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Milliman

India information technology sector gratuity funding study

An analysis of gratuity funding among BSE 200 information technology companies

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INTRODUCTION

Milliman conducts continual and extensive research on issues connected to the employee benefits offered by Indian companies.

We present here our first annual study of the gratuity obligations among information technology (IT) companies in India to report the major trends with regard to these obligations. The main aim of the study is to educate and create awareness about the state of employer-sponsored retirement programs and foster a healthy dialogue among policy builders, employers, employees, and the general public about the future of retirement plans in India.

We focus our analysis on the 10 IT companies listed in the BSE 200 index as of 31 December 2012. We have extracted data from their 2011-2012 annual reports. The specific companies under consideration are outlined in Figure 1.

FIGURE 1: IT COMPANIES IN BSE 200 AS OF 31 DECEMBER 2012

COMPANY NAME	FISCAL YEAR-END
FINANCIAL TECHNOLOGIES (INDIA) LIMITED	31 MARCH 2012
HCL TECHNOLOGIES LIMITED	30 JUNE 2012
HEXAWARE TECHNOLOGIES LIMITED	31 DECEMBER 2012
INFOSYS LIMITED	31 MARCH 2012
MPHASIS LIMITED	31 OCTOBER 2012
ORACLE FINANCIAL SERVICES SOFTWARE LIMITED	31 MARCH 2012
SATYAM COMPUTER SERVICES LIMITED	31 MARCH 2012
TATA CONSULTANCY SERVICES LIMITED	31 MARCH 2012
TECH MAHINDRA LIMITED	31 MARCH 2012
WIPRO LIMITED	31 MARCH 2012

Note that we consider only the company-specific obligations rather than the consolidated obligations taking into account all their subsidiaries

Throughout the remainder of this report we shall refer to the companies as A to J. (The nomenclature to A to J does not correspond to the ordering of the firms outlined above).

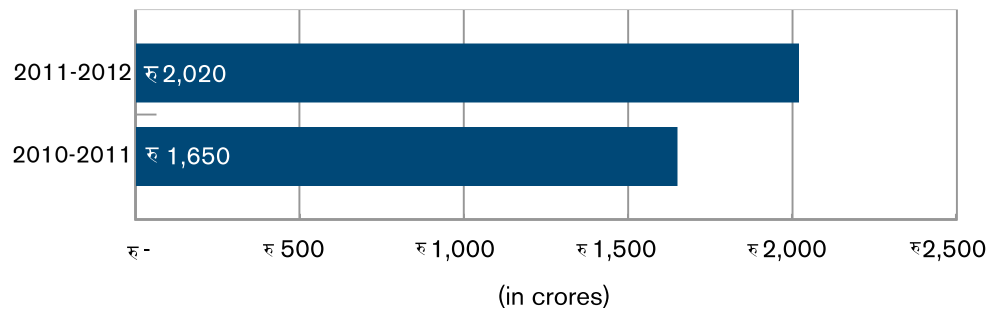
2012 MILLIMAN STUDY OF GRATUITY FUNDING AMONG INFORMATION TECHNOLOGY COMPANIES IN THE BSE 200

HIGHER PROJECTED BENEFIT OBLIGATION AND EXPENSE LEVELS RECORDED IN 2011-2012

The 10 IT companies under consideration registered a rise in their projected benefit obligation (PBO) from the prior year. From 2010-2011 to 2011-2012, their combined PBOs increased by about 22%, from approximately Rs 1,650 crores to approximately Rs 2,020 crores.

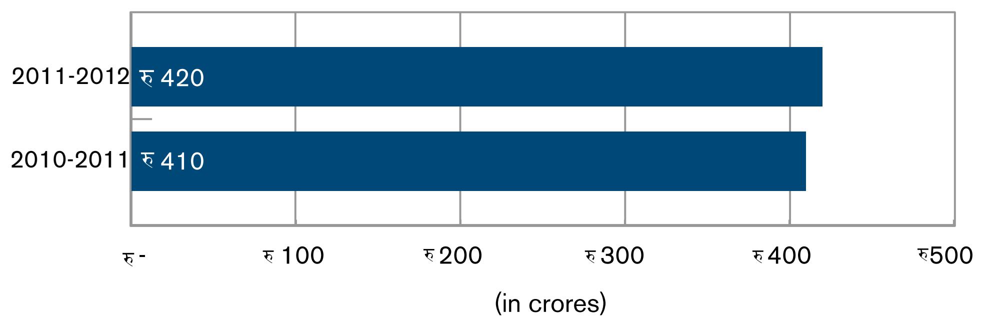
The combined increase among the companies can be attributed to several factors, including accrual of extra service, aging of the covered populations, demographic experience and changes in economic assumptions.

