Regulator Makes Case for ‘Defined Contribution’ Pension Scheme

By Saikat Das, The Economic Times

The Pension Fund Regulatory and Development Authority is planning to appoint institutional advisors to propagate the benefits of ‘defined contribution’ pension scheme introduced by the central government in 2004.

“A separate committee is working on inviting applications from private parties. Most of the working class in our country is in the unorganized sector. We need to reach out to them in order to make ‘defined contribution’ pension scheme a success story,” said Chief Executive Officer N R Rayalu at the Pension Fund Convention 2008 held here on Friday.

According to Rayalu, the biggest challenge in rolling out this pension scheme is the financial education in unorganized sector in the coming 5-6 months.

Currently, the regulatory body is studying the operations of such pension fund schemes in other world markets.

“We are learning from the pitfalls in the operations of similar pension funds in foreign countries,” said Rayalu.

In India, 21 states have opted for this scheme where pensioners’ money is managed by PSU fund mangers. However, the PFRDA is also mulling a proposal that the funds be allowed to be managed by private fund mangers.

Currently, only 15 per cent of the fund corpus is allowed to be invested in equity markets. Of this, 5 per cent can be invested directly in equity and rest 10 per cent through equity linked mutual fund schemes.

A fresh Pension Bill is supposed to be tabled in the Parliament, which seeks to increase the exposure to stock markets.

Under this new Bill, a pensioner can take 10-50 per cent exposure in equities, 40-100 per cent in government bonds and 25-40 per cent in corporate bonds, through his/her benefit contribution scheme, depending on his/her risk appetite.

“Once the Bill is passed, we expect 80 million people to join the scheme,” said Rayalu.

Meanwhile, experts are of opinion that a little exposure in equities, subject to certain risk management, will give handsome returns through ‘benefit contribution scheme’.

“This is the right time to take little exposure in equities from the hard-earned personal savings. However, over regulation and draconian laws may queer the pitch for such pension fund schemes,” pointed out Sanjay Sinha, chief executive officer, DBS Cholamandalam Asset Management.

Underscoring the need for risk regulation, H Sadhak, chief executive officer, LIC Pension Fund, said, “in managing pension fund portfolios, we need to be more concerned about risk management over performance risk. Our regulator (PFRDA) should come out with some risk standards.”

Courtesy: http://www.globalaging.org/pension/world/2008/regulator.htm