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   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

DESIRED CONTRIBUTION: IMPACT OF PENSION FUND MANAGERS PERFORMANCE ON RISK AND RETURN

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ABSTRACT

A pension fund is a plan, fund, or scheme which provides retirement income. The National Pension System (NPS) is a defined contribution based pension system launched by Government of India with effect from 1 January 2004. The pension contributions of Central Government employees covered by the National Pension System (NPS) are being invested by Professional Pension Fund Managers in line with investment guidelines of Government applicable to non-Government Provident Funds. The Indian population is greying. According to the latest UNFPA report, the number of Indians above 60 years is projected to rise to 55% by 2050. The demographics also indicate an increasing longevity with a more active lifestyle after retirement owing to betterment in medical facilities. The NPS is a sophisticated innovation that is based on the world's best practices in the pension sector. Pension fund managers will invest it in stocks and shares and the returns earned by it will be given to the pension holders. This paper examines the impact of pension fund managers performance on return and risk pattern in recent years.

KEYWORDS

Retirement savings, Desired contribution, Risk hedge, Pension fund managers, Return.

JEL CLASSIFICATION

G11, G23, G28.

INTRODUCTION

Pension Policy in India has primarily and traditionally been based on financing through employer and employee participation. As a result, the coverage has been restricted to the organized sector and a vast majority of the workforce in the unorganized sector has been denied access to formal channels of old age financial support. Only about 12 per cent of the working population in India is covered by some form of retirement benefit scheme. Besides the problem of limited coverage, the existing mandatory and voluntary private pension system is characterized by limitations like fragmented regulatory framework, lack of individual choice and portability and lack of uniform standards. High incidence of administrative cost and low real rate of returns characterize the existing system, which has become unsustainable.

India has nearly eighty million elderly people, which is one eighth of world's elderly population. This segment of population is growing at a rate of 3.8% per annum as against a rate of growth of 1.8% for the overall population. A vast majority of this population is not covered by any formal old age income scheme and are dependent on their earnings and transfer from their children or other family members. These informal systems of old age income support are imperfect and are becoming increasingly strained.

Poverty and unemployment may have acted as deterrents to provide a tax financed state pension arrangement for each and every citizen attaining old age. Therefore, in the organised sector (excluding the Government servants) a pension policy has been adopted based on financing through employer and employee participation. This has, however, denied the vast majority of the workforce in the unorganized sector access to formal channels of old age economic support.

A comprehensive pension system has 3 basic pillars.

Pillar I covers every citizen of the country through a standardized, state-run pension system, which offers basic coverage and is primarily focused on reducing poverty**.** It covers indigent persons above 65 years through the NSAP for poor and elderly and persons employed by the Government through the traditional PAYG scheme or the defined benefit scheme.

Pillar II is mandatory occupational pension system where employee and employer contribute towards their pension i.e. DC-cum-DB scheme.

Pillar III is a voluntary scheme is present in a very restrictive form through PPF, private funded system, including individual savings plans, insurance, superannuation schemes etc.

Most pension fund managers in India see investment management as a simple exercise of deploying funds according to the pattern prescribed by the government. Some of them have an appreciation of the credit risk inherent in their investment decisions, but a large number believe that all eligible securities are equal. Perhaps pension fund investment management is still in its infancy in this country and is constrained by regulations. Pension funds have not been in operation long enough and macro-economic parameters such as inflation and interest rates have been stable enough (well, in a very broad sense) to cause serious concerns of deficits in pension funds. The investment and risk characteristics of a pension fund depend on the plan structure.

The National Pension System is an attempt towards providing adequate retirement income to every citizen of India. NPS aims at ensuring financial security to every citizen by encouraging them to start contributing towards the old age saving. NPS has been designed to enable the subscribers to make optimum decisions regarding their future through systematic savings during their employment. NPS seeks to inculcate the habit of saving for retirement amongst the citizens. Initially launched for Central Government employees, later it was offered to employees of various State Governments, corporate, and individuals belonging to unorganized sector and economically disadvantaged sections (NPS-Lite).

Broadly, there are two types of pension plans: defined benefit plans and defined contribution plans.

