Performance And Reward Management

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Lecture - 49
Understanding relevance of employee benefits and pension schemes, employee benefits, flexible benefits, pension scheme, 7th Pay Commission (Contd.)

Welcome to the session on understanding the relevance of employee benefits and pension schemes, employee benefits, flexible benefits pension scheme and 7th pay commission. Till now we have discussed on topics of like benefits and salary in like incentives which are during the work life of the individual till the time they are attached with the organization. Today we are going to discuss like the after retirement stages of like work itself, where we think like the relationship of the employee with the organization does not stop with retirement.

The organization, the government has responsibilities also to take care of the fact that the life of the after the retirement of the employee also is well balanced smooth. The person is financially sound enough to take care of his or her own well being and the well being of the related persons who are dependent on the employee past, employee who was working for the organization. The schemes which takes care of the post retirement financial like life of the person are the responsibilities of the person so that he or she is able to meet not only his or her own needs and but also the like needs of his or her dependents.

And also even after the life like when there is the sudden death of the person and other things the dependents are not left financially burdened. But how it the; it helps the organization and the government extends their support to them also, the dependence of the employee who was working for the organization will be the discussion that will be covered under the pension scheme. So, in this module the next few discussions will be based on the pension schemes. The different types of pensions the in which are available the new pension scheme and the other related discussions. So, today we are going to start with the concept of pension schemes.

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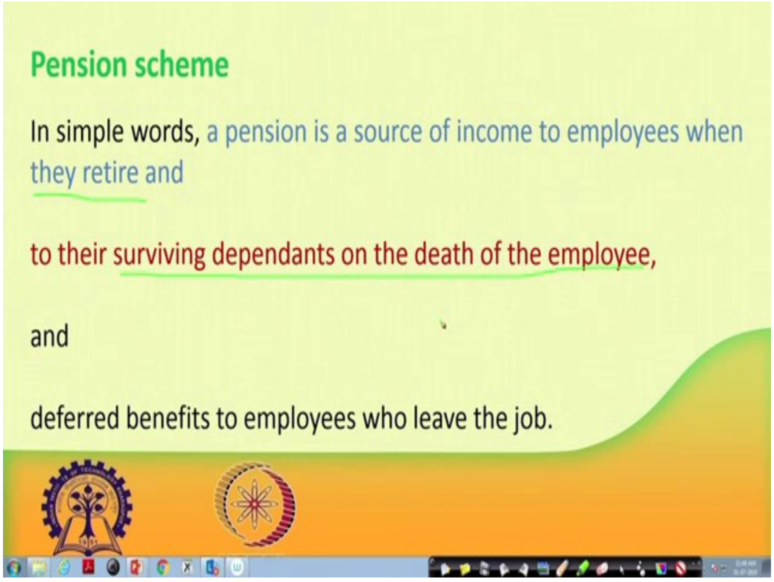

Pension scheme in simple words a pension is a source of income to employees when they retire and to their surviving dependents on the death of the employee and deferred benefits to employees who leave the job. So, you can see from here as I was discussing, the pension is a source of income to employees when they retire. This is very important in the fact like the after retirement the employee who was the main source of earning and maintaining the family does not become financially dependent on others because that will lead to some of like self esteem getting hurt or maybe there are not always other people there in the family who can take of the financial responsibilities of the person.

So, it is a very important that even after retirement people do have a source of income. So, it is a source of income to employees when they retire, also to their surviving dependents on the death of the employee. This is a very important term like when the person is in a family and his earning and his family members are dependent on his source of earning, then what happens after the death of the employee.

So, pension is a source which is a source of income to the surviving dependents even after the death of the employee. But for this we need to define very clearly who are the surviving dependents and it is also a source of deferred benefits to employees who leave the job.

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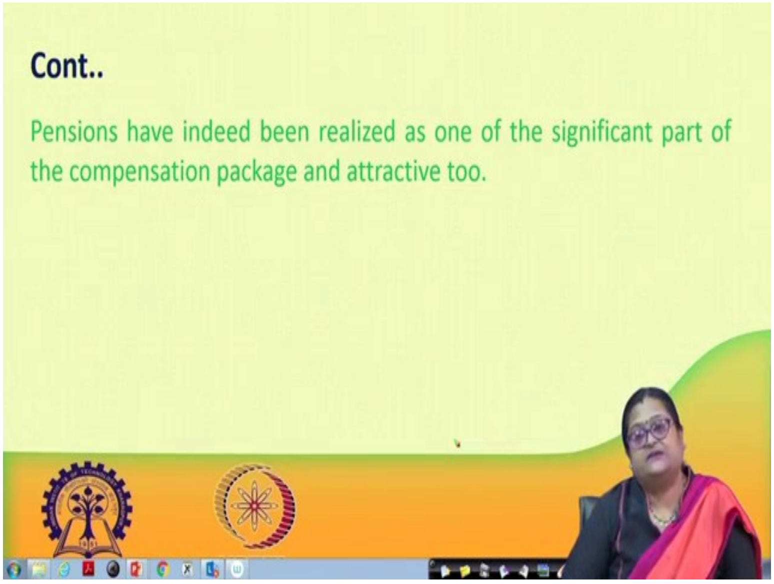

So, pensions have indeed been realized as one of the significant part of the compensation package and it is very attractive too.

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Why pensions are provided? So, pension is an acid test to the fact like the employer is a good one and it is concerned about the long term welfare of the employee. So, as I was discussing the relationship of the employer and the employee does not really stop at the end of the employment period or at the just with retirement.

It is a long term bond long term relationship long term responsibility of the employer towards the employee who has contributed well to the growth of the organization and post retirement pensions are then one of the ways in which the employers take care of the financial needs of the employees post retirement and it is concerned with the long term welfare of an employee. So, it is the one of the most attractive part of the compensation package of a company. So, maybe this is one of the reasons also where like many people in India prefer government jobs.

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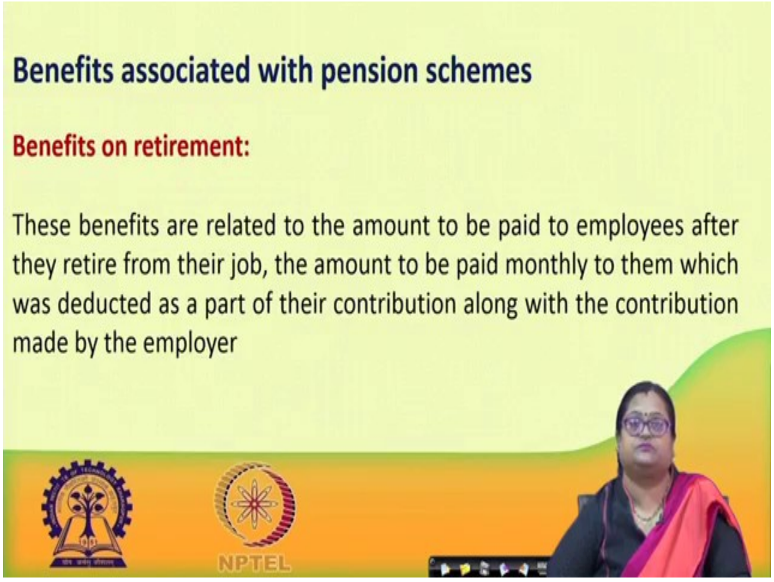

The benefits which are associated with pension are like benefits on retirement. So, these are the benefits which are related to the amount to be paid to employees after they retire from the job. So, it is like monthly to be paid to them which was deducted as a part of their contribution, along with the contribution from made by the employer. We will discuss more of this whenever we are talking of new pension schemes.

