Responding to COVID-19

Retirement Benefit Guidebook: Implications for Employers in India

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Introducing: COVID-19 Retirement Benefits Guidebook for India

- The COVID-19 pandemic fundamentally has changed the ability of people to work normally, companies to operate effectively, and markets to function efficiently. While companies in different geographies are impacted at different times and industries in different ways, a set of common characteristics and effective responses has emerged.
- With a focus on retirement benefits, this document identifies some key objectives and areas of focus for businesses grappling with the current crisis and presents a comprehensive list of measures through the Willis Towers Watson "***Navigator Framework***" that companies can adopt to manage the impact of COVID-19.

Objectives: Short-term (Tactical)

- Identify opportunities to preserve cash.
- Prepare for implications of workforce changes.
- Mitigate adverse reactions regarding savings and investments due to an economic downturn.
- Develop potential options for employees who are financially affected by workforce actions and economic downturn.

Focus Areas: Short-term

- Evaluation of options for cash preservation (if needed) such as delay or suspension of employer contributions.
- Review options to address concerns and enable flexibility (e.g. hardship withdrawals) for specific cohorts of employees affected by workforce actions such as furloughs, reduced hours, and lay-offs.
- Clear and concise employee communications to educate on support and savings behaviours during crisis, being mindful of varying population segments.
- Ongoing governance and compliance of retirement plan operations.

Objectives: Medium to Long-term (Strategic)

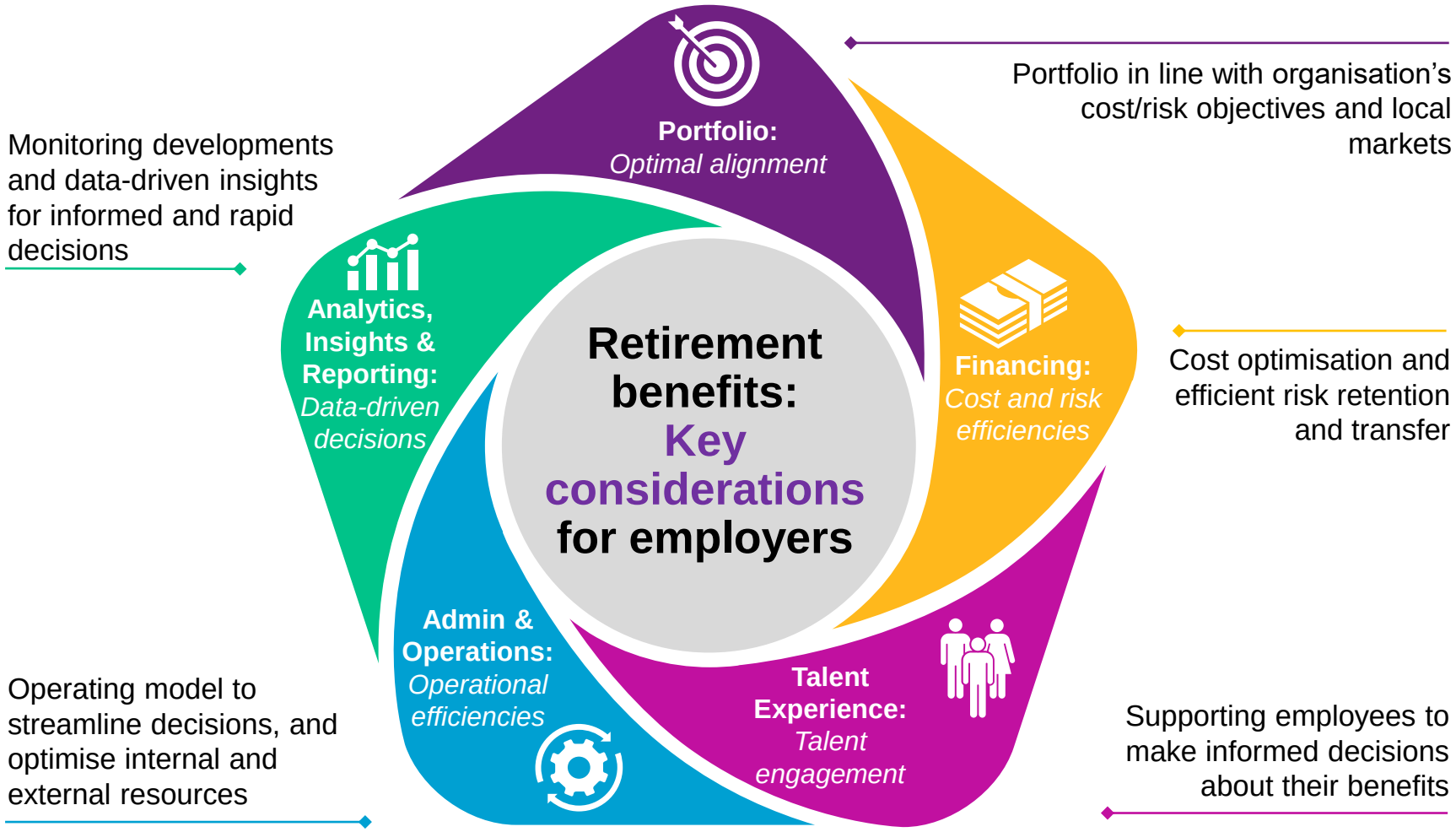
- Take a holistic view of wellbeing, financial security and effectiveness of savings and retirement plans.
- Address any mid- and long-term impact on employees' financial and emotional wellbeing.
- Improve the long-term resiliency of defined contribution and savings plans and post-employment financial security.

