TAX FLASH NEWS

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KPMG in India releases report on employee pensions in India at FICCI's conference on pension sector

Background

KPMG in India, in association with the Federation of Indian Chambers of Commerce and Industry (FICCI), published a knowledge paper titled, 'Employee pensions in India – Moving towards a pensioned society'[1]. The report was released at the conference on 'India: Moving Towards a Pensioned Society', organised by FICCI on 15 March 2017.

For the knowledge paper, KPMG in India again conducted an 'Employer pension plans survey' in 2017, similar to the survey conducted in the year 2015, to have an overview of the pension plans from industry representatives. Responses were received from 167 organisations, with representation from diverse sectors.

Key findings of the survey

- The system of automatic enrolment of employees under the EPF regime is largely prevalent. Around 84 per cent of the respondent companies mandatorily enrol their employees for EPFO membership, irrespective of the salary level.

- Nearly 55 per cent of the survey respondents confirmed that employees in their organisations are exercising the option of contributing to Voluntary Provident Fund (VPF).

- Around 82 per cent of the respondent companies are contributing towards PF on full basic salary of the employees while 13 per cent restrict the same on statutory monthly limit of INR15,000.

- Thirty six per cent of the respondent companies have registered for National Pension System (NPS). Further, almost 33 per cent of organisations that currently do not have NPS, are considering to register for NPS.

- Tax benefits for employees continue to be the primary motivator (52 per cent of the respondents) for employers to opt or consider NPS in this year's survey as well. A large number of respondents (42 per cent) view employee empowerment for pension planning as one of the motivating factors for opting/considering NPS.

- Further, almost 57 per cent of the respondents stated that there has been an increase in NPS enrolment due to Finance Act, 2016 announcement regarding tax benefits on withdrawal of NPS contributions.

- Only 29 per cent of the respondents have set up superannuation fund (SAF) for their employees.

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[1] Knowledge paper: Employee pensions in India – Moving towards a pensioned society

https://home.kpmg.com/in/en/home/insights/2017/03/pension-pf-nps.html?cid=ext-eml_scbr_2017_tl-in_pension_in_all&utm_medium=eml&utm_source=ext-scbr&utm_content=in-all&utm_campaign=2017-tl-in-pension

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- A large majority of the respondents (around 92 per cent) agree on the importance of tax savings as an important consideration for voluntary contributions to retirement plans.
- Forty four per cent of the respondent companies feel that the current pension plans in their companies are inadequate

Our comments

In order to embark upon the ambitious journey towards a pensioned society, India would require a systemic approach for designing a coherent pension system. The aspiration of a pensioned society would need greater emphasis on implementing pension reforms. A lot of effort and planning are needed for building sufficient capacity, scalability and support for implementation of such reforms. Employers will be required to engage more actively with their employees for enabling them to take effective and timely pension planning decisions.

Given the large gap in pension coverage, both the regulators, EPFO and PFRDA, along with the government and industry need to collaborate and build a comprehensive pension system in India. Significant efforts are required for building sufficient institutional capacity for implementing pension reforms in India.

www.kpmg.com/in

Ahmedabad
Commerce House V, 9th Floor,
902 & 903, Near Vodafone House,
Corporate Road,
Prahlad Nagar,
Ahmedabad – 380 051
Tel: +91 79 4040 2200
Fax: +91 79 4040 2244

Bengaluru
Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala, Bangalore 560 071
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh
SCO 22-23 (Ist Floor)
Sector 8C, Madhya Marg
Chandigarh 160 009
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai
No.10, Mahatma Gandhi Road
Nungambakkam
Chennai 600 034
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Gurgaon
Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurgaon, Haryana 122 002
Tel: +91 124 307 4000
Fax: +91 124 254 9101

Hyderabad
8-2-618/2
Reliance Humsafar, 4th Floor
Road No.11, Banjara Hills
Hyderabad 500 034
Tel: +91 40 3046 5000
Fax: +91 40 3046 5299

Kochi
Syama Business Center
3rd Floor, NH By Pass Road,
Vytilla, Kochi – 682019
Tel: +91 484 302 7000
Fax: +91 484 302 7001

Kolkata
Unit No. 603 – 604,
6th Floor, Tower – 1,
Godrej Waterside,
Sector – V, Salt Lake,
Kolkata 700 091
Tel: +91 33 44034000
Fax: +91 33 44034199

Mumbai
Lodha Excelus, Apollo Mills
N. M. Joshi Marg
Mahalaxmi, Mumbai 400 011
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Noida
6th Floor, Tower A
Advant Navis Business Park
Plot No. 07, Sector 142
Noida Express Way
Noida 201 305
Tel: +91 0120 386 8000
Fax: +91 0120 386 8999

Pune
703, Godrej Castlemaine
Bund Garden
Pune 411 001
Tel: +91 20 3050 4000
Fax: +91 20 3050 4010

Vadodara
iPlex India Private Limited
1st floor office space, No.1004,
Vadodara Hyper, Dr. V S Marg,
Bund Garden
Vadodara 390 007
Tel: +91 26 5235 1085 / 2322607 / 2322672

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