FIGURE 2: PBO



There was little change in gratuity expense in 2011-2012. Total charges to earnings were approximately Rs 420 crores, compared to Rs 410 crores in 2010-2011.

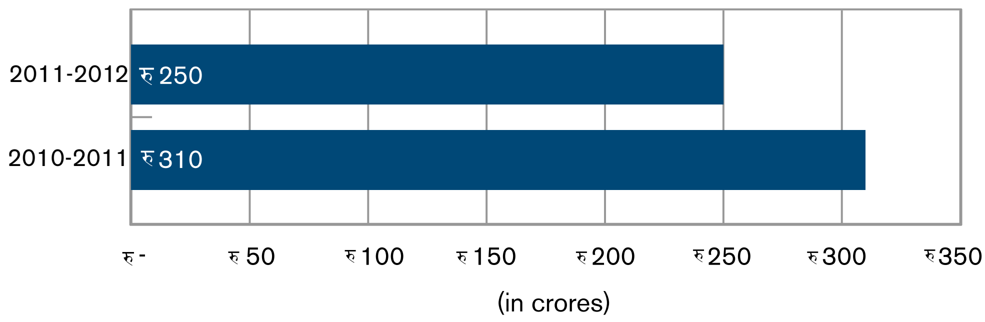
FIGURE 3: EMPLOYER EXPENSES



EMPLOYER CONTRIBUTION LEVELS AND FUNDED STATUS HAVE BOTH FALLEN

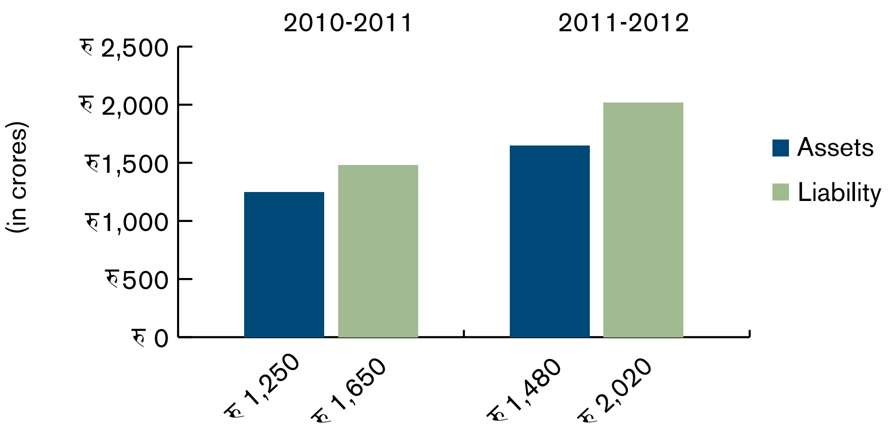
The companies contributed approximately Rs 250 crores to their gratuity plans in 2011-2012. This is a decrease of 19% relative to the figure for 2010-2011.

FIGURE 4: TOTAL ER CONTRIBUTION



The funded ratio of the companies' combined gratuity plans decreased slightly during 2011-2012, reaching 73%. The aggregate gratuity deficit of approximately Rs 400 crores in 2010-2011 rose by approximately Rs 140 crores during 2011-2012 to approximately Rs 540 crores.

