NEED FOR DEEPER PENSION COVERAGE

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India has a young pension industry with schemes such as the National Pension System (NPS), a defined contribution scheme, and the Atal Pension Yojana, a defined benefit scheme targeted at the unorganised sector, that are less than a decade old.

Owing to the increased focus, trends in the pension industry have changed dynamically, and more changes are expected in the new year with regards to regulation, design and charging structure of NPS, pension plans offered by life insurance companies and retirement plans offered by mutual funds. Even though these products have the common objective of pension fund accumulation, charges levied on customers and incentives given to distributors vary widely, creating product arbitrage. Since the NPS is a low-cost product, charges should be conducive to developing a strong distribution network and manage funds.

There are other government schemes available for long-term investments, such as the Public Provident Fund (PPF) and Employees' Provident Fund (EPF), which are also used to accumulate a retirement corpus. However, these are merely long-term savings schemes since their benefits are not mandatorily in the form of a retirement income. Therefore, it is important to develop pension products that are specifically targeted at retirement income.

For NPS, the immediate focus needs to be on sustainability of the product and on ownership. The Bajpai Committee that was formed to look at the challenges facing NPS, suggested assigning the ownership to pension fund managers (PFMs), which will also help PFMs increase their assets under management (AUM). The Committee's report also added that there was a need for the regulator, Pension Fund Regulatory, and Development Authority (PFRDA), to reconsider PFM charges, and perhaps introduce a fixed and varia-ble component in the fee, as the existing charges were not sufficient for them to sustain in the long run. The cost that PFMs bear is much higher than the current fund management charge of 0.01% arrived upon through a flawed bidding process. Though PFRDA is promoting NPS as a low-cost pension scheme, the low cost itself has become the reason for the slow take-off of the scheme. PFRDA must come up with a solution in 2016 to incentiv-ise PFMs appropriately and to keep charges low since this is a mass product.

The regulator should introduce a facility to open NPS accounts online for those subscribers who do not have to submit physical documents. This will give a much needed fillip to subscriptions. PFRDA also plans to increase NPS penetration among non-resident Indians through banks

Further, the regulator is also expected to provide an option to subscribers between annuity and systematic withdrawal plan at the time of retirement..

Earlier this year, the government had announced exclusive tax benefit of Rs50,000 for NPS investments, beyond the Rs1.5 lakh cap under section 80C of the Income-tax Act, 1961. The PFRDA has also taken various steps to make NPS more subscriber-friendly, including mandatory processing of online withdrawal request, which is to be made live by 1 April 2016. These steps have helped the NPS get better traction; the monthly business sourcing in the retail segment increased 10 times in November 2015 compared to the same month previous year. PFRDA has also sought parity in tax treatment for NPS with EPF (exempt, exempt, exempt), and the same has been recommended in the 7th Pay Commission report. These developments will pave the way for fungibility between EPF and NPS.

There can also be radical changes in EPF with the amendment in the definition of wages as pro-posed by the labour ministry, which would impad the net salary of employees. The Employees' Provident Fund Organisation may also consider bringing down administration charges paid by the employer on PF contributions of employees.

According to a World Bank report, gross domestic savings in India are relatively higher than in the US, the UK and other developed nations. But the current scenario in India is marked by insufficient pension coverage, with only 8% of the population covered. Life expectancy is expected to grow. Bui fiscally, the government can't ensure social security to such a large population. Therefore, it's important for key stakeholders to engage in a discussion to find ways to deepen pension coverage.