

Impact on financial provisions for pension scheme due to EPFO Circular No. [Pension.I/17\(3\)19/RRB](#)

Introduction:

In line with good reporting practice and governance, RRBs are required to obtain regular estimates of long-term obligation, through an actuary, to assess the financial condition of the pension fund, decide the RRB's contribution to the pension fund, and also to prepare the financial statements of the RRB, in line with relevant accounting standards.

A recent EPFO circular No. [Pension.I/17\(3\)19/RRB](#) as issued on 15 February 2021 sets out that the EPFO will be transferring the value of prior EPS1995 pension accumulation in respect of RRBs, as they are excluded from purview of the Employees' Pension Scheme 1995.

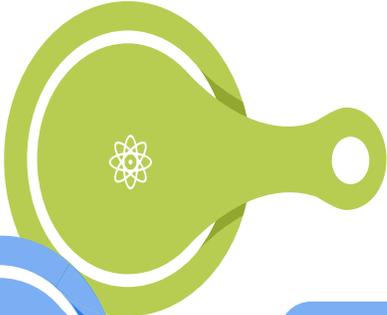
This will impact active members contributing toward PF fund. However, any employees of RRBs who became eligible for pensionary benefit under EPS 1995 prior to the date of exclusion from EPF & MP Act 1952 will continue to such benefits from EPFO.

Impact of Circular on Actuarial Valuations:

- For **Pensioners and Family pensioners** there won't be any change in valuation approach i.e., obligation will be net of benefit as accrued EPS 1995.
- However, for **actives employees in the pension scheme**, the upcoming actuarial assessment should include pension benefit as applicable under EPS 1995 and also allow for balance accumulation transfers pending from the EPFO to the RRB pension fund.
- This will **increase gross obligation / liability for actives**; however, this will be offset to the **extent of accumulated corpus, including interest, due to be transferred from EPS 1995**.

Conclusions:

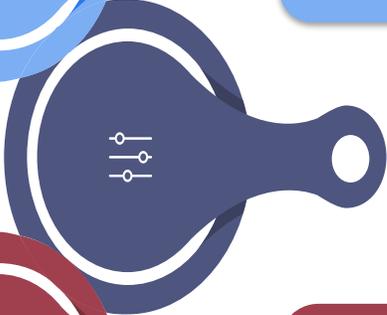
While initiating the actuarial valuation as at 31st March 2021 or any other date in future then bank needs to communicate:



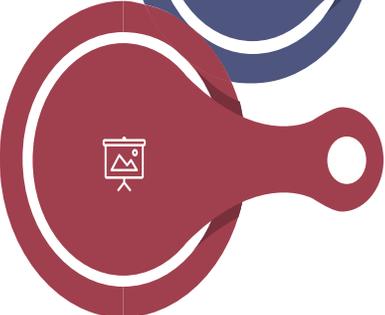
Status of Accumulated Corpus as received / receivable from EPFO as against pension benefit payable under EPS1995. In case cumulative corpus is already received by the bank then it needs to be shown as “Transfer-in Amount” in asset movement table for the year ending 2021.



Approach adopted towards “Pension in Payment” for active members retiring in future, precisely with date of retirement post the date of latest circular dated 15th February 2021.



Status of Contribution made by the bank for active members (stopped / in progress) towards EPS1995 benefit so that service cost for the reporting period can be accounted accordingly.



Bank should always approach actuary or carry actuarial investigation whenever there are any material changes in benefits as applicable under EPS1995. Even the Bank should do the yearly valuation for provisioning purpose as per accounting year followed by bank.

Background:

Regional Rural Banks (RRBs) have been required to operate their own Pension Scheme under the RRB (Employees') Pensions Scheme, 2018. This was a fundamental shift for RRBs to assume the responsibility and obligations of providing eligible employees a pension in lieu of the EPFO Employees' Pension Scheme 1995.

This meant the nature of the obligation for RRBs shifted from a "defined contribution" basis to a "defined benefit" basis. The RRBs are now ultimately responsible to meet the long term cost of such a pension scheme via funding into a separate Pension Trust.

The RRB (Employees') Pension Scheme, 2018, set out proviso for implementation, under following terms

- The Scheme is in lieu of Employees' Pension Scheme, 1995, and Employees' Provident Fund & Miscellaneous Provisions Act, 1952.
- An employee who joins the service of the Bank on or after the 1st of April 2018 shall be covered by the National Pension System.
- An employee who joined the service of the Bank on or after the 1st April, 2010 shall have an option either to be covered by the National Pension System or to continue to be governed under the Employees' Pension Scheme, 1995.
- RRB employees / officers who have joined prior to 16 November 1995 get pension from EPS1995. Those who have joined after 16th November, 1995 get pension based on actual service period as against the employer contribution done by the employer in contributory PF scheme.
- For rest eligible employees pension scheme consistent with Nationalised Commercial Banks is applicable and pension will be paid after deducting pension as payable under EPS'1995, if any.



If you have any queries about this article or would like to discuss about any employee benefits related matter, such as actuarial valuations and related advice for Pension Scheme, Gratuity and Leave schemes, please get in touch with us at:

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