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A pension plan that brings little cheer

The Employees Pension Scheme, introduced through a presidential ordinance, has alarmed employees. The government wants to set the terms and conditions of the scheme. The Parliament should put an end to this, says Uttam Gupta.

THE Employees Pension Scheme 1995 introduced through a presidential ordinance has caused much consternation. Even as the authorities maintain that this is in the best interest of the employees/workers, the latter think otherwise.

The employees/workers have reason to worry because the monthly pension and various other entitlements under the scheme are proposed to be generated out of the employer's contribution to Provident Fund. For this purpose, a sum equivalent to 8.33 per cent of the salary (basic + DA), subject to a maximum of Rs 5,000 per annum or Rs 417 per month is proposed to be diverted to the employees pension fund.

Quite naturally, the employee/worker will compare the financial gains under the pension scheme vis-a-vis the situation in which the funds had remained in the PF account. Consider a case in which Rs 5,000 per annum is diverted from the PF to the pension fund for a period of 20 years. According to the prescribed formula, this will entitle the employee to a monthly pension of Rs 1,428 (5000 x 20/70). Should he decide to accept 10 per cent reduced pension, the monthly entitlement will be Rs 1,285 (1428 x 0.9). In lieu of this, the employee will be entitled to a return capital of Rs 1,42,800 (100 times the monthly pension).

In the absence of the scheme or the employee being permitted not to join it, the employers contribution will remain in the PF which, at the end of the 20 year period, adds up to a cumulative balance of Rs 3,60,262. This is based on the interest rate of 12 per cent per annum applicable to accruals in the PF. The amount would be even more in case the interest rate on the PF is increased at any point of time during the period of pensionable service. Depending on the timing, the extent of hike and the number of times the increase is affected, the cumulative balance will increase progressively.

Ignoring this for a moment and even on the basis of Rs 3,60,262 as the cumulative balance, a modest return of 12 per cent will fetch an annual income of Rs 43,234 or Rs 3,603 per month, even as the principal amount of Rs 3,60,262 crore remains in tact (depending on the investment that he chooses, the return and consequently the income stream could be even higher). This is in sharp contrast to the pension of Rs 1,285 per month and a return capital of Rs 1,42,800 being the entitlement under the pension scheme.

The position of the employees at the lower rungs of the salary structure may not be that worse, as unlike those drawing Rs 5,000 or above, whereas the pension amount is computed on the basis of the pensionable salary drawn in the last twelve months at the time of exit from the scheme, the contribution to the pension fund are less (low in the initial years and rising only as time passes).

However, this has to be weighed against the benefit that will accrue to the employees in retaining funds in the PF by way of the likely increase in interest on PF leading to higher cumulative balance as also the possibility of earning higher return on it.

Undoubtedly, in the event of early death of an employee, the scheme provides for immediate benefits to the dependents including the children. Those are rare circumstances and no worthwhile decision can be made on the assumption of somebody dying early.

In view of the above, joining the pension scheme puts the employees specially those drawing salaries of Rs 5,000 and above to an unprecedented loss. Needless to say that the loss of the employees is the gain of the government to the extent of the huge differential between what the later will be earning on the one hand and paying to the members of the scheme on the other by way of pension amount and return of capital.

While a lot is being said about the possibility of improving the benefits under the scheme by providing indexation of the pension amount to inflation or revising the maximum pensionable salary for the purpose of computing the pension, there is nothing on these in black and white. If the government really meant business, this aspect should have already been incorporated in the presidential ordinance or by way of subsequent amendment.

Union minister for labour, Shri Venkataswamy, is recently reported to have exhorted the employees in the salary scale of Rs 5,000 to Rs 10,000 to wait and see as a separate package was being worked out for them. If that be so, why should the government rush through?

It is paradoxical that while, on the one hand, the government wants to help employees/workers in overcoming their liquidity problems through the PF route, on the other, it seeks to take away the funds accruing to them in the PF account. With empty coffers in the PF, how will the employee meet their pressing needs? The pension scheme has no provision for providing even loans to build house or performing marriage not to talk of outright withdrawals, a facility which is available with the PF.

Timely payment of various entitlements under the scheme i e monthly pension, return capital etc, is an important issue that cannot be brushed aside. Although, the scheme categorically states that the funds shall not be expended for any purpose other than payments envisaged in the scheme, there is a catch, "except with the prior sanction of the central government". This clearly means that the government has reserved for itself the prerogative of diverting money for other purposes. The possibility of compulsive situations emerging and forcing the government to divert funds is not ruled out. The impact of this will inevitably be felt on the release of payments.

The scheme has a provision under which any establishment/organisation may apply for exemption from joining it. However, a pre-condition for this is that its employees should be covered by another scheme whose benefits are either at par or better than the government's pension scheme. This is outrageous.

If the government is so much concerned about helping the employees in their old age, then, it should provide for pension from its own resources and not fiddle with the funds in the PF.

In short, the government wants all and sundry to join a pension scheme that must be none other than the government's pension scheme and on terms unilaterally determined by them. It is hoped that the Parliament says a categorical 'No' to this scheme as and when the bill is taken up for consideration.