Focus Areas: Medium to Long-term

- Active and agile employee listening strategies to assess financial concerns and stress regarding future safety, financial wellbeing.
- Monitoring employee behaviour such as participation, savings rates and withdrawals.
- Active vendor management for value-added services, planning tools, and communications and independent financial advice (where applicable).
- Monitoring of government actions and/or legislative changes and their impact on plan design and costs.

COVID-19 Retirement Benefits Guidebook for India: The Navigator Framework

Five dimensions that typically define a Retirement Benefit Strategy



Portfolio: *Optimal alignment*

Focus Area	Gratuity	Provident Fund	Corporate NPS	Superannuation / Pension (SAF)	Leave Encashment
Design flexibility: Review existing benefit design features because employees may be looking for more flexibility with respect to contribution schedules, timing of lump sum payments, etc.	Mandatory design, so design changes unlikely.	Mandatory design, so design changes unlikely.	**Possible considerations:** • Employees may consider opting out, deferring or reducing their contributions to improve their in-hand cashflow position, though this may have additional tax implications for employees. **Potential actions:** • Consider what options are available in the NPS design to provide more flexibility to employees; however, this may be limited to reducing future contributions only.	**Possible considerations:** • Employees may consider opting out or reducing their contributions to improve their in-hand cashflow position, though this may have additional tax implications for employees. **Potential actions:** • Consider what options are available to provide more flexibility to employees with contributions or to defer lump sum payouts for retiring members, subject to existing provisions in the trust rules.	**Possible considerations:** • In general, we may expect the long-term leave liabilities to increase post COVID-19, as most employees are not availing leave days during the lockdown or are mandatorily assumed to be “on duty” even if the factory is closed. **Potential actions:** • Companies may review their leave policy to mitigate any long-term liability impact, e.g. reducing carry-forwards or maximum accumulations. • In the short term, companies may encourage / mandate employees to avail more leaves to control long-term accumulation. • However, this will need to be done carefully and in a structured manner, as companies are likely to see a significant increase in leave requests once lockdown restrictions ease. • Companies can consider introducing additional features in their leave policy for special circumstances, e.g. family care leave days, wherein employees can use encashable leave days (in half days or full days) to attend to family needs and household chores.

Financing: *Cost and risk efficiencies*

Focus Area	Gratuity	Provident Fund	Corporate NPS	Superannuation / Pension (SAF)	Leave Encashment
Managing cashflow and funding requirements: Companies are focusing on improving their cashflow position and preserving cash.	**Possible considerations:** • For those with funded gratuity schemes, there is an opportunity to preserve cash by deferring annual contributions (no minimum contribution legislation in India). • The deferment for such contributions can be explored both in respect of the amount and timing of contributions (however, this may impact tax deductions for financial year 2020-21). • For those funds managed by insurance companies, usually the insurer would provide a contribution statement, setting out the minimum contributions for the year, which may not allow for the company's specific circumstances. • For funds managed by insurance companies, ensure that the payouts (in full) made to exiting employees are processed through the insurer, and not through company funds. **Potential actions:** • Consider an independent review of these statements to assess flexibility in contribution schedules. • Companies could negotiate a more flexible contribution calendar with the fund manager / insurer, which could include deferments of any immediate contributions. • Actuarial assumptions for contribution schedules can also be reviewed in light of the current economic scenario (as insurers often use very prudent assumptions to increase contribution amounts)	**Possible considerations:** • Employer contributions are mandatory; hence, there is limited flexibility to reduce / defer these. • For those with a self-managed provident fund trust, legislation may not allow for fund reserves / surplus, if any, to be adjusted against company contributions. • Some financial assistance announced by the government due to COVID-19 (mainly for low earners and small businesses), which is unlikely to benefit larger companies. **Potential actions:** • No major opportunity for employers to preserve cash.	Usually structured as a part of CTC; therefore, no impact on the employer.	**Possible considerations:** • Most often structured as a part of CTC; hence, no impact on the employer. • Perhaps, utilise any surpluses / balances lying in forfeiture accounts to adjust toward prospective contributions, subject to trustees' acceptance. While this may not matter if it is structured as a salary sacrifice, this may lead to some cash reductions if contributions are over and above CTC. **Potential actions:** • Consider what options are available to defer contributions for employers, subject to trust rules. • Opportunity to defer contributions toward DB pension plans.	**Possible considerations:** • To manage cash, companies may explore deferring in-service encashments (if allowed under the policy). However, deferring immediate cash payments may increase long-term liabilities. **Potential actions:** • Companies may review their leave policy to reduce / defer short-term payouts.

