one of the representatives summed up the details regarding actuarial valuation thus:

> "……so far eight valuations of the Pension Fund have been carried out. The first four valuations had revealed a surplus which resulted in the release at the rate of four per cent, 5.5 per cent, four per cent and again four per cent respectively for the years 1996, 1998, 1999 and 2000. The subsequent four valuations carried out did not reveal any surplus. The last valuation report revealed an actuarial deficit of Rs.22,021 crore. The valuation reports and review reports were discussed by the Central Board of Trustees and the views of the Central Trade Unions and the Employers' Associations were also taken. The Central Board approved one of the remedial measures, that is the revision of the factors of Table B and Table D which have been notified by the Government with a view to reduce deficit in the Scheme.

……..In order to arrest the increase in the deficit in the Pension Fund, the following proposal to amend some provisions of the Scheme are under way. First is – increase the reduction factor for early vesting of pension from 3 per cent to 4 per cent under para 12 (7) of the Scheme and secondly deletion of the provisions of commutation and Return of Capital under para 12 A and para 13 respectively of the Scheme.

The above two amendments are expected to generate a saving of Rs.21,095 crore and Rs.21,205 crore respectively, giving us a total of Rs.42,300 crore which will be sufficient at present to wipe out the deficit. The amendment in Table B and D in the Scheme have generated a saving of Rs.11,936 crore.

The implementation of the above two measures will not actually result in any reduction in the amount of pension as such and hence could be implemented by an amendment in the Employees' Pension Scheme, 1995. The withdrawal of commutation and Return of Capital provisions do not affect adversely the amount of pension. It, in fact, puts a restriction on the conversion of a substantial amount of pension to immediate cash value which may not be desirable because at the time of retirement there is some amount of money which comes by way of provident fund and gratuity to the retiring member.

The enhancement of the reduction factor of pension from 3 to 4 per cent is also intended to serve the same purpose, that is to discourage members from early pension and to prompt them to get the pension at the age of 58 years only when they would reach towards the time of retirement and need the money most. This will also result in wiping out the entire deficit and sustain the present form of benefits and take away the tremendous fear and anxiety that we have about the collapse of the scheme".

53. A representative of the EPFO further elaborated:

"….. Actuarial valuation has several components. It takes as if the scheme is closed on a particular date, that is, 31.3.08. It is supposing that the Schme is closed on 31.3.08 and there are no future entrants. In that case, what is going to be the ultimate end when the last person in the scheme exits from the scheme, gets pension and his pension terminates?

It has the following liabilities. The first liability is current pensioner. Until his life, pension has to be paid. Thereafter, the survivor of the current pensioner comes, that is the widow. The widow gets it paid till her end. The second component, is the current contributors. Whoever is contributing today, after their retirement, what will be pension payable to them and how much time they will be paid and what will be the pension payable to the widow thereafter? These are the liabilities. Contrary to this, the assets are there. The assets are the existing assets like whatever has been invested in an asset and the existing employees future contributions and the earning for his life span, that is, seventy years on the existing assets. So, for the next 70 years, what will be investment or what will be return? For how long will the current contributors be paying and how much they will be paying? He takes into account the inflation. He takes into account the average salary increase per year and it comes to an amount. So, the actual deficit, let us say it is Rs.50,000 crores. It means as on 31.3.08, all the members till they complete the end of their life and the pension is completely paid, there will be gap and a deficit."

54. During the subsequent sitting held with the Ministry and EPFO, the Committee sought to know the details regarding the matter of lumpsum withdrawal of pension which was an issue of concern for the Government. A representative of the Ministry commented on the issue thus:

"………What is happening is that young people are moving because of very high young attrition rate and they are withdrawing pension in a manner that leaves the corpus depleted."

55. While deposing before the Committee on this issue, one of the representatives of the Central Trade Unions commented:

"…..in the Employees' Pension Scheme today there is a complaint that there is a huge deficit in the contingent liability of the pension fund that necessitates adverse changes in the beneficial parameters of the EP Scheme, that the Government is talking about. Unfortunately, these are not based on sound calculations; even though successive actuarial reports have brought out a staggering Rs.22,000 crore contingent liability in future, etc.

The only point that I would like to make here is that from the statistics that we have gathered between 1995-96, when the pension scheme was introduced to 1998-99, the figures shown by the annual reports of the EPFO states that a total of 60,84,000 workers have ceased membership of the PF scheme, they *suo-motu* ceased to be members of the pension scheme as well. As against that, the pension entitlement or the pension claims sanction is a total of 3,03,030 only. That means, a staggering 57 lakh workers who went out of the EPF who have exited are not beneficiaries of pension scheme. When this is the extent of exit which we call non-pensionable exit, the actuarial calculations calculated the contingent liability on the entire 100 per cent membership of the pension fund. That is the erroneous calculation which projects this huge deficit".

56. During the course of the sitting of the Committee, a representative of the Ministry of Labour and Employment clarified about the pension scheme thus:

> "…..the entire Scheme was designed in 1995 and if you see the cumulative and various facets of it, then it was a very liberal Pension Scheme. We had brought out that when we have done a detailed presentation. I would not like to go through all the aspects of the pension scheme. It was prefaced on the basis of the rate of return being at a fairly higher level because primarily the funding for this Scheme is from the rate of return which is being generated."

5. Linkage of pension with DA, restoration of commutation facility and amendment of EPS, 1995

57. When enquired whether pension payable to pensioners under EPS, 1995 is fixed or is subject to revision having the component of variable DA on the pattern of Central Government Employees' Pension Scheme, the Ministry furnished the following information:-

> "The pension payable to pensioners under EPS'95 is fixed. However, at the time of fixation, it includes the DA component of the salary of the member. In other words, the pension contains the DA component at the time of fixation. It is not an indexed linked Central Government pension. Nevertheless, there is a provision to declare relief as and when the position of Pension Fund so permits".

58. When the Committee wanted to know the reasons for not linking the scheme with price rise/increase in cost of living, the Ministry replied as under:

> "In case the pension under the Employees' Pension Scheme, 1995 is to be indexed, there will be need to increase the contribution significantly. Further, the contribution will also have to be periodically increased to cope with the index. At this stage, such an arrangement is not feasible".

59. On the matter of linking pension with DA component, a representative of the EPFO during the sitting of the Committee explained thus:

"…..For EPS 95, the pensionable has already taken the component of DA. It is a component on which the pension is paid. That meqans pension has pay component and DA component already on it. But we do not have a variable DA because the Central Government pension is an index pension. This index pension is possible because pay as you go system, that is, there is no fund created and it is paid out of tax payers money. Whereas in this scheme, we have created a fund and out of the fund alone, the money has to be paid. That is, 4 crore employees are putting the money together and the pension is taken out of that and it has to be managed in such a way that the money goes back to them and we do not overdraw and in that case it is actuarial reduction, they do not get underpaid and in that case, there will be benefit to the fund. So, to avoid that, it is value. Now, since this scheme is a funded scheme, it is defined in the beginning that if there is a surplus, then it is distributed. The surpluses are found in the first four valuations. We distributed them and thereafter, this problem arose and we are not able to distribute. If these measures which we have taken result in a surplus, we will be distributing this surplus as interim relief to the pensioners. That is how it is done".

