

Role for Fiscal Transfers in delivering a Dignified Retirement to the Working Poor: *Lessons from the MicroPension™ Model*

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The Informal Sector



- ✓ National Commission for Enterprises in the Unorganised Sector Report 2009.
 - ✓ 836 million people live on a per capita consumption of less than Rs. 20 per day – Poor and Vulnerable sector
 - ✓ Job growth from 396 mn in 2000 to 456 mn in 2005 mainly in the unorganised sector
 - ✓ Formal Retirement coverage for only 11% workers.
 - ✓ No Job or Social security for the workers in unorganised sector.
 - ✓ Trickle down effect of the economic reforms has not reached to this level
 - ✓ State policies need to pay special attention

Need for Government Fiscal Transfer



- ✓ 360 mn. of 456 mn. workers i.e. 80% of the total workforce - have negligible capacity to save for themselves
- ✓ IIMS Dataworks report suggests that 61 mn. of the 143 mn. lowest income earners (earning less than Rs. 3000 pm) are willing to save through contributory social security arrangement
- ✓ However,
 - ✓ These Workers have irregular income
 - ✓ Savings capacity is limited, therefore retirement payout limited
 - ✓ Cost for service provider will be prohibitive
- ✓ Social Welfare - Responsibility of State
- ✓ Government needs to provide financial support for the retirement savings of these workers
- ✓ Fiscal strain on the exchequer will be much higher if Govt. looks to fund it at their retirement time

Government initiatives for Fiscal Transfer with UTI across India



- ✓ Government of Bihar - Mukhya Mantri Kanya Suraksha Yojana
 - ✓ One time Government contribution of Rs. 2000 for BPL family girl child
 - ✓ Maturity amount to be given to the Girl child at the age of 18
 - ✓ State Yearly budget – Rs. 1400 mn.
 - ✓ Targeted coverage for 700,000 girl children per year
 - ✓ Actual coverage in first year - 314,000 girl children

- ✓ Government of Rajasthan - Mukhya Mantri Balika Sambal Yojana
 - ✓ One time Government contribution of Rs. 10,000 per girl child born in a BPL family
 - ✓ State Yearly budget – Rs. 30 mn.
 - ✓ Targeted coverage for 30,000 girl children per year
 - ✓ Actual coverage in first year – 1000 girl children

Other examples of Fiscal Transfers



- ✓ Government of Andhra Pradesh – YSR Abhahastam Scheme
 - ✓ Pension Scheme for women members of Self Help Groups
 - ✓ Women members to contribute Rs. 360 per year
 - ✓ Govt. contribution Rs. 360 per year (Re 1 per day) per member
 - ✓ Give a minimum pension of Rs. 500 at the age of 60
 - ✓ Targeted coverage to all women members of SHGs (12 mn.)
 - ✓ State budget of Rs. 4000 mn.

- ✓ Government of Madhya Pradesh – Shri Kushabhau Thakre Unorganised Sector Pension Yojana
 - ✓ Coverage - BPL Card holders with annual income less than Rs. 50,000
 - ✓ Member can contribute upto a maximum of Rs. 6000 per year
 - ✓ Matching contribution by Govt. - maximum of Rs. 1000 per year
 - ✓ State Budget of Rs. 500 mn.
 - ✓ Targeted Coverage 500,000

Other examples of Fiscal Transfers



- ✓ Government of Rajasthan – Vishwakarma Unorganised Sector Pension Yojana
 - ✓ The Worker contributes an amount with no maximum limit
 - ✓ Govt. contributes equal amount with a maximum of Rs. 1000 per year for a worker
 - ✓ Targeted coverage of 1,000,000
 - ✓ Budget provision Rs. 1000 mn.
 - ✓ Till date 35,000 members enrolled

- ✓ Government of Karnataka – Bhagyalakshmi Yojana
 - ✓ One time Government contribution of Rs. 19,300 so as to give Rs. 100,000 at the age of 18
 - ✓ Targeted coverage of 200,000 girl children
 - ✓ Govt. Budget of approx. Rs. 3500 mn.

