



# *An update on The National Pension System (“NPS”)*

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*9<sup>th</sup> Current Issues in Retirement Benefits*

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# *Agenda*

- Brief Reminder of the NPS
- What does the passing of the Pension Bill mean in practical terms
- Where NPS fits into Employee benefits
- Potential role of actuaries in defined contribution schemes - discussion

Not intending to give a particular opinion on  
NPS design in wider context

# Overview of National Pension System

## Eligibility

Government workers  
All citizens from 2009

## Design

Defined Contribution  
Minimum Annuitisation  
NPS Lite  
Portable  
Low cost

## Governance

PFRDA  
NPS Trustees

## Challenges

Distribution model  
Fund manager's viability

New Tax regulations make it tax effective from April 2012 for employers to contribute

# Latest known subscriber base

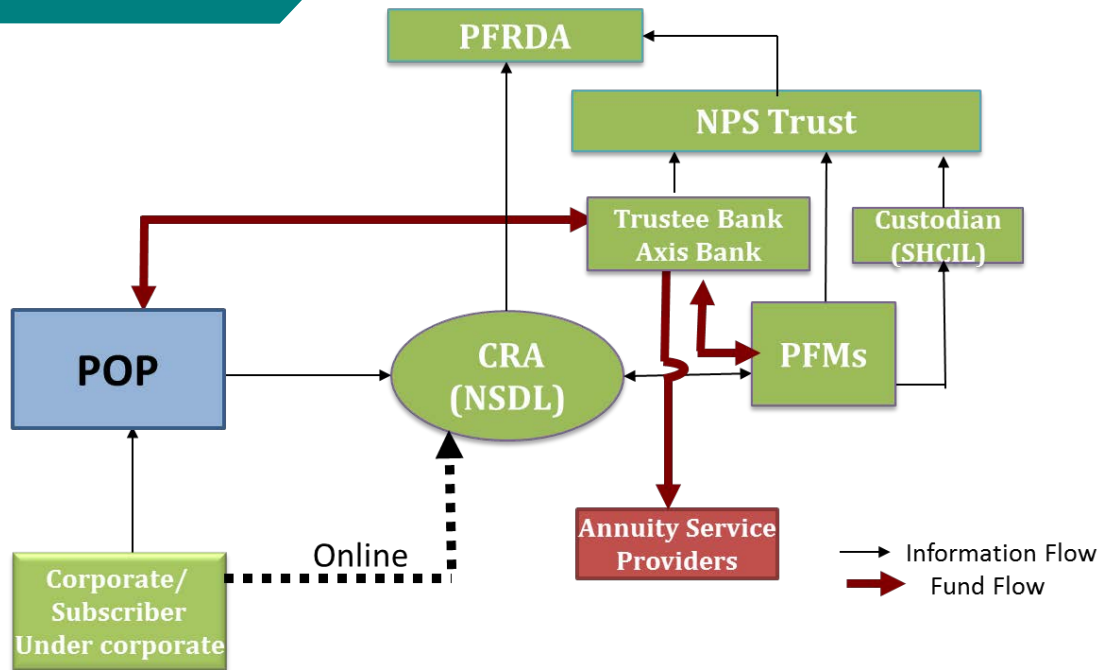
The NPS status report as on May 7, 2013 is given as under:

Sl. No.	Employer/Sector	Number of subscribers	Corpus under NPS (In Rs. crore)
1.	Central Government	11,55,307	18,693
2.	State Government	16,84,649	11,741
3.	Private Sector	2,27,181	1,529
4.	NPS-Lite	19,23,851	604
	<b>Total</b>	<b>49,90,988</b>	<b>32,567</b>

Till date 8,817 Tier II accounts have been activated

Private sector includes individual citizens - direct or through employers  
c.700 companies have registered with NPS (according to PFRDA)

# Macro Architecture



## Pension Fund Managers (PFMs)

- SBI Pension Funds Pvt. Limited
- LIC Pension Fund Limited
- UTI Retirement Solutions Limited
- ICICI Pru Pension funds Management Comp. Ltd.
- Kotak Mahindra Pension Fund Limited
- Reliance Capital Pension Fund Limited
- HDFC Pension Management Company Ltd
- DSP BlackRock Pension Fund Managers Pvt Ltd

## Annuity Providers

- Life Insurance Corporation of India
- SBI Life Insurance Co. Ltd.
- ICICI Prudential Life Insurance Co. Ltd.
- Bajaj Allianz Life Insurance Co. Ltd.
- Star Union Dai-ichi Insurance Co. Ltd.
- Reliance Life Insurance Co. Ltd.
- HDFC Standard Life Insurance Co. Ltd.

