



# ***Expanding voluntary pension coverage in India***

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# ***Pension Reforms – Case Study - Chile***

- **Issues faced in 2<sup>nd</sup> 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
- **3<sup>rd</sup> 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

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# *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

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# ***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**

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# 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
<b>Very interested</b>	46.63%	43.83%	38.40%	28.63%	<b>36.17%</b>
<b>Somewhat interested</b>	30.47%	33.35%	32.54%	27.33%	<b>30.85%</b>
<b>Not really interested</b>	10.70%	8.41%	11.27%	17.12%	<b>12.85%</b>
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

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# ***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

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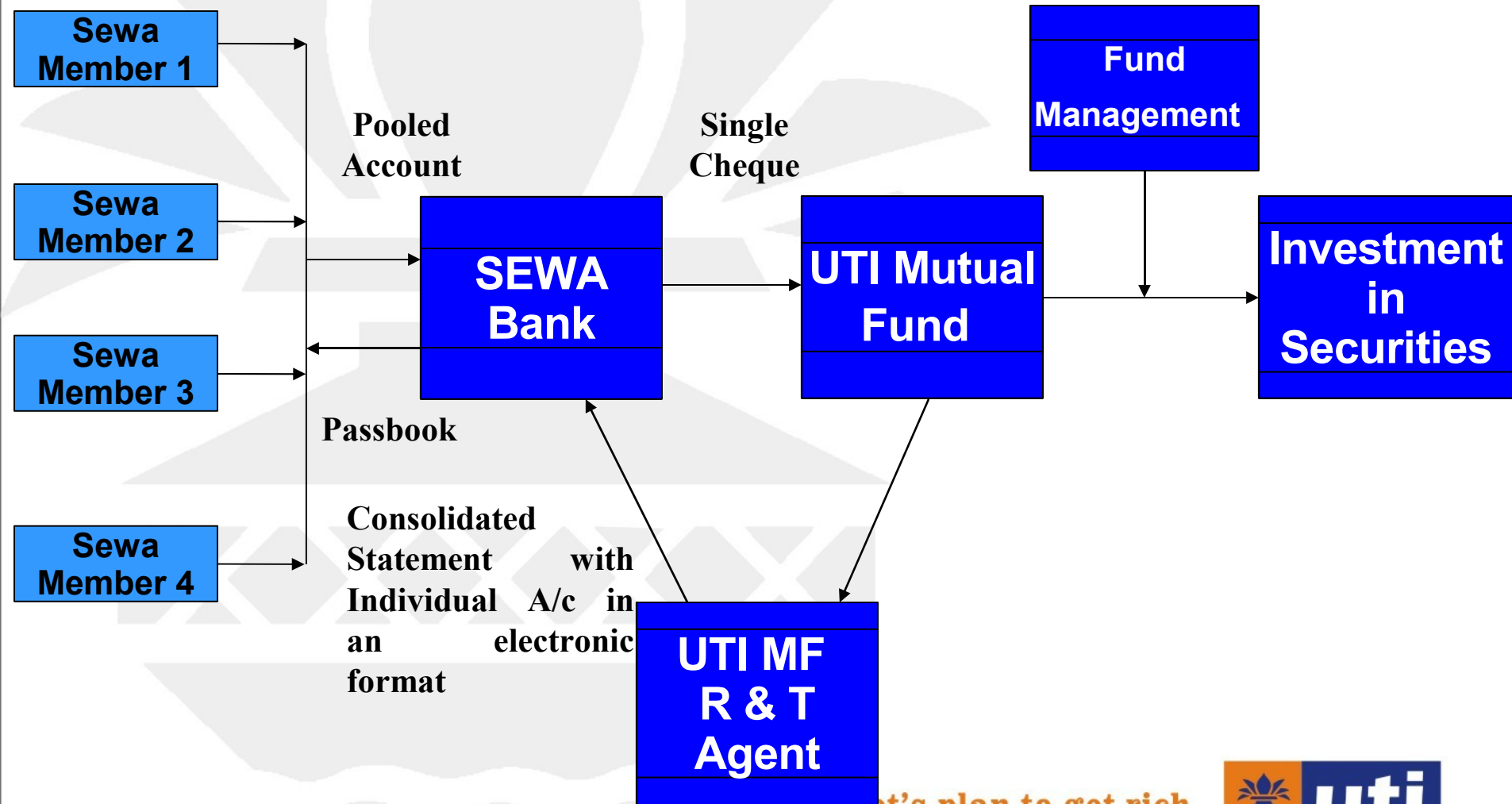
# ***Mutual Funds***

