


India

India: pension system in 2008

Workers are covered under the earnings-related employee pension scheme and defined contribution employee provident fund administered by the Employees Provident Fund Organisation (EPFO) and other employer managed funds.

Key indicators

		India	OECD
Average earnings	INR	154 400	1 766 300
	USD	3 500	40 600
Public pension spending	% of GDP		7.0
Life expectancy	At birth	63.6	78.9
	At age 65	78.7	83.1
Population over age 65	% of working-age population	7.7	23.6

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Qualifying conditions

Normal pension age for earnings related pension scheme is 58 with minimum of ten years of contribution and for earnings related provident fund schemes, it is 55 years.

The average annual earnings of covered workers were estimated to be INR 154 418 in 2007.

Benefit calculation

Employees Provident Fund Scheme (EPF)

The employee contributes 12% of his monthly salary towards this fund and the employer matches this contribution. 3.67% of the employer's share goes towards the EPF. This combined 15.67% accumulates as a lump sum.

There is no annuity and full accumulations are paid on retirement from service after attaining 55 years of age. For comparison with other economies, for replacement rate purposes the pension is shown as a price-indexed annuity based on sex-specific mortality rates.

Employees Pension Scheme (EPS)

Of the 12% contribution payable by the employer as mentioned above, 8.33% is diverted to EPS and the Central Government contributes a subsidy of 1.17% of the salary into the EPS. This accumulation is used to pay various pension benefits on retirement or early termination. The kind of pension a member gets under the scheme depends upon the age at which they retire and the number of years of eligible service.

$$\text{Monthly pension} = (\text{pensionable salary} \times \text{pensionable service})/70$$

The maximum possible replacement rate is roughly 50%. To obtain the maximum benefit, a member would not only need to be in the scheme for 35 years, but would also need to opt for contributions at higher salary at the time of joining the scheme. This option cannot be exercised retrospectively. Otherwise, there is a ceiling to contributions of INR 6 500.

Variant careers

Early retirement

The EPS can be claimed from age 50 with ten years of contribution and the benefits are reduced by 3% per year of early retirement. If a member leaves his job before rendering at least ten years of service, he is entitled to a withdrawal benefit. The amount he can withdraw is a proportion of his monthly salary at the date of exit from employment. This

proportion depends on the number of years of eligible services he has rendered. No pension is payable in cases where there is a break in service before ten years.

In case of EPF, there are multiple scenarios which allow for early access to the accumulation. Partial withdrawals relate to marriage, housing advance, financing life insurance policy, illness of members/family members, withdrawals are also permitted one year before retirement, etc. In addition to various permitted partial withdrawals, employees can close their account and withdraw the full corpus in case they move from one employer to another or decide to retire early.

No gratuity can be claimed before five years of service.

Late retirement

It is not possible to delay claiming pension after normal pension age.

Personal income tax and social security contributions

Taxation of workers

Health insurance premium up to INR 15 000 is deductible (not included in the model). Transport allowance of INR 800 per month is exempted from taxation (included in the model). Total deduction of up to INR 100 000 is applied to social security contribution.

Taxation of worker's income

India follows a financial year beginning April. Given below are the rates applicable for 2008-09.

Annual income from all sources (INR)	Income tax rates for:		Education cess (%)
	Male below 65 years (%)	Women below 65 years (%)	
Up to 150 000	Nil	Nil	Nil
150 001-180 000	10	Nil	3
180 001-300 000	10	10	3
300 001-500 000	20	20	3
500 001 and above*	30	30	3

* There is a surcharge of 10% on incomes above INR 1 000 000.

Taxation of pensioners

Health insurance premium of up to INR 20 000 is deductible for senior citizens over 65 years.