FIGURE 5: PLAN ASSETS AND LIABILITIES

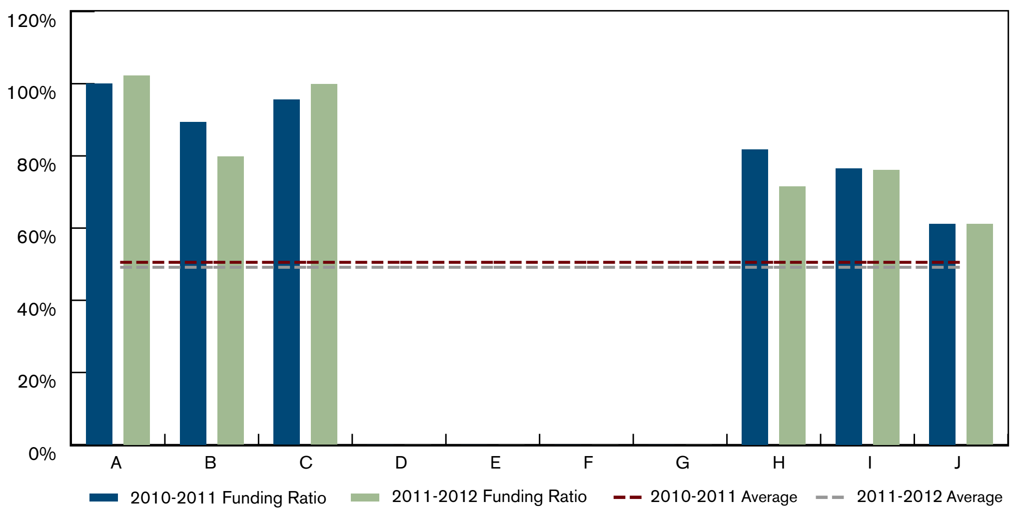


A MIXTURE OF FUNDING POLICIES HAS BEEN PURSUED

Four of the 10 companies studied have not followed a policy of substantial advance funding of their gratuity obligations. For the remaining six companies, the 2010-2011 PBO funded ratios ranged from a low of 61% to a high of 100%, with an overall funded status of 93%. In 2011-2012, the overall funded status fell to 90%, ranging from a low of 61% to a high of 102%.

Reasons for the changes in funded ratios include the level of employer contributions, changes in the discount rate and the level of investment return.

FIGURE 6: CHANGE IN FUNDING*

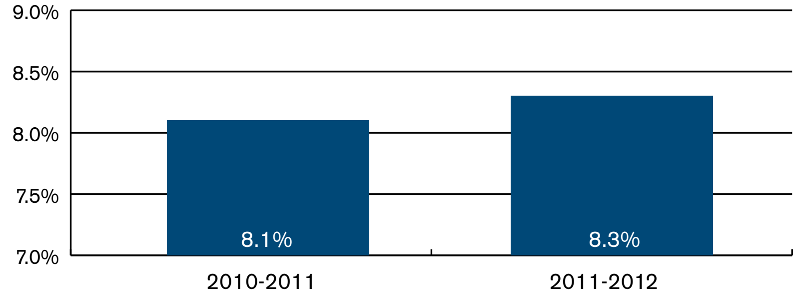


** The fiscal years for companies D, H and I end on 30 June, 31 October and 31 December, respectively. All other companies have a fiscal year-end of 31 March.*

Among the six companies with substantial advance funding to meet their gratuity obligation, the median expected rate of return on invested assets in 2011-2012 was 8.3%. This compares with the average actual rate of return of 9.4%. The median expected investment return in 2010-2011 was 8.1%.

Four of the six companies under consideration maintained the same expected rate of return between 2010-2011 and 2011-2012. The two other companies both raised their expected rates of return.

FIGURE 7: MEDIAN EXPECTED ASSET PERFORMANCE

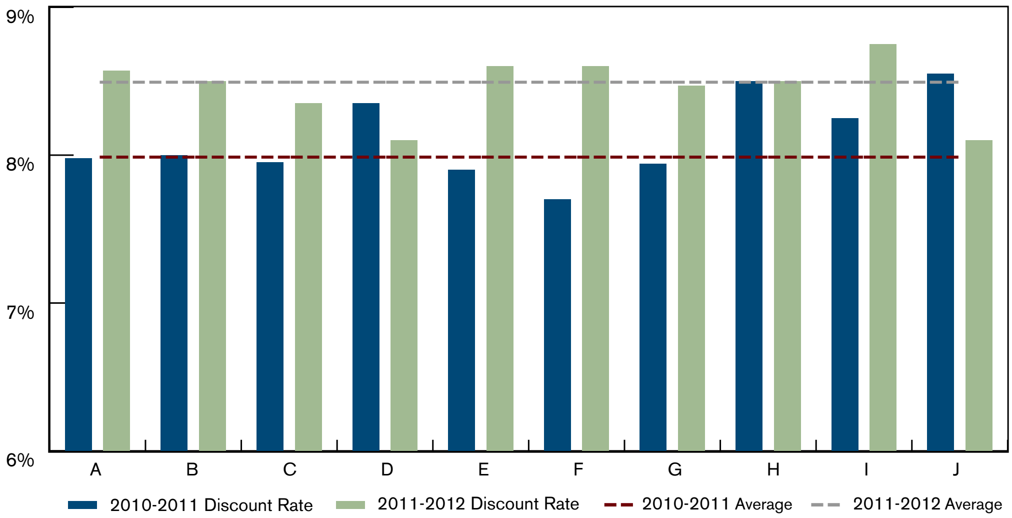


DISCOUNT RATES HAVE RISEN

The companies will have set their discount rates with regard to the yield on Indian government bonds at the end of their fiscal years. It should reflect the notional yield on a bond with the same duration as weighted average expected future working lifetime of the covered employees. All else equal, a higher discount rate results in a lower disclosed benefit obligation.

