UNREVISED **7**

JOINT COMMITTEE
ON INDIAN CONSTITUTIONAL REFORM

RECORDS

of the Joint Committee on

INDIAN CONSTITUTIONAL REFORM

Die Martis, 14° *Novembris,* 1933

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Note by Secretary of State for India on Family Pension Funds

1. In para. 73 of the introduction to the White Paper it was stated that His Majesty's Government considered that the balances of the Family Pension Funds must be recognised as a definite debt liability of the Government of India and as the property of subscribers; and that they were examining a proposal for the gradual conversion of these assets into separate sterling funds.

2. The Funds referred to do not include various funds, Civil and Military, which were established in the time of the East India Company under private management. The assets of these funds were taken over by Government, under powers conveyed by Acts of Parliament, and the pensions at fixed rates guaranteed as charges on the Revenues of India. The capital of these funds therefore no longer exists and the position of persons drawing pension under these rules differs in no way from that of officers in receipt of ordinary retiring pensions.

3. The Funds now under consideration are four in number:—

(1) The Indian Military Service Family Pension Scheme
(2) The Indian Military Widows' and Orphans' Fund.
(3) The Indian Civil Service Family Pension Scheme
(4) The Superior Services (India) Family Pension Fund.

The first two are maintained by officers of the Indian Army. Subscription to the first is compulsory on all officers commissioned between 1873 and 1915; and to the second on all officers commissioned since that date. The third fund, as its name implies, is maintained by the Indian Civil Service, subscription being compulsory on all officers entering since 1881. The fourth was established in 1928 for officers of services, other than the Indian Civil Service, recruited by the Secretary of State in Council, and membership is compulsory on all such officers now entering the services; there is in addition a large voluntary membership of officers of similar type who were appointed before the institution of the Fund.

4. The funds are in all cases self-supporting. Subscriptions are paid into the general balances of the Government of India, and pensions are met from those balances. An account is kept of receipts and payments, and interest is added to the balances at rates determined from time to time by the Secretary of State in Council. The liabilities and assets are subjected every five years to actuarial examination, and any necessary alteration in the rates of subscription and benefits are made by the Secretary of State in Council, after consideration of the Actuary's reports.

5. On the basis of the latest available information the receipts and payments during the current financial year together with the opening and closing balances at the credit of the several funds, are estimated as follows:—

	I.M.S.F.P.	I.M.W.O.F.	I.C.S.F.P.	S.S. (I.) F. P.F.	Total.
	£	£	£	£	£
Balance 1st April, 1933.	6,854,000	461,000	4,058,000	456,000	11,829,000
Interest	309,000	22,000	184,000	21,000	536,000
Contributions ...	81,000	33,000	60,000	43,000	217,000
	7,244,000	516,000	4,302,000	520,000	12,582,000
Payments ...	312,000	8,000	101,000	14,000	435,000
	6,932,000	508,000	4,201,000	506,000	12,147,000

6. In May last circulars were issued to subscribers of all four funds, inviting their views on the following suggestions.

That Commissioners or Trustees should be appointed for the purpose of holding and investing on behalf of subscribers in approved securities, which would presumably be confined to those authorised by the Trustee Act, sums handed over to them; that these Commissioners should be paid annually for this purpose the contributions received during the year and the interest allowed by the Government of India on the balances remaining in its hands, and that money for the payment of pensions as they fall due should be provided by the Government of India out of the balances in its hands, which would thus be gradually reduced.

It was pointed out to the subscribers that by investment in Trustee Stocks it was improbable that the Commissioners would be able to secure a yield equal to the rate of interest allowed on the balances under the existing arrangements, which is based on the current yield of India long dated sterling securities; that allowance might have to be made, particularly in the present conditions, for capital depreciation of investments, a risk from which the funds are now exempt; and that as a result it was probable that the proposals would involve some reduction in the rates of pension now payable.

7. The effect of the above proposals would clearly be that the balance in the hands of the Government of India would gradually disappear as it was drawn upon to meet the demands of a growing pension list; while a new fund would gradually be built up from the investments made by the Commissioners. The period which would elapse before the transfer was complete, that is to say before the entire balances in the hands of Government had been paid out, would vary with the different funds. It has been estimated at from 15 to 20 years in the case of the Indian Military Service Family Pension Scheme, and at as much as 40 years in the case of the Indian Military Widows' and Orphans' Fund, with intermediate periods in the other cases.

