Presentation on

Pension Reform in India and PFRDA

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Pension History

- In 13th century B.C. Roman Emperor , Augustus paid pension to troops financed by regular taxes and thereafter by levying 5% inheritance tax.

- In 16th century Britain and several European countries offered pensions to their troops and gradually expanded this to enlisted men.

- In 1875 , American Express offered America's first employer- provided retirement plan.

- The first comprehensive old-age pension was legislated in Germany, in 1889, by Otto Von Bismarck who set 70 years as age of retirement ,which was lowered to 65 in 1916.

- In most countries, the idea of retirement is of recent origin, being introduced during the late 19th and early 20th centuries.

- Work until you die-or you can't work anymore. That was the old age plan for the bulk of the world's workers.

Indian Pension History

- The Pension system in India was introduced by the British Government in 1881, when the Royal commission on Civil Establishments first awarded pension benefits to the Government employees.

- The Government of India Act of 1919 which provided for Public Service Commission in India, and GOI Act 1935 made further provisions.

- These schemes were later consolidated and expanded to provide retirement benefits to the entire public sector working population.

- Post independence, several provident funds were set up to extend coverage among the private sector workers which has limited coverage.(EPFO-1952, PPF-1968, IGNOAPS-1995)However this remained confined to workers in the organized or formal sector.

- Pension reform began with the introduction of National Pension System by GOI primarily driven by the fiscal stress of DB and to extend coverage to the unorganized sector on the other .

Indian Pension System

Prior to 2004

Only available to 12% of the workforce– mainly for government employees

After 2004

PFRDA has been established by the Government of India.

Paradigm shift from Defined Benefit (unfunded –Pay-as-you -go) to Defined Contribution (funded system)

PFRDA has made available NPS option to all citizens of India to avail pension through NPS w.e.f 01st May, 2009

Govt. of India's Swavalamban Scheme:

Special focus towards Economically Disadvantaged and Unorganized Sector

Indian Pension System

The present Indian pension system can be broadly classified into four segments:

NSAP (IGNOAPS)

- GOI has launched this Umbrella scheme
- It is poverty alleviation program aimed at the old aged BPL people .
- It is pay as you go plan.
- Govt. pays out Rs. 200 every month to 22.3 million poor citizen aged 60+.
- Some State Govt. also contribute.

EPFO

- India's largest DC and publicly managed plan.
- Employees in the organized sector are required to participate in PF and pension plans managed by EPFO.
- 88 million workers as of March 2013 are covered under this scheme.
- 7.43 lacs establishments are covered.

Pvt. Pension & Annuities

- Various schemes administered by life insurance and mutual fund companies regulated by IRDA and SEBI.
- Along with traditional pension plans many life insurance companies have introduced unit liked pension plans.

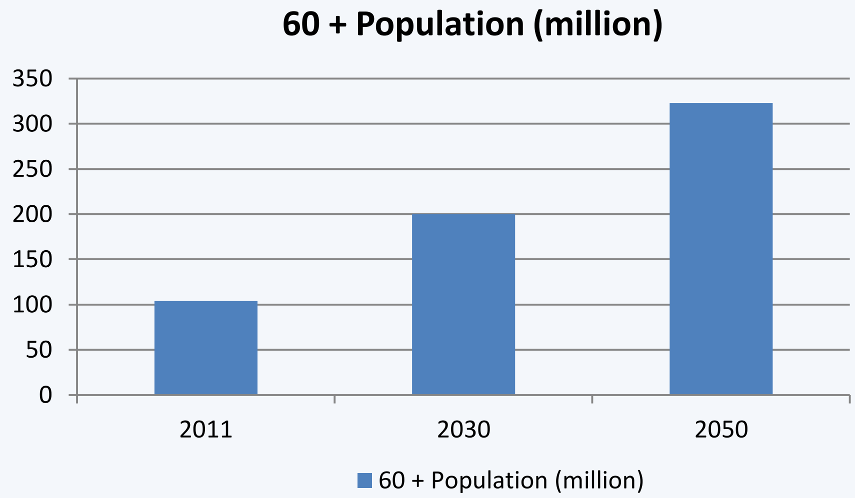
NPS

- Regulated by PFRDA.
- All govt. employees after 01.01.2004; State Govt., and PSUs employees have also enrolled under NPS.
- This is defined contribution pension scheme.
- Govt. does matching contribution for its employees.