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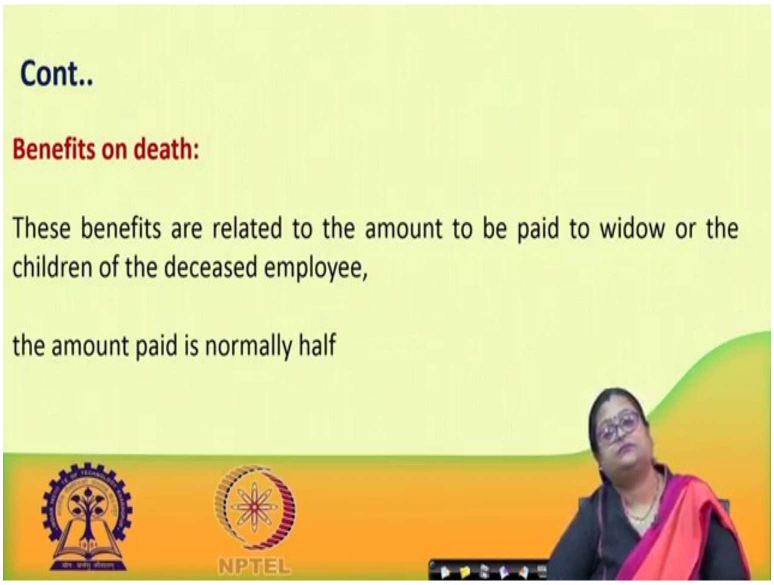

Benefits on death, these benefits are related to be to the amount which is paid to the widow or the children of the deceased employee. The amount paid is normally half of the amount when the pension, if the person is alive and whatever pension the person is getting when after the death of the employee the widow or the children of the deceased employee generally gets half that amount.

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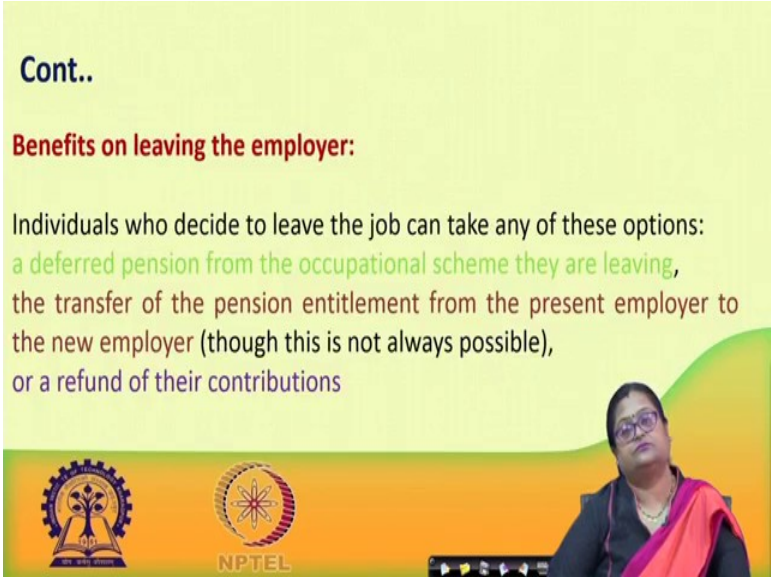

Benefits on leaving the employer, so the individuals who decide to leave the job can take any of these options deferred pensions from the occupational scheme that they are leaving. The transfer of pension entitlement from the present employer to the new employer, though sometimes this is not always possible if the there in different sectors and or a refund of their contributions.

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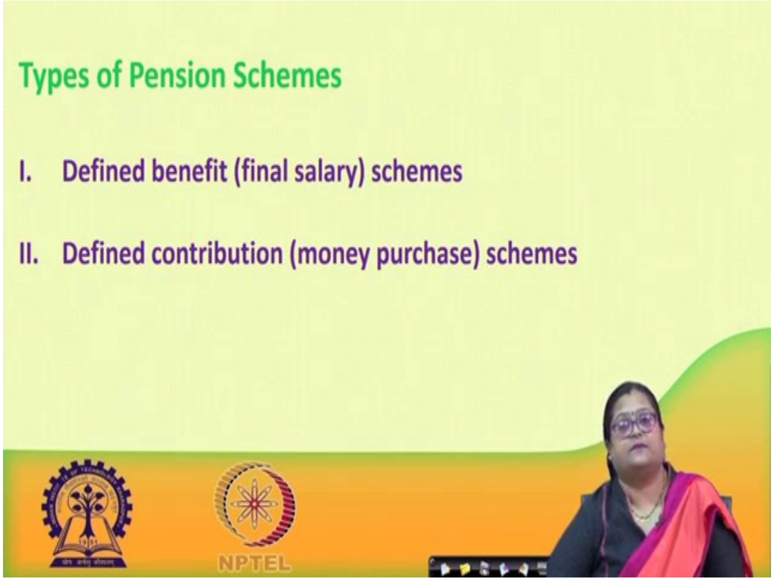

So, there are different types of pension schemes like defined benefit, final salary schemes and defined contribution money purchase schemes, we will see each of them separately.

