

A NOTE ON OPTION FOR PRO RATA /CONTINUED PENSION

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Introduction:

Rule 37A of CCS(Pension) Rules had been amended providing option to get pro rata pension from 01-10-2000 itself.

Option to get either pro rata pension in CDA scales for the service rendered in Govt. or to get continued pension for the combined service in Govt and PSU was already available in Rule 37 of CCS (Pension) Rules.

Rule 37 A was introduced on 30-09-2000 regarding pension for the employees of the Govt. departments which were converted as a PSU after 30-09-2000. This Rule 37 A did not have a provision for any option. It envisaged only a continued pension taking the combined service rendered in Govt and the PSU.

Subsequently Rule 37 A was amended in 2005 to give option for pro rata or continued pension but the option was not having any retrospective effect. Now in 2007 this had been further amended to give retrospective effect from 01-10-2000. That means any employee of the Govt. absorbed in the PSU from 01-10-2000 has the option either to get pro rata pension or to get continued pension.

We had been given made eligible for continued pension for the combined service rendered both in DoT and in BSNL as per the earlier provision. Now the question is whether opting for prorata pension now is beneficial or not.

This note discusses this issue.

First of all before we discuss this issue in detail we should see to certain existing provisions of pension rules in Govt., in PSUs, and the payment of terminal benefits and pension for those opting for pro rata pension.

Central Govt:

Minimum service to be eligible for pension – 10 years. Full pension i.e., 50 % of average of last 10 months' pay is given as pension for those completing 33 years of service. (No benefit in the percentage for the service rendered over and above 33 years.) For those whose service is less than 33 years the pension will be equivalent to

(No.of years of service / 33 years) * 50 % of average pay of last 10 months. That means a pensioner retiring with 30 years of service will only get 30/33 of full pension. i.e., $10/11 * 50 = 45.45$ % of the average of last 10 months pay only.

PSUs:

Earlier PSUs were not having pension. They are having CPF wherein the corporation puts an equal amount in PF of the employee equal to his minimum contribution. It is only in State Bank of India where both pension benefit and CPF system was available from the very beginning. Subsequently LIC introduced pension system w.e.f. 01-01-1986. However in PSUs having the CPF system the pension was far less than in Govt. The minimum service to become eligible for pension is 10 years and full pension service is 35 years in PSUs.

BSNL has so far not notified its pension rules. BSNL had notified its PF rules. For BSNL recruits it gives CPF.

Govt. Rules regarding terminal benefits and pension when an employee opts for pro rata pension:

When an employee gets absorbed in a PSU and is given pro rata terminal benefits and pension the service rendered by him in the Govt. upto the date of his absorption in PSU is taken for calculation of the benefits. **The terminal benefits and pension is calculated in CDA scale that he was getting in Govt.** The terminal benefits so calculated are not paid immediately. It is kept with the Govt. and is paid to the employee either after 7 years or when he retires from service (from the PSU) which ever is earlier. During the period the terminal benefits are kept by the Govt. it earns an interest at the prevailing GPF rates.

[GPF interest rate : 2000-01 -- 11 % ; 2001-02 -- 9.5 % ; 2002-03 -- 9 % ;
From 2003- 04 and till now 8 %]

Analysis of Pro rata Pension Vs Continued Pension :

Now let us compare the pros and cons of giving option for continued pension or pro rata pension upto 30-09-2000.

The pros and cons are not the same for all the employees. It is mainly based on the number of years of service rendered by him in Govt. upto 30-09-2000 and the balance available service in BSNL. Further it is also based on his likely promotions in BSNL and pay fixations. For the sake of simplicity I have taken only the service rendered/balance for the analysis. The likely promotions and resultant pay fixations have to be analysed only individually. Based on this I had categorized the employees in 3 categories as below. Category 2 has two sub categories.

- 1) Employees who had put in more than 33 years of service in DoT as on 30-09-2000. The maximum service for any person being 42 years (60-18) these persons will have less than 10 years of service in BSNL as on 01-10-2000.

2) Employees who had put in more than 10 years of service but less than 33 years of service in DoT as on 30-09-2000. Now depending on the balance service in BSNL they will be further categorized into 2 sub categories:

(2A) Employees with less than 10 years service in BSNL.

(2B) Employees with more than 10 years of service in BSNL.

3) Employees who had put in less than 10 years of service in DoT.

Now the analysis is as below :

Category 1 : Employees who had put in more than 33 years of service in DoT

Now as they had put in more than 33 years of service in DoT even by opting for pro rata pension they will get full pension, i.e., 50 % of last 10 months average pay as pension. They will not get any pension benefit for their service in BSNL since it will be less than 10 years. However even in the continued pension their service in BSNL has no effect in determining the pension since they had already crossed 33 years.

