



Empirical Study on Retirement Benefits of Government Employees and Private Sector Employees (Covered By EPF & MP Act) In India

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ABSTRACT

Retirement benefits form a very important part of the old age income security especially for salaried persons. At present, majority of the working force is not covered by formal old age income security schemes in India. Current pension and provident fund systems cover more or less 11 percent of the economically active labour force. This paper provides an overview of the occupational retirement benefit plans of the Government employees and the employees of private sector under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 in India. Employees of the government receive a different set of retirement benefits including indexed pensions, in contrast to Private sector employees who are covered under the mandatory occupational plans. This paper also attempts to compare the retirement benefits of the government employees and private sector employees and also trying to find out the reasons of the discrepancy of the benefits.

KEYWORDS: Retirement benefits, Government employees, employees of private sector, Employees provident fund.

1. Introduction:

Post retirement benefits are payable after the completion of service. Post employment benefit plans are formal or informal arrangements under which the employer provides benefits to the employees. These benefits are also known as 'Retirement Benefits'. Gratuity, pension, amount received from provident fund are the examples of post retirement benefits. Retirement benefits form a very important part of the old age income security especially for salaried persons.

Major retirement benefits in India are provident fund, gratuity, and pension. The first two provide lump sum amount at retirement while pension provides monthly assistance. Employees of both the public and private sectors receive gratuity the cost of which is entirely borne by the employers. Participation in provident fund is also compulsory for employees in both the sectors. But the situation is different in case of pension. Pension benefits of private sector employees are not equal to the pension benefits of public sector employees. Workers of public sector are eligible to get defined benefit pension covering protection against longevity and inflation along with the benefit of self-contributed General Provident Fund. On the other hand; employees of private sector are mainly covered by the mandatory, defined contribution provident fund schemes. Contribution is accumulated with periodical interest and the accumulated balances are paid in lump sum. Such benefits do not cover inflation and longevity. After introduction of Employees Pension Scheme in 1995, employees covered under the Employees Provident Fund Act, 1952 are also eligible to receive periodical payment in the form of pension by partial conversion of provident fund contribution to the pension scheme. However it is alleged that EPS has increased the dichotomy between the workers of public sector and private sector. This paper attempts to point out the retirement benefits of the government and Private Sector employees, and also determine the quantum of retirement benefits available for those workers.

2. Objectives of the Study:

The objectives of the study are:

- (i) to examine the scope and retirement benefits for the government and Private Sector employees (the employees covered under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952) and
- ii) to compare the retirement benefits of the government and Private Sector employees

3. Research Design:

3.1. Sources of data:

This study is based on the secondary data. The data are collected from the Government Service Rules, Death cum Retirement Rules (DCRB), National Pension Portals for the retirement benefits of the government employees and from the websites & annual reports published by the Employees' Provident Funds Organisation and the Ministry of Labour of India for the employees working under the provision of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. In this present study, we are trying to compare and analyse the retirement benefits of the Government employees belonging to the Group A and Group D

with the corresponding retirement benefits of the employees covered under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 enjoying the Pay Scales and career advancement facilities during their service period.

3.2. Study Period:

The relevant data of the employee retirement benefits are collected for the period of 12 accounting years (1997-98 to 2008-09). The reasons to fix the starting date from 1997-98 are as follows:

- i) Different rate of Dearness allowance was applied for the different group of employees' upto 31st March, 1997. Only from 1st April, 1997 uniform rate of Dearness allowance is come into force for all employees irrespective of the scale of pay.
- ii) In the study, retirement benefits of the private sector employees are determined by the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. The Employees' Pension Scheme was introduced from 16th November, 1995 and the rate of contribution u/s 6 of the Employees' Provident Funds and Miscellaneous Provisions Act has been enhanced w.e.f 22nd September, 1997.
- iii) In order to determine the amount of retirement benefits, pay scale of the concerned employee plays a vital role. Although ROPA (Revision of Pay and Allowances) 1998 came into force from 1st January, 1996, employees were not eligible to get any arrear between the period 1st January, 1996 to 31st March, 1997. Hence, actual effect of the ROPA, 1996 was given from 1st April, 1997 that is from that day employees received their emoluments as per their new pay scales.