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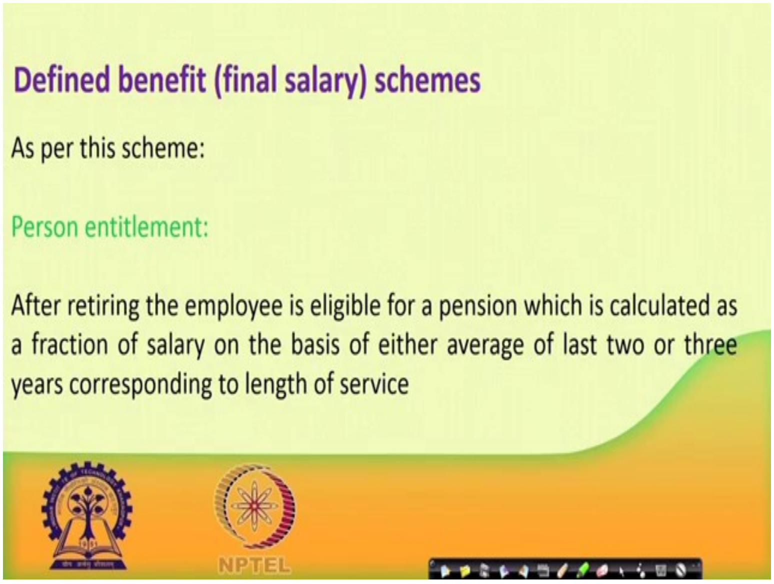

Defined benefit the final salary scheme, as per these scheme the person's entitlement after retiring the employee is eligible for a pension which is calculated as a fraction of the salary which is on the basis of either average of last two or three years corresponding to the length of the service.

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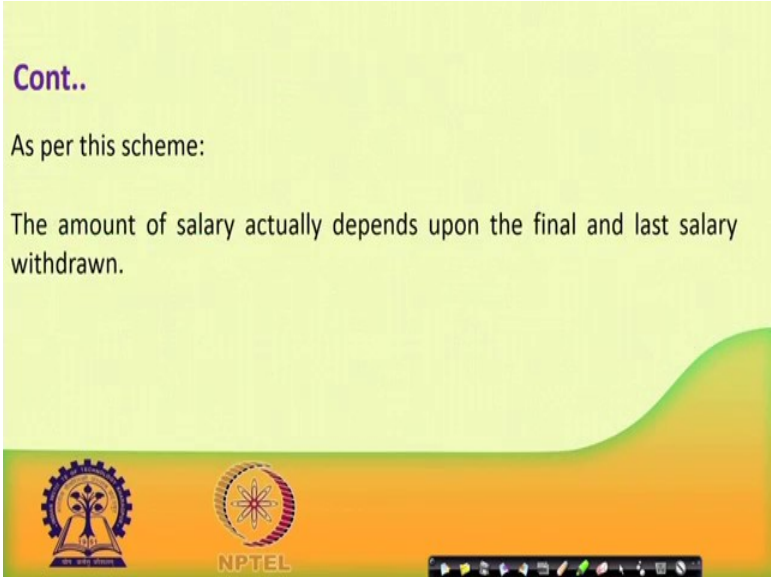

So, as per this scheme the salary actually depends upon the final and the last salary withdrawn. So, this is very important in terms of like people getting promotions in the organization and so how the other salary gets affected and we have seen it in the discussions earlier also.

Sometimes you like whenever we are talking of like pension schemes with respect to directors and all, we have seen generally at before the verge of the retirement like a salary hike is given and that will reflect in the pension. So, we have already discussed this under the director's remuneration.

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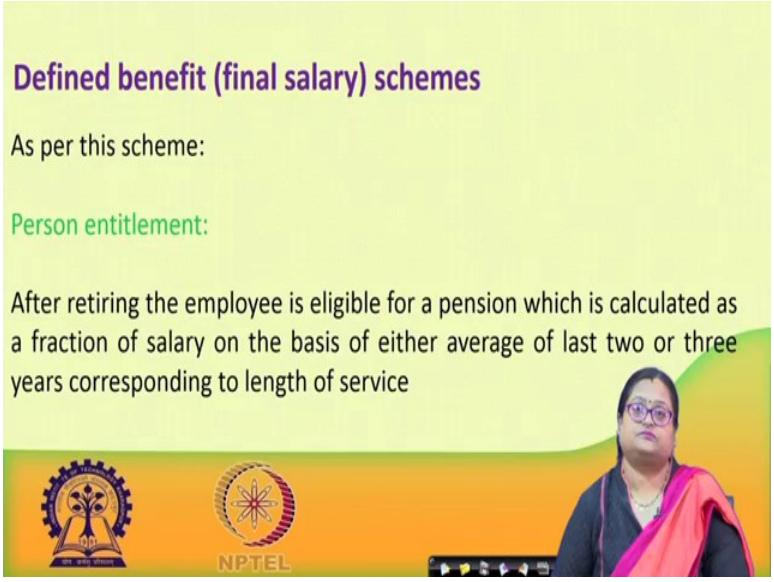

So, as we see like in this the it is the pension which is calculated as a fraction of the salary on the basis of average of last two or three years corresponding to the length of the service.

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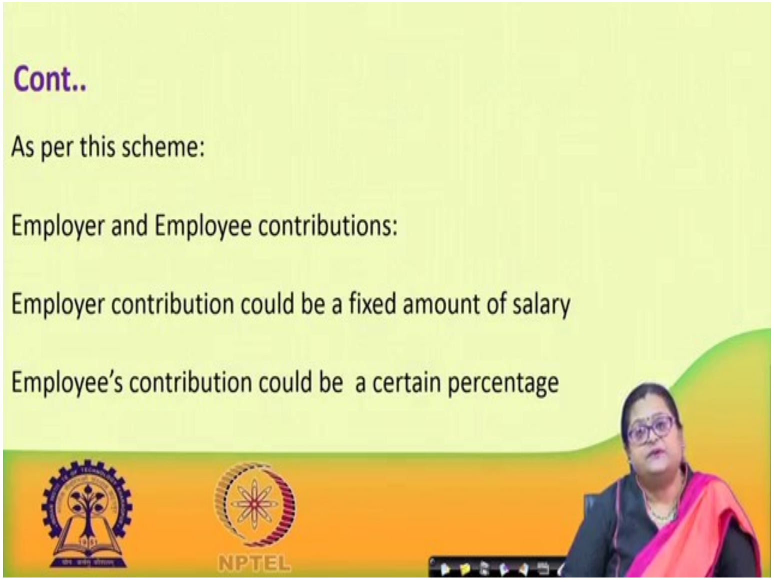

As per this scheme the employer and the employee both make contributions. Employer contributions could be a fixed amount of the salary and employee's contribution could be a certain percentage. So, when we are talking of this final salary and the pension related to it is a contributory pension in terms of like both employer and employee both makes contribution towards this pension.