DEFINED BENEFIT PLANS

Defined benefit plans promise specified benefits to the plan participants, which are not directly related to the contributions made to the fund by them or by their employer on their behalf. The Employees' Pension Scheme, 1995 (EPS 1995), the pension plans implemented in RBI, IDBI and other commercial banks as well as those in several public sector undertakings are in the nature of defined benefit plans. Most of the pension funds in India are single employer defined benefit plans. EPS 1995 and Coal Mines Pension Scheme are examples of multiple employer defined benefit plans.

Defined benefit plans in India usually offer the following types of benefits to participating employees

1. **Superannuation Pension**: Superannuation Pension is payable on attaining the age of retirement and is usually dependent on the salary during the period immediately preceding retirement and the length of service. Under the Employees' Pension Scheme, 1995, the normal Monthly Superannuation Pension would be Pensionable Salary x Pensionable Service x 70. Pensionable Salary is defined as the average monthly pay drawn during the 12 months preceding retirement, subject to a maximum of `5000 per month.
2. **Monthly Pension payments by the fund or insurance company**: Some of the pension funds such as EPS 1995 and RBI/IDBI also handle monthly pension payments. Others like NTPC purchase a life annuity from LIC on retirement of a participating employee by making a one-time lump-sum payment.
3. **Cost of Living Adjustments**: Some pension plans provide for increase in pension amounts to compensate for inflation, while others do not.
4. **Premature Retirement Pension**: Premature Retirement Pension is payable to an employee who retires before attaining the age of retirement but has put in the minimum period of service specified (e.g. 20 years of eligible service under EPS 1995).
5. **Disability Benefits:** In the case of permanent disability, the plans generally provide for payment of pension without requiring minimum qualifying service.
6. **Survivor Benefits**: The plans provide for payment of Family Pension in the case of death of the participating employee while in service or after retirement. EPS 1995 provides for payment of pension to surviving spouse (until death or remarriage). It also provides for surviving children's pension until the children attain the age of 25 (payable for a maximum of two children).
7. **Withdrawal Benefit**: Some of the plans provide for return of full or part of the contributions to the employee on resignation or otherwise leaving the plan without qualifying for pension.
8. **Funding**: Defined benefit plans may be funded out of contributions by the employees or the employer or both. The Employees' Pension Scheme, 1995 is funded by diversion of 8.33% from employer's share of contribution to the provident fund and the Central Government contributes 1.16% as Government contribution. RBI/IDBI schemes are funded by the full amount of employer's contribution to the provident fund.

Defined benefit plans are in the nature of savings cum- insurance plans. The plans, therefore, bear insurance risk as well as risk of investment performance. Defined benefit plans provide for stable retirement income based on salary. They provide insurance against longevity; therefore, an individual does not face the risk that his savings may run out before he dies. However, the employee takes the risk that his benefits may not be related to the contributions made by him. An employee who dies soon after retirement may draw by way of pension a sum far smaller than what he contributed through his working life. While another who lives long and leaves behind survivors may get by way of benefits more than what he contributed. Defined benefit plans do not generally provide for bequeathing of wealth. However, most plans in India allow commutation of a part of the pension; this makes it possible for an employee to take a lump-sum amount on retirement and draw a reduced pension for life.

