POST RETIREMENT BENEFITS and NPS PERSPECTIVE

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Why Retirement Benefits ?

- Change in Family System from Joint Family to Nucleus Family.
- Govt. job reduced. Non-Govt. jobs increased.
- Increase in Life Expectancy from 42 in 1960 to 70 in 2015.
- Reduction in resources due to increase in population.

How much required at the time of retirement ?

- Cost of roti, kapada and makkaan.
- Travel and communication expenses.
- Medical and hospitalisation expenses.
- Countering inflation and taxes.

How much required at the time of retirement ?

As a thumb rule, considering inflation equals to return on investments on savings and life expectancy at 80 years, the required amount is equal to monthly expenses multiplied by 240.

For example for a monthly expenses of Rs.50,000/-, the required amount is Rs.1.20 crs.

FACTORS THAT DECIDES RETIREMENT BENEFITS

- Salaries and benefits to employees, which include retirement and post-retirement benefits, depends upon capability and system of one organisation.
- For organised non Govt. sectors, Govt. has introduced certain compulsory benefits for welfare of employees, such as EPF and Gratuity.

Retirement Benefits in NALCO – At the time of Retirement:

- **Provident Fund:** The company pays fixed contribution to Provident Fund at predetermined rates (presently @ 12 % of Basic plus DA), to a separate trust, which invests the funds in permitted securities. (Total Investments in NEFT – Rs.3000 crores)
- On contributions, the trust is required to pay a minimum rate of interest, to the members, as specified by Govt. of India. Where the trust is unable to pay interest at the declared rate for the reasons that the return on investment is less, the deficiency is made good by the company.
- In addition to minimum of 12 % of Basic plus DA, an employee can contribute a maximum of Rs.15,000/- per month as VPF.

Retirement Benefits in NALCO – At the time of Retirement: Provident Fund:

- Out of 12 % Employers contribution to EPF, 8.33% of Basic plus DA subject to a maximum of Rs.1250/- is paid to RPFC towards EPS'95 Scheme.
- In addition, employees account is credited with additional interest over and above the minimum interest declared by Govt. (0.30% in 2014-15).
- **Accounting:** Being a defined contribution plan, the accounting is made when salary is paid.
- **Taxability:** Employers' contribution to a recognised PF is a permissible expenditure u/s 36(1)(iv).
- From employee point of view, withdrawal of PF at the time of retirement is tax free.

Retirement Benefits in NALCO – At the time of Retirement:

- **Leave Encashment :** The accumulated earned leave, half pay leave & sick leave is payable on separation, subject to maximum permissible limit (300 days) as prescribed in the leave rules of the company.
- **Accounting:** Being a defined benefit plan, the liability for the same is recognised on the basis of actuarial valuation.
- **Taxability:** Creation of liability on the basis of actuarial valuation is not an allowable expenditure, however actual leave encashment at the time of retirement is a permissible expenditure u/s 37.
- From employee point of view, leave encashment of earned leave at the time of retirement is tax free upto Rs.3 lakhs (Sec 10AA).

Retirement Benefits in NALCO – At the time of Retirement:

- **Gratuity:** Gratuity is payable to employees as per Payment of Gratuity Act subject to a maximum of Rs.10,00,000/-. The gratuity scheme is managed by a separate gratuity trust and is fully funded by the company.
- **Accounting:** Being a defined benefit plan, the liability for the same is recognised on the basis of actuarial valuation.
- **Taxability:** Payment to an approved gratuity fund is an allowable expenditure, u/s 36(1)(v).
- From employee point of view, gratuity received at the time of retirement is fully tax free (Sec 10(10)).

Retirement Benefits in NALCO – At the time of Retirement:

- **Settling-in- Benefit :** On superannuation /retirement/termination of service, if opted for the scheme, transfer TA is admissible to the employees and / or family for the last head quarters to the hometown or any other place of settlement limited to distance of home town. Transport of personal conveyance shall also be admissible.

- **Accounting:** Being a defined benefit plan, the liability for the same is recognised on the basis of actuarial valuation.

- **Taxability:** Creation of liability on the basis of actuarial valuation is not an allowable expenditure, however actual payment at the time of retirement is a permissible expenditure u/s 37.

- From employee point of view, settling-in-benefit received at the time of retirement is fully tax free.

Retirement Benefits in NALCO – At the time of Retirement:

- **Terminal Gift:** A gift worth Rs.25000/- at the choice of employee is given to the employee at the time of retirement, Being not material in nature, its accounting is made as and when incurred.