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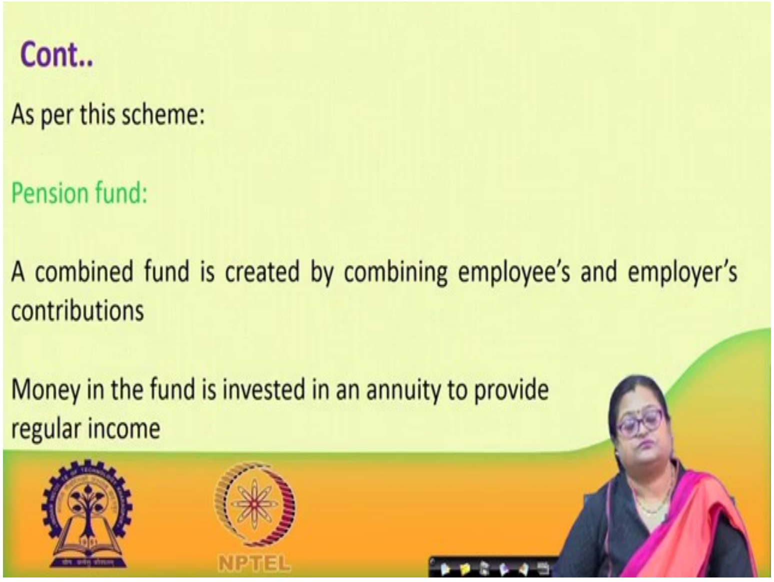

As for this scheme a pension fund which is a combined fund is created by combining employee's and employer's contribution, money in the fund is invested in an annuity to provide regular income.

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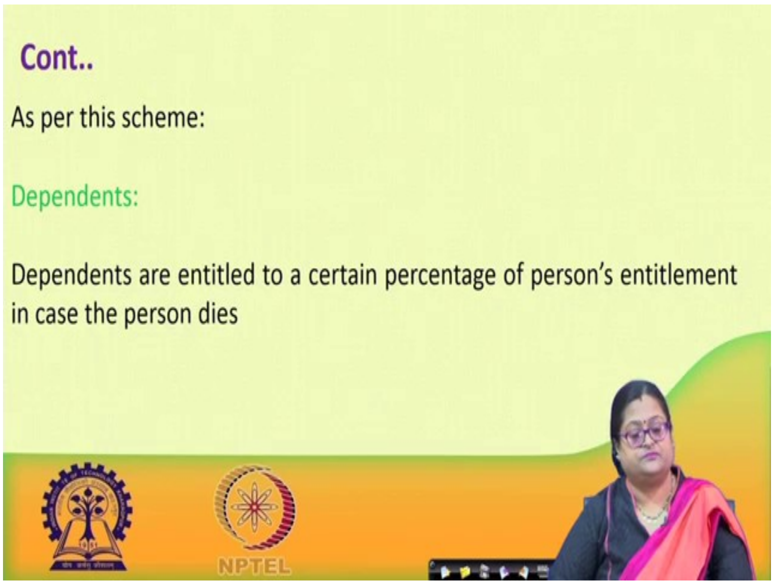

As per the scheme the dependents are entitled to a certain percentage a person's entitlement in case the person dies.

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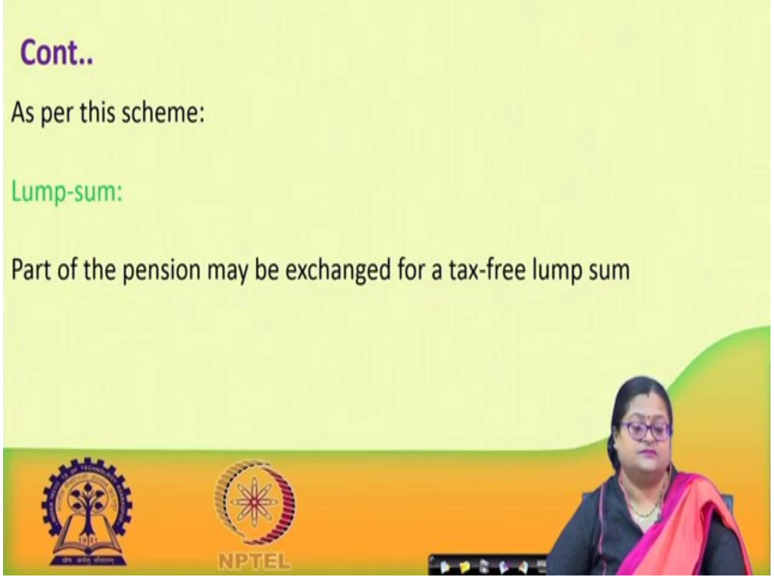

The lump sum is the part of the pension may be exchanged for a tax-free lump sum.

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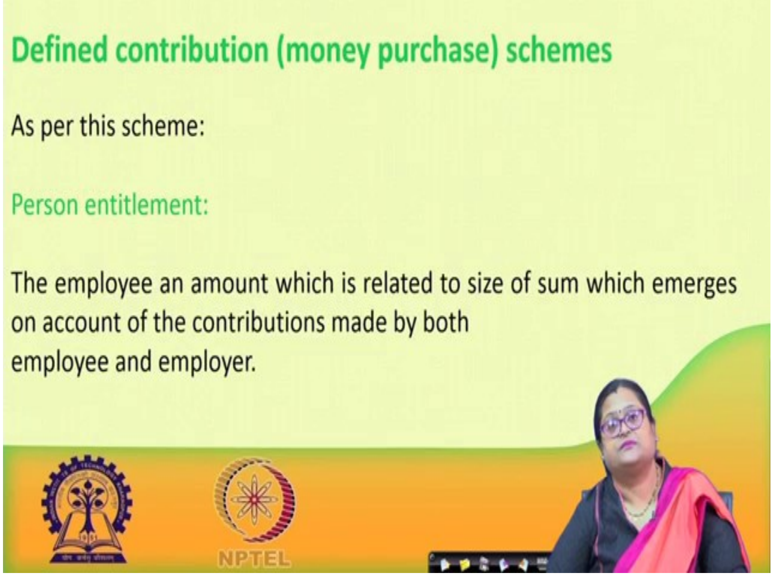

Defined contribution or money purchase schemes, as per this scheme the person entitlement is the employee gets an amount which is related to size of some of which emerges on account of the contributions made by both employee and employer.

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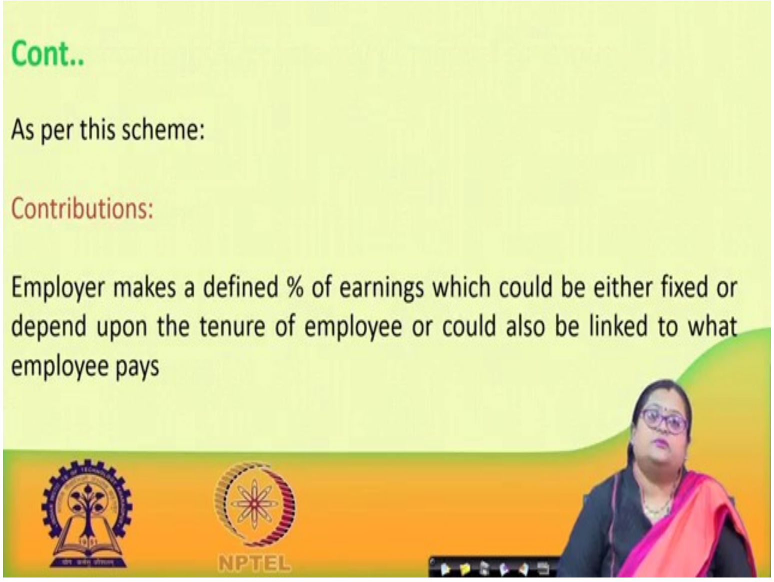

Contributions as per this scheme the employer makes a defined percentage of earnings which could be either fixed or depend upon the tenure of employee or could also be linked to what the employee pays.