60. During the initial meeting of the Committee with the Ministry of Labour & Employment and EPFO in the month of September, 2008, commutation upto 1/3rd of pension amount (on option by member) was allowed. When asked to give details of any proposal to enhance this limit to 40% of pension and bring it at par with the Central Government employees, the Ministry then replied that there was no proposal to enhance the limit of commutation to 40% from the existing 1/3rd of the pension amount from the side of EPFO.

61. The Ministry when asked whether any amendments/changes of any form have been effected in the scheme following the observations of the actuary, they furnished in their written reply as follows:

> "Yes, Tables `B' and `D' have been revised in July, 2008 following the recommendations of 8th Valuation and approval of the Central Board (EPF). Table B relates to past service factor under FPS' 71 and Table D relates to factor for withdrawal under EPS' 95. The factors in these tables have been reduced in view of the changing interest rates and to discourage early withdrawals from the Pension Scheme. Commutation and Return of Capital provisions have also been deleted. Other recommendations of the Valuation Reports are under consideration of the Committee on Comprehensive Review of EPS' 95."

62. When the issue of amending the EPS' 95 came up for discussion during the sitting of the Committee with the Ministry and EPFO, one of the representatives informed as follows:

> "……A separate sub-Committee of the Central Board of Trustees, designated as Pension Implementation Committee has been formed to review the functioning of the Employees' Pension Scheme, 1995 on a regular basis. The Committee considers all important suggestions and proposals for amendment and improvement in the Scheme and monitors its effective implementation.
>
> As informed in the last meeting, the Government of India had constituted a Committee to conduct a comprehensive review of the Employees' Pension Scheme, 1995 to address critical issues. This Committee met on 17th April and 1st September this year and various suggestions and the views that have been received on the subject were examined by the Committee which also includes qualified actuaries.

…….However, the exercise of the comprehensive review of the Scheme is to be continued further to recommend appropriate change in the structure of the scheme."

63. During the deliberations of the Committee with the representatives of Central Trade Unions, matter pertaining to amendment in EPS, 1995 also cropped up. A representative of Central Trade Union in this context submitted:

"…….recently the Government had taken a unilateral decision to introduce amendment in the EP scheme; the amendments are two fold-one, they have totally dropped two clauses from the pension scheme; one is a clause enabling commutation of pension under any pension scheme; universally all over the world, commutation is a part of the pension scheme; the scheme provided for one-third of the pension amount can be surrendered and 100 time of that amount surrendered can be availed as an upfront benefit. That has been totally done away with. The second thing that has been totally dropped from the scheme is para 13 of the scheme which provides for return on capital under three different modes.

…….There is a Pension Implementation Committee under the CBT. There is also another Committee constituted for a comprehensive review of the pension scheme because the Government while introducing the pension scheme in 1995, promised that at the conclusion of ten years a comprehensive review will be made. But that has not been attempted even when the Committee is there.

……There is a need to amend the EPF Act, 1952 so that the wages of the members should be as per the Minimum Wages Act so as to ensure that the low paid employees are getting a good quantum of pension to sustain their livelihood. I have quoted Rs.500, the pension is Rs.71. It is because normally what is happening is that the employers they are exploiting minimum wage by splitting it more on the allowance side so that the basic and DA is very less. For this even Rs.500 is not calculated. There are lakhs of cases where the basic and DA is calculated on Rs.200 and so the pension will come to Rs.37/-. That is what is happening."

6. Abolition of schedule regarding establishments for purpose of coverage

64. When the representatives of the Central Trade Unions came out with their comments and suggestions on the various provisions of the EPS, 1995, one of the representatives apprised the Committee thus:

> "It is almost 13 years that the scheme has been in operation. The EPFO has covered only around 4.5 crore workers of this country as against a total workforce of over 48 crore. Two issues have been pending since long – one, earlier Government of the day had taken a decision and it was announced by the then Minister of Labour and Chairman of EPFO's Central Board of Trustees, Dr. Satyanarayan Jatia, that the present schedule that lists establishments or the class of establishment, that could be covered under the EPF, that will be abolished and all establishments or classes of establishments will be brought under the coverage of EPF. Very many changes have taken place in the Ministry since then, but still the schedule is in operation. We have got 186 industries or classes of establishments as per the schedule. ;In fact, there was even a suggestion that if the Government would consider any particular industry or a class establishment which needs to be exempted from the purview of the Act itself, there could be a negative schedule and this schedule should be abolished. That has not taken place. We would like this Committee to recommend that at the earliest this change takes place. Second, the Second National Commission on Labour also recommended that the threshold limit of 20 or more workers which is provided for in the EPF Act could at least be brought on par with the ESIC, to 10, and today, there is an anomalous situation where the unorganized sector workers legislation that has been adopted that could cover establishments upto 9, but this, no-man's-land, those between 10-19 will neither be covered by the earlier one nor will be covered by the unorganized sector legislation. To this again, the Central Board of Trustees had passed a unanimous resolution and forwarded to the Government that legislative change should be brought to change this so that the membership could be increased".

7. Separate Pension Division and Grievance Redressal Machinery for pensioners

65. The Committee noted that there are 29,53,412 pensioners on EPF roll as on 31.3.2008. When the Ministry was asked whether the present set up of EPFO dealing with pension is adequate to deal with the issues regarding pensions, the Ministry furnished the information as under:

> "The number of pensioners is continuously increasing due to the increase in membership and other factors like longevity etc., The set up of EPFO needs to keep pace with the increasing workload. Accordingly, various steps were taken to increase the workforce. Recently, the Central Board of Trustees on 11.11.2008 has sanctioned the following number of posts in different cadres.
>
> 06 posts of Additional Central PF Commissioner level officer
>
> 14 posts of the level of Regional PF Commissioner – I
>
> 53 posts of the level of Regional PF Commissioner – II
>
> 162 posts of the level of Assistant PF Commissioner
>
> 520 posts in the grade of EO/AAO
>
> 697 posts of Section Supervisor
>
> 995 posts of Social Security Assistant "

66. On being asked whether there is any separate mechanism of grievance redressal for the pensioners, the Ministry submitted in their written reply as follows:

> "No, there is no separate mechanism of grievance redressal specifically for the pensioners. However, there is a **Public Grievance Handling System** whereby the grievances received in respect of all the three schemes viz. Employees' Provident Fund Scheme, 1952, Employees' Pension Scheme, 1995 & Employees' Deposit Linked Insurance Scheme, 1976 are handled & redressed".

67. When further enquired about the format of such mechanism, the Ministry replied as under:

> "The organisation in tune with its objectives, lays considerate importance to the redressal of grievance of the members.
>
> The Headquarter Office at New Delhi, and all field offices comprising 32 Regional Offices and 81 Sub-Regional Offices across the country are equipped with full-fledged facilitation centers, Public Relation Officers and supporting staff from where the members can obtain the relevant information as well as get their grievances redressed.