Why shift from DB to DC?

1) Increasing old population.

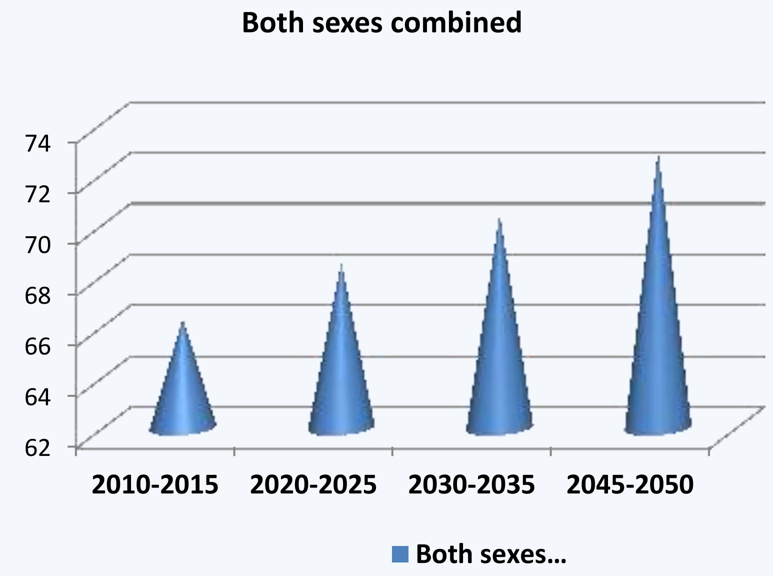
	2011	2030	2050
60 + Population (million)	104	200	323



Why shift from DB to DC?...

2) Increasing life expectancy at birth

Period	Both sexes combined	Male	Female
2010-2015	66.3	64.6	68.1
2020-2025	68.5	66.8	70.5
2030-2035	70.4	68.6	72.5
2045-2050	72.9	70.9	75

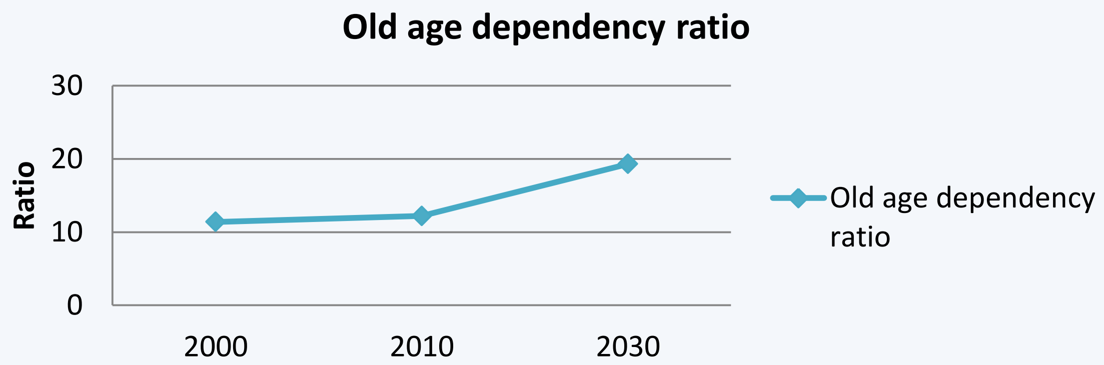


- Life expectancy at the age of 60 is expected to increase from 16 ('10-'15) to 18('25-'30).
- Fertility rate is expected to decrease from 2.5 ('10-'15) to 2.2('25-'30).

Why shift from DB to DC?...

