Editorial

Pension Ponderables

"Old age is the most unexpected of all things that happen to man."--Leon Trotsky

An age bomb is ticking in India with the current elderly population of nearly 75 million expected to increase to 160 million by 2020. Around one-eight of the world's elderly population lives in India. Caring for the aged is part of our social tradition and ethos with explicit recognition of Vanaprastha or 'retirement stage' and action taken by family and community to facilitate the same. Unfortunately, in India, Old Age seems to be most unanticipated and consequently groundwork for it is quite inadequate. With globalization and migration, the joint family system is on the decline (at least in urban areas) and to that extent the challenge of caring for the aged has become greater for society and the government. The traditional and informal methods of old age income security are not able to cope with the trends of increased life span and enhanced medical expenses during old age.

Pension savings are the primary source of security for retirement. Pensions are expected to achieve the goals of minimizing poverty in old age; smoothening inter temporal life consumption, which fluctuates significantly and ensuring that retirees do not outlive their pension benefits. This has been achieved in different countries and different sectors by following specific retirement benefit schemes like pay-as-you go, which are Defined Benefit plans and publicly funded. However there is an increase in the greying population on account of increased life expectancy due to advances in medicine, decline in population growth and improved lifestyle requirements at old age. All these factors are putting pressure on the social security system and also impacting the corporate's balance sheets due to greater pension outlays. In such a scenario, corporates would like to move away from Defined Benefit to Defined Contribution schemes but are being met with substantial opposition from employees due to fall in the benefits.

India has to grapple with an additional problem of larger coverage of the population under the social security net especially the unorganized sector (An OASIS report estimates that nearly 90% of the workforce is not covered by any of the mandatory schemes and they depend on other financial savings, investment in gold or on family support) and the ability of the state to sustain its current schemes for government employees, owing to the fact that pension payments constitute a major share of the government's expenditure and thus any increase in pension payment will add to the already woeful fiscal deficit of the country.

The existing schemes like Provident Fund schemes are characterized by under performance and are viewed more as modes of tax evasion by the salaried income earners rather than as a fund that would cover expenditure during the lifetime after retirement. Investment restrictions owing to archaic regulations; under developed annuity markets, which result in limited returns and inadequate development of the insurance sector that has a symbiotic relationship with the pensions sector, have hindered pension reforms in our country. Apart from addressing the commercial and economic considerations of pensions; reducing the wide chasm between the pension benefits of the public and private sectors and linking health care issue with retirement benefits are also required to take care of the social aspect of pensions.

The Old Age Social and Income Security (OASIS) report has led to the formulation of the New Pension Scheme (NPS) in India from 2009. The NPS is a first of its kind social security scheme and is proposed to remove the many ills that plague the current pension sector in India.

In the current issue we focus on the salient features of the NPS and examine the accounting standards relating to retirement plans. Cost Accounting Standard- 7 on Employee Cost released by ICWAI also considers the aspect of retirement plans. As advisors/ consultants, Cost & Management Accountants have an important role in recommending the most suitable and cost effective pension plans for their clients.