



Expanding voluntary pension coverage in India

U K Sinha
Chairman & Managing Director
UTI AMC

New Delhi
30th April 2008

Pension Reforms – Case Study - Chile

- **Issues faced in 2nd Generation Reforms**
 - Lower and irregular contributions
 - Rapidly Ageing population
 - Lack of motivation for saving
 - Only 52% to have sufficient accumulation
 - Challenges on the demand and supply side
- **3rd Generation reforms : Marcel Committee Report**
- Pension Reform Bill passed in January 2008.
- Proposal to benefit the workers with low contribution densities; relatively volatile income workers.
- System of Solidarity pensions, SPS for those above 65 years and 60% of the poorest.

Pension Reforms – United States

- Pension Protection Act 2006 making sweeping changes
- Requires companies that under-fund their pension plans to pay additional premiums and closes the loop holes.
- Raises cap on the amount that employers can put into their pension plan, so as to keep their pension plans solvent during lean times.
- Removes barrier that prevented companies from automatically enrolling their employees in DC schemes
- It gives workers greater control over how their accounts are invested

Let's plan to get rich



Pension Funds as Percentage of GDP in Select Developing Countries

Country	% of GDP
Chile	60.50%
Brazil	15.50%
Argentina	13.70%
India	5.60%
Thailand	5%
South Korea	2.90%
Indonesia	2.30%
China	0.40%

Source: OECD Global Pension statistics, World Bank; Goldman Sachs Report

Let's plan to get rich



Projections for Indian Pension Market

I According to Helene K. Poirson of IMF
Indian Retirement Market will grow:

2010: Rs. 1500 billion

2020: Rs. 3000 billion

2025: Rs. 4000 billion

II FICCI – KPMG Study indicates:

- Without any Pension Reform, Pension market would be

2002 : Rs. 56,100 crore

2025 : Rs. 1,80,800 crore

- Post Reform Pension Market

2025: Rs. 4,06,400 crore

Let's plan to get rich

Response to NPS

	I am consciously preparing for retirement	Not preparing for it but do expect to retire one day	Have not thought about this at all	I do not expect to retire	Total
Very interested	46.63%	43.83%	38.40%	28.63%	36.17%
Somewhat interested	30.47%	33.35%	32.54%	27.33%	30.85%
Not really interested	10.70%	8.41%	11.27%	17.12%	12.85%
Not interested at all	6.51%	5.82%	6.82%	11.58%	8.23%
Don't know/ cant say/already covered	5.68%	8.59%	10.97%	15.34%	11.90%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Invest India Survey, 2007

Let's plan to get rich



How to expand NPS

- New Central Government employees
- New State Government employees
- Superannuation Funds
- Exempt Funds
- Non-mandatory EPFO participants
- Tax-paying unorganised workers
- Young existing Central Government employees
- Young existing State Government employees
- Armed Forces
- Non-tax paying unorganised workers