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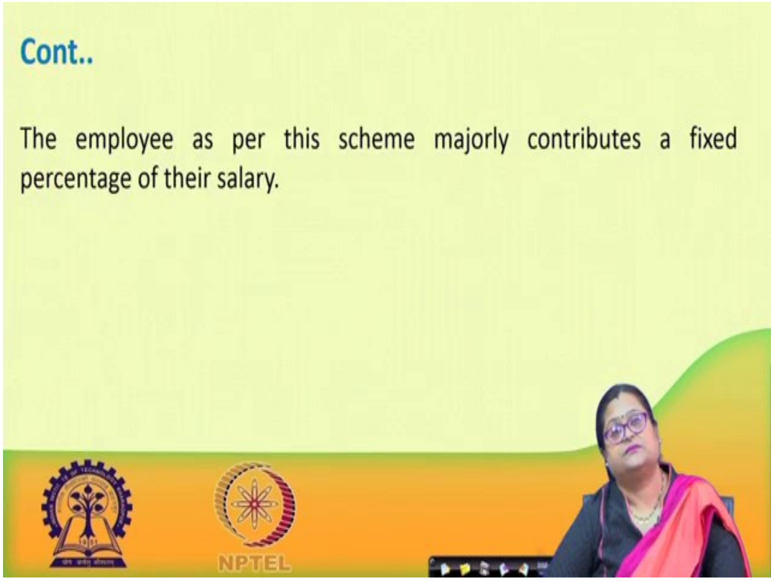

So, these are the defined percentages of earnings are given which are either fixed or depending upon the tenure of the employee or linked with what the employee pays. The employee as per this scheme majorly contributes a fixed percentage of their salary.

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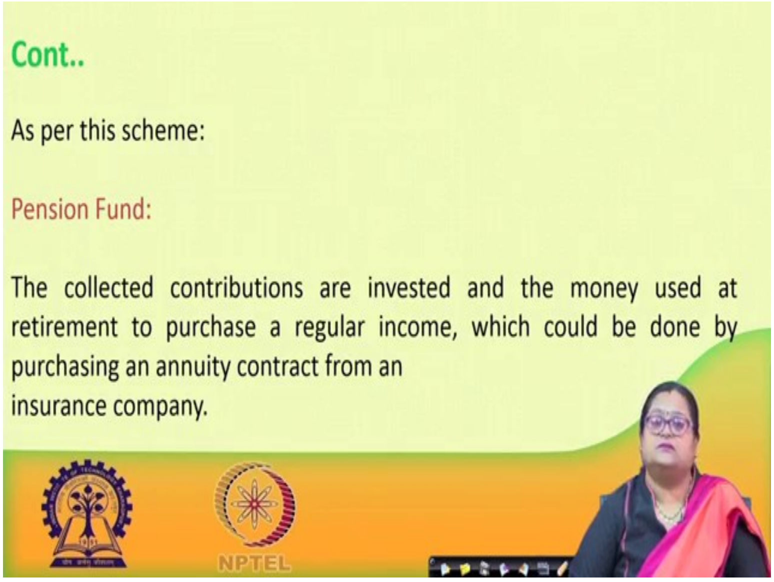

The pension fund as per this scheme is the collected contributions are invested and the money is used at retirement to purchase a regular income which could be done by purchasing an annuity contract from a insurance company.

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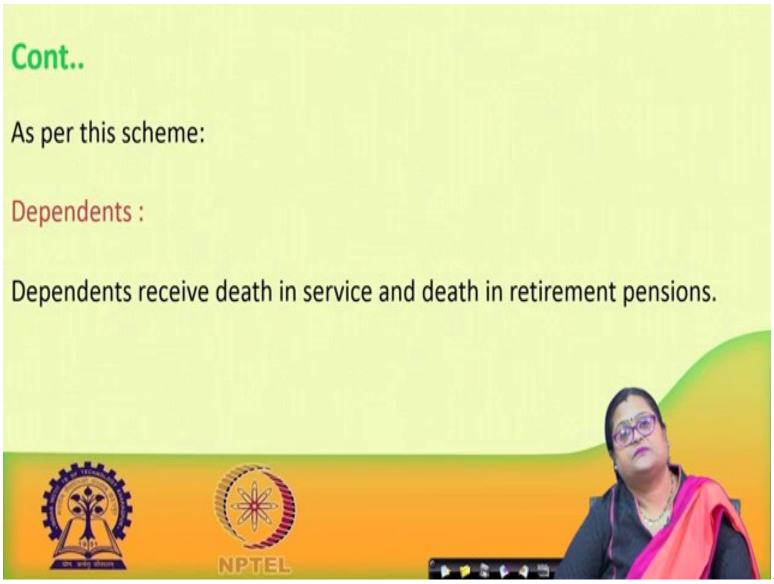

As per this scheme the dependents receive death in service and death in retirement pensions.

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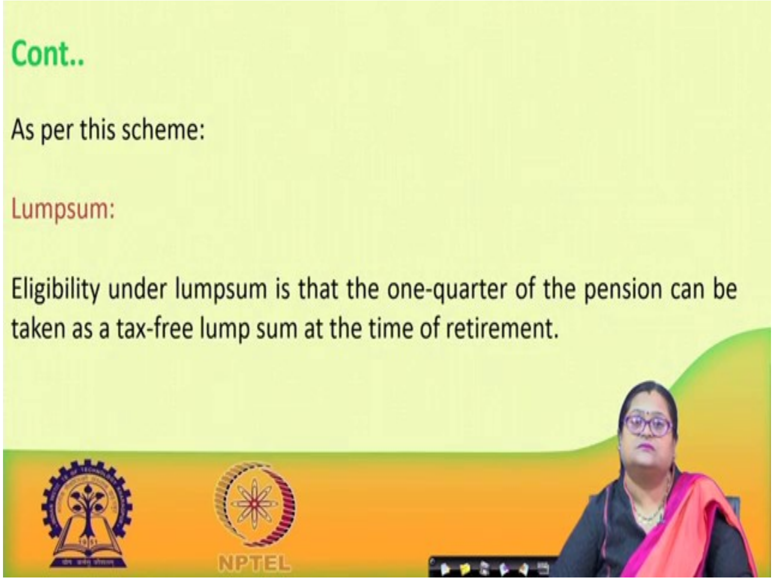

Lump sum eligibility and the lump sum is that one-quarter of the pension can be taken as tax-free lump sum at the time of retirement.