Limitation for Government



- ✓ Government capacity limited
 - ✓ Fiscal impact of giving Rs. 100 p.m. per year for 360 mn. people will be Rs. 432,000 million.
 - ✓ i.e. 1.29% of the real GDP of FY 2009 (Rs. 33,393,750 mn)
 - ✓ And 4.80% of the Total expenditure of the budget of FY 2009 (Rs. 9,009,000 mn)
- ✓ Govt. cannot make arrangement for Pension for all
- ✓ Needs to provide pension in a targeted manner
- ✓ MicroPension™ provides the best option
 - ✓ Low cost and Asset allocation pattern with long term growth view
- ✓ The New Pension System can also be an alternative
 - ✓ Provided Recordkeeping & Transfer charges are borne by the Govt
- ✓ Public awareness campaigns to motivate workers to save for their old age need to continue

Concept of MicroPension™



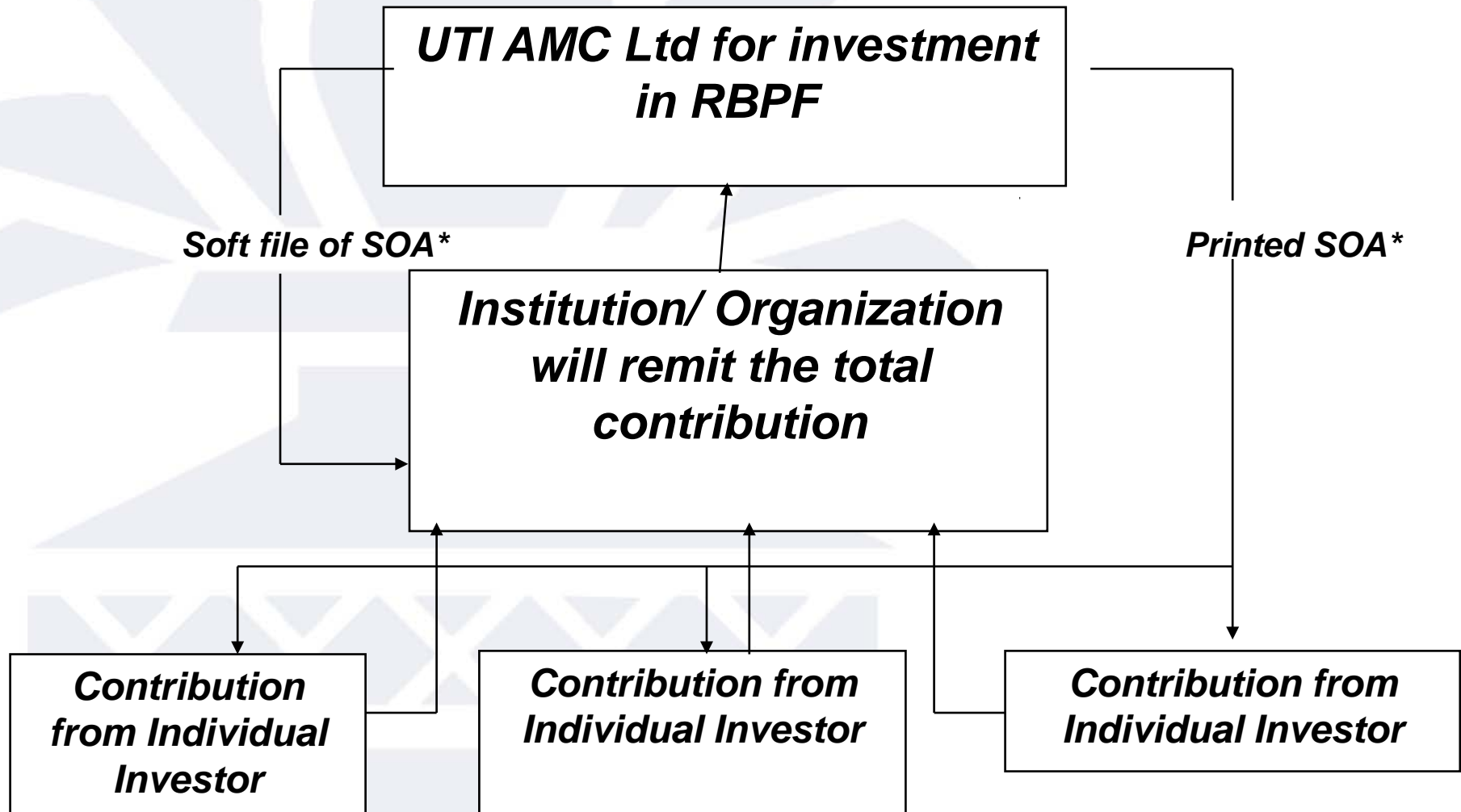
- ✓ Simple, sustainable and affordable mechanism for saving for old age
- ✓ The scheme is designed to address the retirement saving needs of unorganised workers in rural, semi – urban and urban areas
- ✓ Contribution from the Worker / Government / NGO are invested into the UTI Retirement Benefit Pension Fund, a notified pension fund
- ✓ Contribution can be as low as Rs. 100 per month
- ✓ Each worker gets an unique account number and periodic statements on his account.
- ✓ The worker gets the pension through systematic withdrawal at the age of 60