Seven of the 10 companies under consideration take a fiscal year-end of 31 March. Among these companies there was a uniform rise in the discount rate between 2010-2011 and 2011-2012. Among the remaining three companies the discount rate either remained level or fell. Overall, the median discount rate increased from 8.0% in 2010-2011 to 8.5% in 2011-2012.

FIGURE 8: DISCOUNT RATE DISTRIBUTION

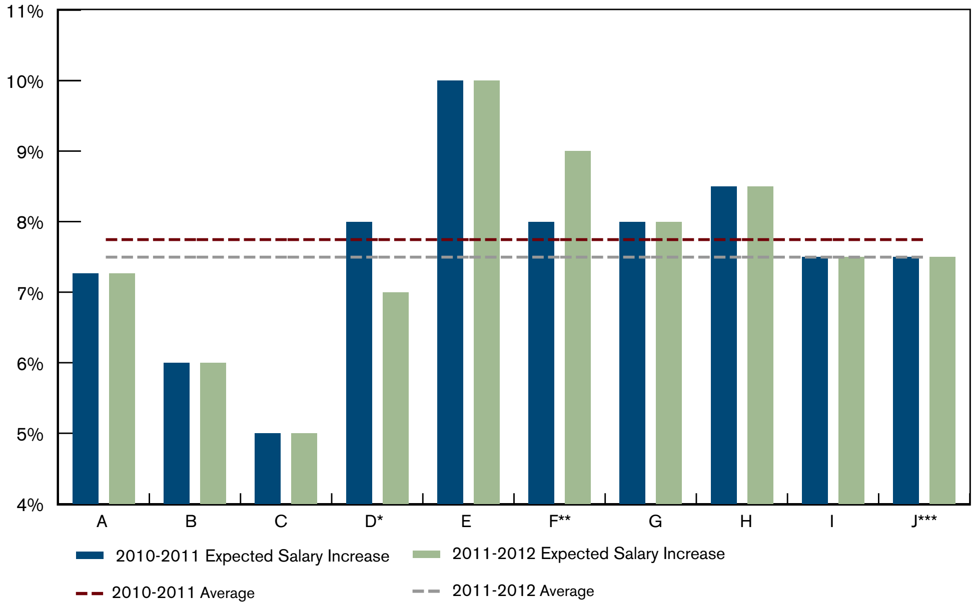


** The fiscal years for companies D, H and I end on 30 June, 31 October and 31 December, respectively. All other companies have a fiscal year-end of 31 March.*

EXPECTED SALARY INCREASES HAVE FALLEN

In measuring the obligation, an assumption is made about the expected long-term rate of increase in the salaries of prospective future recipients of the gratuity benefit. Eight of the 10 companies under consideration did not change the assumption for the rates of future salaries between 2010-2011 and 2011-2012. The median salary increase assumption decreased from 7.8% in 2010-2011 to 7.5% in 2011-2012.

FIGURE 9: EXPECTED SALARY INCREASE DISTRIBUTION



* *2010-2011 assumption presented as 8.0%, but actual assumption varies between 6.0% to 10.0%.*

** *2010-2011 assumption presented as 8.0%, but actual assumption is 9.0% in first year post valuation and 8.0% thereafter. 2011-2012 assumption presented as 9.0%, but actual assumption is 11.0% in first year post valuation and 9.0% thereafter.*

*** *In both 2010-2011 and 2011-2012, presented as 7.5%, but actual assumption is 10.0% in first year post valuation and 7.5% thereafter.*

ABOUT THIS STUDY

MILLIMAN 2012 INDIA INFORMATION TECHNOLOGY SECTOR GRATUITY FUNDING STUDY

This study covers the 10 information technology companies listed in the BSE 200 as of 31 December 2012.

The results of this study are based on the gratuity obligation accounting information disclosed in the footnotes to the companies' annual reports for the 2010-2011 and 2011-2012 fiscal years. These figures represent the generally accepted accounting principles (GAAP) accounting information that public companies are required to report under Accounting Standard 15 (Revised 2005).

Milliman also publishes similar studies for other Indian and international industry groupings.

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ABOUT MILLIMAN

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit **milliman.com**.

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