

APPENDIX D

RETIREMENT BENEFITS AND FAMILY PROTECTION

NOTE PREPARED BY MR. A. H. WILSON, MILITARY ACCOUNTANT GENERAL.

In my reply to question No. 33 of the questionnaire circulated by the Central Pay Commission I proposed the introduction of a combination of Pension, Contributory Provident Fund and short term Endowment Life Assurance, in order to remedy as far as possible the defects I see in the system now in operation.

2. Briefly these defects are:—

- (a) Pension alone: this makes no provision of any kind for the family in the event of the death of the wage-earner before he has been able to effect commutation of a portion of his pension.
- (b) Pension combined with ordinary Provident Fund: this is a very slight improvement on (a), but the provision for the family in the event of the premature death of the wage-earner is negligible.
- (c) Contributory Provident Fund: this makes provision for the family to an ever increasing extent, but the amount is small in the earlier years. Moreover, the Government servant who lives to draw the balance is vulnerable, since he may lose it all by ill-advised speculation.

3. Under the scheme I propose, the Government servant who lives to retire will be protected against absolute destitution by the pension element, although, since the cost of Government's contribution to the Provident Fund and Endowment Policy will presumably have to be met from within the estimated cost of the pension at present earned, the pension will be smaller than at present. The protection for the family afforded by the Contributory Provident Fund will be augmented in the earlier years by the Endowment Policy. When the Policy matures, the proceeds will be added to the Contributory Provident Fund balance and earn interest in the normal way.

4. The Government servant will subscribe, to the Fund from the commencement of his service, month by month; and the Government contribution, equal to the twelve monthly payments made by the Government servant, will be added annually in arrears. When I gave evidence before the Commission on the 20th September, I stated that the Endowment Policy would be taken out at the end of the 5th year of service. On further consideration I have decided that this is too late, and I now propose that it be taken out at the end of the second year of service. I have two additional reasons for suggesting this date: (a) there will be a small accumulation in the Fund upon which to draw; and (b) since an officer spends his first two years on probation, it would be ill-advised to take out an Assurance Policy before he has been confirmed. I suggest that the Endowment Policy be for a term of fifteen years, for shortly before the end of that period a straight-forward Provident Fund out-distances Assurance.

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5. In order to shew the effect of the scheme, I have worked out three hypothetical cases: namely, that of a clerk who subscribes 10 per cent. of his salary; that of an officer who subscribes 10 per cent. of his salary; and since it is possible that a subscription of 10 per cent. may be thought too heavy a burden on the individual, that of an officer who subscribes 5 per cent. of his salary. In each of these three cases I have assumed that the Fund earns interest at 3 per cent., that the rates of pay I proposed in my reply to the questionnaire are in operation, that the Government servant will be 27 years of age next birthday when the Endowment Policy is taken out, and that he retires on completion of 30 years service. In the case of the clerk, I have assumed that he remains a clerk throughout his total service: that is to say, he fails to pass the Subordinate Accounts Service Examination. In the cases of the officers, I have assumed that they enter the senior Class II scale of pay on completion of six years service, are promoted to Class I on completion of 18 years service, and are promoted Command Controllers on completion of 25 years service. The Endowment Policies are taken to cost Rs. 68/10 for each Rs. 1,000 of Assurance. This rate of premium will be found in the prospectus issued by the New India Assurance Company in August 1941.

6. I attach a table in respect of each of the three examples I have selected showing:—

- (a) The rise of a Contributory Provident Fund without an Endowment Assurance Policy; and
- (b) The rise of the same Contributory Provident Fund with the Endowment Policy super-imposed.

In each table I separate the subscriber's portion of the Fund from the Government portion, in order that the cost to Government at every stage may be seen. Half the cost of the Policy is charged to the subscriber's portion of the Fund, the other half to the Government portion. The proceeds of the policy when it matures, being cash, are added to the subscriber's portion of the Fund.

7. There is one important difference between a Pension and a Contributory Provident Fund. A pension is only a partial liability to the State in the sense that it becomes effective only in those cases where the Government servant lives to draw it. If the Government servant dies before retirement, or, having retired, before commutation is effected, the liability of the State in the matter of his pension vanishes. In the case of a Contributory Provident Fund the liability of the State is real from the outset, for the balance standing to the credit of a subscriber is payable to his estate if he should die before retirement. Due weight must be given to this difference when calculating the extent to which existing pensions would have to be reduced in order to meet the cost of the Contributory Provident Fund and Endowment Policy I propose. This, in my view, is a matter for an Actuary.