UTI MicroPension™ initiatives across India



- ✓ SEWA, Gujarat – More than 30,000 women
- ✓ COMPFED, Bihar – More than 40,000 members
- ✓ SHEPHERD, Tamil Nadu – More than 5,000 women members
- ✓ SHGs Associated with REPCO Bank, Tamil Nadu – 10,000 members
- ✓ Maandeshi Mahila Sahakari Bank Ltd. , Maharashtra – 5,000 women members
- ✓ SEWA, Madhya Pradesh – 700 women members
- ✓ Gramin Dak Sewaks, Maharashtra - 1700 members
- ✓ Tower Infotech Ltd., West Bengal – 1000 employees
- ✓ Paradeep Port & Docks Labour Union, Orissa - 200 employees

Process Flow for SEWA, Gujarat



**Statement Of Account*

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Process Flow - Mukhya Mantri Kanya Suraksha Yojna, Bihar



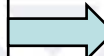
Anganwadi Sewika:

1. Makes the beneficiaries aware of the scheme
2. fills up the application forms and sends it to respective CDPOs.
3. Maintains the records of the members



CDPO:

1. Scrutinizes, reconciles and prepares a summary of the applications sent by Anganbari Sewikas
2. Fills up a Redemption/ Switch Over form for effecting transfer of funds from UTI Liquid cash Plan to UTI Children's Career Plan.
3. Forwards the applications along with a covering letter and summary of applications to the nodal UTI UFC



UFC:

1. The UTI UFC forwards the applications to the Registrar after due verification of CDPO's signature for processing.
2. Units equivalent to application amount gets deleted from UTI Liquid Cash Plan and transferred to UTI CCP
3. Co-ordinates with the Registrar for dispatch of Statement of Accounts (SOAs) to the CDPOs/ Beneficiaries.

As per the Budgetary Provision a Lump sum Money deposited in UTI Liquid cash Plan by Govt of Bihar