3) Increasing old age dependency ratio

	2000	2010	2030
*Old age dependency ratio	11.4	12.2	19.3



- Percentage of old aged 60 + is expected to increase from 7.6% in 2011 to 12.3% in 2030.
- Percentage of old aged 80 + is expected to increase from 0.70% in 2011 to 1.20% in 2030.

* Old age dependency ratio ={(population above 60 yrs) / (population 15-59 yrs)}100

Why shift from DB to DC?...

4) Increasing nuclear families

5) Greater feminization of elderly population.

6) Fiscal Burden on Government

	1999-2000	2011-2012
Union Govt.	0.5% of GDP	0.6% of GDP
	INR 101 bn	INR 562 bn
State Govt.s	1.2% of GDP	1.3% of GDP
	INR 251 bn	INR 1215 bn

7) Pension savings to be utilized productively for medium and long term growth.

8) The pension assets in India comprise of only around 6% of the GDP (EPFO included) while the figure is 58% of GDP globally, and for most developed countries it is more than 75% of GDP. (US-74.5%; UK-95.7%;Australia- 91.7%)

Introduction of PFRDA

- The Government of India, adopted 'National Pension System' (NPS) based on defined contributions in respect of all new entrants to Central Government services, excepting the Armed Forces, with effect from 1st January 2004.
- PFRDA was established as a statutory body under Pension Fund Regulatory and Development Authority Act (Act 23 of 2013) which was notified on 01.02.2014
- Most of the State Governments have also notified NPS for their new entrants as per the date notified by each one of them.
- PFRDA has also made NPS available to all citizens of India, with effect from 1st May 2009 on a voluntary basis.
- PFRDA has launched NPS- Corporate Sector Model through POP during Dec. 2011

Mandate of the PFRDA Act

- Regulating the National Pension System and the pension schemes which are not administered by any other enactment;

- Approving the schemes, the terms and conditions thereof and laying down norms for the management of the corpus of the pension funds, including investment guidelines under such schemes;

- Registering and regulating intermediaries such as POPs, Aggregators, CRA,TB, custodian, PFs etc.;

- Protecting the interests of subscribers by

  (i) ensuring safety of the contribution of subscribers

  (ii) ensuring low operational costs under the National Pension System .

- Establishing mechanism for redressal of grievances of subscribers

Mandate of the PFRDA Act

- Promoting professional organisations
- Adjudication of disputes related to intermediaries and subscribers
- Undertaking and commissioning studies, research and projects
- Subscriber education & awareness and training of intermediaries
- Standardising dissemination of information about performance of pension funds
- The eligibility criteria for entities associated with collection, management, accumulation and disbursement of pension , and levying fees or other charges .
- Specifying the books of account to be maintained by intermediaries
- Calling for information, undertaking inspection, conducting inquiries and investigations including audit of, intermediaries and other entities associated with NPS and other pension schemes regulated by PFRDA.

Salient features of NPS

- **Prudentially regulated**: Transparent investment norms, regular monitoring and periodic performance review of Fund Managers by NPS Trust and PFRDA.

- **Low Cost:** NPS is one of the world's lowest cost pension scheme.

- **Portability:** NPS account can be operated from anywhere in the country irrespective of employment and geography thus ensuring portability of benefits.

