Retirement Radar

October 2025 Edition

Retirement benefits are more than just a perk — they're a powerful tool to help employees build long-term financial security and peace of mind. As employers, you play a vital role in shaping your workforce's financial future. In this issue, we explore the assumptions shaping employee benefit valuations, the evolving retirement benefits landscape, best practices in funding of retirement plans, and key regulatory updates.

Actuarial Assumptions | Retirement Benefit Funding | Retirement Benefits Study | Regulatory Updates

Actuarial Assumptions

In this section, we spotlight the key assumptions shaping employee benefit valuations — from shifting bond yields to evolving salary trends and attrition patterns. Backed by the latest economic signals and demographic realities, these updates explain what's driving liability changes and what it all means for your financial statements.

Discount rate update

As per Indian accounting standards, the discount rate assumption is determined by reference to yields on government bonds corresponding to the estimated term of the liability. Government bond yields experienced significant movements during the quarter, impacting employee benefit plan liabilities.

Zero-coupon government bond yields (in %)

Term	Yield (%) at		
	28 March 2025	30 June 2025	30 September 2025
1	6.3860	5.6392	5.6163
2	6.3866	5.7610	5.7825
3	6.3909	5.8689	5.9329
4	6.4074	5.9741	6.077
5	6.4273	6.0718	6.2087
7	6.4730	6.2432	6.4293
9	6.5282	6.3998	6.6141
10	6.5559	6.4708	6.6898
15	6.6785	6.7665	6.9653
20	6.8288	7.0417	7.2205
30	7.0568	7.3679	7.4970

Movement in discount rate:

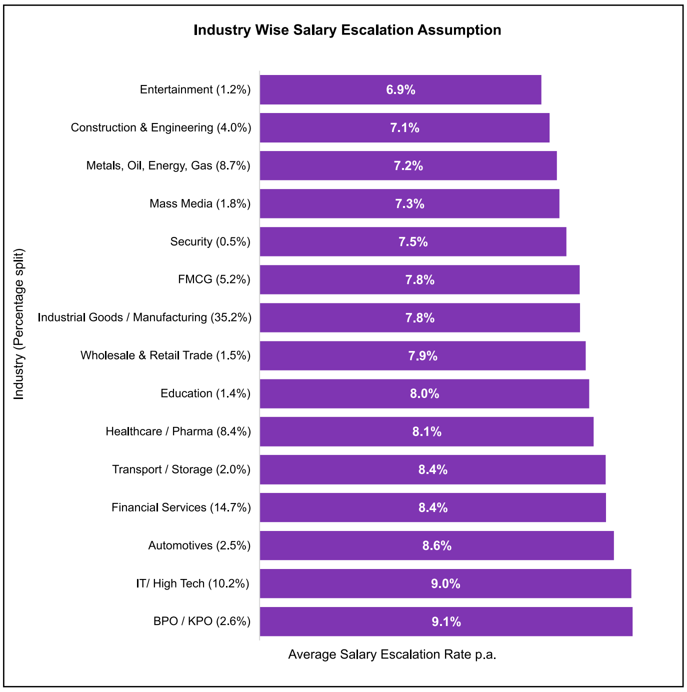
- Bond yields dropped sharply across short to medium terms between March and May, but they recovered slightly by September.
- Yields rose modestly from March to September for long term bonds — the 10-year bond increased from 6.56% to 6.69%, partly easing liability pressures.
- The recent S&P upgrade of India's sovereign rating to BBB is likely to attract long-term capital and support more stable yields in the months ahead.