Taxation of pension income

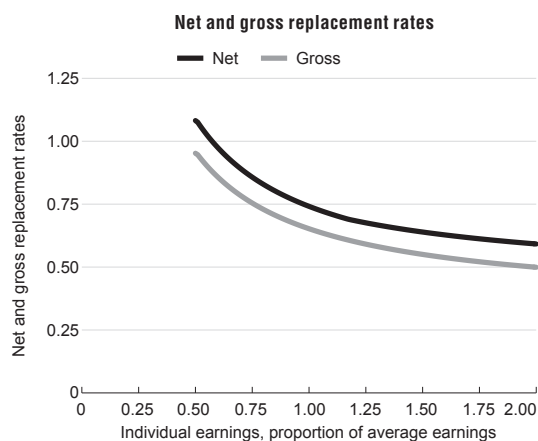
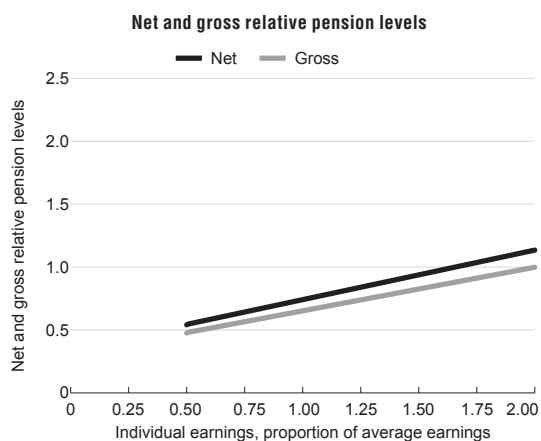
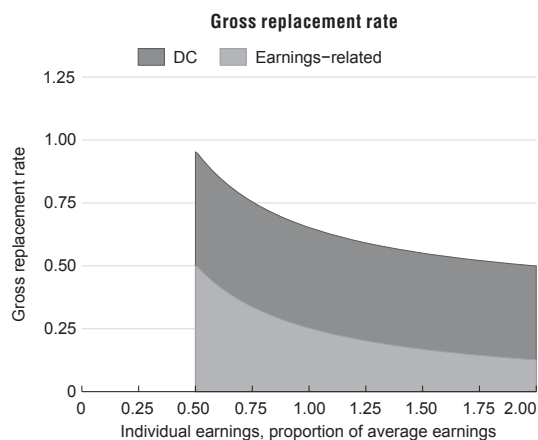
Defined contribution pension is tax exempted. The following tax rules apply to senior citizens over age 65. An education cess of 3% is charged on the total tax amount.

Annual income (INR)	Tax rate
Where the total income does not exceed INR 225 000	Nil
Where the total income exceeds INR 225 000 but does not exceed INR 300 000	10% of the amount by which the total income exceeds INR 225 000
Where the total income exceeds INR 300 000 but does not exceed INR 500 000	INR 7 500 + 20% of the amount by which the total income exceeds INR 300 000
Where the total income exceeds INR 500 000	INR 47 500 + 30% of the amount by which the total income exceeds INR 500 000

Social security contributions payable by pensioners

Pensioners do not pay any social security contribution.

Pension modelling results: India



Men	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	58.7	47.6	56.6	65.2	82.6	99.9
(% average gross earnings)	55.4	45.4	53.6	61.4	77.0	92.7
Net relative pension level	66.7	54.1	64.3	74.1	93.8	113.5
(% net average earnings)	63.0	51.6	60.9	69.8	87.5	105.3
Gross replacement rate	72.4	95.2	75.4	65.2	55.0	49.9
(% individual gross earnings)	68.4	90.9	71.4	61.4	51.4	46.3
Net replacement rate	82.3	108.2	85.7	74.1	63.9	59.2
(% individual net earnings)	77.8	103.3	81.1	69.8	58.8	54.3
Gross pension wealth	12.4	16.1	12.9	11.2	9.5	8.7
(multiple of individual gross earnings)	13.0	17.1	13.5	11.7	9.8	8.9
Net pension wealth	12.4	16.1	12.9	11.2	9.5	8.7
(multiple of individual gross earnings)	13.0	17.1	13.5	11.7	9.8	8.9

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Alternative economic and career length assumptions