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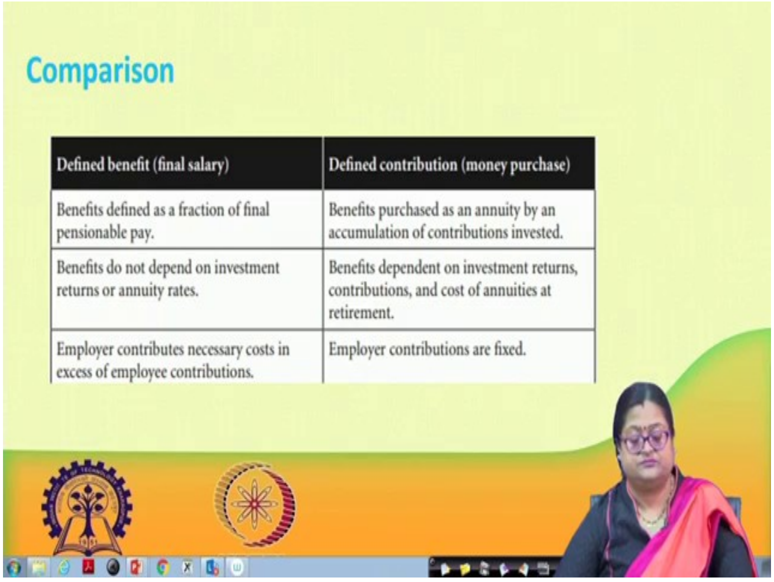

So, when we make a comparison of defined benefit and defined which is final salary and defined contribution, which is money purchase we see like; under defined benefit benefits are defined as a fraction of final pensionable pay. Under defined contribution benefits are purchased as an annuity by an accumulation of contributions invested. In defined benefit, benefits do not depend on investment returns or annuity rates. In defined contribution benefits are dependent on investment returns contributions and the cost of annuities at retirement. In defined benefit employer contributes necessary costs in excess of employee contributions and in defined contributions employer contributions are fixed.

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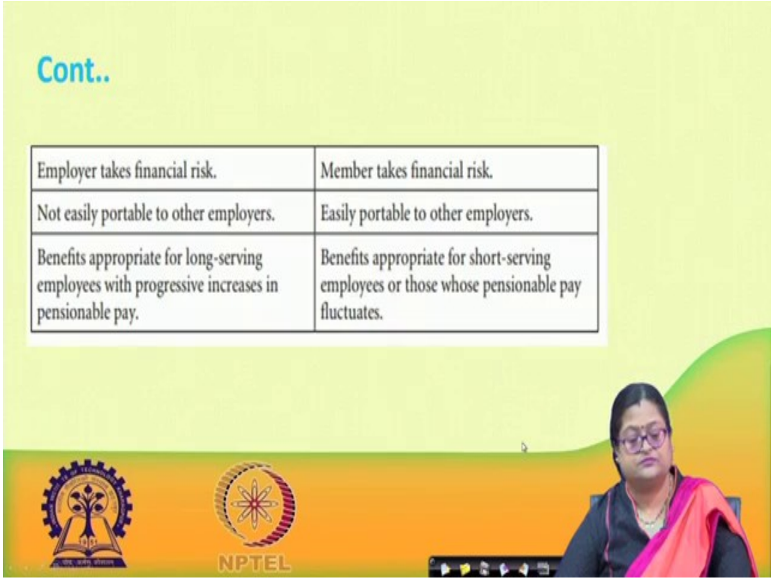

In terms of defined benefit the employer takes the financial risk in terms of defined contribution member takes the financial risk. In defined benefit it is not easily portable to other employers, in defined contribution it is easily portable to other employers.

These benefits in terms of defined benefits are appropriate for long servicing employee with progressive increases in pensionable pay. Why here the benefits are defined as a fraction of final pensionable pay, but in terms of defined contribution, benefits are appropriate for short servicing employees on those whose pensionable pay or those whose pensionable pay fluctuates. Because here benefits are purchased as an annuity, an accumulation of contributions invested and employer’s contributions are fixed.

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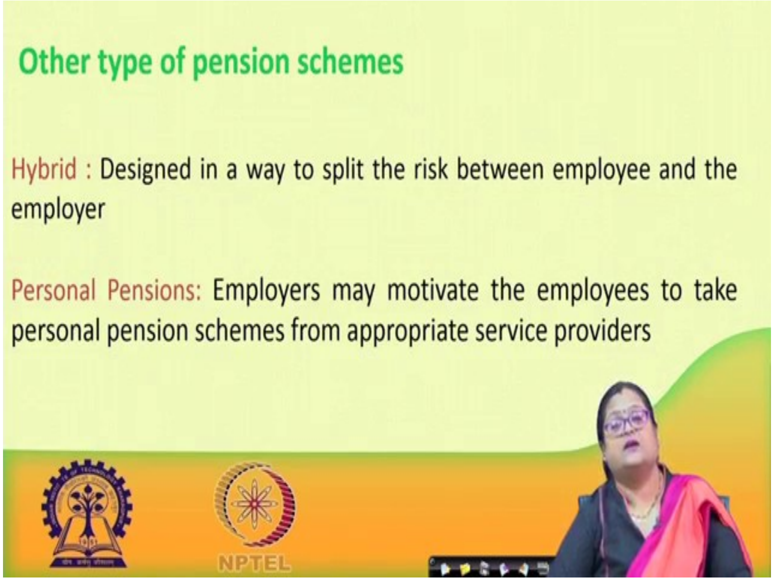

The other types of pension schemes available are it could be a Hybrid model in a designed in a way to split the risk between employee and the employer that could be personal pensions, like employers may motivate the employees to take personal pension schemes from appropriate service providers.

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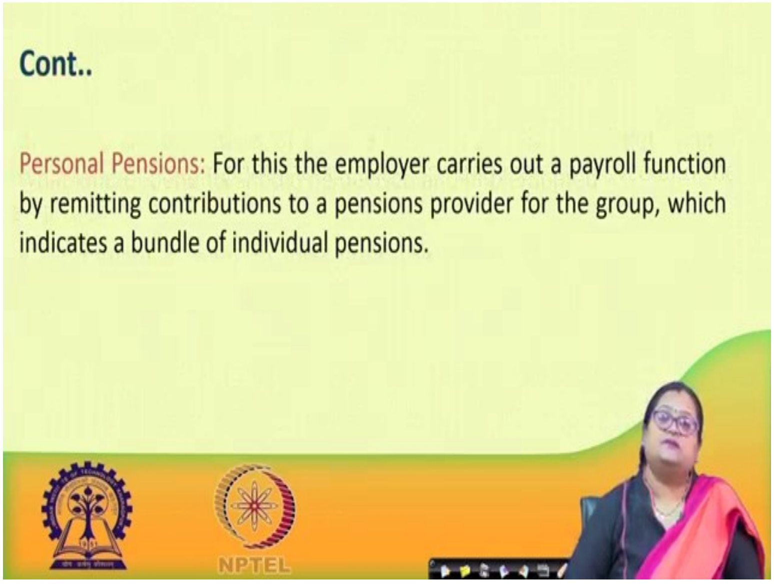

Personal pensions for this the employer carries out a payroll function by remitting contributions to a pension provider for the group, which indicates a bundle of individual pensions.