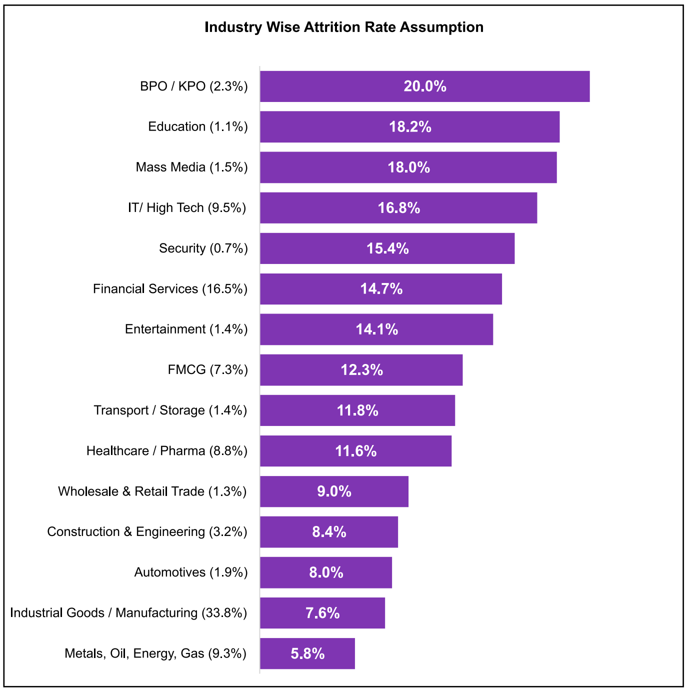
Liability sensitivity to discount rate changes:

The liability term for most companies is 5–10 years, which makes valuations very sensitive to changes in the discount rate. A 1% fall can increase liabilities by 5% to 10%. For instance, when the 10-year rate slipped from about 6.6% at the end of March to 6.2% in May (a 40 bps drop), benefit obligations for a typical plan would have risen by around 4%, all else being equal.

Industry-wise salary escalation and attrition assumptions:

In addition to discount rate, salary escalation and attrition assumptions are used to actuarially value the Defined Benefit liability. As per an internal study by WTW, below are the average of the industry wise assumptions used by companies for actuarial valuation.





Source: Actuarial valuation assumptions used by more than 800 companies

Way ahead

Looking ahead, discount rate volatility, evolving pay trends and shifting attrition patterns will remain key drivers of benefit valuations. Companies that regularly review their assumptions will be better positioned for resilient financial planning.

Retirement Benefit Funding

The silent liability: Why retirement funds deserve strategic attention

In today's corporate landscape, as organisations navigate economic uncertainty, rising interest rate volatility and increasing employee longevity, retirement liabilities such as gratuity and pensions are often underfunded and undermanaged. Moreover, recent legislative changes (e.g. in Karnataka) have made it mandatory for companies to fund their gratuity liabilities.

Feature comparison: Gratuity trust management

Feature	Insurer managed – ULIP	Insurer managed – traditional	Self-managed trust
Average returns	6% to 12% (market linked)	6.5% to 7.6% (fixed return)	7% to 8% (with active management)
Risk	Market risk	Low risk	Depends on company policy
Transparency	High (NAV published)	Moderate	High
Flexibility	Moderate (switching funds possible)	Low	High
Administrative burden	Low – handled by insurer	Low – handled by insurer	High – trust setup, compliance, audits

Asset allocation strategies: Aligning growth with risk

Funded retirement plans require active asset allocation to ensure capital growth and liability matching:

Equities
(for long-term appreciation)

Debt instruments
(for capital preservation)

ALM strategies
(to match liabilities with returns)

How equity and debt funds have performed across retirement portfolios — and what it means for your funding strategy

Fund type	Max equity exposure %	Remarks	Returns				
			1 year	3 years	5 years	7 years	10 years
Equity fund	30% to 60%	High risk; for growth-seeking customers	7.14%	9.99%	16.59%	10.65%	9.87%
Balanced fund	20% to 30%	Medium risk; combines growth with stability	8.18%	7.40%	8.84%	7.77%	7.68%
Debt fund	0%	Low risk; focuses on capital protection	8.57%	6.55%	6.08%	7.04%	7.19%
Liquid/Money market fund	0%	Very low risk; for short-term or exit-phase accumulation	6.37%	5.61%	4.90%	4.85%	5.21%

Did you know the same type of gratuity product can yield different returns across insurers? Understanding the **fund manager's strategy, consistency, and past performance** is crucial to long-term success.