The Public Relation Officers at the Reception Counters are available on all working days of the week to redress the grievances of the visiting members. At the same time, Public Relation Officers are also available in each office to assist the members asking for any information.

There is a two-tier organizational structure for handling and redressal of public grievances. One is at the Head Office level, called Customer Service Division, which is headed by an Additional Central Provident Fund Commissioner and assisted by a Regional Provident Fund Commissioner alongwith a Public Relations Officer. The other is at the Field Offices level, headed by Regional Provident Fund Commissioner and Assistant Provident Fund Commissioner assisted by Public Relation Officers.

The Regional Provident Fund Commissioner of the regions and Office-in-charge of Sub-Regional Offices are available for redressal of the grievance of the members on all working days. At Headquarters the Regional Provident Fund Commissioner in-Charge of the Customer Service Division redresses the grievances of the members in person on all working days during office hours. If, the members do not feel satisfied, they can meet the Additional Central Provident Fund Commissioner (Customer Service Division) or the Central Provident Fund Commissioner.

All grievances received by the Head Office in the Customer Service Division are monitored fortnightly with system support and acknowledgement is sent to the member. The Public Relation Officer in the Head Office also attends to the grievances of the members every day and redresses their grievances.

The grievances received from the members, pertaining to non-settlement of claims, issue of account slips, matters arising out of non-compliance etc., are required to be redressed by the field offices. Feedback on all such grievances obtained from field offices is promptly communicated to the members with the status/disposal of the petitions.

The Public Relation Officers in the Regional/Sub Regional Offices redress the grievances of the members who visit the offices for redressal. The Public Relation Officer provides information about the status of the claims as well as the status of the complaints filed by the members.

The following guidelines are prescribed for handling grievances:

- Every complaint/grievance is required to be registered and acknowledged.
- Information required regarding payment of Provident Fund/ Pension cases/Status of complaints to be provided across the counter/over phone.
- Monitoring of the grievance disposal.

The facilitation Centers have been set up in all the offices of the Organization. All the prescribed forms are available free of cost during working hours. The salient features of a "Facilitation Center" are as below:

- To provide information regarding Schemes and procedures through brochures, booklets, reports, etc.
- To provide information regarding status of claims/complaints.
- To receive complaints, issue acknowledgements.
- Officers of the level of Assistant Provident Fund Commissioner/ Assistant Accounts Officer redress the grievances at the facilitation center.
- Time limits for settlement of claims/petitions, meeting hours of the Senior Officers, etc are notified though display boards.
- Physical facilities like seating, drinking water, etc. are also provided to the members.

To reduce the Public Grievances, the Organization has taken various measures for creating awareness about the provisions of the EPF & MP Act, 1952 among members and employers. Brochures and pamphlets are made available at facilitation counters and with PROs. Seminars are arranged to educate employers, employee and various representatives. Functions are organized by field offices to provide retirement benefits to the members on the day of retirement. Due priority is given in issue of Pension Payment Orders (PPO) to widows".

68. On being asked to give the number of cases received and disposed off by this mechanism during the last three years, the Ministry in their written reply furnished the following information:

"The details of the grievances received and disposed for the last three years are given below:

	2005-06	**2006-07**	**2007-08**
Grievances pending at the beginning of the year.	5171	2964	2712
Received during the year	38982	44685	27234
Total	**44153**	**47649**	**29946**
Disposed off during the year	41189	44937	28476
Balance at the end of the year	2964	2712	1470
Percentage of disposal	**93.29%**	**94.31%**	**95%**

The above figures are consolidated figures pertaining to grievances of all the three schemes run by the organization including the grievances of the pensioners under the Employees' Pension Scheme, 1995".

69. During the course of the subsequent meeting, when the Ministry was again asked to state the reasons for non-existence of separate Grievance Redressal Mechanism for pensioners in EPFO, the Ministry in their written replied submitted that:-

"

- CSD in the Head Office deals all the grievances of members including Pension. A central grievance redressal mechanism is a better one. However policy related issues are dealt in Pension Division of the Head Office separately. Regional Offices/Sub-Regional Offices/District Offices register the grievances of all the PF members including the pensioners under the Employees' Pension Scheme, 1995 and take necessary follow-up actions to redress the grievances of members/pensioners regularly.
- The Facilitation Centers in Head Office/Regional Offices/Sub-Regional Offices attend to the grievances of pensioners on a regular basis.
- The Pension Division in the Head Office and Pension Wing in the field offices i.e. Regional Offices/Sub-Regional Offices also attend to the specific grievances of the pensioners which involve interpretations of the scheme provisions and amendments/modifications to the provisions for better upgradation and improvement of the pensionary benefits.

- In addition to the above, there are various associations and bodies, who give recommendations/suggestions from time to time."

8. Maintenance of pension corpus

70. The Committee noted that as on 31.03.2006, the corpus (Securities + Public Accounts) stood at Rs. 70,749.13 crore and the eighth valuer while valuing the EPS recommended a liberal pattern of investment for increasing the return. When the Ministry was asked to comment on the issue, it provided in their written reply as under:

> "There is definitely a case for more flexibility in the investment pattern. The EPFO is still following the pattern issued by the Ministry of Labour in 2003. After that, the Ministry of Finance came out with a revised pattern in 2005, which was debated upon by the Central Board of Trustees. A few substantial recommendations were made by the CBT, viz., to allow it more flexibility in choosing instruments for investments. The recommendations are as follows:
>
> 1. The Central Government Securities and the State Government Securities including State Government Notes may be categorized together and the percentage of Investment may be reduced to 25% for both. Since the Government is in surplus with tax revenues and Fiscal Deficit on GDP is gradually declining, therefore, the total borrowing by the Government is not increasing. As such the supply of Debt Instruments under Central Government Category is going down. Similarly, the state Governments, either on account of surplus revenues or due to expenditure shrinkage, are also placing lesser requirement of Funds by way of borrowings under State Development Loans. The requirement of 40% investment in both these categories may be the need of Government in the past. Hence, the requirement in this category requires revision and may be reduced to 25%.
> 2. The EPFO may be allowed to enter into trading activity in government securities, which can enhance the yield by 12-15 basis points.
> 3. The restriction imposed through the guidelines regarding investments in Private Sector Bonds should be re-looked and the Guidelines should allow the Investment in Corporate Bonds having AAA rating from a Credit Rating Agency.
>
> The recommendations of CBT are, however, yet to be notified. The Ministry of Finance has now notified a new investment pattern in August 2008, which is still to be discussed within the CBT."

71. When asked about the current fund position of the Scheme and whether the monthly accruals are sufficient to meet the pension obligations, the Ministry of Labour and Employment in its written reply stated as under:

> "As on 31.03.2007, the Pension Fund had a corpus of Rs.81,606.22 crores (at Face Value). The monthly accruals are currently sufficient to meet the current pension obligations. However, there will be a future deficit".

