ALL INDIA BANK RETIREES' FEDERATION

D-1/1, Sector-C, Scheme-71,
Near Kasara Bazar School, Indore – 452 009.

Ref: 2013/502 **Date: 24.08.13**

Shri M.V.Murali,
Convenor, UFBU,
C/o. State Bank of India,
SBI Buildings,
Bank Street, Koti,
HYDERABAD - 500 095.

Dear Sir

RE: PENSION FUND MANAGEMENT AND RELATED ISSUES

The following points concerning to management of pension funds need special consideration

1. **Nature of Pension Scheme applicable to Bank Employees/ Retirees**

As we all know, the pension scheme in force in banking industry is defined benefit pension scheme where element of social security and welfare is paramount and most important. This scheme has been adopted in the banking industry on the lines of pension scheme applicable to government/ RBI employees. Under this scheme, three payments to the member of the pension are guaranteed on retirement namely (a) basic pension (b) Dearness Allowance linked with inflation to be reviewed on six monthly basis and (C) one time lump-sum payment of commutation amount determined by way of agreed formula as provided in the pension regulations. All these three payments have no direct linkage with the performance of pension fund. Even performance of the pension fund is negative or financial position of fund is deteriorating, the employer is under obligation to make guaranteed payment to the retirees and after his/her death to the eligible family pensioner on due date. The employer has no discretion to either reduce payment under these three heads or defer the date of payment. Further these payments are guaranteed under Pension Regulations which is statuary law and has Constitutional backing.

On analysing basic features of the pension scheme applicable in banks, it is clear that its paramount object is to provide social security to the retirees in the changing economic and social environment. Therefore, to fulfil this basic object, the scheme needs periodical review and it is all the more necessary in case of the group of retirees who retired long back. The financial support needed for such review can not be restricted to the availability of resources in the pension fund. The financial support for this purpose, as and when needed has to come from the profit and loss of the organisation and It can not be problem when banks profits are showing increasing trend on long term basis and further banks are providing periodical increase to the employees and its consequent effect on increased pension benefits to the future retirees.

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Creation of pension fund to meet pension liability is just an additional comfort to the retirees in case of adverse financial developments. Basically pension scheme have to be funded from profit and loss.

2.Other Issues related to the management of pension funds

(a). LOW YIELD ON PENSION FUND INVESTMENT: We have examined balance sheets of many pension funds. We find that average yield on investments of pension funds range from 6.5 to 7.25 percent per annum which is lower by 100 to 150 basis points compared to 8.3 percent yield on 10 year government securities, 8.46 percent yield on PPF, 8.5 percent yield on Monthly Income Certificate of Post Office or 8.5 to 9 percent on 5 year term deposit of nationalised banks. This lower yield aspects need to be monitored by the representatives of unions who are members of the trust. In fact, the yield should be equivalent or better than the treasury income of the bank in the relevant period. According to data available to us, total corpus of all pension funds put together is close to 60000 crores. One percent increase in the yield may earn 600 crores additionally while 100 percent DA neutralisation of pre-2002 retirees require additional expenditure of 272 crores only.

(b).NPA IN PENSION FUND INVESTMENT ;We find from balance sheet of some pension funds that redemption losses on investment have been debited indicating that there are NPAs in the investment of pension funds. This is probably because of investment in bonds/ debenture of sick public sector undertakings. This is dangerous signal and need to be closely monitored.

(C)LACK OF TRANSPERENCY IN BALANCE SHEET FORMAT: Balance sheet format adopted by pension funds lack clarity and transparency. Banks are supposed to contribute to the pension funds in three ways namely transfer of one time contribution from members, monthly transfer of funds equivalent to bank's portion of PF contribution and additional amount as per the actuary reports. There is no system to give break- up of the contributions received from the banks under different heads. In the absence of this, we are not able to know whether bank has met all obligations as per the requirements of the Pension Regulations.

(d)MEETING COMMITTMENT OF 9TH SETTLEMENT:As per provisions of 9th bipartite settlement all banks put to gather were required to contribute additional fund of Rs. 4200 crores for PF optee employees, Rs. 2100 crores for PF optee retirees and 900 crores for increase in pension cost on one time basis within maximum period of 5 years as per the guidelines issued by RBI in this regard. We find that the settlement does not provide bank-wise break- up of the above contributions. The balance sheet format also do not have provision for these details. In the absence of this we do not have mechanism to know whether all banks have met their commitments and contributed the funds as agreed in the settlement. You will kindly agree that this is very vital aspect which need to be looked into and monitored closely. We find from the data available

to us that all banks put together have provided Rs.4723 crores only out of total pension liability Rs.19611 crores determined under 9th settlement, from their profit and loss account up to 31.03.2011. The concept of amortisation in this case is nothing but putting the bank employees to the highly disadvantageous position. The employees/retirees have been made to perform and meet the commitment in on go as per the provisions of the settlement and on another side banks have been allowed to contribute in instalments, There is no specific provision in 9th settlement that the banks will be allowed to contribute their portion in instalments. We wonder how RBI can intervene and change provisions of the settlement. We find that presently pension liabilities are determined by three ways (i) as part of settlement(ii) based on actuary reports and(iii) as per the guidelines of RBI/Govt on accounting treatment. Bank managements taking advantage of the conflicting guidelines/ instruction manipulate provisioning requirements to the disadvantage to the employees/retirees . Can we not insist for more disclosure in the annual financial statements for better transparency?

(e)ACTUARY REPORTS: Actuary report is the another dicy area. We have seen some actuary reports on pension funds. Less said about their quality is better. They do not cover all aspects needed to determine liability of the bank. We feel that the time has come to standardise format of actuary report covering all relevant aspects and uniform in all banks. We request you to take up the issue in this settlement.
Further we find that banks have not even contributed fully towards liability as determined in actuary reports.