- **Retirement Welfare scheme:** Each employee contributes Rs.10 to the retiring employees in the month of retirement. The above contribution of employees with a matching contribution from employer is paid to the retiring employees. Being not material in nature, its accounting is made as and when incurred.

Retirement Benefits in NALCO – Post Retirement :

- **Post Retirement Medical Benefit:** The benefit is available to retired employees and their spouses who have opted for the benefit. Medical treatment as an inpatient can be availed from the company's hospital/Govt. Hospital/ hospitals as per company's rule. They can also avail treatment as out patient subject to ceiling limit of expenses fixed by the company.
- **Accounting:** Being a defined benefit plan, the liability under the scheme is recognised on the basis of actuarial valuation.
- **Taxability:** Creation of liability on the basis of actuarial valuation is not an allowable expenditure, however actual payment is a permissible expenditure u/s 37.
- From employee point of view, post retirement medical reimbursement received is tax free.

Retirement Benefits in NALCO – Post Retirement : NPS

- **Pension Fund :** The company has opted for National Pension System (NPS) as a third retirement benefits for its employees in April 2010. It pays a fixed contribution (7 to 14 % of Basic plus DA) to the trustee bank, which in turn invests the money with the insurers as specified by the employee concerned. The company's liability is limited only to the extent of fixed contribution.
- In addition, an employee has to contribute a minimum of Rs.6000/- per annum to NPS. There is no upper limit of contribution.
- **Accounting:** Being a defined contribution plan, the accounting of employer's contribution is made when salary is paid.
- **Taxability:** Employers' contribution upto 10% of salary to NPS is a permissible expenditure u/s 36(1)(iva).

Retirement Benefits in NALCO – Post Retirement : NPS

- **Taxability From employee point of view:**
  - Employees' contribution upto 10% of salary to NPS is allowed as deduction u/s 80CCD(1) within overall ceiling of Rs.1.50 lakhs u/s 80CCE.
  - Additional contribution to NPS upto a maximum of Rs.50,000/- per annum is allowed as deduction from total income u/s 80CCD(1B).
  - Employers' contribution upto 10% of salary to NPS is also a deductible taxable income in the u/s 80CCD(2).
  - Also, 40 % withdrawal from NPS at the time of retirement, which is utilised for purchase of annuity at the time of retirement is tax free. Balance can be withdrawn in instalments in next 10 years and are taxable.

Retirement Benefits in TELCO (A Fortune 500 company) -

- **Provident Fund:** Exempted PF Trust with Employers contribution of 12%
- **Gratuity:** Equivalent to 15 to 30 days salary for each completed years of service. Not following Gratuity Act.
- **Leave Encashment :** The employees are entitled to accumulate leave subject to certain limits, for future encashment.
- **Post Retirement Medicare Scheme:** Under this scheme, employees of the Company receive medical benefits subject to certain limits of amount, periods after retirement and types of benefits, depending on their grade and location at the time of retirement.
- **Superannuation/ Pension Scheme:** Initially, the monthly pension benefits after retirement ranges from 0.75% to 2% of the annual basic salary for each year of service. From 2014-15, The Company contributes up to 15% or Rs1,00,000/- whichever is lower of the eligible employees' salary to a separate trust every year.

Retirement Benefits in RIL (A Fortune 500 company) -

- **Defined contribution Plan:**
  - Employer's Contribution to Provident Fund (Exempted PF Trust)
  - Employer's Contribution to Superannuation Fund
  - Employer's Contribution to Pension Scheme
- **Defined benefit Plan:**
  - Gratuity – Funded through LIC.
  - Compensated Absence – Unfunded

Retirement Benefits in Rajesh Exports Ltd) (A Fortune 500 company) -

- Provident Fund contributions are charged to the Statement of profit and loss of the period when the contributions to the respective fund is due.
- The Company has no obligation, other than the contribution payable under the respective scheme.
- Superannuation Schemes is not applicable to the Company at present.
- Gratuity liability under the Payment of Gratuity Act is accounted on the Basis of Actuarial valuation.
- The Company does not provide leave encashment and carry forward of accumulated leave to next year to its employees.

Retirement Benefits - CONCLUSION

- Retirement Planning and creation of retirement fund according to individual need is essential.
- Corporates should develop their own system and help employees in this regard.
- At present NPS is a better superannuation scheme considering the tax benefits and good long term return on investments.
- Corporates should transfer a portion of variable annual dues to employees (other than fixed pay and allowances) by contributing to NPS.

Thank you.