Institute of Actuaries of India

Actuaries working with the PFRDA on the Pension Sector

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Executive Summary

- PFRDA has a key role in the development of the pension sector in India. Actuaries have domain expertise to assist PFRDA.
- Current Situation in India
  - Pension sector is fragmented and limited, though EPF is well established
  - Large growth potential for National Pension System (NPS)
  - Limited regulatory oversight of employer sponsored Trust Based pensions (including Gratuity and other Retirement Benefits); Not covered by PFRDA
- Opportunities
  - Actuaries all over the world are playing a significant role working with regulators and policymakers on development of pension sector
  - PFRDA should aim to become the sole Regulator for all types of Retirement Savings
  - Shared values of the PFRDA and actuarial profession – “ to serve the public interest”

Actuaries Partnering with PFRDA - NPS

- Actuaries posses unique skills such as risk assessment and statistical analysis
- The NPS design is going to evolve both in the accumulation phase and de-accumulation phase
- Accumulation Phase and design
  - Help the design of specific attributes to the NPS like the introduction of health benefits and other risk benefits, specific to the different populations of the country
  - Assured return designs; and implication of costs and investment options
- De-accumulation phase
  - Actuaries design annuity products for insurance companies. Actuaries can help PFRDA in assessing annuity products in Indian market
  - Significant changes in markets like Australia and recently in UK make the de-accumulation phase more flexible and more attractive to the public.
- Assessing New Entrants in the Pension Business.

Broader PFRDA role and influence

- Company sponsored plans :
  - Public Sector pension plans in Banks and Insurance Companies
  - Private Sector Defined Benefit and Defined Contribution plans
  - Gratuity Benefits (mostly unregulated)
  - Exempt Provident Fund trusts (includes interest guarantees requiring actuarial valuations)
- Benefit design of these are often determined (e.g. Payment of Gratuity Act or Pay Commission etc.)
- However, limited or no oversight related to operational and some finance matters
- The PFRDA has the opportunity to fill a gap in the visibility, accountability and consistency of how these plans are managed across India as a Single Regulator or in collaboration with other Regulators

Actuaries

- Actuaries have been central to the governance and financial advisory to corporate pension plans for decades around the world.

Actuaries would be well placed to assist in:

- measurement of long term costs and funding of plans
- disclosure and education to members
- Benefit illustrations and projection norms for defined contribution (DC) plans like NPS; funding a Target Pension.
- training for plan sponsors and administrators (e.g. the corporates and trustees)
- asset and liability matching enhancing security of outcome
- demographic analysis for assessing impact of longevity on costs of pension plans
- evaluation of individual values for purposes of employees transferring from a defined benefit to defined contribution arrangement
- Investment Advice to Trustees of DC Plans

Looking ahead …

The Institute of Actuaries of India looks forward to having an opportunity to working with the PFRDA on issues on its agenda as we collectively aim to develop the pension sector in India for the public interest.