Financing: *Cost and risk efficiencies*

Focus Area	Gratuity	Provident Fund	Corporate NPS	Superannuation / Pension (SAF)	Leave Encashment
Investments: ▪ Trustees, sponsors and members concerned about volatility (which is at an all-time high) and a drop in fund values (especially, those with exposure to equities). ▪ More uncertainty around stressed assets.	**Possible considerations:** • Market volatility and a drop in equity-linked funds can lead to significant funding gaps. **Potential actions:** • For self-managed funds, consider carrying out an investment strategy review or ALM study in 2020 in light of the current circumstances. • For insurer-managed funds, review the longer-term strategy of ULIP vs traditional products.	**Possible considerations:** • Market volatility and a drop in equity-linked funds can lead to uncertainity for trustees / sponsors **Potential actions:** • Consider carrying out an investment strategy review and / or ALM study in 2020 in light of the current circumstances.	**Possible considerations:** • Concerned members might make fund switches, which may not lead to the desired overall outcomes in the long run. **Potential actions:** • Consider communication to NPS members on a longer-term investment strategy. • Consider providing some independent, unbiased financial advice. • Where the investment strategy is decided by the employer, review the default allocations keeping in mind longer-term considerations.	**Possible considerations:** • Members could demand details of “real-time” fund performance (especially in the case of unit-linked funds). **Potential actions:** Sponsors could discuss with fund administrators / insurers about obtaining fund statements through online portals. Review a longer-term strategy of ULIP vs traditional products and investment choice for members.	No impact, as it is usually unfunded.

Talent Experience: *Talent engagement*

Focus Area	Gratuity	Provident Fund	Corporate NPS	Superannuation / Pension (SAF)	Leave Encashment
Employee communication and financial wellbeing support: Employees are concerned about the impact of a significant decline in stock markets.	No potential impact on employees.	No potential direct impact on employees.	**Possible considerations:** • Employers likely to receive more questions in relation to fund options and savings for retirement. • Concerned employees may make fund switches. • Employees may consider opting out or reducing their NPS contributions. **Potential actions:** • Communication plan to NPS members. Consider how to communicate more nimbly with members via technology (i.e. through e-cards, videos, etc.) • Assess financial wellbeing initiatives and how they can best assist their employees at this time.	**Possible considerations:** • Employees may consider opting out or reducing their SAF contributions. **Potential actions:** • Communication plan to SAF members, including on their fund balances and any key provisions from the trust rules.	**Possible considerations:** • In general, companies are likely to see a significant rise in leave requests once lockdown restrictions ease. **Potential actions:** • Companies may consider reviewing leave policies or driving certain behaviours to control long-term accumulation; for instance, employers could encourage the consumption of certain leave days despite the lockdown. • Well thought-out communication plan to allow companies to encourage / mandate employees to avail more leaves over the second half of the year to control long-term accumulations. This should be done carefully and in a structured manner. • Explore introducing additional features in the leave policy for special circumstances; for instance, companies roll out family care leave days, wherein employees can use encashable leave days (in half days or full days) to attend to family needs and household chores.

Talent Experience: *Talent engagement*

Focus Area	Gratuity	Provident Fund	Corporate NPS	Superannuation / Pension (SAF)	Leave Encashment
Employee communication and financial wellbeing support: Members approaching retirement will need to consider the impact of COVID-19 on their retirement decisions.	**Possible considerations** • Retiring members who need further support in relation to their options vis-à-vis deferment of payouts and invest choices, should they opt for a lump sum. **Potential actions** • Assess the issues that retiring members face and consider whether to provide education / guidance to these employees, including educating them on the pros and cons of exercising certain “at retirement” options.				