8. I shall now examine in some detail the hypothetical cases I have selected.

1. *The Clerk.*

- (a) This man, if governed by the pension rules now in operation, is entitled to a pension of Rs. 100 per mensem on retirement after completing 30 years service. He is entitled to commute half his annual pension, i.e., Rs. 600. If 56 years of age next birthday and in good health the commutation factor is 11·09 and he thus receives Rs. 6,645 in a lump sum, and draws, until death, a decreased pension of Rs. 50 per mensem. There is no protection for the family until he has effected commutation, and the liability of Government is nil in the event of premature death.
- (b) In columns 4, 5 and 6 of the Table I, I shew the growth of a Contributory Provident Fund to which the clerk subscribes 10 per cent. of his salary monthly and to which Government adds at the close of each year a contribution equal to the twelve monthly instalments subscribed by the clerk. In this case, the liability of Government is real from the beginning, commencing with Rs. 96 at the end of the first year and rising to Rs. 8,530 at the end of the thirtieth year (column 5). In this case there is protection for the family from the beginning, but it is low in the earlier years (column 6).
- (c) In columns 7 to 12 of Table I, I shew the growth of the Contributory Provident Fund described in the previous clause from which an Endowment Policy of Rs. 4,000, maturing in 15 years, is financed. In this case, also, the liability of Government is real from the outset and rises from Rs. 96 at the end of the first year to Rs. 6,871 at the end of the thirtieth year (column 10). The protection afforded to the family is substantial from the end of the second year of service (column 12).

(d) To sum up:—

Pension provides no protection for the family until the Government servant retires and commutes a moiety. On the assumption that he will be 56 years of age next birthday, the result is Rs. 6,645.

A simple Contributory Provident Fund provides protection for the family rising from Rs. 439 at the end of the second year to Rs. 17,208 at the end of the thirtieth year. Only at the end of the twelfth year does the protection for the family exceed Rs. 4,000.

The cost to the State at the end of 30 years is Rs. 8,530.

The Contributory Provident Fund and Endowment Policy provide protection for the family rising from Rs. 4,184 at the end of the second year to Rs. 15,939 at the end of the thirtieth year. The cost to the State at the end of 30 years is Rs. 6,871.

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II. *The Officer subscribing 10 per cent.*

- (a) This officer, if governed by the pension rules now in operation, is entitled to a pension of Rs. 6,000 per annum plus an additional pension of Rs. 1,500 per annum making Rs. 7,500 per annum in all, on retirement after completing 30 years service. He is entitled to commute Rs. 3,750 per annum. If 56 years of age next birthday the commutation factor is 11.09 and he therefore receives a lump sum payment of Rs. 41,587-8-0 and draws until death a decreased pension of Rs. 3,750 per annum. The liability of Government is nil in the event of premature death.
- (b) In columns 4, 5 and 6 of Table II, I shew the growth of a Contributory Provident Fund to which the officer subscribes 10 per cent. of his salary monthly, and to which Government adds at the close of each year a contribution equal to the twelve monthly instalments subscribed by the officer. In this case the liability of Government is real from the outset, being Rs. 360 at the end of the first year and rising to Rs. 52,067 at the end of the thirtieth year (column 5). In this case there is protection for the family from the beginning, but it is low in the earlier years (column 6).
- (c) In columns 7 to 12 of Table II, I shew the growth of the Contributory Provident Fund described in the previous clause, from which an Endowment Policy of Rs. 15,000, maturing in 15 years, is financed. In this case, also, the liability of Government is real from the outset and rises from Rs. 360 at the end of the first year to Rs. 45,836 at the end of the thirtieth (column 10). The protection afforded to the family is substantial from the end of the second year of service (column 12).

(d) To sum up:—

Pension provides no protection for the family until the officer retires and commutes a moiety. On the assumption that he will be 56 years of age next birthday the result is Rs. 41,587-8-0.

The simple Contributory Provident Fund provides protection for the family rising from Rs. 1,471 at the end of the second year to Rs. 105,017 at the end of the 30th year. Only at the end of the eleventh year does the protection for the family exceed Rs. 15,000. The cost to the State at the end of 30 years is Rs. 52,067.

The Contributory Provident Fund and Endowment Policy provide protection for the family rising from Rs. 15,516 at the end of the second year to Rs. 100,210 at the end of the 30th year. The cost to the State at the end of 30 years is Rs. 45,836.

III. *The Officer subscribing 5 per cent.*

- (a) Pension and commutation details are identical with those given under II a. The liability of Government is nil in the event of premature death.