SOME OF THE PROBLEMS OF DEFINE BENEFIT PLAN

TABLE NO 1.1: SHOWS THE PROBLEMS OF DEFINED BENEFIT PLAN

DB Plan Assumptions	Issues to Consider	Impact on PBO
1. Retirement benefit formula	Benefit formula may change over time.	Any type of benefit change will materially affect the estimated PBO.
2. Employee salary growth rate estimate	Future compensation growth rates are impossible to accurately project.	A higher salary growth rate will increase the PBO.
3. Estimated length of working career	It is impossible to know how long an employee will work for an organization.	The more years of service the employee accrues, the greater the PBO.
4. Years of service used to make the PBO calculation	Actuarial guidelines mandate that the PBO take into account future salary growth estimates, but ignore any potential future service.	If actuarial guidelines required the inclusion of potential future service, the estimated PBO would increase dramatically.
5. Vesting uncertainties	It is impossible to know if employees will work for the employer long enough to vest their retirement benefits.	Vesting provisions will increase the uncertainty in the estimate of the PBO.
6. Length of time employee will receive a monthly retirement benefit	It is impossible to know how long employees will live after they retire.	The longer retirees live, the longer they will receive retirement benefits and the greater the impact on the estimate of the PBO.
7. Retirement payout assumption	It is difficult to know what type of payout option employees will select, because their beneficiary status may change over time.	The election of survivor benefits will affect the length of the time horizon benefits are expected to be paid. This in turn will affect the estimate of the PBO.
8. Cost of living adjustment (COLA) provisions.	It is difficult to know if a COLA feature will be made available in the future, what the future COLA benefit rate will be, or how frequently a COLA will be granted.	Any type of COLA benefit will increase the estimate of the PBO.
9. Discount rate applied to benefits over the retirement period to the employee\'s retirement date	It is impossible to know what discount rate should be applied to determine the present value of the retirement benefit at retirement.	The higher (lower) the assumed discount rate, the lower (higher) the estimated PBO. The flexibility afforded to management to set the discount rate increases the ability of corporate management to manipulate their company\'s financial statements by manipulating the net pension liability amount recorded on the company\'s balance sheet.
10. Discount rate applied to annuity value of retirement benefit at retirement date to the current valuation date	It is impossible to know what discount rate should be applied to determine the present value of the retirement benefit today.	

DEFINED CONTRIBUTION PLANS

Defined contribution plans are in the nature of individual retirement plan accounts. The contributions made by or on behalf of the employee are accumulated and paid on retirement along with such return as may be generated by the fund on the investments made. The Employees' Provident Fund Scheme as well as all the exempted provident funds in India is essentially defined contribution plans.

Defined contribution plans in India usually offer the following types of benefits

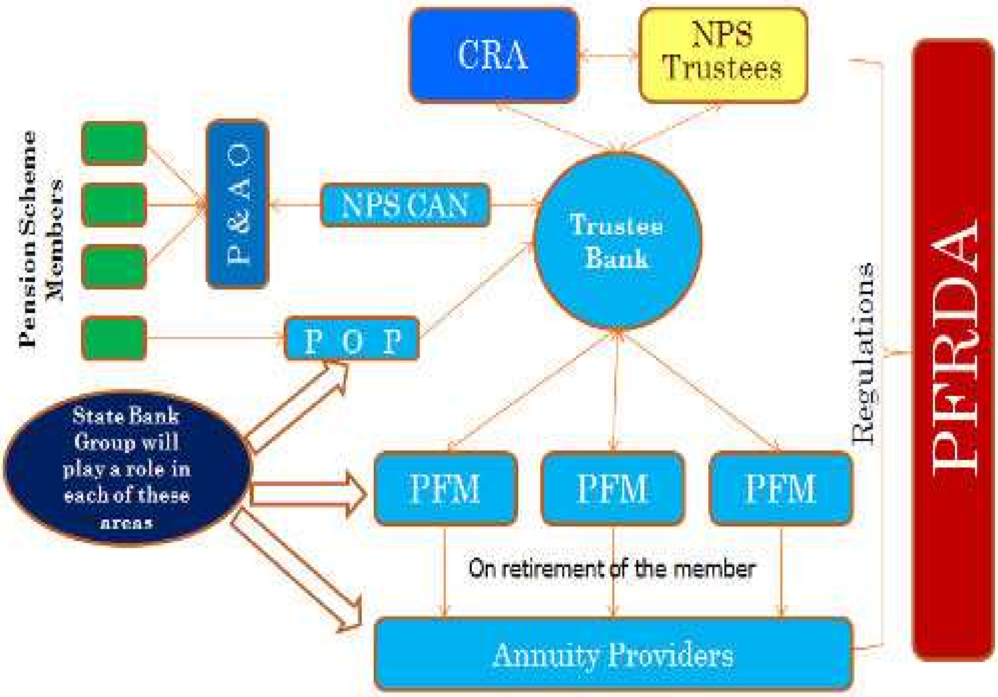
1. The pension amount depends on the amount accumulated to the credit of the employee. In all the provident fund schemes, the accumulated balance at the credit of an employee is paid out on retirement and there is no monthly pension. Provident funds also allow withdrawal of balance for specified purposes such as acquisition of house, education of children, etc.
2. The Group Superannuation Scheme, on death of the participating employee before retirement, the accumulated contribution is used to purchase an annuity to pay monthly pension to the nominee. On withdrawal before retirement, the corpus can be used to purchase an annuity to start pension either immediately or after the normal age of retirement.