Analytics, Insights & Reporting: *Data-driven decisions*

Focus Area	Gratuity	Provident Fund	Corporate NPS	Superannuation / Pension (SAF)	Leave Encashment
Financial impact on long-term / actuarial liabilities: ▪ Volatility in market conditions is at an all-time high. ▪ Interest rate cuts in India and across the world leading to lower discount rates. ▪ Uncertainty in the short term leading to fluctuations in liabilities and expenses.	**Possible considerations** • Increase in liabilities due to a drop in discount rates. Market volatility leading to fluctuations in expenses. • While long-term assumptions may not be changed, there could be a significant movement in employee benefit liabilities due to short-term events such as lower voluntary attrition, salary freezes and redundancies. **Potential actions** • Evaluate the impact on actuarial liabilities due to sudden movements in discount rates. • Assess the potential impact of short-term events, including carrying out projections of employee benefit liabilities / expenses for 2020-21, allowing for various parameters such as headcount, redundancies, short-term salary increases and attrition. • Consider a review of all actuarial assumptions to ensure these remain reasonable in the long term.	**Possible considerations** • Lower interest earnings and a significant drop in equity prices may lead to interest rate shortfalls. **Potential actions** • If an exempt fund, estimate returns for the next few years to assess any likely shortfall. • Carry out some scenario testing / sensitivities to understand cashflow requirements under “what if” scenarios. • There may be more uncertainty with respect to stressed / defaulted investments, which need to be factored into the assumptions and models.	No major impact.	No major impact.	**Possible considerations** • Increase in liabilities due to a fall in discount rates. Market volatility leading to fluctuations in expense. • Leave accumulation expected to be higher than usual due to lower utilisation amid the COVID-19 lockdown. **Potential actions** • Evaluate the potential impact on actuarial liabilities due to sudden movements in discount rates. • Assess the potential impact of short-term events, including carrying out projections of employee benefit liabilities / expense for 2020-21. • Review all actuarial assumptions, particularly assumptions around leave availment and accumulation.

Admin & Operations: *Operational efficiencies*

Focus Area	Gratuity	Provident Fund	Corporate NPS	Superannuation / Pension (SAF)	Leave Encashment
Ongoing governance: Social distancing requirements are impacting the ability for corporates / trustees to hold governance / trustee meetings in the same way.	**Possible considerations:** • Meetings to be conducted via phone / video; such meetings should be brief but should occur at regular intervals, given the pace of change. • Papers to be hosted online rather than be produced as printed packs. • Consider plan design changes – this should be looked at from a long-term sustainability perspective. **Potential actions:** • Assess the status of electronic documentation, including consolidation of past Trust Deed and Rules. • Review the existing governance framework and meeting arrangements and assess if changes are required – particularly in an IT set-up. • Coordinate with plan governance stakeholders (e.g. trustees and fiduciaries) on response; ensure alignment on global objectives and governance during the pandemic; address gaps. • Address the impact of new legislation. • Review quorum requirements and proxies to ensure meetings can proceed. • Ensure an emergency succession plan is in place for Trustees.				
Service continuity - third party / partners / vendors: Partners (e.g. fund managers / insurers / administrators / POPs / actuaries) impacted by COVID-19 and social distancing requirements.	**Possible considerations:** • Several partners could be facing resourcing issues and some may have decided to close operations temporarily, including helplines. **Potential actions:** • Consider any impact on members, trustees and finance / accounting teams. • Review and update risk registers and business continuity plans with all vendors. • Evaluate the overall infrastructure of all vendors, e.g. technology platforms, online tools, data security (under remote working). • Create business process documents for all critical stages of the benefits cycle: deductions, investment, settlement, statements, communication, etc.				

Covid-19 Impact: Relaxations announced by Government of India for Retirement Benefits*

Financial Support

- Introduction of Prime Minister's Garib Kalyan Yojna (PMGKY)
- FM announces a package of INR 1.70 lakh-crore under PMGKY
- PMGKY is effective March 26, 2020 and aimed at relief for weaker sections of society like:
  - Urban and rural poor
  - Migrant workers
  - Women at the lower end of the spectrum
- INR 50 lakh insurance for frontline fighters of Covid-19
- Food security measures

EPFO Related amendments

- Government of India will pay EPFO the Provident fund (PF) contributions of 24% from April 2020 - June 2020 in the case of establishments employing up to 100 employees and 90% of whom earn less than the statutory threshold of INR 15,000 per month
- Employees of an establishment located in an area declared as affected by an outbreak of an epidemic or pandemic shall be allowed non-refundable withdrawal up to 75% of PF balance, subject to a ceiling of 3 months' PF Salary

National Pension System

- PFRDA introduced a new circular dated April 9, 2020
- Covid-19 declared as a critical illness
- Partial withdrawal permitted towards the treatment of illness for the member, spouse, children, legally adopted children, dependent parents
- Documentation to be provided includes a medical certificate and formal request for partial withdrawal

*As announced by Government of India till 28 April 2020.

Disclaimer: Nothing set out in this document should be taken to be formal legal or tax advice.

Thank You