

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	9.0	23.6

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 countries, 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.

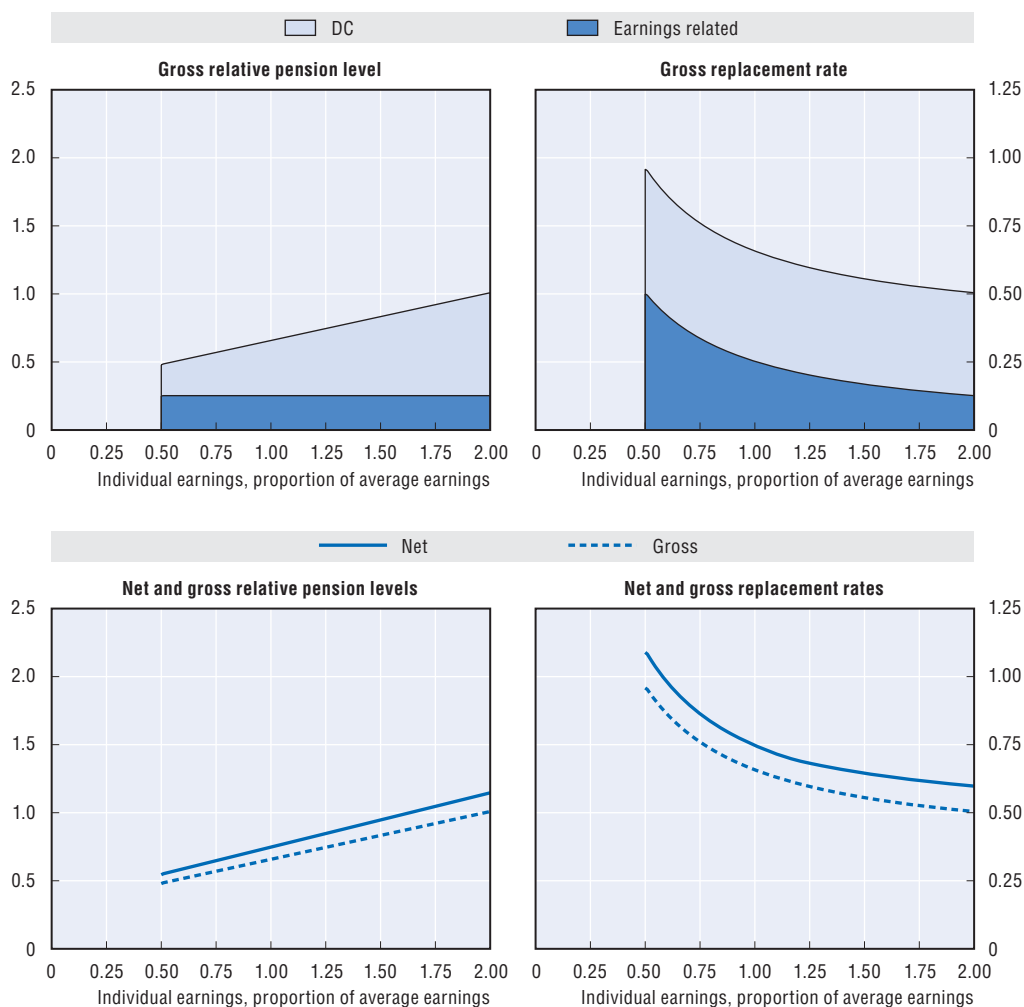
In case of EPF, there are multiple scenarios which allow for early access to the accumulation. Partial withdrawals relate to marriage, housing advance, financing life insurance policy, illness of members/family members, withdrawals are also permitted one year before retirement, etc. In addition to various 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.

Pension modelling results: India



Men Women (where different)	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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