59 Points of Presence

<https://www.npscra.nsdl.co.in/pop-sp.php>

# Investments as per PFRDA

## Weighted average return advised by PFRDA 2012-2013

<http://pib.nic.in/newsite/PrintRelease.aspx?relid=96012>

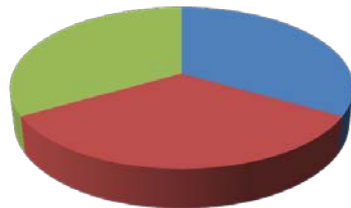
Sr. No.	Scheme	Average returns (in %)
1	Central Government	12.39
2	State Government	13.00
3	Swavlamban	13.40
4	Private: Equity	8.38
5	Private: Corporate Debt	14.19
6	Private: Government Debt	13.52

### (A) Active Choice

Asset Allocation



Upto 100% in G



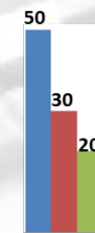
Upto 100% in C

■ E  
■ C  
■ G

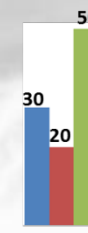


Upto 50% in E

### (B) Auto Choice



At age 35



At age 45



At age 55

# *Pensions Bill 2011*

- Not much changes really.....
- Bill establishes and defines roles, responsibilities and governance of the PFRDA
- PFRDA was operating in interim anyway. Passing of the bill will mean more authority and autonomy.
- Points to come in last Bill
  - Develop option to subscribers for minimum return guarantee
  - Design option for withdrawals from Tier I accounts in certain circumstances.
  - To be done through regulations that are yet to be conceptualised
- No other major changes introduced since previous versions



## *Some NPS updates in the last year*

- 2012 the introduction of the tax allowances in the Finance Act
- POP charges increased slightly
- PFMs AMC charge amended (up to 0.25%)
- PFMs now can apply for empanelment for private sector as opposed to appoint/tender process
- Corporate subscribers not permitted to follow Government asset allocation anymore
- PFM investment guidelines updated to allow holding actual securities. Some updates related to assets allowable also made (e.g. certain infrastructure debt funds now allowed)
- Deferment of lump sum on exit and annuity can be opted for by subscriber at time of exit. Lump sum up to age 70 and annuity for up to 3 years



# *NPS Corporate Model released January 2012*

## **Eligibility**

**All companies liaise with a POP to register employees**

## **Design**

**Employees would have individual NPS accounts**

**Employers can choose the investment choice model from following:**

- Employer choosing the allocation
- Leave it to employees to choose

## **Charges**

**Employer is able to negotiate with the POP as to the POP charges as their will be bulk uploads and transactions**

## **Employees**

**Each account will have a company ID number attached in addition to the individual account number.**

**Continuation of the account is immediate after leaving the employer**

# Tax Benefits

## Benefit to Employee

Employee contribution

Business Expenses

Employer contribution

Eligible for  
ceiling of  
(1) upto

**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**

contribution over &  
under sec 80 CCD  
Basic + DA

# Employee illustration

Salary Category	Existing (Rs)	After including NPS (Rs)
Basic	400,000	400,000
Special allowance	96,000	56,000
NPS contribution (Through the employer)		40,000
Employer's contribution to PF and Other allowances	704,000	704,000
<b>CTC</b>	<b>1,200,000</b>	<b>1,200,000</b>
Taxable Salary	496,000	456,000
Tax Saving @ 30% in NPS		12,000

## Tax Savings

- Employee saves on taxes up to 10% of Basic in addition to individual long term savings allowances – **(only post 1 January 2004 joiners?)**
- Employer can claim tax deductions for the NPS contribution

# *Employers' experience so far*

- A lot of interest – in the main as an option for employee
- Bit more confidence now Bill has passed
- PFMs since November 2012 have been able to market NPS so better interest generated (as well as PFM fees allowed to be increased)
- However, very low employee take up rates
  - Awareness of NPS low
  - Communication at time of roll out is poor
  - Approach to communication inappropriate maybe: using tax as a main point sticky
- Varied experience about POPs
  - Ability to provide consistent service and information across the country
  - Not necessarily being able to educate on wider retirement planning context
- Up until recently no other option really existed for employer based DC pension – now group products coming back

# *Role of Actuaries?*

- First glance would suggest no real role for actuaries
- However, there are areas where our expertise as a profession can serve the wider public interest:
  - Simple Retirement education: Compounding, Inflation impacts, Annuity terms
  - Providing an objective and independent view of the merits and drawbacks of DC schemes such as NPS
  - Providing appropriate illustrations and projections
  - Advice to employer who wants to design contribution rates
  - Comparisons of DB and DC designs
  - Drafting and delivering employee communications appropriately highlighting risks and impacts of pre and post retirement stage
  - Advice with regards to investment allocations and performance
- Whilst many of the tasks can be done by others – we bring a different context being able to draw on our knowledge of other employee benefits as well.
- Where else can we assist?

# CIRB 2013

- Thank you