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- (b) In columns 4, 5 and 6 of Table III, I shew the growth of a Contributory Provident Fund to which the officer subscribes 5 per cent. of his salary monthly, and to which Government adds at the close of each year a contribution equal to the twelve monthly instalments subscribed by the Officer. In this case the liability of Government is real from the outset, being Rs. 180 at the end of the first year and rising to Rs. 25,916 at the end of the 30th year (column 5). In this case there is protection for the family from the beginning, but it is low in the earlier years (column 6).
- (c) In columns 7 to 12 of Table III, I shew the growth of the Contributory Provident Fund described in the previous clause, from which an Endowment Policy of Rs. 8,000, maturing in 15 years is financed. In this case also the liability of Government is real from the outset and rises from Rs. 180 at the end of the first year to Rs. 22,601 at the end of the thirtieth (column 10). The protection afforded to the family is substantial from the end of the second year of service (column 12).
- (d) To sum up:—
- Pension provides no protection for the family until the officer retires and commutes a moiety. On the assumption that he will be 56 years of age next birthday the result is Rs. 41,587-8-0.
- The simple Contributory Provident Fund provides protection for the family rising from Rs. 735 at the end of the second year to Rs. 52,285 at the end of the thirtieth year. Only at the end of the twelfth year does the protection for the family exceed Rs. 8,000. The cost to the State at the end of 30 years is Rs. 25,916.
- The Contributory Provident Fund and Endowment Policy provide protection for the family rising from Rs. 8,226 at the end of the second year to Rs. 49,708 at the end of the thirtieth year. The cost to the State at the end of 30 years is Rs. 22,601.

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TABLE I.—Clerk Subscribing 10 per cent of his salary

		NORMAL CONTRIBUTORY PROVIDENT FUND						CONTRIBUTORY PROVIDENT FUND cum ENDOWMENT POLICY					
1	2	3	4	5	6	7	8	9	10	11	12		
End of 1st year	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
2nd	80	8	97	96	193	97	96	Nil.	96	Nil.	193		
3rd	100	10	221	218	439	93	91	127	218	4,000	4,184		
4th	105	10	349	344	693	99	86	254	340	4,000	4,185		
5th	110	11	498	486	979	108	93	381	474	4,000	4,201		
6th	115	11	641	632	1,273	117	100	508	608	4,000	4,217		
7th	120	12	800	794	1,600	138	129	635	755	4,000	4,258		
8th	125	12	976	961	1,937	160	140	762	902	4,000	4,300		
9th	130	13	1,168	1,145	2,208	195	173	880	1,062	4,000	4,368		
10th	135	13	1,356	1,335	2,691	231	207	1,010	1,223	4,000	4,438		
11th	140	14	1,567	1,543	3,110	270	254	1,148	1,397	4,000	4,534		
12th	145	14	1,784	1,767	3,541	331	302	1,270	1,572	4,000	4,639		
13th	150	15	2,020	1,989	4,009	395	364	1,397	1,701	4,000	4,759		
14th	155	15	2,268	2,228	4,491	461	427	1,524	1,851	4,000	4,888		
14th	160	16	2,524	2,486	5,012	541	504	1,651	2,156	4,000	5,145		

NORMAL CONTRIBUTORY PROVIDENT FUND

CONTRIBUTORY PROVIDENT FUND cum ENDOWMENT POLICY

The annual premium for the Rs. 4,000 Endowment Policy is Rs. 54-8 per annum. This has been rounded off to Rs. 255 per annum and charged Rs. 128 per annum to subscriber's portion of the Fund. Rs. 127 per annum to Government portion of the fund.

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15th	165	3,706	2,752	5,648	624	594	1,778	2,362	4,000	5,208
16th	170	3,087	3,034	6,121	722	678	1,905	2,583	4,000	6,300
17th	175	3,386	3,329	6,715	4,950	062	1,905	2,807	...	5,862
18th	180	3,707	3,644	7,351	5,312	1,145	1,905	3,050	...	6,463
18th	185	4,127	3,969	8,006	5,097	1,305	1,905	3,200	...	7,092
20th	190	4,389	4,316	8,705	6,789	1,664	1,905	3,569	...	7,763
21st	195	4,732	4,673	9,426	6,513	1,941	1,905	3,848	...	8,454
22nd	200	5,138	5,053	10,191	6,362	2,239	1,905	4,144	...	9,191
23rd	200	5,536	5,444	10,980	7,404	2,540	1,905	4,451	...	9,950
24th	200	5,945	5,847	11,792	7,870	2,862	1,905	4,767	...	10,732
25th	200	6,367	6,262	12,629	8,350	3,187	1,905	5,092	...	11,587
26th	200	6,801	6,690	13,490	8,844	3,522	1,905	5,427	...	12,466
27th	200	7,245	7,159	14,377	9,353	3,867	1,905	5,772	...	13,220
28th	200	7,700	7,582	15,291	9,877	4,223	1,905	6,128	...	14,100
29th	200	8,184	8,049	16,233	10,417	4,589	1,905	6,494	...	15,006
30th	200	8,673	8,529	17,203	10,973	4,968	1,905	6,871	...	15,939