Let's plan to get rich



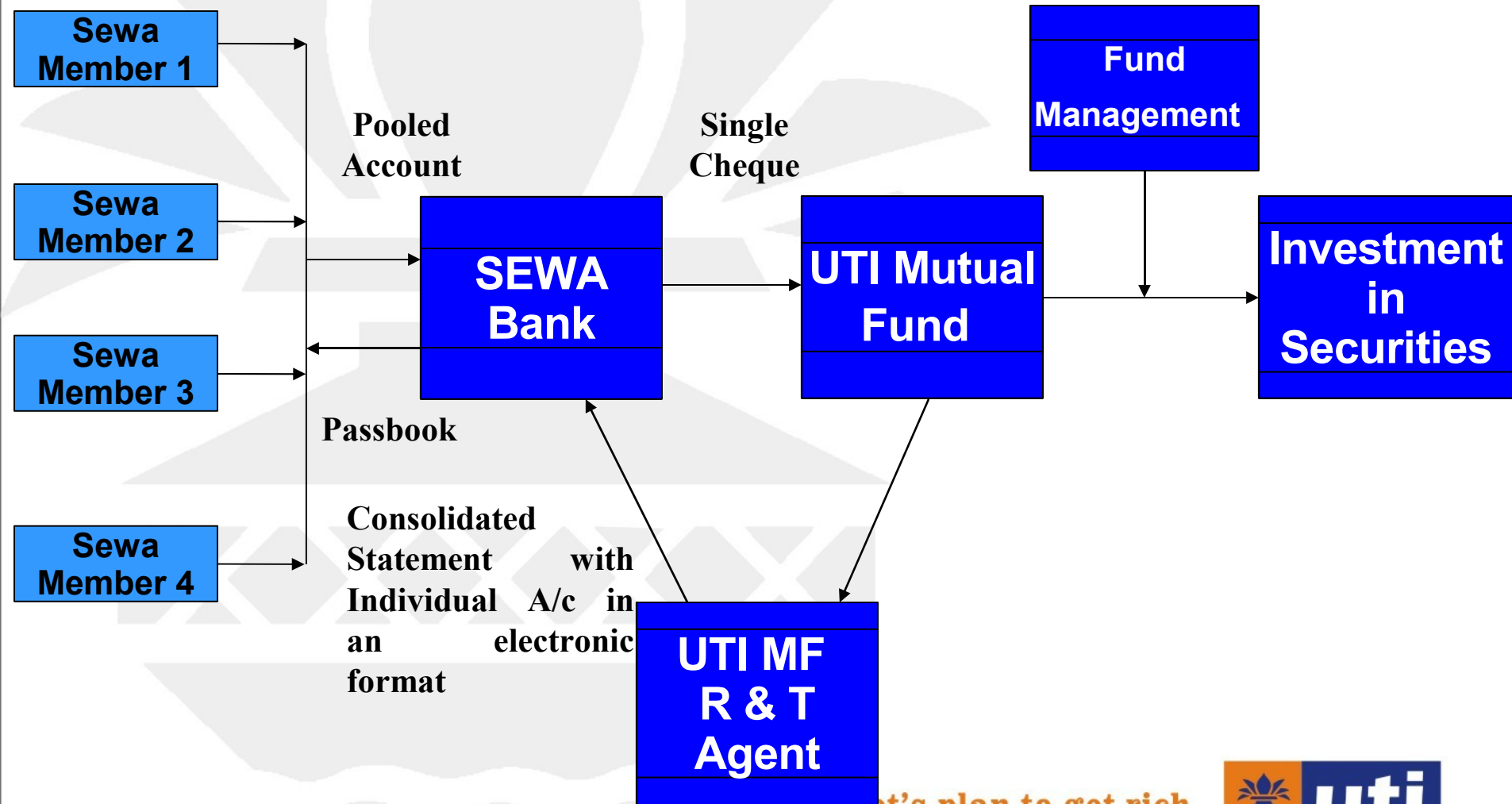
Mutual Funds

- SEBI Regulated
- Investment through small contributions
- Have specialised schemes for retirement benefit with tax benefit
- Monthly disclosure of portfolio
- Biggest challenge: Collection and maintenance of Data
- UTI Micro-Pension scheme