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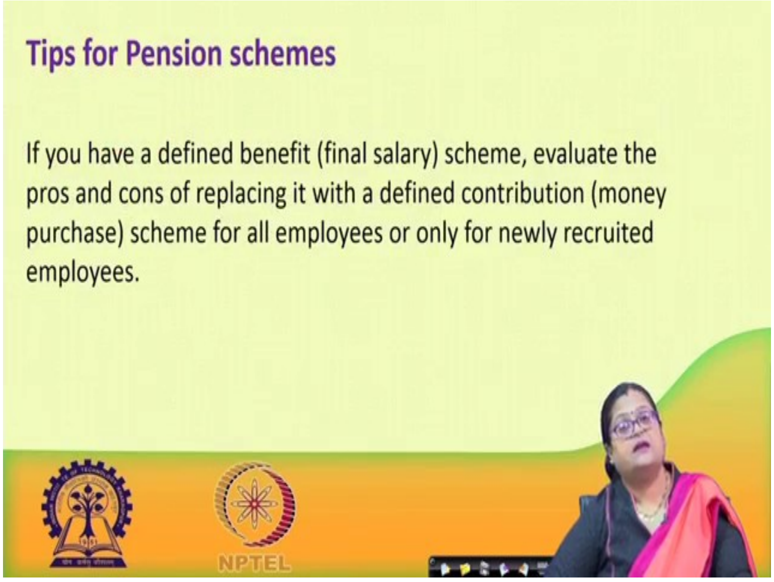

The various tips for pension schemes are like if you have defined the benefit final salary scheme, evaluate the pros and cons of replacing it with a defined contribution money purchase scheme for all employees or only further newly recruited employees.

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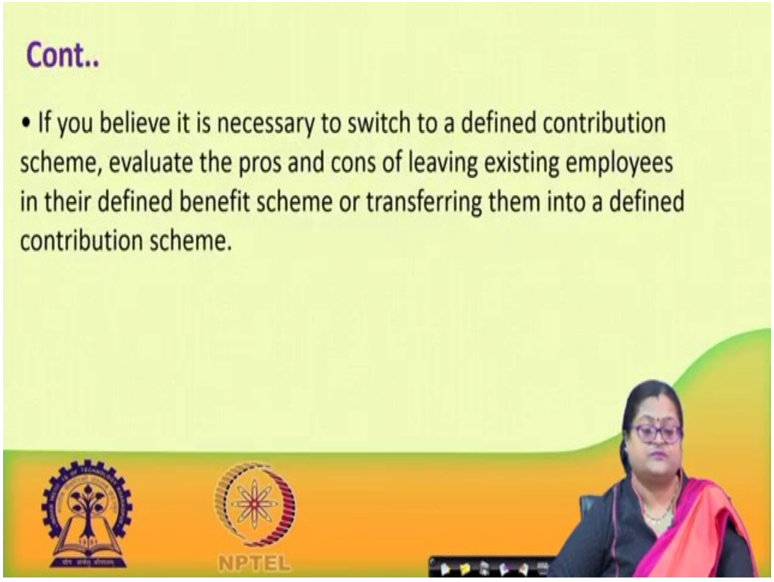

If you believe it is necessary to switch to a defined contribution scheme, evaluate the pros and cons of leaving existing employees in the defined benefit scheme or transferring them to a defined contribution scheme.

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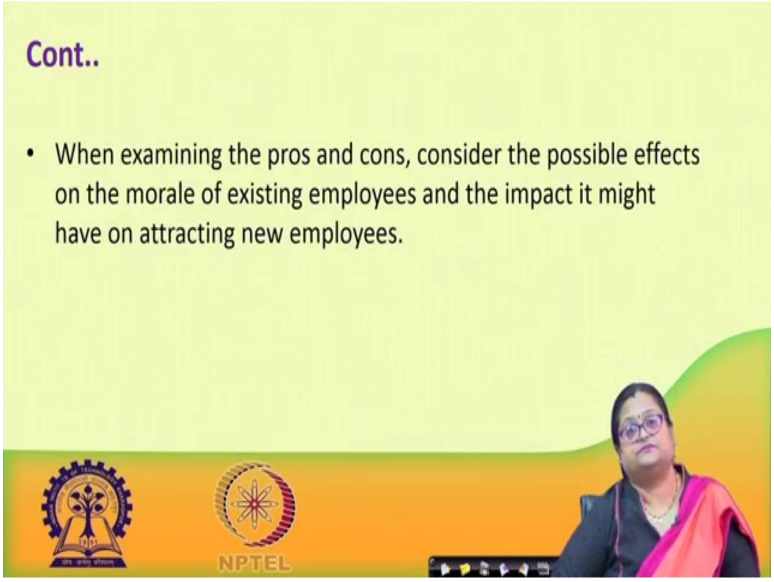

While doing this it should be taken into consideration the possible effects or the morale of the existing employees and the impact it may have on attracting new employees.

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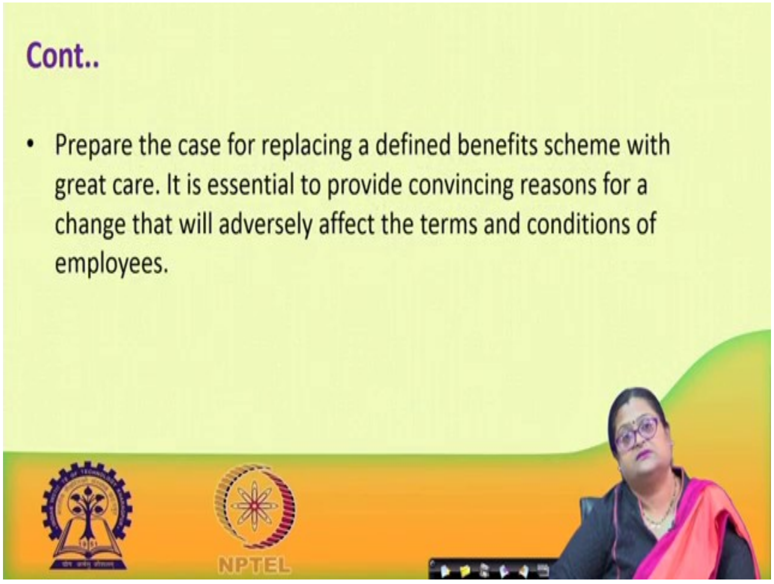

A case needs to be prepared about replacing a defined benefit scheme with great care. So, we need to provide an essential convincing reasons for the change that will adversely affect the terms and conditions of the employees.