8. A large majority of the replies received from subscribers indicate a desire for the investment of the balances in sterling securities, but the scheme outlined in the circulars has been criticised on the ground that the period elapsing before transfer will be complete is too long. It is proposed to meet this criticism by amending the proposals so as to ensure the completion of transfer within 15 years in every case. This could be effected either by handing over to the Commissioners a fixed annual sum to cover both principal and interest, calculated to exhaust the balance in 15 years, or by handing over annually one-fifteenth of the balance, with interest on the residue; contributions received during the year would of course also be handed over to the Commissioners, and pensions payable would be met from the sums in their hands.

9. The precise nature of the arrangements contemplated can best be made clear by illustrative figures based on the estimates given above for the current year.

It is not contemplated that the Commissioners should have any responsibility for the administration of the Pension schemes, or for the collection of subscriptions and disbursement of pensions. The administration would remain in the hands of the Secretary of State, who would decide after consultation with subscribers all such matters as rates of contribution or pension, changes in the Regulations, etc. The disbursement of pensions and collection of subscriptions would continue to be carried out through the ordinary paying agencies of the Government of India. The function of the Commissioners therefore would be solely that of holding and investing money handed over to them, and of supplying from the funds in their hands, when required, money for the payment of pensions.

Under the first of the alternatives mentioned above, there would be payable to the Commissioners, if the scheme were in operation during the current year, an annuity of £1,092,000. This annuity has been calculated on the basis of the present rate of interest, 4½ per cent., and would need recalculating if, at any time during the 15 years, this rate were reduced. The Commissioners would also receive the contributions, estimated at £217,000; and would have to supply funds for the payment of pensions estimated at £435,000. This sum would doubtless, in practice, be deducted from the annuity before it was handed over to them.

Under the second alternative there would be handed over to the Commissioners in the first year one-fifteenth of £11,829,000 or £789,000, interest estimated at £536,000, and contributions estimated at £217,000; while they would, as before, refund £435,000 for pensions. The amounts to be handed over in subsequent years would be smaller, as the interest payable would be less.

10. The adoption of a proposal on the above lines would of course involve no ultimate charge on Indian Revenues, which are in any case liable to pay the entire balances sooner or later in the form of pensions. It would, however, involve the immediate disbursement in sterling of sums which would otherwise remain as a liability to be met at a later date. Of the two alternatives under consideration the first would involve an extra disbursement in the current year of £874,000, the net sum which, on the figures given above, it would be necessary to hand over to the Commissioners. The second would involve an extra disbursement of £1,107,000 in the current year. On account of the smaller strain which it would place on the Remittance programme in the earlier years, the first alternative is to be preferred.

As the balances are increasing year by year the annual amounts to be handed over to the Commissioners, and the extra sterling disbursement required, will be slightly increased under either scheme with each year's delay in its inauguration.

After the close of the 15 year period, as the annual contributions will be less than the pensions payable, it would be necessary for the Commissioners to meet a large part of the latter from the funds on their hands. The revised arrangement would therefore at this stage actually be of assistance to the Government of India in meeting its sterling obligations.

11. Inasmuch as the proposals if accepted would involve a change in the conditions under which members of the funds have hitherto subscribed, and moreover a change which in some respects, for instance in regard to the rate of interest realised, would be to their disadvantage, it is necessary that the change should be made with legal sanction, and desirable that it should have the expressed assent of a majority of the subscribers. Although a large majority of the replies received are in favour of investment, the total replies amount to only about one-third of the number of circulars issued. Many subscribers, moreover, have expressed a wish to see the results of valuations now in process, or shortly to be made, before giving a decision. It is therefore desirable that the proposals in a definite and concrete form

should again be laid before subscribers before any final decision is taken, and as this process may entail considerable delay it is not contemplated that an attempt should be made to include in the Constitution Act itself definite and final provisions. A form of permissive enactment, which will permit the subscribers to each fund to be consulted separately at suitable times, and to take independent decisions, seems preferable. It is proposed therefore:—

That His Majesty should be empowered by the Constitution Act to direct by Order in Council the appointment of Commissioners for the purpose of receiving moneys accruing to or belonging to all or any of the Family Pension Funds and of holding and investing the same for the purposes of the funds; and to make regulations for the transfer to the Commissioners, in such manner and within such a period as may be prescribed, of the moneys accruing to the funds and the balances remaining in the hands of the Government of India:

That the interest and dividends received by the Commissioners so appointed on sums invested in their hands shall be declared exempt from liability to Income Tax:

That the Order in Council may prescribe an authority to determine the rate of interest to be added on the balances remaining in the hands of the Government of India.

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