Let's plan to get rich

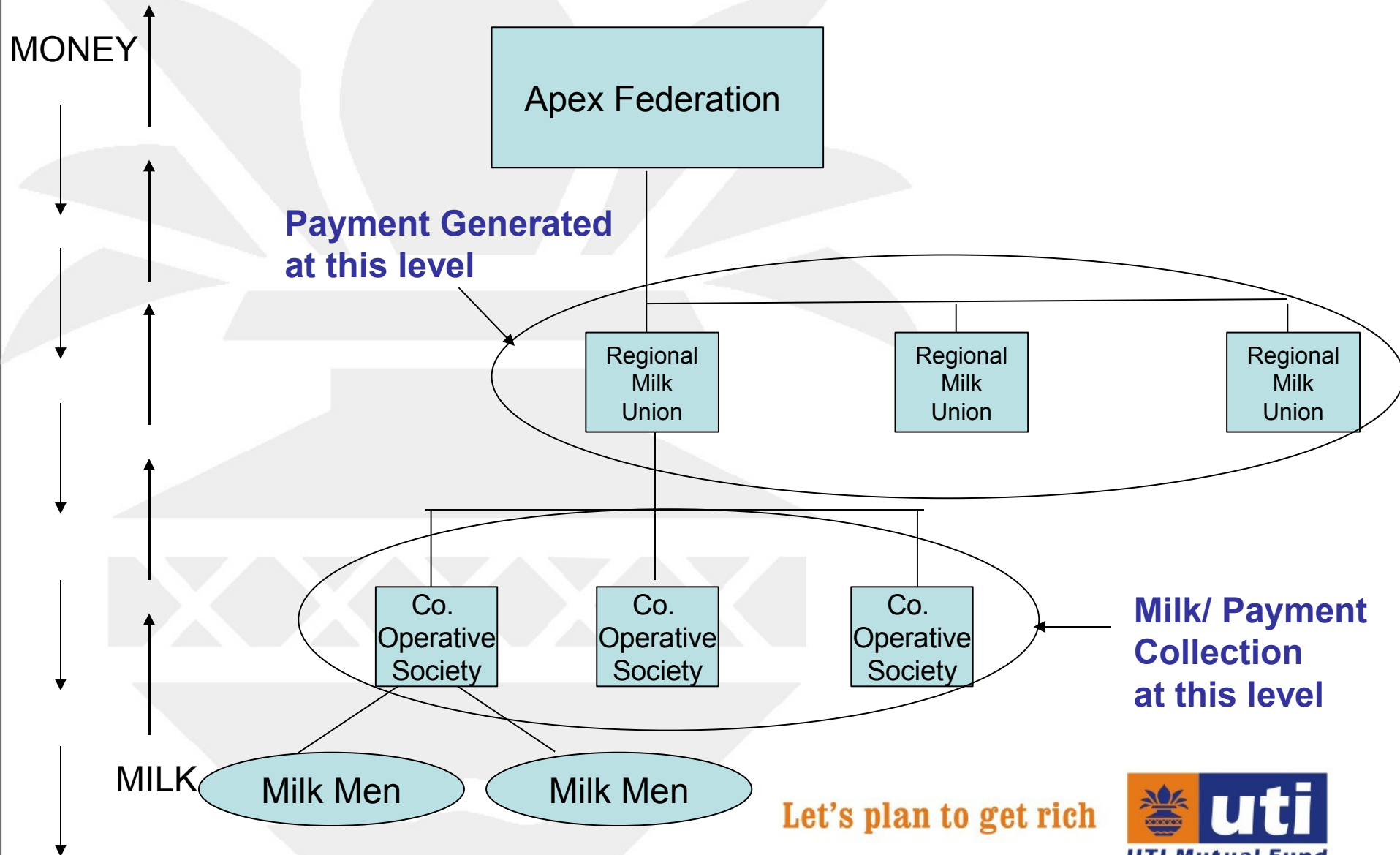


SEWA Model



Let's plan to get rich

Process Flow - COMPFED



Systematic Investment (Mutual Funds) – Growth Scenario

- Investment from the Age of 25 till the age of 60.
- Monthly Annuity for 15 Years after the age of 60

	Amount Invested Per Month					
	1000		500		200	
Rate of Return	Lump Sum Amount (at the age of 60)	Per Month	Lump Sum Amount (at the age of 60)	Per Month	Lump Sum Amount (at the age of 60)	Per Month
15%	1,14,14,844	1,60,794	57,07,422	80,397	22,82,969	32,159
12%	55,10,831	66,793	27,55,416	33,397	11,02,166	13,359
10%	34,25,893	37,238	17,12,947	18,619	6,85,179	7,448

Let's plan to get rich



Insurance

- Regulated by IRDA
- Offers plans like Annuity, Endowment, Unit linked for retirement planning
- Allow monthly investment
- Investor can invest in Plans with different investment limits of Equity and Debt
- Can act as Point of Presence due to their vast distribution network
- Can effectively cover every nook and corner of the Country

Let's plan to get rich



Challenges and Concerns

- Rest of World 3rd generation reforms – India struggling with 1st generation
- All Financial Intermediaries need to work together
- Financial literacy and education
- Fees and Costs
- Accounting
- Customised Solutions
- Database
- Mis-selling
- Regulatory architecture

Let's plan to get rich



Thank You

Let's plan to get rich