TABLE II.—Officer subscribing 10 per cent. of his salary

End of 1st year	1	Salary per mensem during year	2	Subs-cription per mensem during year	3	ORDINARY CONTRIBUTORY PROVIDENT FUND			CONTRIBUTORY PROVIDENT FUND AND ENDOWMENT POLICY						
						Subscriber's portion of the Fund	Government portion of the Fund	Total of columns 4 & 5	Subscriber's portion of the Fund, less share of premium	Government portion of the Fund, less share of premium	Premia disbursed to date by Government	Progressive cost to Government Total of columns 8 & 9	Policy Protection	Total of columns 7, 8 and 11	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
		300	30	365	360	725	365	360	Nil	360	360	360	Nil	Rs.	725
2nd		300	30	741	730	1,471	268	253	477	477	730	730	15,000	Rs.	15,516
3rd		400	40	1,251	1,231	2,482	260	263	954	954	1,217	1,217	15,000	Rs.	15,543
4th		425	42	1,800	1,771	3,571	320	297	1,431	1,431	1,728	1,728	15,000	Rs.	15,617
5th		450	45	2,402	2,364	4,766	400	368	1,908	1,908	2,276	2,276	15,000	Rs.	15,768
6th		475	47	3,047	2,998	6,045	507	460	2,385	2,385	2,851	2,851	15,000	Rs.	15,973
7th		630	63	3,806	3,848	7,749	812	758	2,562	2,562	3,620	3,620	15,000	Rs.	16,570
8th		665	66	4,328	4,740	9,568	1,163	1,095	3,339	3,339	4,434	4,434	15,000	Rs.	17,258
9th		700	70	5,326	5,722	11,548	1,573	1,490	3,816	3,816	5,306	5,306	15,000	Rs.	18,063
10th		735	73	6,331	6,769	13,660	2,032	1,933	4,293	4,293	6,226	6,226	15,000	Rs.	18,965
11th		770	77	7,636	7,896	15,332	2,558	2,437	4,770	4,770	7,207	7,207	15,000	Rs.	19,990
12th		205	20	9,252	9,092	18,344	3,127	2,993	5,247	5,247	8,240	8,240	15,000	Rs.	21,120
13th		340	34	10,563	10,372	20,925	3,767	3,613	5,724	5,724	9,937	9,937	15,000	Rs.	22,330
14th		875	87	11,934	11,727	23,661	4,462	4,288	6,201	6,201	10,489	10,489	15,000	Rs.	23,760
15th		910	91	13,401	13,160	26,561	5,227	5,031	6,678	6,678	11,709	11,709	15,000	Rs.	25,268

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16th	946	'94	14,949	14,682	24,031	6,082	5,882	7,155	12,987	15,000	20,884
17th	980	'98	16,502	16,283	32,880	22,428	7,182	7,155	14,387	...	20,810
18th	1,015	101	18,821	17,968	36,312	24,882	8,609	7,155	15,764	...	32,041
19th	1,200	120	20,834	19,977	40,311	26,525	10,307	7,155	17,462	...	36,832
20th	1,250	125	22,408	22,076	44,644	28,645	12,116	7,155	19,271	...	40,901
21st	1,300	130	24,727	24,298	49,025	31,295	14,089	7,155	21,194	...	45,384
22nd	1,350	135	27,115	26,646	53,701	33,880	16,080	7,155	23,235	...	49,900
23rd	1,400	140	29,635	29,125	58,760	36,603	18,242	7,155	25,397	...	54,545
24th	1,450	145	32,292	31,788	64,080	39,469	20,529	7,155	27,684	...	59,098
25th	1,500	150	35,090	34,490	69,680	42,482	22,944	7,155	30,099	...	63,426
26th	1,500	150	38,387	37,654	76,021	45,951	25,792	7,155	32,647	...	71,743
27th	1,850	185	41,743	41,084	82,777	49,686	28,785	7,155	35,940	...	78,370
28th	1,900	190	45,312	44,545	89,957	53,889	31,923	7,155	39,083	...	85,317
29th	1,950	195	49,049	48,221	97,270	57,869	35,225	7,155	42,380	...	92,504
30th	2,000	200	52,950	52,037	1,05,017	61,529	38,681	7,155	45,838	...	1,00,210