72. When asked to give the reasons for projecting future deficit under EPS, 1995, the Ministry furnished in their written reply as under:-

> "The Employees' Pension Scheme, 1995 is a funded scheme. It has both defined contribution and defined benefit components. In case the Fund is over funded, it is a fax on the contribution. On the other hand, if the Fund is in deficit, it would result in intergenerational liability, which means, the future contributors have to pay more as the earlier beneficiaries have derived more than due benefits.
>
> To avoid such a situation, Asset Liability Management is made to ensure equity and deficits are informed to the Board and the Government for taking necessary action".

73. During the course of discussion with the Committee, a representative of one of the Central Trade Unions commented on the pension corpus as follows:

> "The Government contribution to the pension fund is kept in the public account. The account lying in the public account is controlled by the Government which gives low rate of interest as compared earned and distributed by EPFO. The Government should either pay higher interest or transfer this fund to EPFO for suitably investing for higher returns low yield security to maximize the pension income of the subscriber in future".

74. The Committee had asked in the questionnaire during the Demands for Grants of the Ministry for the year 2008-09 regarding the action taken on the suggestion made at the Indian Labour Conference (ILC) to set up a Workers' Bank where Employees' Provident Fund and other deductions of the workers could be deposited for better returns. In reply, the Ministry furnished in their written answer as follows:

> "The issue of the Worker's Bank was deliberated upon by the Committee set up on Worker's Capital Trust in its fifth meeting held on 02.01.2008 and it concluded that creating parallel banking structures is not necessary in view of the administrative costs, RBI guidelines and other problems such as lack of core competencies. The recommendations of the Committee are under consideration."

Increase in wage ceiling

75. The Committee note that the present wage ceiling of Rs.6,500/- for the purpose of coverage under EPF Scheme was last revised w.e.f. 1st June 2001. The present wage limit has now lost its relevance in view of the rapid transformation that have taken place in our economy leading to substantial increases in the wages of the employees. ESIC, the other organization of the Ministry, has well accepted the changing trend in our employment scenario and accordingly revised the wage ceiling to Rs.10,000/- for the purpose of coverage. However, EPFO is still treading over the beaten tracks without properly understanding the issue in the proper perspective and is sticking to an implausible stand which is anti-worker purely for hypothetical reasons. On the question of revising wage ceiling, the Ministry has informed the Committee that 'raising of wage ceiling would have a wider impact on the Employees' Pension Scheme, 1995. Hence, unless the impact of pension scheme is fully taken care of, the rise in wage ceiling may not be appropriate.' When the Committee further wanted to know whether any study/evaluation has been done to ascertain the impact of increase in wage ceiling on EPS, 1995, the Government, evading direct reply, stated that 'the increase in the pension eligibility salary from Rs.5,000/- to Rs.6,500/- made effective from 1.6.2001 has increased the liability to the extent of Rs.10,000/- crore.' It has further been stated that as soon as a suitable solution is found to remove/reduce such impact, the wage ceiling can be increased. The

Committee feel that with the enhanced wage ceiling, the future receivable contributions will receive a quantum boost and the liability of the Government towards pension will begin only after 10 years or beyond. Undoubtedly, the earning on such contributions, despite the possibility of pre-mature withdrawal, will leave the Government in a comfortable financial position. EPS, 1995 is a scheme having defined contribution and benefits, wherein contribution is uniform and re-distributive in nature. The Committee refuse to accept the actuarial observations as gospel truth for foreclosing any exploratory avenues. The Committee are of the consistent view that the scheme calls for self-valuation based on sound and real principles of economic management for revamping and reorienting the scheme ensuring maximum coverage of workers as well as enhanced rate of pension to them. Regarding future contribution after the increase in wage ceiling, even the valuer has observed 'though there will be corresponding increase in the receivable contribution in future, there is no way of collecting the additional contribution from members who have already been members of the scheme before the date of the change'. This cannot be an insurmountable obstacle as the same or similar issue might have cropped up during the last wage revision as well. Moreover, the payable pension can suitably be restructured by devising an appropriate formula taking into account the contributions made by the pensioner under both pre-revised and revised wage ceiling. Hence there is absolutely no justification for the inflexible and obtrusive attitude of the Government regarding revision in the wage ceiling. The Committee,

therefore, strongly recommend that the Government should come out of its slumber and retrograde approach by adapting itself to the opportunities being thrown by the new employment scenario of high wages and revise the wage ceiling for coverage under EPFO to Rs.15,000/- without any delay.

Rate of contribution

76. The Committee note that EPS, 1995 is a contributory scheme wherein the employers' contribution towards the pension of the employee is diverted @ 8.33% from the total contribution of 12% made towards social security obligations. Under the EPS, no contribution is taken from the member, i.e., the employee for the pension scheme. The Government contributes @ 1.16% to the pension fund. Admittedly, neither of the above rates of contributions has been revised for the last 14 years. On being asked about the reasons for non-revision of contribution by the Government, it has been stated that generally the Government contribution is increasing. It has further been stated that presently there is no proposal to enhance the contribution of the Government. The non-revision in the rates of contributions even after one and a half decade, speaks volumes about the callous attitude of the Government towards the work-force. More so, when this segment of the workforce has contributed enormously in the economy of the country leading to increase in leaps and bounds in the revenue collection of the Government. The Committee, therefore, strongly recommend that the formula regarding rate of contribution should be revised at periodic intervals wherein the rate of contribution from the Government should atleast be fixed at half of the rate of contribution which is being made by the employer or the employee towards the pension scheme.

Maintaining of records of pensioners by EPFO

77. The Committee observe that the record of updated figures about the actual number of pensioners is the nucleus for the effective, transparent, satisfactory and successful implementation of the scheme. However, the figures regarding the pensioners in the Employees' Pension Scheme, 1995 are not only inaccurate and unreliable but appear to be inflated and imaginary also. In reply to a question regarding existing members of the provident fund who did not opt for erstwhile Family Pension Scheme, 1971, but have joined the new EPS, 1995, it has been replied that no such data is maintained on the ground that the number of such persons are very few and most of them would have completed more than 37 years of service and got the due benefits. On being further asked about the manner in which the data regarding different kinds of pensioners are being maintained and in the absence of authentic data how the calculations regarding pensionery liability are arrived at, it has been stated that the data regarding different kinds of pensioners and their status at different times are maintained with the help of pension claims received from the members and their families. The valuing actuary uses the available authentic data to arrive at the pensionery liability for projecting the figure with the help of accepted actuarial practices. Regarding number of pensioners in the country, two different replies quoting different figures i.e., 29,53,412 at one place while 15,19,956 at

another have been given. The Committee are shocked to find the irresponsible manner in which such important statistics involving workers' money having vital social security implications for the workers and their families are being maintained. The organization, instead of taking its own initiative to exactly determine the number of pensioners of different categories, is relying on the claims being received by it from members and their families to arrive at the figures of pensioners. This is certainly a glaring example of shirking basic responsibility. The Committee are perturbed to note that in the era of e-governance, the Ministry is yet to take advantage of the latest technology. The Committee, therefore, urge upon the Government to develop a data base of the existing members as well as the new entrants into the scheme wherein appropriate column may be added in the format indicating the minimum time after which the subscriber will be eligible for pension and actual date of his retirement as per the age of superannuation making him a pensioner. Some column may also be introduced in between for identifying those members who have rendered minimum qualifying service for pension but left before reaching the age of superannuation. Appropriate columns could also be introduced into the database for other categories of pensioners. Government may consider to issue appropriate Smart Cards to members/pensioners containing the requisite details inclusive of self-updation of information about the job profile of the members. This will not only help in exacting the number of different category of pensioners but will also give the figures about the exit rate,

the money outgo at such exit, the financial health of the scheme and the organizational liabilities towards the pensioners as well.