3.3. Hypothesis:

HO: There is no significant difference in the retirement benefits between the government employees (Group A and Group D) and Private Sector employees (employees covered under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952)

Assumptions of the study:

- i) Pay Scale, Career advancement scheme, age of the entry in the service of the employee of both the sectors (Government and private) are same
- ii) The employee will retire at the age of 60 after completion of 33 years of service. He/She is eligible to get full pension after completion of 20 years of service.
- iii) The employee will retire after enjoying the 3rd promotion in 8-16-25 year under Career Advancement Scheme.
- iv) The employee will get a return of 8% p.a. on the accumulated fund of Employees Provident Fund received at the time of retirement.

3.4. Tools for Data Analysis:

For determining statistical significance of the retirement benefits of the government and non-government employees, 't' statistic is computed as follows:

$$t = \frac{x_1 - x_2}{S.E. (x_1 - x_2)}$$

Where, x_1 = mean retirement benefit of first country/sector

X 2 = mean retirement benefit of second country/sector
 S.E. (x1-x2) = standard error of (x1-x2)

4.1. Retirement benefits of the Government employees:

Retirement benefits of the Government employees may be classified into three broad heads:

Provident Fund: Government employees have to participate compulsorily in General Provident Fund (GPF) Scheme where they will pay at least 6 of monthly salary i.e. Basic Pay to the fund. The maximum contribution, as per the intention of the employee, is equivalent to total of monthly basic salary. Employee will receive accumulated balance of their fund i.e. total contribution deposited along with the interest credited to their accounts as prescribed by the Government from time to time.

Gratuity: Gratuity is a lump sum amount paid to the employee at the time of retirement for the service rendered by him.

Pension: Pension is a periodical (monthly in general) payment to the employee after retirement. Employee may also commute the pension to receive a lump sum amount at a time (maximum 40% of total pension at present) but in such case, monthly pension will be decreased proportionately. The formula of calculation of monthly pension is: Last Pay X Qualifying year of service (subject to a maximum of 33) /33 X 50/100 After the implementation of recommendation of 5th Pay Commission, monthly pension will be calculated as follows: Last Pay X Qualifying year of service (subject to a maximum of 20) /20 X 50/100

4.2. Retirement benefits of the Private Sector employees:

Employees of private sector, for the purpose of our study, refer to those who are covered under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

The provision of the Act shall apply to the establishments:

- i) which are engaged in any industry specified in Schedule I, and
- ii) in which twenty or more persons are engaged in work.

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 provides three benefits to its members i) Provident Fund, ii) Pension, and iii) Deposit-link insurance. In order to provide such benefits following three schemes have been framed

- i) Employees' Provident Funds Scheme, 1952
- ii) Employees' Pension Scheme, 1995 (prior to introduction of this scheme Family Pension Scheme, 1971 was in force) and,
- iii) Deposit Linked Insurance Scheme, 1976

Contribution structure for EPF

Table: 1

Contribution	Old System (upto15.11. 1995)				New System(from 16.11. 1995)			
	EPF	FPS	EDLI	Total	EPF	EPS	EDLI	Total
Employee	8.83	1.17	-	10	12	-	-	12
Employer	8.83	1.17	0.5	10.5	3.67	8.33	0.5	12.5
Government	-	1.17	0.25	1.42	-	1.17	0.25	1.42
Total	17.66	3.51	0.75	21.92	15.67	9.5	0.75	25.92

i) Employees' Provident Funds Scheme, 1952:

The Employees' Provident Funds Scheme (EPF) is a defined contribution, fully funded benefit programme and the fund provides a lump sum amount based on the accumulated balance of the account at the time of retirement, resignation, death or permanent disability to the members. Statutory contribution of the employer of establishments in 172 out of a total 177 specified industries is 12% of salary with effect from 22nd September, 1997 (the rate of contribution was 6.25% upto 31st July, 1988 and 8.33% from 1st August to 21st September, 1997). Employees will have to pay an equal contribution of the employer.

ii) Employees' Pension Scheme:

The Central Government, by notification in the Official Gazette, frames a pension scheme with effect from 16th November, 1995 for the employees of any establishment or class of establishments covered under Employees' Provident Funds and Miscellaneous Provisions Act. Employ-

ees' Pension Scheme (EPS) is a defined benefit scheme. The scheme was introduced from 16th November, 1995 replacing the old Family Pension Scheme, 1971. This fund is created with the contribution of the employer. Out of the 12 % of the employer's contribution on the employee's salary, 8.33% subject to a maximum ceiling on Rs. 6500 per month is remitted to the Employees' Pension Fund. The cost of remittance is borne by the employer. The Central Government is also contributing @ 1.16% of the salary (subject to a maximum of Rs. 6500 per month) of each employee to the Employees' Pension Fund. If the salary of an employee covered under the Employees' Pension Scheme is more than Rs. 6500 per month then the employee's contribution as well as the contribution of the Central Government will be restricted upto 8.33% and 1.16% on Rs 6500 per month respectively. For example, if the monthly salary of an employee is Rs. 8000, the contribution of the employer will be Rs. 960 (12% on Rs. 8000). Out of total of Rs. 960, Rs. 542 (i.e. 8.33% on Rs. 6500) will be remitted to the Pension Fund and the balance amount along with the matching contribution of the employee of Rs. 960 will be credited to the individual account of the Employees' Provident Fund of the concerned employee. Government will contribute Rs. 93 (i.e. 1.16% on rs.6500) to the Pension Fund. Monthly pension of the member under the employees' Pension Scheme is calculated as under:

Monthly Pension= Pensionable Salary * Pensionable Service/70

A member is eligible to receive

- i) Superannuation Pension after rendering eligible service of at least 20 years and retiring at the age of 58 years.
- ii) Retirement Pension after rendering eligible service of 20 years or more but retires or otherwise ceases in the employment before attaining the age of 58 years.
- iii) Short service pension after rendering eligible service of at least 10 years but less than 20 years.

TABLE: 2 Amount of pension according to the tenure of service period

Service Yr	BASIC	DA RELIF
20	1970	345
21	2068	362
22	2167	379
23	2265	396
24	2364	414
25	2462	431
26	2561	448
27	2659	465
28	2758	483
29	2856	500
30	2955	517
31	3053	534
32	3152	552
33	3250	569

Dearness Relief is fixed, at present, 17.5% of basic pension.

iii) Employee Deposit-Linked Insurance Scheme:

Employee Deposit-Linked Insurance Scheme (EDLI): The Employee Deposit-Linked Insurance Scheme (EDLI) was operated from 1st August, 1976. This scheme is applicable of all factories and other establishments covered by the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 in all states of India except Assam.

In this scheme, employees are not required to make any contribution but the employer and the Government contribute @ 0.5% and @ 0.25% of the pay of each of the employee respectively, subject to a maximum of Rs. 6500 per month. As per the scheme, 'Pay' means the aggregate of basic pay, dearness allowance (including cash value of any food concession) and retaining allowance, if any, actually drawn during the whole month. If the pay of the employee exceeds Rs. 6500 per month, contribution of the employer and the Government will be restricted on Rs. 6500 per month only.

As per the present provision of the EPF Act, 1952 any employer may like to manage and administer the post-retirement employee benefits by themselves as provided by the Employees' Provident Funds Organisation (EPFO). Employees have the option to set their Provident Fund Trusts, known as 'Exempt Fund Trusts', to provide retirement benefits to the employees after getting a formal approval by the Employees' Provident Funds Organisation.

Table 3 Employees' Provident Fund (EPF)

Year	No. of Establishments		No. of Members(in lacks)		Contribution (in billion)	
	EPFO	Exempt	EPFO	Exempt	EPFO	Exempt
1997-98	296256	2948	168.16	44.03	36.4	31.7
1998-99	315307	3123	190.10	41.09	49.5	28.4
1999-2000	323,736	2,805	201.97	43.40	47.8	27.4
2000-01	337,389	2,624	210.41	42.60	63.99	31.8
2001-02	355153	2594	235.22	38.96	69.10	42.78
2002-03	341944	2564	357.47	37.51	75.29	38.59
2003-04	367895	2491	363.75	37.17	82.43	41.12
2004-05	406408	2423	372.13	38.97	96.13	33.05
2005-06	441906	2558	389.88	39.65	117.93	47.84
2006-07	469063	2615	407.85	36.19	144.14	50.49
2007-08	530003	2697	411.58	37.61	187.82	58.85
2008-09	570308	2755	426.80	43.92	232.46	54.12

Source: Various EPFO Annual Reports

5. Data Analysis:

Let us consider an illustration to find out the retirement benefit of government employee (taking pension into consideration as the benefits of gratuity and benefit received from own contribution are same as of Private Sector employees) as compared to the retirement benefits of the Private Sector employees covered under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 in respect to the employee belonging to Group A and D cadre of the Government of West Bengal starting with the minimum Grade Pay of each scale.