However the difference is the last 10months average pay for the calculation of pension.

While an employee opts for prorata pension, the pay taken for the calculation of his pension is the CDA pay drawn by him from 01-12-1999 to 30-09-2000. (last 10 months). the pay taken for his calculation of his terminal benefits is the CDA pay drawn by him on 30-09-2000. (last month pay)

Where as if he opts for continued pension, the pay taken for the calculation of pension is the IDA pay drawn by him in the last 10 months of his service. And the pay taken for the calculation of terminal benefits is the last pay in IDA scale drawn by him.

Now since the IDA pay is definitely higher due to the fixation of pay in IDA scale and also due to further increments (or promotion also) naturally the pension in IDA scale will be higher.

So for a casual look it would seem that continued pension is the better option.

But there is another view:

When calculating terminal benefits also the pay is taken like wise only. Hence the leave salary and commutation of pension will be higher when an employee opts for continued pension. But the gratuity being restricted to the maximum of 3.5 lakhs it is not going to be of much difference if he is in DE scale or above.

However the terminal benefits given in CDA scales and kept with the Govt. from OCT 2000 for 7 years (or till the date of retirement of the employee) and earning interest at GPF rates could at the end fetch more money than the terminal benefit in IDA scales.

See Calculation Table. The terminal benefit of rupees One Lakh becomes Rs. 1,78,167/- in 7 years from Oct 2000 to Sept 2007 at GPF rates

When the intervening period from OCT 2000 to date of retirement is higher then the employee could have got more increments and probably pay fixation on promotion and as such a higher terminal benefits in continued pension. But in that case as the number of years is more the interest accumulated also will be higher and thus make good the CDA terminal benefit. This is so because if the terminal benefit received after 7 years is put in FD till you retire it will fetch further interest and the accumulated amount will be still higher. Likewise if the balance service is less, then the accumulated interest on CDA terminal benefits will be less but at the same time the increase in IDA terminal benefits also will be less since in the fewer years he will earn fewer increments and no promotion.

Likewise the CDA pension drawn while in service and getting IDA pay from Oct 2000 to date of retirement (less Income TAX on it) if saved prudently in RD will fetch such an amount at the time of retirement which when converted to FD will earn interest. And this interest added to CDA pension will be more than IDA pension.

Pension :

The most important is the Pension since it is not a one time payment but a life time issue.

Now it seem may that an employee opting for continued pension gets more. But it is also to be seen that he was actually getting CDA pension from OCT 2000 itself. Though it was without DA. And this CDA pension which an employee gets over and above his BSNL salary is an additional income. This will also be taxed. And this amount received after TAX has to be put in savings only and not spent. I am analysing all these with a prudent person with sound financial management and not for a spendthrift. So in case he saves the pension in a scheduled bank in RD at 8 % interest compounded quarterly. The accumulated amount at the time of retirement should be invested in FD at 8 % interest. The interest on this amount plus the CDA pension will be higher than IDA pension.

See Calculation Table.

Rs. 1000/- CDA pension, after TAX put in RD for 3 years accumulates to 26,300/-

Now put it in FD at 8 % interest.

Repeat this for next 3 years: Putting after TAX CDA Pension in RD for 3 years, take it put in FD.

Repeat this till you retire.

Calculate the total accumulated amount.

Now put the total accumulated amount is put in FD. This interest with CDA pension will be more than IDA pension.

Further the amount (i) the difference between the (CDA Terminal benefit + accumulated interest) – the IDA terminal benefit (ii) The accumulated CDA pension plus accumulated interest from OCT 2000 to date of retirement will be an additional principal.

I am extra cautious and put the savings in scheduled bank only and worked out the interest rates and not in mutual funds or share markets which could have either fetched higher or given a loss also.

CAUTION:

All these calculation are based on the premise of a highly prudent person with sound financial management. This is also on a conservative savings scheme in banks which though fetch less interest will never return a loss.

Now BSNL had so far not announced its Pension Rules. But since the category I persons will not have 10 years of service in BSNL, in any case they are not going to get BSNL pension even if they opt for Pro rata pension. Hence whatever may be the pension rules in BSNL it is immaterial for them.

As such in my view pro rata pension was beneficial to the employees who had put in more than 33 years of service in DoT in OCT 2000. That is why I was advocating that pro rata pension on CDA scales is beneficial.

However such an option was not given to us while we got absorbed. Only now it is given with retrospective effect from OCT 2000.

So our question is whether it is now beneficial for a person who had put in more than 33 years of service as on 30-09-2000 to opt now for pro rata pension.