<u>Practical Actuarial Valuation</u>

78. The Committee find that the objective behind the actuarial valuation of the scheme is to estimate the liability under the scheme so as to take necessary steps to ensure that the estimated assets are sufficient to meet the future liability. So far eight actuarial valuations have been done. The last was carried out in 2004. The major factors which are taken into consideration by the actuary while evaluating the schemes are the Mortality Rate, Interest Rate, Salary Escalation Rate, Exit Rate and other assumptions like premature withdrawal, the Hazard Rate in the industry where the employees work, the average size of the family of the member, difference in the age of spouses, chances of remarriage of widows/widowers. The component of the Interest Rate consists of the rate at which the present assets are expected to grow in future. On the other hand, future income and liabilities are also brought down at the same rate. The Committee further note that for the 8th valuation (for the period 2003-04) the information which was sought by actuary and supplied by EPFO related to details of coverage of establishments under EPS 1995, details of contributions received, details of exits from the scheme during the year, details of beneficiaries and the benefits paid to them and data on members and beneficiaries, etc. Based on these criteria, the future projections were pronounced and an actuarial deficit of more than twenty two thousand crore was arrived at. However,

the Committee are unable to understand the basis of time factor for this kind of evaluation. Any figure, howsoever trustworthy, it may be/ appear to be, is bound to go haywire after three decades. Therefore, these projections are least convincing as all the factors considered to arrive at this decision i.e., mortality rate, exit rate, salary escalation rate, interest rate and other assumptions are more hypothetical and unreliable because nothing can be said with certainty about any of the above criteria based on which prediction is being made. The scheme itself is designed on the basis of defined contribution and benefits. The Committee are of the view that the contribution made in the scheme alongwith the interest accrued on such contribution should be computed together for the purpose of pension rather than harping on the interest earned only as has been stated by the Government. The contention of the Government that the discount rate of 1% has helped them in offsetting the deficit of the scheme itself substantiates the impression that actuarial valuations are more imaginary than actual. Even going by the simple principle of contribution received and liability disbursed every month, it may not be difficult for the Government to manage the affairs as the Government itself has admitted that during the year 2006-07, the total contribution received was Rs.8050.68 crore at the monthly average accretion of Rs.670.89 crore whereas the monthly disbursement under the scheme was only Rs.294.4 crore. It is only due to this continuous trend in receipt and expenditure that the corpus under pension scheme has accumulated to the tune of more than Rs.80,000 crore as on 31 March, 2007. This

pattern of receipts is unlikely to change in future as the number of subscribers to the scheme will be more than pensioners at any given point of time. Thus, the pension liability will continue to be met from the interest of such a corpus without involving any expenditure from the original contribution. The only efforts required to achieve this is to develop a cyclical system, with no or minimum default, of ensuring the receipt of receivable contribution from the subscribers. The premature withdrawals from the scheme, though diminishes the quantum of fund, nevertheless also reduces the pensionary liability of the fund also and the Government is not at a loss in such cases because some percentage of the interest accrued on the money so withdrawn remains with the Government only. Therefore, the actuarial calculations cannot be taken to be authentic. The Committee, therefore, strongly recommend that instead of placing reliance on the inaccurate and imaginary actuarial conclusions, it would be appropriate if a work-force friendly, financially prudent and progressive approach is developed to manage the all important ever flowing and growing EPS, 1995. The Committee also reiterate that the actuarial evaluation should also be done of a period not exceeding 5 years from the date of evaluation based on sound, real and short term factors enabling the Government to judge the accuracy or otherwise of such valuation.

<u>Linkage of pension with DA, restoration of commutation facility and amendment in EPS, 1995</u>

79. The Committee observe that the pension payable to different categories of pensioners under the scheme is extremely insignificant. It is as low as less than Rs.100/- in a large number of cases rendering the pension-scheme a mock-exercise in social security. The Committee have been apprised that the Government has decided to appoint a Committee to review the EPS, 1995. As the scheme is a funded one, any increase in the pensionery benefit is to be actuarially determined based on the principle of pooling of resources and sharing of risks. The benefits are, therefore, not linked to the cost of index but based on assets and liability factors. Hence, the pension payable under EPS, 1995 is fixed. However, at the time of fixation it includes the DA component of the salary for the member. It is not an indexed linked Central Government pension. Nevertheless, there is a provision to declare relief as and when the position of the pension fund so permits. The Committee feel periodic review of the payable pension is an innate and inalienable component of the pension scheme. Hence, to delink it from price index is beyond any comprehension despite it being linked with assets and liabilities. Moreover, commutation of pension is also the right of the pensioner at the time of superannuation. It does not add to the burden of the pension fund as it correspondingly reduces the payable pension for a certain

period. The notification of the Government withdrawing the facility of commutation of pension in the considered view of the Committee, is not only improper but ill conceived and anti-worker as it has further compounded their miseries. Such a withdrawal cannot be justified on any ground as it violates the fundamental right of a pensioner who assiduously contributed during the entire period of his working in the hope that at the time of his superannuation, he will get some lumpsum amount so as to meet his familial and social responsibilities. The Committee are also of the view that EPS, 1995 has outlived its utility due to its inherent shortcomings like inadequate wage ceiling, low rate of contribution, inept actuarial valuation, payable pension and other benefits, besides non-linking of the scheme with variable DA. The Committee have been apprised that the Government has constituted a Committee under the Chairmanship of the Additional Secretary to the Government to look into the viability of the present rate of benefits and their possible revision. Regrettably, however, no timeframe has been fixed for the Committee to submit its report. The stakes involved in the terms of reference of this Committee are too well known and hence, a deadline should have been fixed to accomplish the task. The Committee, therefore, strongly recommend that Government shed its lackadaisical approach towards the welfare of the worker and take positive steps in right earnest for linking the present EPS, 1995 with price index, restore the commutation facilities as originally envisaged in the scheme and amend the scheme as such having bearings on rate of contribution, wage

ceiling, and also fix a reasonably decent amount as minimum pension in consultation with Central Trade Unions.