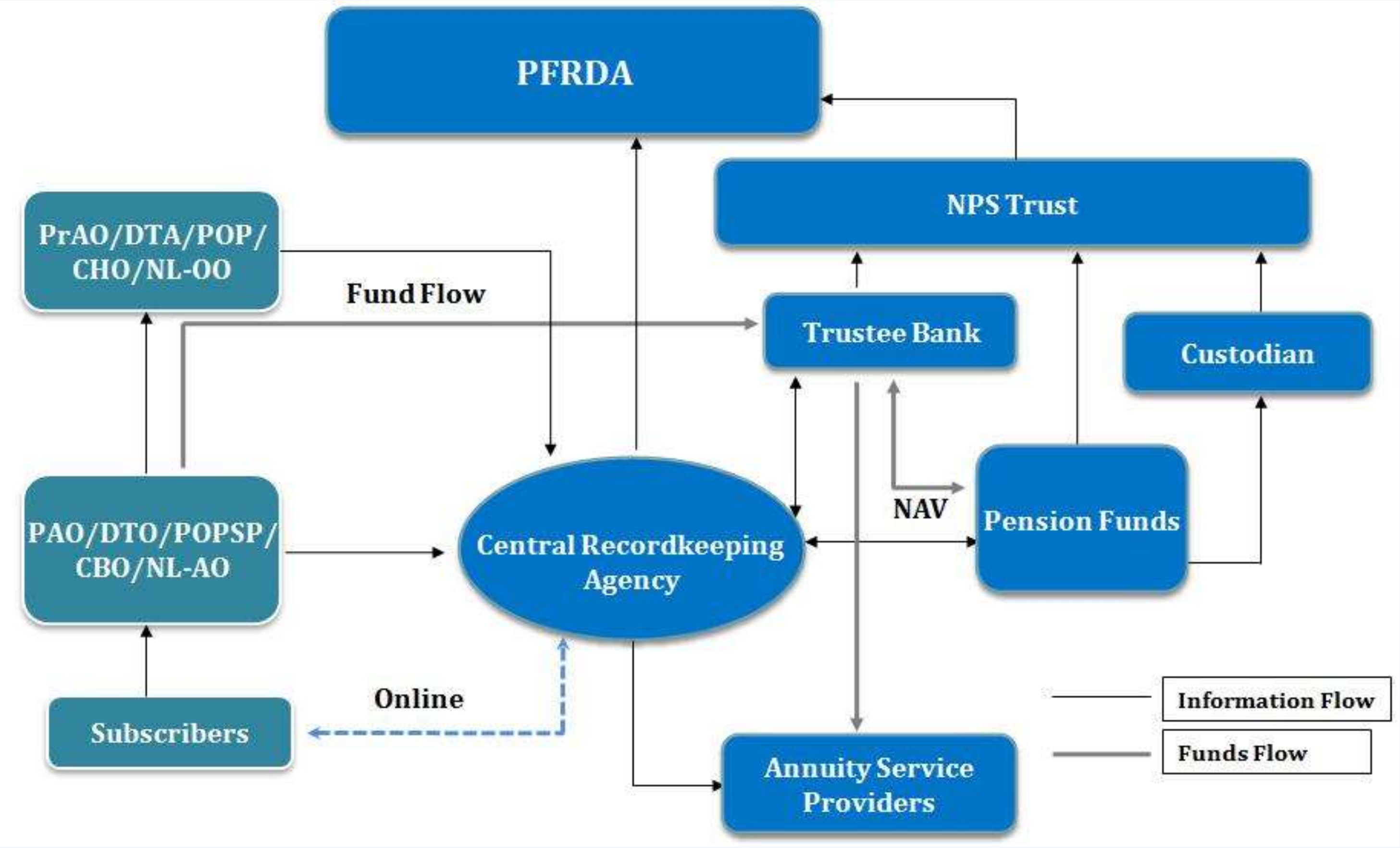
- **Flexibility:** Co-contribution by employee & employer, Choice of POP, PFs and investment mix or may select Auto Option (life cycle fund); Annuity Service Provider, combination of lumpsum and periodic income.

- **Prudent Investments:** In NPS investments are made by professional PFs, as per the prescribed investment guidelines in different asset class e.g. E,C & G to ensure optimal returns.