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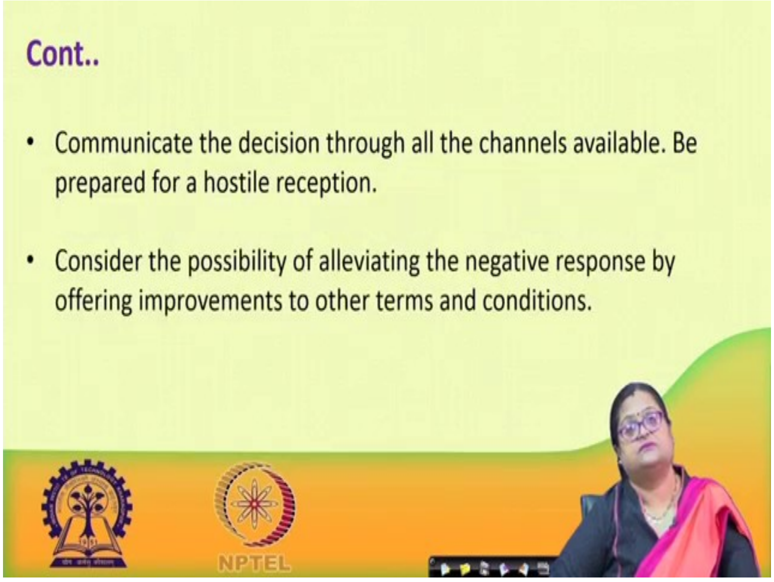

The decision needs to be well communicated through all channels available be prepared for a hostile reception, because if you are changing the pension schemes the benefits related to the pension. If you are changing the amount of contributions the proportion of contributions to be made by the employer and the employee. So, it may give rise to dissatisfaction, it gives rise to hostility and you may get some like this hostile receptions. So, we have to think of considering the possibility of alleviating the negative response by offering improvements to other terms and conditions.

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The acts passed in India like the Acts, Rules, Regulations administered by the Department of Pension and Pensioners' Welfare are like Central Civil Services Pension Rules, 1972. The Pensions Acts, 1871, Central Civil Services Commutation of Pensions Rules 1981, which is again been amended upto 6th June 2013. Central Civil Services Extraordinary Pensions Rules, General Provident Funds Central Services Rules, 1960 Contributory Provident Fund India Rules 1962, Payment of Arrears of Pension Nomination Rules, 1983.

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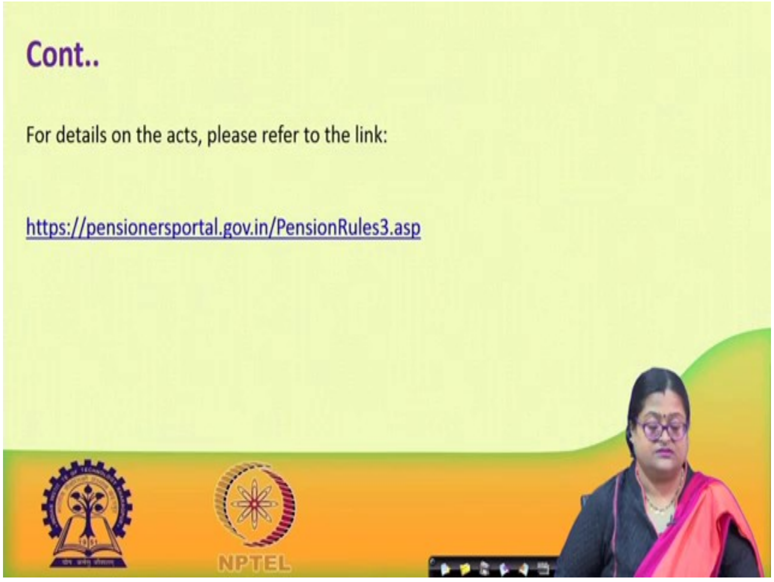

So, these are the this is a very important portal where you get the different like details of the pension schemes as given by the government.

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The popular pension schemes which are there in India like Swatantra Sainik Samman Pension Scheme, 1980, Scheme for payment of pensions to Central Government Civil Pensioners through authorized banks. Defined Contribution Pension Scheme which is the National Pension Scheme, National Social Assistance Programme administered by the Ministry of Rural department. For the details of the schemes again please refer to this following slides; following link.In the next discussions we will try to pick up at least one or two of these and make a detailed discussion of each one of them. For that we will take references from the government portal itself, so that there is no miscommunication and misinterpretation of the facts. These modules will be to generate your awareness about the different pension schemes which are there in India.

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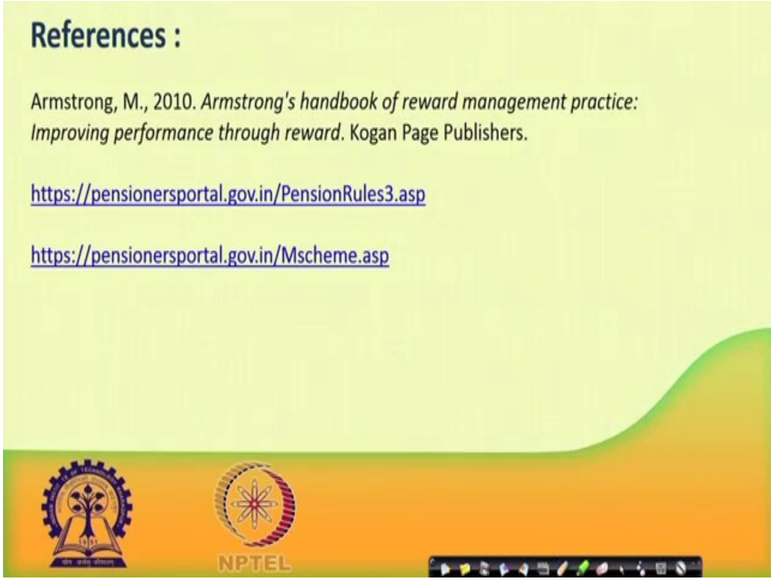

These are the references based on which the general discussions of this module has been based, please go to the sites and have a look for yourself about the different pensions which are there. In the upcoming module definitely we will be taking up one or two of them and go with the detailed discussion of it.

Thank you.