

Just using World Bank model won't cover huge deficit

While the number of subscribers in the voluntary New Pension Scheme continues to grow at a brisk pace—the private sector NPS has just 1.7 mn users with a corpus of R1,590 crore—the mandatory Employees Pension Fund Organisation (EPFO), with its 8.6 crore members and Rs.5.5 lakh crore corpus, is beset with its own set of problems. Apart from the lower returns it gives in comparison with the NPS, the most pressing problem is the large and increasing gap in its Employees Pension Scheme (EPS) portion. The gap refers to the amount the EPS will have to shell out to pensioners if the scheme is wound up today and there are no fresh contributions to it—from a surplus of R1,689 crore in 1996, the fund slipped into a deficit in FY01 that widened to R17,136 crore in FY02 to over R54,000 in FY12. Possible solutions, suggested by EPFO actuaries to pay at least a R1,000 monthly pension, include raising the 9.49% contribution (8.33% from the employer and 1.16% from the government) to 13.5% (11.5% from the employer and 2% from government) and raising the age of contributions to EPS from the current 58 to 60 (this is similar to what is happening in several European countries today), no premature withdrawals, etc.

While no decision has been taken on this, the EPFO is reportedly looking at going to the World Bank to ask for advice. While getting professional advice is a good idea, it's worth keeping in mind the World Bank has a PROST model which the EPFO used to show there was no hole in the EPS. Since there is no explanation from the EPFO as to how this happened, the model's assumptions need to be made clear and no one in the EPFO has been able to do this. Indeed, if EPFO doesn't even know the age profile of its subscribers, it's not clear what data PROST is using—EPS calculations are based on incomplete data and that too of just 5.5% of users, which no one claims is representative. The more fundamental question is that, if the government is pushing, for the whole country, the NPS where pension benefits are based on the earnings from a defined contribution (DC) made by subscribers, why is it simultaneously pushing a defined benefit (DB) scheme for just 8.5 crore persons?