- 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

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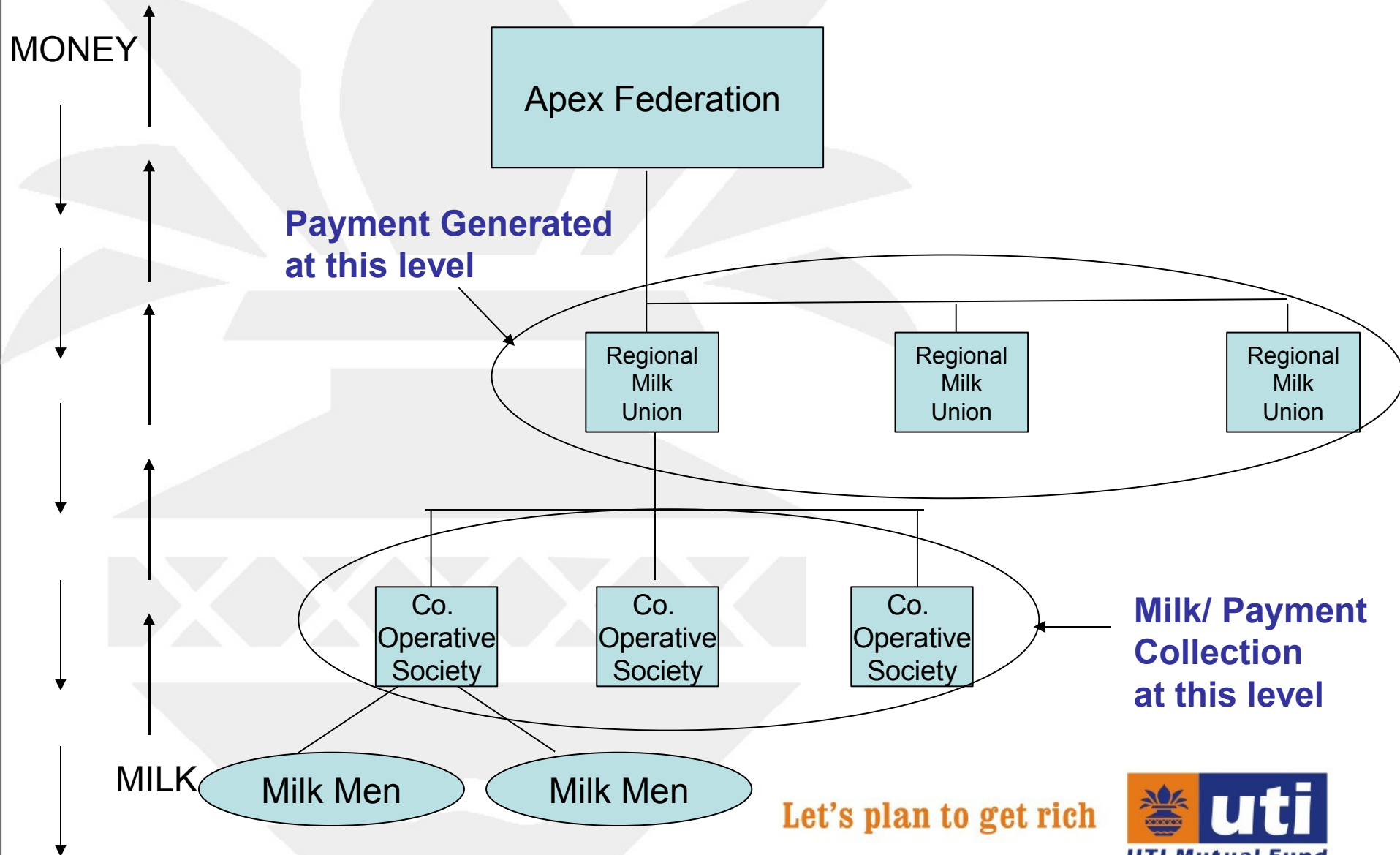


# SEWA Model



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# Process Flow - COMPFED



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# 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

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# ***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

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# Challenges and Concerns

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

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***Thank You***

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