<u>Abolition of schedule regarding establishments for the purpose of coverage</u>

80. The Committee observe that out of total workforce of over 43 crore, only 4.44 crore workers of the country are covered under the EPF Scheme. Various reasons like the limitation clauses pertaining to threshold limits, wage ceiling, Schedule I enumerating the classes of industries for coverage, etc. have attributed for the inadequacy of coverage. The threshold limit was last revised on 31.12.1960 bringing it to 20 employees and as many as 186 classes of industries/establishments have been brought under the purview of the EPF & MP Act, 1952. However, with the sea change in the employment pattern following modernization and technological upgradation, the Schedule I as well as ceiling of 20 employees has become redundant. When employment of lesser employees and maximization of turnover is the order of the day, the interest of the employees are expected to be well taken care of. Unfortunately, the Committee are saddened to note that the employees' genuine interests are being compromised despite having rendered arduous services for years on. It is a matter grave concern that the EPF & MP Act, 1952 have miserably failed to address the newer problems emerging out of the transformed employment scenario impairing the welfare of the workers. The Schedule containing enumeration of industries for coverage has lost its significance and justification. The Committee, therefore, strongly recommend that in keeping pace with the emerging employment

trends, it will not only be desirable but also befitting if the concept of having Schedule of industries for coverage alongwith the threshold limit is promptly done away with and all the workers irrespective of their numbers and the industries they are engaged in are brought within the purview of EPF Scheme and EPS, 1995.

<u>Separate Pension Division and Grievance Redressal Mechanism for pensioners</u>

81. The Committee note that there are about 30 lakh pensioners of different categories under the EPS, 1995 in the country. This number is bound to swell by each month/year. As of now, EPFO is not well equipped and under staffed to deal with the growing number of pensioners. With the possible increase in wage ceiling, there may be a phenomenal increase in the number of subscribers and consequently in the number of pensioners as well. The Committee note that even the present number of pensioners is in no way insignificant and it may perhaps become very difficult in course of time to render efficient and satisfactory services to the subscribers as well as to the pensioners if proper plans are not put in place earnestly. The Committee feel that for serving the beneficiaries effectively and smoothly, it is essential that the EPFO is adequately equipped and staffed. Further, the scheme as such is flawed one on many counts giving rise to pensioners' grievances. Needless to say, the pensioners are senior citizens of the country and not in a position to move too frequently in connection with the settlement of their grievances. The Committee further note that in the absence of a separate grievance redressal mechanism for pensioners makes the matter all the worse for them. When asked about a separate grievance redressal mechanism for the pensioners, it was replied that there is no separate

mechanism of grievance redressal specifically for the pensioners. The Ministry stated that there is a Public Grievance Handling System whereby grievances for all the three schemes i.e., EPF Scheme, 1952, EPS, 1995 and EDLI, 1976 are handled and that 'the organization in tune with its objectives lays considerable importance to the redressal of grievances of the members.' The Committee was informed that Regional Offices, Sub-Regional Offices and District Offices register the grievance of all the PF members including pensioners and necessary follow up action are taken to redress the grievances. Besides, pension division in the Head office and pension wing in the field offices also attend to the specific grievances of the pensioners. The Committee do not accept the explanation as the Ministry has not been able to give any input or feed back regarding the satisfaction level of pensioners' grievances. The Committee are of the view that owing to lack of separate grievance redressal cell, the grievances of pensioners are not getting the due attention and timely redressal. Further, due to the lack of bargaining power, the pensioners are in no position to have a proper and effective say into the matter. The Committee, therefore, strongly recommend that keeping in view the sizeable number of pensioners in the country and their grievances, a separate pension division within the EPFO need to be established by taking necessary measures and till such a mechanism is put in place, a specific grievance redressal cell, within the Public Grievance Handling System itself, may be set up for resolution of grievances of the pensioners within a definite time frame.

<u>Management of EPS Corpus for better and sufficient returns</u>

82. The Committee note that as on 31.03.2007, the pension fund had a corpus of Rs.81,606.22 crore. The corpus is being revamped by incremental monthly accruals. The pensionary liability of the fund is also increasing continuously and the funding for this scheme is primarily from the rate of return which is being generated. The rate of return in the current situation is not stable and fluctuates depending on various factors. Even the valuer has recommended that there should be liberal pattern of investment to increase the amount whereas EPFO is still following the pattern issued by Ministry of Labour and Employment in 2003. The Committee were informed that the Central Board of Trustees (CBT) has made certain recommendations to allow more flexibility in choosing the instruments for investments. However, the recommendations of the CBT are yet to be notified. Asked about the recommendation of ILC to set up Workers' Bank where EPF and the deduction could be deposited for better returns, the Government informed that creating a parallel banking structure would not be necessary in view of the administrative costs, RBI guidelines and other problems such as lack of core competencies. The Committee are of the view that corpus under EPS, 1995 is quite staggering. The CBT recommendations on private sector investments may not be appropriate in view of the uncertainties in the market and strong opposition by Central Trade Unions, but the issue of Workers' Bank appear to be a feasible option

wherein banking activities itself may be initiated by the organization. The Committee, therefore, strongly recommend that to manage the huge amount deposited under EPS, some new methodology be adopted, which may be in addition to the conventional investments in Government securities, to ensure that the corpus receives healthy returns on its capital so that pensionary liabilities are met smoothly.

NEW DELHI; **SURAVARAM SUDHAKAR REDDY,**
Chairman,
18 February, 2009 ***Standing Committee on Labour.***
29 Magha, 1930 (Saka)

MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON LABOUR HELD ON 5TH SEPTEMBER, 2008

The Committee sat from 1400 hrs. to 1530 hrs. in Committee Room No.53, Parliament House, New Delhi.

PRESENT

Shri Suravaram Sudhakar Reddy – CHAIRMAN

MEMBERS
LOK SABHA

2. Shri Furkan Ansari
3. Shri Santasri Chatterjee
4. Shri Thawar Chand Gehlot
5. Smt. Sushila Kerketta
6. Shri Virendra Kumar
7. Shri Basangouda R. Patil
8. Shri Rajesh Kumar Manjhi
9. Shri Chandra Dev Prasad Rajbhar
10. Shri Kamla Prasad Rawat
11. Smt. C.S. Sujatha
12. Shri Parasnath Yadav

RAJYA SABHA

13. Shri Narayan Singh Kesari
14. Shri K. Chandran Pillai
15. Smt. Renubala Pradhan

SECRETARIAT

1. Shri S.K. Sharma - Additional Secretary
2. Shri R.K. Bajaj - Director
3. Shri N.K. Pandey - Deputy Secretary

Witnesses

Representatives from the Ministry of Labour and Employment

1. Smt. Sudha Pillai, Sectretary
2. Shri S.K. Srivastava, Joint Secretary
3. Shri S.K. Verma, Director

Representatives from the Office of Central Provident Fund Commissioner

1. Shri A. Vishwanathan, Central Provident Fund Commissioner
2. Shri K.C. Pandey, Addl. Central Commissioner
3. Shri K.V. Sarveswaran, Regional Provident Fund Commissioner
4. Shri Raman Dhanasekar, Assistant Provident Fund Commissioner
5. Shri Vineet Gupta, Assistant Provident Fund Commissioner
6. Shri Rahul Arya, Assistant Provident Fund Commissioner

2. At the outset, the Chairman welcomed the Members and the representatives of the Ministry of Labour and Employment and Central Provident Fund Commissioner to the sitting of the Committee convened for having briefing on the subject `Employees' Provident Fund Organisation-Employees' Pension Scheme, 1995'. He also apprised them of the provisions of Direction 58 of the Directions by the Speaker regarding confidentiality of the proceedings.