(f)WHETHER STRESS ON PENSION FUNDS: It has become fashion to tell that pension liability is becoming unbearable. But if go through balance sheets of a few pension funds, we do not see any stress on them during last 18 years since introduction of the pension scheme. Banks have not been required to make additional contribution of substantial amount to strengthen fund position despite the fact that the banking industry witnessed VRS scheme where about 1 lakh employees left the bank much before their normal superannuation and started getting pension out of pension from the date of VRS.
In future too, we do not see any reason for undue stress on the financial position particularly when this pension scheme has been discontinued for those employees, who joined banks after 1st April, 2010. In other words the membership numbers of the pension scheme have been virtually frozen and this number will keep on decreasing with the passage time due to mortality factor. This aspect needs detailed study after collecting required data from banks.

(g) STUDY OF MORTALITY FACTOR: Death of a pensioner result into substantial reduction in pension liability. Pension scheme has now become almost 18 years old and therefore mortality ratio is on increase. On the one side new membership has been stopped and on other side

number is getting reduced due to mortality factor. Because of this position, We do not anticipate any undue pressure on the pension funds. Though, there would be more number of retirements in next 2/3 years adding to the number of pensioners but thereafter every year there will be net reduction in pensioner number. We feel that this angle requires detailed study on long term basis and we are of the view that such study will come out with the result that the pension funds will be self sustainable on long term basis and at the time of termination of the scheme the funds will be left with substantial surplus.

(h)LIFE SPAN OF PENSIONER: Empirical study is required on the life span of bankers based on actual data of last 18 years. According to our data, bank retiree draws pension for 7-8 years on an average after normal retirement (Note: There could be some abrasion in this regard due to introduction of VRS scheme in 2000, employees taking retirement at early age and started drawing pension from the date of VRS. But this issue need to be dealt separately.) and family pension for next 4-5 years. Therefore to adopt LIC formula on life expectancy on wholesale basic as being done by the actuary may not give correct picture and simply misleads to us in the wrong direction prejudicial to the interest of retirees/employees.

3. One more complex issue of Pension Fund

As we know, pension fund is a common fund and no separate record is maintained for each individual for the purpose of determining his/her pension benefits based on its performance unlike Provident Fund or pension fund under NPS where the benefits are determined for each individual on the basis of his /her corpus has performed. In last 18 years two important features have emerged in determining pension benefits to the retirees. While on one side the basic pension for the past retirees has remained stagnant and on other side the employees retiring in future have received benefit of updation in each settlement. In other words, as and when basic pay of employee is revised upward in the settlement due to merger of index exercise and some increase thereafter, he/she is not only benefited with increase in basic pay but also benefited at the time of retirement by way of fixation of higher basic pension which is determined on the basis of last pay drawn. The benefit of higher basic pension is available in each settlement to the employees as long as they are in service and this privilege stands withdrawn once one become past retiree. At present there is no system of revision of basic pension for the past retirees at the time of carrying out of exercise of wage settlement. This phenomena has resulted into huge gap in the basic pension of those retired in 5th settlement and those retired in the 9th settlement or would be retiring under 10th settlement. Basic pension of a clerk retired under 5th settlement is Rs. 1430 against the clerk retired under 9th settlement drawing basic pension of Rs.9150 and it would be around Rs. 12000 for a clerk retiring under 10th settlement registering 8 fold increase. Under the present system, one remain satisfied as long as

he/she is in service and becomes dissatisfied after the retirement and degree of the dissatisfaction increases with each new settlement. All funds required for the exercise of pension updation which is restricted to one particular group are drawn from the common pension fund. This higher withdrawal of funds for a particular group creates more dissatisfaction among the past retirees.

One standard argument advanced against the updation exercise for past retirees is the fund constrain. This perception and argument do not seem to be based on logic. While, there would be enough funds for the employees for increase in their basic pension in each settlement but the buck stops when the past retirees comes into picture. Further the vital fact should not be lost sight of is that present employee will also become past retiree.

The another angle where we want to draw attention of the unions is that every settlement allocate certain funds for the purpose of superannuation benefits. But they are invariably meant for the future retirees. Past retirees hardly get allocation out of it. In each settlement, pay scales of the employees are improved. In 10th settlement it is now agreed that 401 slabs will be merged in basic pay of the employees. It will naturally result into higher basic pension, higher gratuity and higher amount of leave encashment . It will definitely call for certain allocation of funds under superannuation benefits in this settlement. But it will not benefit the past retirees. What we demand is that specific allocation of funds exclusively for past retirees. This is the most important and in the best interest of not only the past retirees but existing employees in view of the fact that employee and retiree status is not static but dynamic, there has already been delay of more than 15 years in carrying out this exercise and by the time 11th settlement becomes due, the entire working class environment in the banking industry will undergo change because of joining of new work force in the large number with NPS pension scheme having new priorities and demands of different nature.

AIBRF always believe in long term vision and work for it. We have mission and vision to give better and respectable platform to our future retiree colleagues.

AIBRF would like to discuss the issue with the UFBU leadership to take them forward for logical conclusion and offer all cooperation and support for this purpose.

With respectful regards

Yours Sincerely

(S.C.JAIN)
GENERAL SECRETARY

ALL INDIA BANK RETIREES' FEDERATION

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Near Kasara Bazar School, Indore – 452 009.

C.C. Shri C.H.Venkatachalam, G.S. AIBEA
We know AIBEA has been pioneer to bring the most reliable pension scheme in the banking industry. We request your personal attention and cooperation in addressing the above issues

C.C. to All affiliates of UFBU

With the request to extent all cooperation in resolving the issues.