Please visit our webpage to read about WTW's RFS 360° an end-to-end solution for companies to manage their retirement plans.

Retirement Benefits Study

WTW's 2024 State of Retirement Benefits survey, covering 138 employers across multiple sectors, provides valuable insights into the evolving landscape of retirement benefits in India. This report highlights employer strategies around gratuity, provident funds, corporate NPS and reactions to the anticipated labour code changes.

A few notable findings are as below.

Summary

Retirement/long term benefits strategy	**Employers want to improve their current retirement-related benefits offering but are taking a cautious approach.** • More than half of employers who are not currently offering Corporate NPS plan to introduce the benefit in the near future. • Employers prefer insurer-managed arrangements for funding long-term retirement benefits.
Gratuity Funding	**Funding levels improve, with greater focus on diversification.** • 2 in 5 employers are considering to evaluate alternative insurers or investment options with private insurance companies, including those that are currently satisfied with their fund performance.
Provident Fund	**Compliance remains top priority.** • Trusts of large Indian companies likely to continue, which will look for external help, e.g., to conduct an investment review, carry out an ALM exercise. • Compliance and vendor reviews are priority for unexempt funds.
Corporate NPS	**Are we getting the desired outcome?** • Nearly half of employers are dissatisfied with current participation levels. Educational sessions on retirement planning and multiple enrollment windows are being used to encourage and boost participation.
Labour codes	**The nervous wait continues.** • Nearly half of the employers have taken action to assess the financial impact of labour codes. But a significant number do not know if and how they may need to change their compensation structures, or the potential impact on PF contributions and gratuity liabilities.

Regulatory Updates

Navigating change – key retirement regulatory updates you should know

Employment Linked Incentive (ELI) Scheme

Announced in the Union Budget 2024–25, the ELI Scheme aims to boost employment, especially in the manufacturing sector. It is effective from 1 August 2025, until 31 July 2027.

Key benefits

- For first-time employees:
  - One-month PF salary incentive (up to ₹15,000), paid in two parts—after 6 and 12 months of service, plus completion of a financial literacy program.
- For employers:
  - Incentive of up to INR 3,000 per month per new employee (with salary of up to INR 1 lakh), for two years
  - Establishments registered with EPFO must hire at least two (if less than 50 employees) or five (if 50 or more employees) additional staff for at least six months
  - The manufacturing sector will have these benefits extended to the third and fourth years.

Furthermore, the EPFO circular dated 22 November 2024, states that UAN activation and AADHAAR-linked bank account is mandatory for eligible employees availing the ELI Scheme benefits.

EPFO guidelines on utilising reserves and surplus by exempted organisations

The Employees' Provident Funds Organisation (EPFO) circular dated 7 October 2024 was withdrawn from EPFO's website a few months ago. This rescission allowed Provident Fund (PF) Trusts of exempted organizations to use surplus to match or exceed the EPFO-declared rate and redistribute surplus before surrendering exemption. However, they are advised to exercise caution in surplus utilization. You can find more information about the circular here.

This raised a few questions like:

- Why can a PF Trust of exempted organisation not utilise the surplus built by superior investment management of its Trustees to benefit employee balances in hard times (i.e., when EPFO rates were unable to be matched)?
- Why cannot a PF Trust redistribute surpluses to its own members?
- Why is it that current members of a PF Trust of an exempted organisation cannot receive surplus at the time of surrender of PF exemption, while EPFO stands to benefit from the same?

Meet our team:

Varun Jain
Head of Retirement, India
WTW
varun.jain@wtwco.com

Ritobrata Sarkar
Director and Head of Business Development, Retirement, India
WTW
ritobrata.sarkar@wtwco.com