Persons retired already :

It is now more than seven years from Oct 2000. Hence the terminal benefits worked out on CDA scale and kept with Govt. earning interest for 7 years should have been returned what ever may be the date the employee retired. Now the employee might have received his terminal benefits on IDA pay. The terminal benefits on CDA plus the interest will be worked out and if the amount is greater than his IDA terminal benefit then the difference will have to be given to him.

But this interest calculations will be only upto 7 years or his date of retirement which ever is earlier. After that Govt. will give no interest. That is if an employee had retired in 2006 then the interest calculation will be only upto that date. From the date of his retirement till the actual disbursement of the amount carries no interest.

Now my entire calculations on the benefit of getting pro rata pension was based on the theory that the CDA pension received by an employee from Oct 2000 till date of his retirement will be put in savings by him and earning interest. Now it is more than

7 years. If a retired employee now opts for pro rata CDA pension, the department will take its own time for calculating the amount due to him from Oct 2000 till his date of retirement. It may be even more than a year from now if the number of such optees is higher. Finally the department will give the pension arrears for the period from Oct 2000 to date of retirement but with no interest for the amount from OCT 2000 till date of actual disbursement. And for the period from date of retirement till now, or till the date the pension amount is decided, naturally the CDA pension will be less than the IDA pension and hence there will be adjustment in the CDA pension arrears which will further reduce the pension arrears. With no accumulated interest the entire calculations of comparison will work out to show only continued pension as beneficial.

As such by the amendment now given in 37 A there is no gain in opting for pro rata pension on date. If such a thing had been given in Oct 2000 itself the entire scenario might have been different. With IDA pay and CDA pension employees might have even asked for quicker absorption seeing immediate extra benefit. Now it is of no use.

Serving Employees :

Same position as for retired employees. The terminal benefits will earn interest from Oct 2000 to Sept 2007. From then on it will not fetch any interest. It may take along time for the dept. to work out the arrears and give it. But during the period from Oct 2007 till date of actual disbursement, since it carries no interest the employees will be put under heavy loss. We have actually experienced how long the refund of CGEGIS amount took and with no interest from July 2005 till date of actual payment. The CGEGIS amount was in thousand only but the amount of terminal benefits will be in lakhs. Naturally the loss on interest will be higher. And so any gain worked out will fall now. As far CDA pension also the same as for retired employees. For the retired employee the loss was only the interest on CDA pension from Oct 2000 till date of his actual retirement. But for the serving employees the loss of interest will be from Oct 2000 till the date of actual disbursement. The accumulated CDA pension without the interest will not be beneficial.

As such pro rata pension was beneficial for the category I persons (i.e., persons who had put in 33 years of service or more in DoT as on 30-09-2000) if it had been extended while the options were called for. At this stage though Rule 37 A had been amended there is no gain for a person of category I (serving/ retired by now) opting for pro rata pension.

Category 2 :

Employees who had put in more than 10 years of service but less than 33 years of service in DoT as on 30-09-2000. Now depending on the balance service in BSNL they will be further categorized into 2 sub categories:

(2A) Employees with less than 10 years service in BSNL.

(2B) Employees with more than 10 years of service in BSNL.

Category 2(A) : Employees who had put in a service of more than 10 years but less than 33 years of service in DoT as on 30-09-2000 and who have less than 10 years of service in BSNL. (i.e., those retiring before 30-09-2010)

Now with the continued pension employees of this category may put in a combined service of more than 33 years and may get full 50 % pension on IDA scales. Whereas if they opt for pro rata pension their CDA pension will be less than 50 % of their CDA pay since they had put in less than 33 years of service.

BSNL had not announced its pension policy. But whatever may be the BSNL pension policy they are not going to get BSNL pension since their balance service in BSNL is less than 10 years from Oct 2000.

The reduced percentage of pension and terminal benefit that too on CDA scale will be far less than their continued pension and terminal benefit for the combined service in IDA scale.

Even given the work out of interest calculations for terminal benefits and CDA pension the final outcome will be less in case of pro rata pension. This was the position even in Oct 2000 or when the options were called for. Now with the belated amendment of Rule 37 A, at this stage if they opt for pro rata pension they stand to lose only since as explained for the employees of category I they may not get interest for the CDA pension from OCT 2000 till date of disbursement.

Hence as far as the employees of category 2 A are concerned only the continued pension is beneficial. Even in Oct 2000 it was the position. Even now it is the position.

Category 2(B): Employees who had put in a service of more than 10 years but less than 33 years of service in DoT as on 30-09-2000 and who have more than 10 years of service in BSNL. (i.e., those retiring after 30-09-2010)

As far as the position in OCT 2000 or at the time the options were called for many of these employees stood to gain on the pro rata pension.