Table 4: Comparison of Retirement benefits of Government employee and Private Sector employee (taking the contribution of employer only)

Year of service	Government employee		Private Sector employee	
	Gr. A	Gr. D	Gr. A	Gr. D
20	22252	11715	9410	5026
21	23656	12446	10590	5574
22	25120	13228	11893	6174
23	26646	14035	13330	6831
24	28239	14877	14912	7550
25	29896	15751	16655	8339
26	32685	17402	18590	9214
27	34549	18396	20726	10177
28	36486	19430	23075	11232
29	38504	20509	25656	12388
30	40605	21632	28493	13655
31	42793	22801	31607	15043
32	45073	24020	35026	16563
33	47444	25285	38775	18228
Average	33853.5	17966.1	21338.5	10428.1

Table 5: Calculation of t value

Group Items	Gr. A	Gr. D
Mean difference	12515	7538
Variance	78172960.6	18872454
Standard Error	1670.895	820.985
t value	7.49	9.81

At 1% level of significance, $t_{0.025} = 2.76$ for 28 degree of freedom,**Table 6:** Comparison of Retirement benefits of Government employee and Private Sector employee (taking the contribution of both employer and Employee)

Year of service	Government employee		Private Sector employee	
	Gr. A	Gr. D	Gr. A	Gr. D
20	22252	11715	18692	9596
21	23656	12446	21168	10779
22	25120	13228	23909	12083
23	26646	14035	26937	13520

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24	28239	14877	30282	15103
25	29896	15751	33972	16845
26	32685	17402	38074	18786
27	34549	18396	42606	20926
28	36486	19430	47596	23280
29	38504	20509	53087	25866
30	40605	21632	59125	28707
31	42793	22801	65761	31826
32	45073	24020	73048	35248
33	47444	25285	81046	39001
Average	33853.5	17966.1	43950.2	21540.5

Table 7: Calculation of t value

Group Items	Gr. A	Gr. D
Mean difference	-10096.7	-3574.4
Variance	233723852	54362262.3
Standard Error	2889.17	1393.38
t value	-3.495	-2.565

6. Findings and Conclusions:

From the results of the Table 6, we observed that observed t value (7.49 for Group A and 9.81 for Group D) exceeds the tabulated value 2.76 at 1% level of significance. We can say that there is a significant difference in the retirement benefits between the government employees and Private Sector employees of both Group A and Group D. taking the contribution of employer only to the Employees Provident fund for Private Sector employees.

Table 8 shows that observed value of group A (-3.495) exceeds the tabulated value but the observed value of group D (-2.565) does not exceed the tabulated value (2.76). If we consider the contribution of employer and Employee both for the retirement benefit purpose, study result show that there is a significant difference in the retirement benefits between the government employees and Private Sector employees of Group A but there is no significant difference for the Group D employees at 1% level of significance. Table 7 shows that retirement benefits of the Group A and Group D employees in respect of private sector are more than the Government employees. But such benefit includes the return from their own contribution to the provident fund.

On the assumptions that the pay Scale, promotion scheme for both the Government and private sector employees are same, retirement benefits of Private sector employees will get much less than the Government employees as the maximum pension benefit of the private sector employees is restricted to Rs. 3250 (50% of Rs. 6500) subject to the completion of full pensionable service. Another reason of lower amount of retirement benefit is lower rate of dearness relief, 17.5% at present which is fixed in the year 2000 while the government employees are fortunate to get higher rate of dearness relief, announced by the Government from time to time, generally twice in a year. Major portion of the retirement benefits of Private sector employees comes from Provident Fund but the investment restriction of the fund and lower contribution on the part of the employer to the fund reduces the benefit. The dual and conflicting role of the Provident Fund commissioner as regulator and administrator should be separated immediately for the better and efficient management. Other issues like lifting the ban on salary scale for getting the benefit of EPS, increasing the amount of pension under EPS and linking investment returns to market will be inevitable concomitants of a role separation.

One of the main problems with the EPF appears to be premature withdrawals. Several studies reveal the fact that the benefit in terms of accumulated fund of provident fund is decreased to a great extent as most of the employees withdraw amount from the fund before the retirement. The provision for premature withdrawal should be restricted to not more than 25% of the balance and the assets under the provident fund and employee's pension scheme should be managed professionally with the opportunity of investments in the stock market.