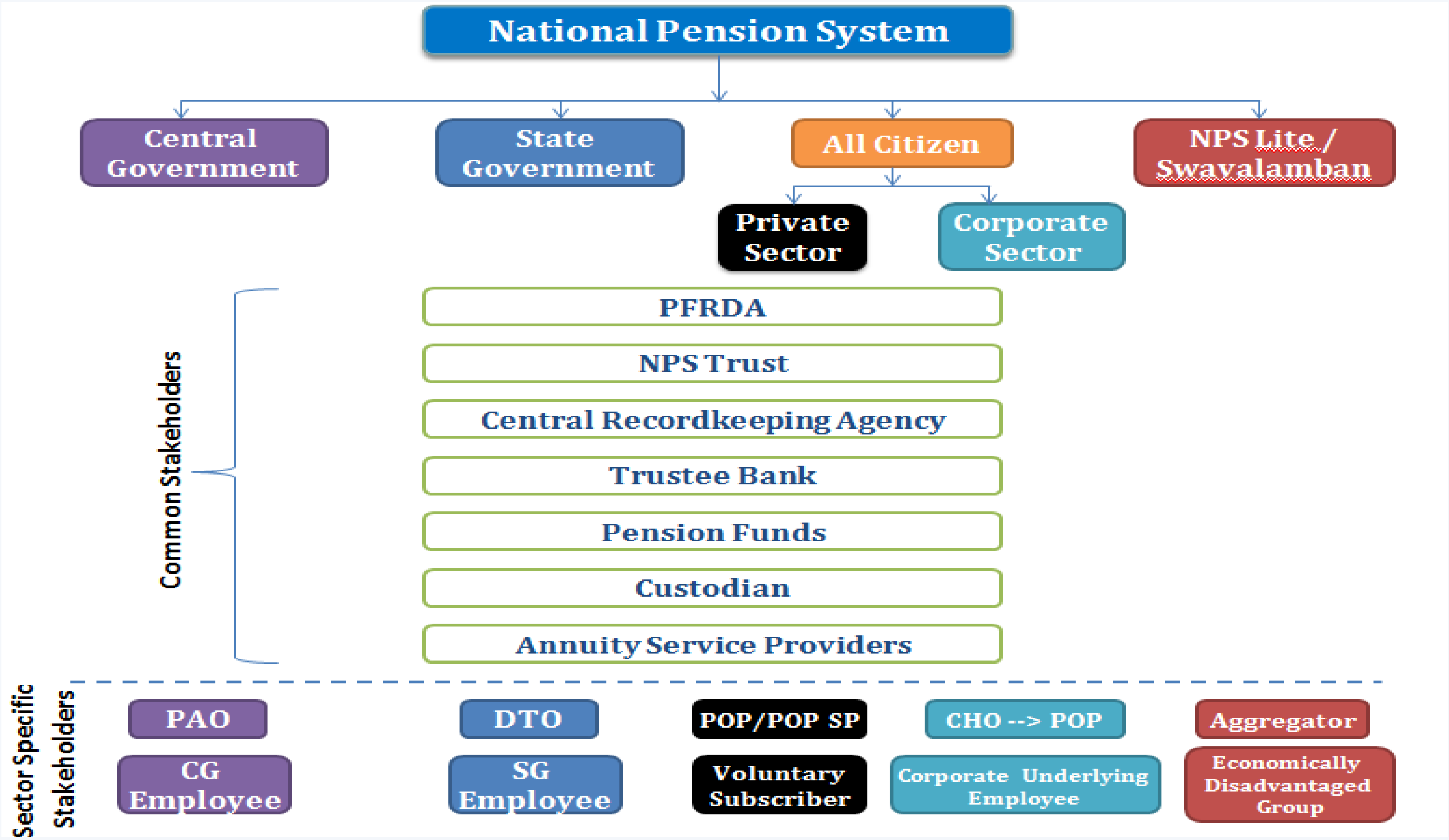
- **Power of Compounding**: Through long term accumulation of fund.

- **Simple and Web enabled/Online:** All transactions can be tracked online through CRA system. Employee can check fund and contribution status through CRA website.