40 year career under OECD economic assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	61.0	49.2	58.8	68.0	86.6	105.1
(% average gross earnings)	57.6	46.9	55.5	63.9	80.7	97.4
Net relative pension level	69.3	55.9	66.8	77.3	98.4	119.4
(% net average earnings)	65.4	53.3	63.1	72.6	91.7	110.7
Gross replacement rate	75.3	98.4	78.4	68.0	57.7	52.6
(% individual gross earnings)	71.1	93.7	74.1	63.9	53.8	48.7
Net replacement rate	85.6	111.8	89.1	77.3	67.0	62.3
(% individual net earnings)	80.7	106.5	84.2	72.6	61.5	57.1
Gross pension wealth	12.9	16.7	13.4	11.7	10.0	9.1
(multiple of individual gross earnings)	13.5	17.6	14.0	12.2	10.3	9.4
Net pension wealth	12.9	16.7	13.4	11.7	10.0	9.1
(multiple of individual gross earnings)	13.5	17.6	14.0	12.2	10.3	9.4

30 year career under OECD economic assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	46.4	38.2	44.8	51.2	64.0	76.8
(% average gross earnings)	44.0	36.5	42.6	48.4	59.9	71.5
Net relative pension level	52.7	43.4	50.9	58.2	72.8	87.3
(% net average earnings)	50.0	41.5	48.4	55.0	68.1	81.3
Gross replacement rate	57.2	76.3	59.8	51.2	42.7	38.4
(% individual gross earnings)	54.3	73.1	56.8	48.4	40.0	35.8
Net replacement rate	65.0	86.7	67.9	58.2	49.6	45.5
(% individual net earnings)	61.7	83.0	64.5	55.0	45.7	41.9
Gross pension wealth	9.8	12.9	10.2	8.8	7.4	6.7
(multiple of individual gross earnings)	10.2	13.7	10.7	9.2	7.6	6.9
Net pension wealth	9.8	12.9	10.2	8.8	7.4	6.7
(multiple of individual gross earnings)	10.2	13.7	10.7	9.2	7.6	6.9

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Economy specific assumptions

40 year career under economy specific assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	56.0	45.8	54.1	62.1	78.0	93.9
<i>(% average gross earnings)</i>	53.0	43.8	51.3	58.5	72.9	87.3
Net relative pension level	63.6	52.1	61.5	70.5	88.6	106.7
<i>(% net average earnings)</i>	60.3	49.8	58.3	66.5	82.8	99.2
Gross replacement rate	69.1	91.6	72.1	62.1	52.0	47.0
<i>(% individual gross earnings)</i>	65.5	87.6	68.4	58.5	48.6	43.7
Net replacement rate	78.6	104.1	82.0	70.5	60.4	55.7
<i>(% individual net earnings)</i>	74.4	99.6	77.7	66.5	55.6	51.2
Gross pension wealth	11.8	15.5	12.3	10.6	9.0	8.1
<i>(multiple of individual gross earnings)</i>	12.4	16.4	12.9	11.1	9.3	8.4
Net pension wealth	11.8	15.5	12.3	10.6	9.0	8.1
<i>(multiple of individual gross earnings)</i>	12.4	16.4	12.9	11.1	9.3	8.4

30 year career under economy specific assumptions


Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	43.8	36.4	42.4	48.1	59.6	71.0
<i>(% average gross earnings)</i>	41.6	35.0	40.4	45.6	55.9	66.3
Net relative pension level	49.7	41.4	48.2	54.7	67.7	80.7
<i>(% net average earnings)</i>	47.3	39.7	45.9	51.8	63.5	75.3
Gross replacement rate	54.0	72.8	56.5	48.1	39.7	35.5
<i>(% individual gross earnings)</i>	51.4	69.9	53.8	45.6	37.3	33.1
Net replacement rate	61.4	82.7	64.2	54.7	46.1	42.1
<i>(% individual net earnings)</i>	58.4	79.4	61.2	51.8	42.7	38.8
Gross pension wealth	9.2	12.3	9.6	8.2	6.8	6.1
<i>(multiple of individual gross earnings)</i>	9.7	13.1	10.1	8.6	7.1	6.3
Net pension wealth	9.2	12.3	9.6	8.2	6.8	6.1
<i>(multiple of individual gross earnings)</i>	9.7	13.1	10.1	8.6	7.1	6.3

Real earnings: 6% per year converging steadily to 2%, giving an average of 4%.

Price inflation: 5% per year converging steadily to 2.5%, giving an average of 3.75%.

Real rate of return: 4% per year going to 6% over 15 years before converging steadily to 3.5%, giving an average of 4.8%.

Discount rate (for actuarial calculations): 2% per year.

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