With service of 10 to 33 years in DoT they will get a pro rata CDA pension which will of course be less than 50 % of their last 10 month average pay (Dec 1999 to Sept 2000) in DoT since they had put in less than 33 years in DoT. Their terminal benefits also will be pro rata only. However since they have a service of more than 10 years in BSNL they could also get a pro rata BSNL pension and terminal benefits for the service rendered in BSNL. This BSNL pension and terminal benefits will be on IDA scale on the pay drawn by them while they are retiring. Now both the pensions put together is likely to be more than a single IDA pension for the combined service even in percentage. Further as the number of years is higher the CDA pension and the interest accumulated on it will be higher. The pro rata terminal benefits received after

7 years with interest if invested judiciously for the balance period till their actual retirement could fetch more. Further since they have terminal benefit from BSNL also the ceiling in Gratuity will not affect them since they receive it two parts one from Govt. and one from BSNL and each may be less than the ceiling. Also with the scales in PSU to be changed w.e.f.01-01-2007 the ceiling in Gratuity also will change w.e.f. 01-01-2007.

Hence the position as of OCT 2000, or when the options were called for, was such that pro rata pension was the best option for these category (2B) of the employees.

But now the situation has changed. Even after 7 years BSNL has till date not announced its pension policy. So we do not know what is in store for them in BSNL pension policy. The Central Govt. had already made a new pension scheme for its employees appointed after 01-04-2004. We do not know whether BSNL will also like to bring such a policy. Since the minimum service for eligibility for pension is 10 years, the BSNL recruits become eligible for pension only after 2011. Since all the absorbed employees had been given continued pension there was no immediate urgency to frame BSNL pension rules. But with the amendment to 37 A if a BSNL employee opts for pro rata pension now he has to do so without knowing the BSNL pension rules. Further employees recruited by BSNL have CPF whereas DoT absorbed employees have GPF scheme. Hence whether different yard stick in pension rules will be applied for BSNL recruits and the DoT absorbed employees opting for pro rata pension is not clear. Further in such an event whether the absorbed employees will have sufficient force in future to get their pension scheme negotiated will be a big question mark since as the days roll by the absorbed employees will retire out and their strength will shrink. Hence since what is in store is unclear to opt for pro rata pension at this stage is highly risky for these employees.

Category 3 :

Employees who had put in less than 10 years of service in DoT.

For these employees only continued pension on combined service is beneficial.

But before going into their case let us see who are these employees.

Right from 1984 there was ban on recruitment in the Central Govt. From 1984 to 2000 there was direct recruitment only in ADETs, JTOs. A few compassionate appointments were made. All the accounts persons right from JAO and above are promotees from Group 'C'. Hence the persons with less than 10 years of service in DoT as on 30-09-2000 were only the ADETs, JTOs and compassionate appointment in Group 'C' and group 'D' cadres who are appointed after 01-10-1990. Their number is not expected to be big.

These persons will not get any CDA pension if they opt for pro rata pension because their service in Govt. is less than 10 years. They may get pro rata BSNL pension for

their service in BSNL from 01-10-2000. If the balance service after Oct 2000 is more than 33 years then they may get full pension in BSNL. In that case they do not lose or gain anything in pro rata or continued pension. But this is also only if the BSNL pension Rules, which are yet to be framed, is better than or atleast equal to Govt. pension rules, which is not a probability. But if their balance service in BSNL is less than 33 years then they may not get full pension in BSNL. In that condition they stand to lose in pro rata pension and as such only continued pension for combined service is beneficial for them.

There is yet another group of employees. That is the TSM converted RMs. The conversion of TSM converted RM was taken after 1990 only. Hence bulk of these employees might not have put more than 10 years of service in DoT. Whereas for bulk of them the balance service may also be less than 30 years only. Hence if pro rata option is extended to them they may not get any CDA pension since their service in DoT is less than 10 years. Further their service in BSNL is also not likely to be above 35 years that means they will not get full pension in BSNL if they opt for pro rata pension. Whereas a continued pension for their combined service is likely to give full pension for them that too in IDA scale. On a rough estimate these employees who were regularized as RMs were 1.5 lacs. i.e., nearly 40 % of total DoT employees. Only a continued pension will be beneficial to them.

Conclusion :

For the employees coming under Category 2 A and Category 3 only continued pension is beneficial.

For the employees coming under category 1 pro rata pension was beneficial. But that was the position in OCT 2000 or at the time of calling option. At this stage to give an option for pro rata pension is not likely to benefit even these employees.

For the employees coming under Category 2 B pro rata pension was beneficial. But that was the position in OCT 2000 or at the time of calling option. There also individual cases of likely promotion and pay fixation was to be seen. However at this stage to give an option for pro rata pension is risky for these employees since BSNL had not notified its pension rules. For them the saying ‘a bird in the hand is worth two in the bush’ is the correct position.

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