NPS Architecture



Variants of NPS



Present Status of NPS

Sector	Number of Subscribers	AUM (Rs. Crores)
Central Government	14,04,272	28,875.06
State Government	21,91,423	26,383.36
Corporate	2,97,391	3,656.31
Unorganized	81,531	458.29
NPS Lite	32,43,032	1,140.94
Total	72,17,649	60,513.96

NPS Corporate Model	
No. of Corporates	1,434
No. of Subscribers	2,97,391
Contribution	Rs 3,252.96 Crores

Data as on 30.08.2014

Types of NPS Accounts

Under NPS following two types of accounts will be available:

- Tier-I account: Employer/Employee can contribute for retirement into this pension account.
- Tier-II account: This is a voluntary savings facility. Subscriber will be free to withdraw savings from this account whenever they wish.

Particulars	Tier I	Tier II
Option of Selection of the Account	Mandatory	Optional
Withdrawal Facility Available	Yes upto 25%	Yes
Minimum Contribution at the time of A/c Opening	Rs.500	Rs.1,000
Minimum Amount for Subsequent Contribution	Rs.500	Rs.250
Minimum Contribution Required Per Year	Rs.6,000	Rs.2,000*
Minimum No of Contribution Per Year	1	1
Frequency of Contribution Permitted	Unlimited	Unlimited

Investment for Pvt. Sector

Selection of investment option is a two step process:

Selection of PFM

Selection of Investment Choice

Investment for Pvt. Sector…

1. Selection of PFMs (Any One) :

- SBI Pension Funds Pvt. Limited
- LIC Pension Fund Limited
- UTI Retirement Solutions Limited
- ICICI Prudential Pension funds Management Company Limited
- Kotak Mahindra Pension Fund Limited
- Reliance Capital Pension Fund Limited
- HDFC Pension Fund Ltd.
- Pension fund to be incorporated by Birla Sun Life Insurance company limited

Investment for Pvt. Sector…

2. Selection of Investment Choice

Two Investment Choices

Active Choice

Auto Choice

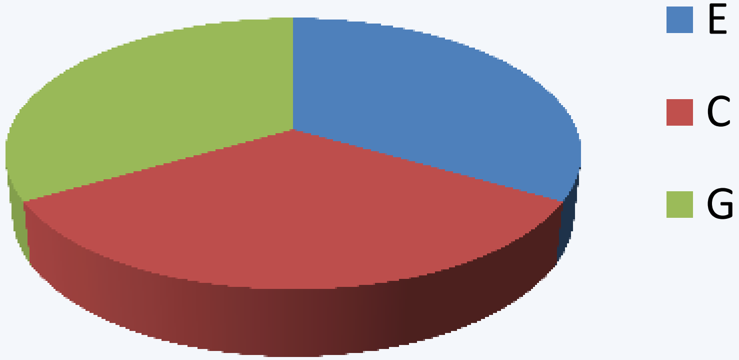
Active Choice: Subscriber will select the allocation of his / her funds among three Asset Classes E- equity, G- Govt. Sec. and C- Corporate Bonds etc., with contribution in Asset Class E be restricted to 50% of total Contribution.

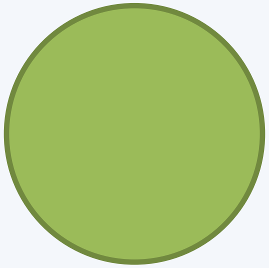
Auto Choice (Life Cycle Option): Proportion of Fund invested among three Asset Classes will be determined by pre-defined portfolio which is set on the age of the subscriber