3. The Committee were then briefed by the representatives of the aforesaid Ministry on various aspects relating to the EPFO - Employees' Pension Scheme, 1995.

4. The important issues which came up for discussion inter-alia included:-

Salient features of the Employees' Pension Scheme, 1995

(i) Membership of EPS, 1995.
(ii) Disbursement of pension.
(iii) Criteria being followed for calculation of pension.
(iv) Revision of wages for the purpose of eligibility for pension.
(v) Monthly accrual and disbursement under EPS, 1995.
(vi) Efforts to make EPS more attractive and self-sustainable.
(vii) Revision of benefits under EPS, 1995.
(viii) Formation of Committee to review EPS, 1995.

5. Thereafter, the Members sought clarifications on various points and the same were replied to by the witnesses. On some of the queries raised by the Committee to which the witnesses could not reply during the evidence, they were asked to send the written replies to the Secretariat within a week. They were also asked to send the written replies to the List of Points which were given to them during the course of the sitting.

The witnesses then withdrew.

6. XX XX XX

7. XX XX XX

The Committee then adjourned.

MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE ON LABOUR HELD ON 29TH SEPTEMBER, 2008

The Committee sat from 1430 hrs. to 1540 hrs. in Committee Room No.139, Parliament House Annexe, New Delhi.

PRESENT

Shri Suravaram Sudhakar Reddy – CHAIRMAN

MEMBERS
LOK SABHA

1. Shri Furkan Ansari
2. Shri Subrata Bose
3. Shri Santasri Chatterjee
4. Shri Thawar Chand Gehlot
5. Shri Virendra Kumar
6. Shri Basangouda R. Patil
7. Shri Chandra Dev Prasad Rajbhar
8. Shri Mohan Rawale
9. Smt. C.S. Sujatha

RAJYA SABHA

10. Shri Narayan Singh Kesari
11. Shri K. Chandran Pillai
12. Smt. Renubala Pradhan

SECRETARIAT

1.	Shri Brahm Dutt	-	Joint Secretary
2.	Shri R.K. Bajaj	-	Director
3.	Shri N.K. Pandey	-	Deputy Secretary

Witnesses

Representatives from the Ministry of Labour and Employment

1. Smt. Sudha Pillai, Sectretary
2. Shri.S.Krishnan, Special Secretary
3. Shri S.K. Srivastava, Joint Secretary
4. Shri S.K. Verma, Director

Representatives from the Office of Central Provident Fund Commissioner

1. Shri A. Vishwanathan, Central Provident Fund Commissioner
2. Shri K.C. Pandey, Addl. Central Commissioner
3. Shri K.V. Sarveswaran, Regional Provident Fund Commissioner
4. Shri V. Vijaykumar, Regional Provident Fund Commissioner

2. At the outset, the Chairman welcomed the Members and the representatives of the Ministry of Labour and Employment and Central Provident Fund Commissioner to the sitting of the Committee convened for having further discussion on the subject `Employees' Provident Fund Organisation- Employees' Pension Scheme, 1995'. He also apprised them of the provisions of Direction 58 of the Directions by the Speaker regarding confidentiality of the proceedings.

3. The Committee were then briefed by the representatives of the aforesaid Ministry on various aspects relating to the EPFO-Employees' Pension Scheme, 1995.

4. The important issues which came up for discussion inter-alia included:-

(i) Absence of data of members giving options to join new pension scheme.
(ii) Huge variation in figures of annual pension and actuarial liability.
(iii) Formula of actuarial assessment.
(iv) Objective behind actuarial valuation.
(v) Reasons for not conducting valuation after 2004.
(vi) Monthly accrual and disbursement under EPS, 1995.

(vii) Reasons for changes not having been introduced in since 2001 for eligibility of workers' pension.
(viii) Reasons for projecting deficit under EPS, 1995 when corpus of pension fund is more than Rs.81,000 crore.
(ix) Huge pendency of lump sum withdrawal applications from pension fund.
(x) Need for permanent mechanism to review the scheme.
(xi) Separate grievance redressal mechanism for pensioners.
(xii) System in place for federations/unions of pensioners to ventilate their grievances and complaints.

5. The Members sought clarifications on various points and the same were replied to by the witnesses. On some of the queries raised by the Committee to which the witnesses could not reply during the evidence, they were asked to send the written replies to the Secretariat within a week. They were also asked to send the written replies to the List of Points which were given to them during the course of the sitting.

The witnesses then withdrew.

6. XX XX XX

7. XX XX XX

8. XX XX XX

The Committee then adjourned.

MINUTES OF THE THIRTEENTH SITTING OF THE STANDING COMMITTEE ON LABOUR HELD ON THURSDAY, 29TH JANUARY, 2009

The Committee met from 1130 hours to 1330 hours in Committee Room `B', Parliament House Annexe, New Delhi.

PRESENT

Shri Suravaram Sudhakar Reddy – CHAIRMAN

MEMBERS

LOK SABHA

2. Shri Furkan Ansari
3. Shri Santasri Chatterjee
4. Shri Thawar Chand Gehlot
5. Smt. Sushila Kerketta
6. Shri Virendra Kumar
7. Shri Basangouda R. Patil
8. Shri Rajesh Kumar Manjhi
9. Shri Chandra Dev Prasad Rajbhar
10. Smt. C.S. Sujatha
11. Shri Parasnath Yadav

RAJYA SABHA

12. Shri Rudra Narayan Pany
13. Shri Narayan Singh Kesari
14. Shri K. Chandran Pillai
15. Smt. Renubala Pradhan
16. Shri Arjun Kumar Sengupta

SECRETARIAT

1.	Shri Devender Singh	-	Joint Secretary
2.	Shri R.K. Bajaj	-	Director
3.	Shri N.K. Pandey	-	Deputy Secretary
4.	Shri A.S. Sajwan	-	Deputy Secretary-II

Witnesses

1. Shri A.D. Nagpal, Secretary, Hind Mazdoor Sabha
2. Shri W.Varada Rajan, Secretary, Centre for Indian Trade Union (CITU)
3. Shri R.K. Sharma, Member, Secretariat, All India United Trade Union Centre (AIUTUC)
4. Shri D.L. Sachdev, All India Trade Union Congress (AITUC)

2. XX XX XX

The witnesses were called in thereafter.

3. At the outset, the Chairman welcomed the representatives of the Central Trade Unions and requested them to express their views/suggestions on the subject `Employees' Pension Scheme, 1995'. He also apprised them of the provisions of Direction 58 of the Directions by the Speaker regarding confidentiality of the proceedings.