TABLE III.—Officer subscribing 5 per cent. of his salary

	Salary per incense during year		Subscription per incense during year		ORDINARY CONTRIBUTORY PROVIDENT FUND			CONTRIBUTORY PROVIDENT FUND AND ENDOWMENT POLICY					
	Rs.	Rs.	Rs.	Rs.	Subscriber's portion of the Fund	Government portion of the Fund	Total of columns 4 and 5	Subscriber's portion of the Fund, less share of premium	Government portion of the Fund, less share of premium	Premia disbursed to date by Government	Progressive cost to Government, Total of columns 8 and 9	Policy Protection	Total of columns 7, 8, 9 and 11
I					4	5	6	7	8	9	10	11	12
End of 1st year	300	15	182	180	362	180	180	182	180	Nil	180	Nil	362
2nd	300	15	370	365	735	365	370	115	311	254	365	3,000	8,226
3rd	400	20	625	615	1,240	615	1,240	107	100	508	603	3,000	8,207
4th	425	21	899	885	1,784	885	1,784	111	101	762	863	3,000	8,212
5th	450	22	1,194	1,175	2,369	1,175	2,369	127	114	1,016	1,180	3,000	8,241
6th	475	23	1,510	1,486	2,996	1,486	2,996	156	139	1,270	1,409	3,000	8,295
7th	680	31	1,933	1,902	3,835	1,902	3,835	233	261	1,524	1,765	3,000	8,544
8th	665	33	2,393	2,355	4,748	2,355	4,748	438	410	1,778	2,183	3,000	8,843
9th	700	35	2,891	2,842	5,733	2,842	5,733	622	588	2,032	2,620	3,000	9,210
10th	735	36	3,416	3,350	6,775	3,350	6,775	824	783	2,286	3,069	3,000	9,607
11th	770	38	3,981	3,915	7,896	3,915	7,896	1,057	1,008	2,540	3,548	3,000	10,065
12th	805	40	4,587	4,512	9,099	4,512	9,099	1,321	1,264	2,784	4,058	3,000	10,585
13th	840	42	5,236	5,151	10,387	5,151	10,387	1,617	1,551	3,048	4,598	3,000	11,189
14th	875	43	5,917	5,821	11,738	5,821	11,738	1,934	1,859	3,302	5,161	3,000	11,793
15th	910	45	6,643	6,536	13,178	6,536	13,178	2,285	2,200	3,556	5,763	3,000	12,485
16th	945	47	7,415	7,295	14,710	7,295	14,710	2,671	2,576	3,810	6,386	3,000	13,247

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17th	980	49	8,236	5,101	16,336	11,248	3,241	3,810	7,051	...	14,589
18th	1,015	50	9,091	5,944	18,036	12,298	3,956	3,810	7,748	...	16,236
19th	1,200	60	10,096	9,832	20,027	13,308	4,770	3,810	8,550	...	18,174
20th	1,250	62	11,153	10,973	22,126	14,556	5,063	3,810	9,473	...	20,219
21st	1,300	65	12,280	12,052	24,332	15,785	6,012	3,810	10,422	...	22,397
22nd	1,350	67	13,465	13,248	26,713	17,075	7,014	3,810	11,424	...	24,089
23rd	1,400	70	14,722	14,485	29,207	18,440	8,052	3,810	12,492	...	27,122
24th	1,450	72	16,041	15,783	31,824	19,871	9,006	3,810	13,616	...	29,077
25th	1,500	75	17,436	17,156	34,592	21,381	11,000	3,810	14,810	...	32,381
26th	1,800	90	19,056	18,750	37,806	23,119	12,410	3,810	16,220	...	35,529
27th	1,850	92	20,740	20,416	41,156	24,934	13,886	3,810	17,696	...	38,820
28th	1,900	95	22,529	22,168	44,697	26,840	15,442	3,810	19,252	...	42,282
29th	1,950	97	24,417	23,997	48,414	28,828	17,079	3,810	20,880	...	45,907
30th	2,000	100	26,369	25,910	52,285	30,912	18,761	3,810	22,601	...	49,703