Investment for Pvt. Sector…

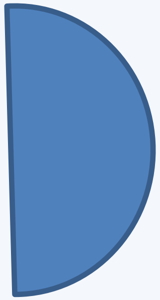
1. Active Choice

Asset Allocation

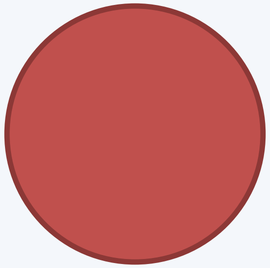




Upto 100% in **G**



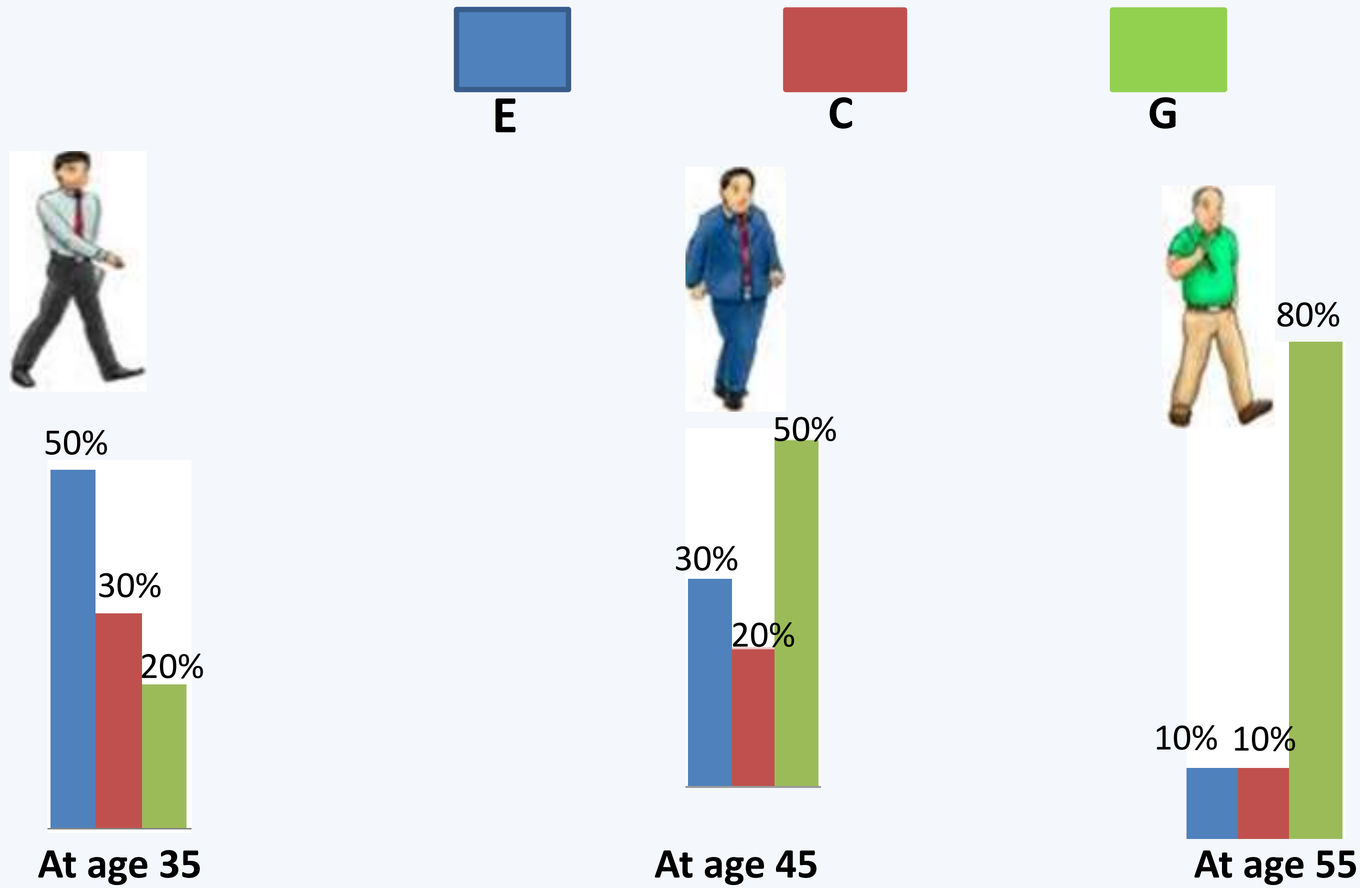
Upto 50% in **E**



Upto 100% in **C**

Investment for Pvt. Sector…

2. Auto Choice



Benefits to Employer

- Corporate can act as a facilitator to co-contribute for employee's pension to extend benefits of NPS to its employees.
- Save expenses incurred on self administration of pension function (viz; record keeping, investment, annuity etc.)
- Corporate may select Pension Fund for its employees or leave the option to employees for selecting Pension Fund for themselves.
- Corporate can claim tax benefits for the amount contributed towards pension of employees. From 1st Apr, 2012 upto 10% of the salary (basic and dearness allowance) of employers contribution can be deducted as 'Business Expense' from their Profit & Loss Account.