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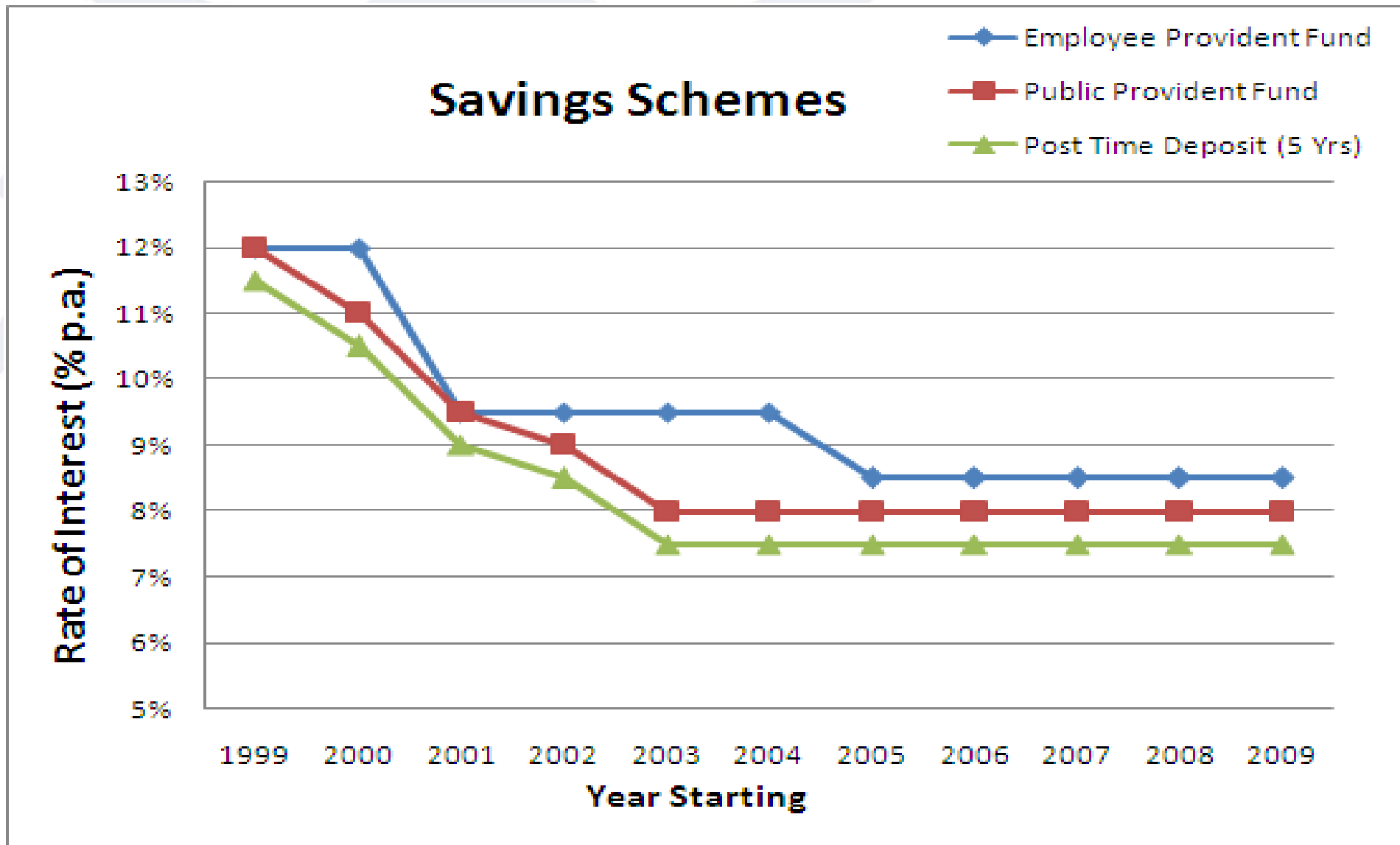
Learning from the MicroPension™



Model

- ✓ Results are best achieved if involvement is at all levels
- ✓ Better implementation through rewards and recognition of the efforts of the ground level staff
- ✓ Co-contribution rather than complete fiscal transfer by Government will motivate workers to save more
- ✓ Continuous counseling of workers (in case of co / self contribution) for investing regularly
- ✓ Lock – in of investment prevents withdrawal of corpus for exigencies
- ✓ Investment of small percentage in Equities helps garner better returns
- ✓ Simple operational process (like single cheque and collation of investor details) helps reduce cost of operations