4. The representatives of Central Trade Unions then briefed in detail about the various provisions of `Employees' Pension Scheme, 1995'.

5. The important issues which came up for discussion *inter-alia* included:-

(i) Salient features of the Employees' Pension Scheme, 1995.
(ii) Qualitative difference between the erstwhile Family Pension, Scheme, 1971 and the EPS, 1995.
(iii) Current membership of EPS, 1995.
(iv) Disbursement of pension.
(v) Procedure regarding actuarial valuation of the scheme.
(vi) Contribution of the Central Government and the employers towards the fund.
(vii) Pension amount for various categories of pensioners.
(viii) Criteria being followed for calculation of pension.
(ix) Revision of wages for the purpose of eligibility for pension.
(x) Monthly accrual and disbursement under EPS, 1995.
(xi) Efforts to make EPS more attractive and self-sustainable.
(xii) Revision of benefits under EPS, 1995.
(xiii) Necessity for separate Grievance Redressal Mechanism for pensioners.
(xiv) Formation of Committee to review EPS, 1995.

6. The Chairman, then, thanked the witnesses for appearing before the Committee as well as for furnishing valuable information that the Committee desired in connection with the examination of the subject. Thereafter, the representatives of the trade unions were also given a copy of the List of Points. Some of the questions were replied to during the course of the sitting and they were requested to send written replies to the rest of the questions within a week to this Secretariat.

7. A verbatim record of proceedings has been kept.

The witnesses, then, withdrew.

8. The Committee, thereafter, decided to have their next sitting on 5th February, 2009 to have further discussion with the Ministry of Labour and Employment and Central Provident Fund Commissioner on the `Employees' Provident Fund Organisation – Employees' Pension Scheme, 1995'.

The Committee then adjourned.

MINUTES OF THE FOURTEENTH SITTING OF THE STANDING COMMITTEE ON LABOUR HELD ON THURSDAY, 5TH FEBRUARY, 2009

The Committee met from 1130 hours to 1330 hours in Committee Room `E', Parliament House Annexe, New Delhi.

PRESENT

Shri Suravaram Sudhakar Reddy – CHAIRMAN

MEMBERS

LOK SABHA

2. Shri Santasri Chatterjee
3. Shri Thawar Chand Gehlot
4. Shri Virendra Kumar
5. Shri Basangouda R. Patil
6. Shri Chandra Dev Prasad Rajbhar
7. Smt. C.S. Sujatha

RAJYA SABHA

8. Shri Rudra Narayan Pany
9. Shri Narayan Singh Kesari
10. Shri K. Chandran Pillai
11. Shri Arjun Kumar Sengupta
12. Shri Rajaram
13. Shri Mohammed Adeeb

SECRETARIAT

1.	Shri Devender Singh	-	Joint Secretary
2.	Shri R.K. Bajaj	-	Director
3.	Shri N.K. Pandey	-	Deputy Secretary
4.	Shri A.S. Sajwan	-	Deputy Secretary-II

Witnesses

Representatives of the Ministry of Labour and Employment

1. Shri S. Krishnan, Special Secretary
2. Shri S.K. Srivastava, Joint Secretary

Representatives from the Office of Central Provident Fund Commissioner

1. Shri K. Chandramouli, Central Provident Fund Commissioner (CPFC)
2. Shri K.C. Pandey, Addl. Provident Fund Commissioner (Pension)
3. Shri K.V. Sarveswaran, Regional Provident Fund Commissioner (Pension)
4. Shri Raman Dhanashekar, Assistant Provident Fund Commissioner
5. Shri Rahul Arya, Assistant Provident Fund Commissioner

2. At the outset, the Chairman welcomed the two newly nominated Members from Rajya Sabha viz., Shri Rajaram and Shri Mohammed Adeeb to the Standing Committee on Labour. Thereafter, he welcomed the representatives of the Ministry of Labour and Employment and Central Provident Fund Commissioner and apprised them of the provisions of Direction 58 of the Directions by the Speaker, Lok Sabha regarding confidentiality of the proceedings.

3. The Committee then took up oral evidence of the representatives of the Ministry of Labour and Employment and Central Provident Fund Commissioner. The important issues which came up for discussion *inter-alia* included:-

(i) Abolition of the present schedule enumerating establishments or classes of establishments covered under EPF Scheme.
(ii) Lowering the threshold limit of 20 or more workers for coverage under EPF to bring it at par with ESIC.
(iii) Reasons for stopping commutation facility to workers on their superannuation.
(iv) Extend of involvement of CBT in all the decision making of EPFO.
(v) Reasons for keeping Government contribution in the public fund thereby earning lower interest rate than earned by EPFO.
(vi) The formula being adopted to commute salary escalation for the purpose of pension liability.

(vii) Manner in which exit rate affects the pension paying capacity of the organization.

(viii) Reasons for non-revision of contribution made by the Government even after the passage of more than a decade.

4. The Special Secretary, Ministry of Labour and Employment and Central Provident Fund Commissioner responded to some of the queries of the Members. The Chairman asked the Special Secretary and Central Provident Fund Commissioner to send written replies to those questions which remained unreplied during oral evidence.

5. The Chairman, then, thanked the representatives of the Ministry of Labour and Employment and Central Provident Fund Commissioner for furnishing valuable information that the Committee desired in connection with the examination of the subject.

6. A verbatim record of proceedings has been kept.

The witnesses, then, withdrew.

The Committee, then, adjourned.

MINUTES OF THE FIFTEENTH SITTING OF THE STANDING COMMITTEE ON LABOUR HELD ON WEDNESDAY, 18TH FEBRUARY 2009

The Committee met from 1500 hours to 1600 hours in Committee Room `E', Parliament House Annexe, New Delhi to consider and adopt draft Thirty-Ninth Report on `The Employees' Pension Scheme, 1995'.

PRESENT

Shri Suravaram Sudhakar Reddy – CHAIRMAN

MEMBERS

LOK SABHA

2. Shri Furkan Ansari
3. Shri Thawar Chand Gehlot
4. Smt.Sushila Kerketta
5. Shri Virendra Kumar
6. Shri Basangouda R. Patil
7. Smt. C.S. Sujatha

RAJYA SABHA

8. Shri.Rudra Narayan Pany
9. Shri Narayan Singh Kesari
10. Shri K. Chandran Pillai
11. Shri.Mohammed Adeeb

SECRETARIAT

1.	Shri Devender Singh	-	Joint Secretary
2.	Shri R.K. Bajaj	-	Director
3.	Shri.N.K.Pandey	-	Deputy Secretary
4.	Shri A.S. Sajwan	-	Deputy Secretary

2. At the outset, the Chairman welcomed the Members and apprised them about the draft Thirty-Ninth Report on `The Employees' Pension Scheme 1995'.

3. The Committee, then, took up the draft Report for consideration and adopted the same with some amendments/modifications.

4. The Committee then authorized the Chairman to finalise the Report and present the same to the Parliament on 20th February 2009.

5. XX XX XX XX

The Committee then adjourned.