Benefits to Subscriber

- Cheapest investment product with better growth options through long term market-linked savings.
- Provides choice of various funds with a flexible investment pattern . Auto Choice option for those who do not have the required knowledge to manage their investment.
- Individual Retirement Account for record keeping at individual level ensures portability across geographies and employment.
- Offers Tier II account which is a voluntary savings facility with anytime liquidity/withdrawal option.
- Efficient grievance management through CRA Website, Call Center, Email or Post.
- An option to remain invested even after your retirement. (Allows phased withdrawal)

Tax Benefits

To employer :

- Contributions made by the employer (upto 10% of Basic + DA) is allowed as a business expense under Section 36 (1) iv (a) of Income Tax Act 1961.

To employees :

- Employees own contribution is eligible for tax deduction under Sec 80 CCD (1) of IT act up to 10% of Basic + DA (max. of Rs. 1.00 lac)(Section 80 CCE stipulates eligible savings upto Rs. 1.50 lacs)

- Employee gets tax deduction for the contribution made by the employer under section 80 CCD (2) of IT act upto 10% of Basic + DA over & above Rs. 1.00 lac of section 80 CCD (1).

Getting Money Out

Vesting Criteria	Benefit
At any point in time before 60 years of Age	• The subscriber would be required to invest at least 80% of the pension wealth to purchase a life annuity from Annuity Service Provider empanelled by PFRDA. • Rest 20% of the pension wealth may be withdrawn as lump sum.
On attaining the Age of 60 years and upto 70 years of age	• Minimum 40% of accumulated pension wealth to purchase a life annuity. Annuity purchase can also be deferred for maximum period of 3 years at the time of exit • Subscriber can withdraw 60% as lumpsum at the age of 60 or defer its withdrawal and stay invested in the NPS upto the age of 70 years. However, no fresh contributions are accepted and also no partial withdrawals are allowed during such a period of deferment. • If the corpus at the age of 60 yrs is equal to or less than Rs. 2 lakhs subscribers have an option to withdraw the entire accumulated pension wealth.
Death due to any cause	• In such an unfortunate event, option with the nominee to receive 100% of the NPS pension wealth in lump sum. • However, if the nominee wishes to continue with the NPS, he/she shall have to subscribe to NPS individually after following due KYC procedure.

Annuity Service Provider

- Subscribers of the National Pension System (NPS) would have a choice to select Annuity Service Providers, and annuity schemes offered by them at the time of exit from NPS.
- Pension Fund Regulatory and Development Authority (PFRDA) has at present empaneled the following Seven IRDA approved life insurance companies for providing annuity services to the subscribers of National Pension System (NPS).

1. Life Insurance Corporation of India
2. Bajaj Allianz Life Insurance Co. Ltd.
3. SBI Life Insurance Co. Ltd.
4. Star Union Dai-ichi Life Insurance Co. Ltd.
5. ICICI Prudential Life Insurance Co. Ltd.
6. Reliance Life Insurance Co. Ltd.
7. HDFC Standard Life Insurance Co. Ltd.

Types of Annuity available

- Pension (Annuity) payable for life at a uniform rate to the annuitant only.
- Pension (Annuity) payable for 5, 10, 15 or 20 years certain and thereafter as long as you are alive.
- Pension (Annuity) for life with return of purchase price on death of the annuitant (Policyholder).
- Pension (Annuity) payable for life increasing at a simple rate of 3% p.a.
- Pension (Annuity) for life with a provision of 50% of the annuity payable to spouse during his/her lifetime on death of the annuitant.
- Pension (Annuity) for life with a provision of 100% of the annuity payable to spouse during his/her lifetime on death of the annuitant.

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THANK YOU !