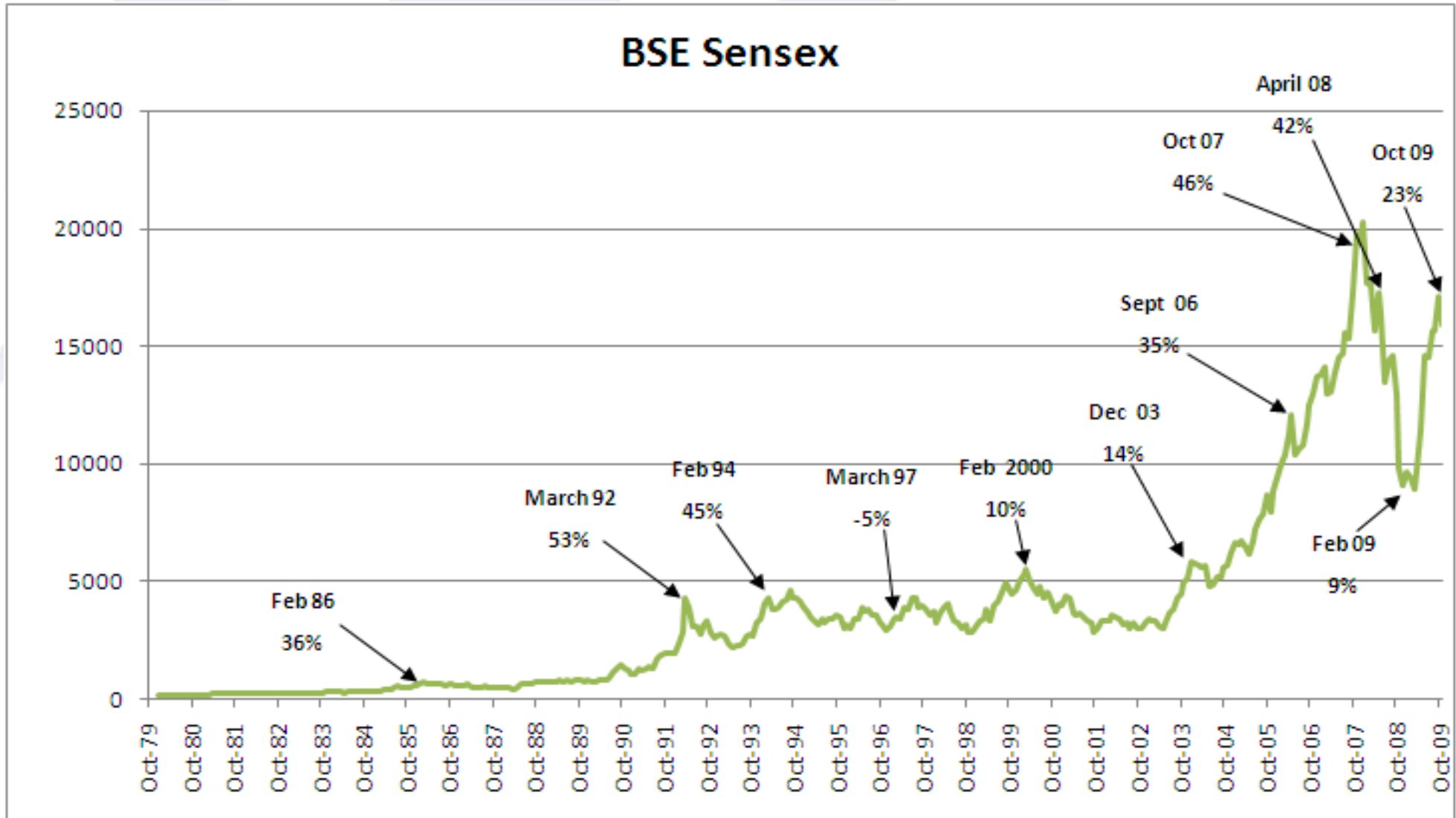
Interest Rates on Saving Schemes



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Equity Investments have delivered Good Returns



✓ 5 Year CAGR over different points of time

✓ BSE Sensex has given a CAGR of 18% for the period (Jan-1980 to Oct-2009)

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Performance of UTI Retirement Benefit Pension Fund



Compounded Annualized Returns (As of 30th September 2009)	NAV	CRISIL Debt Hybrid (60:40)%
1 Year	23.48%	20.51%
3 Year	9.42%	11.29%
5 Year	13.35%	N/A
Since Inception (Dec 26,1994)	12.06%	N/A

Past performance may or may not be sustained in future

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Systematic Investment – Likely Growth Scenario I



- ✓ Investment from the Age of 25 till the age of 60.
- ✓ On perpetuity basis, the lump sum amount remains intact

	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	1,42,686	57,07,422	71,343	22,82,969	28,537
12%	55,10,831	55,108	27,55,416	27,554	11,02,166	11,022
10%	34,25,893	28,549	17,12,947	14,275	6,85,179	5,710

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Systematic Investment – Likely Growth Scenario II A



- ✓ 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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Systematic Investment – Likely Growth Scenario II B



- ✓ Investment from the Age of 25 till the age of 60.
- ✓ Monthly Annuity for 20 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	1,50,211	57,07,422	75,106	22,82,969	30,042
12%	55,10,831	60,904	27,55,416	30,452	11,02,166	12,181
10%	34,25,893	33,268	17,12,947	16,634	6,85,179	6,654

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Thank You

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