National Pension System – Government

In India, till recently, the concept of retirement planning was restricted to the organized sector (salaried class) while there was no such arrangement for the large unorganized work force. To enable individuals to plan and prepare for post-retirement life, the Pension Fund Regulatory and Development Authority (PFRDA), the regulator of pension sector in India, launched the National Pension System (NPS) in January 2004. The scheme was first introduced for government recruits and then in May 2009 for the general public.

NPS is available to all Indian citizens between 18 to 55 years of age. It is a defined contribution based product where returns are market determined (not fixed) while periodic contributions are fixed (defined). For example, one can invest `1,000 every month (defined contribution) in the NPS which can increase every year based on one's income levels. The accumulations would be invested in the chosen asset classes by professional fund managers. The final corpus available at the age of 60 years would depend on how the markets (equity and debt) have performed over the years and the value of the pension will depend on the size of this corpus. However, there is no assurance on the quantum of pension value to the beneficiary while opening an NPS account.

CHART NO. 1.1: SHOWS THE FUND MANAGEMENT STRUCTURE OF PFRDA



(Sources: PFRDA)

NATIONAL PENSION SYSTEM - CITIZENS

National Pension System was made available to the Indian Citizens from 1st May 2009.

All citizens of India, whether resident or non-resident aged between 18-60 years can subscribe to this scheme.

Under NPS two types of accounts have been made available

- **Tier-I account:** Non-withdraw able, pure retirement account launched with effect from 1st May 2009.
- **Tier II account:** Launched w.e.f. 1st December 2009. Citizens having Tier – I account can only open an account under Tier – II. This can be operated like a savings account. Individuals are free to withdraw their savings whenever they require.

NPS-LITE

The Pension Fund Regulatory and Development Authority (PFRDA) have introduced the **National Pension System-Lite (NPS-Lite) with effect from April 01, 2010**. PFRDA has appointed NSDL e-Governance Infrastructure Limited as Central Recordkeeping Agency (CRA) for NPS – Lite. CRA is the first of its kind venture in India which will carry out the functions of Record Keeping, Administration and Customer Service for all subscribers under NPS - Lite.

The NPS-Lite is basically designed with the intention to secure the future of the people who are economically disadvantaged and who are not financially well to do. Towards this endeavor NSDL has developed a NPS Lite system on a low charge structure. The servicing model is of NPS Lite is based on group servicing. The people forming part of this low income groups will be represented through their organizations known as ‘Aggregators’ who would facilitate in subscriber registration, transfer of pension contributions and subscriber maintenance functions. Subscribers in the age group of 18 to 60 can join NPS - Lite through the aggregator and contribute till the age of 60.

FUNDING OF DEFINED CONTRIBUTION PLANS

Defined contribution plans can also be funded by contributions of either the employee or the employer or both. Provident funds in India are funded by contributions of both the employee and the employer. The LIC Group Superannuation Scheme is funded by contribution by the employer of a fixed percentage of the salary of each employee. Provident funds declare interest annually based on the income they earn on investments made, which is credited to the employee’s account. In the last few years, EPF has declared 12% interest; most exempted provident funds pay a similar rate. LIC declares interest on the accumulated contribution every year, which is a slab rate, based on the size of the fund.

Pension funds in India do not have a well-articulated mission statement. Even if not articulated, trustees often see their primary mission as compliance with the myriad guidelines and regulations. With respect to investments, the primary objective is usually to achieve the investment pattern prescribed, while a secondary objective is to achieve at least the return declared by the government provident fund. The focus has rarely been on ensuring adequate funding levels, matching of assets and liabilities or target replacement rates. The reason is partially the limited flexibility in investment management under the regulatory framework and partially a lack of focus on pension fund risk and the risk tolerance of the plan sponsors.

In defined contribution plans, the risk is usually borne entirely by the participating employee as his benefits are directly related to the accumulated contribution to his credit. If the pension or provident fund loses money in investments or earns lower than benchmark return, the employee bears the loss or opportunity loss. In defined contribution plans, each individual's contribution remains his and hence bequeathing of wealth is possible in case of premature death. However, the retirement income is less predictable as it depends on investment performance. There is no insurance element.

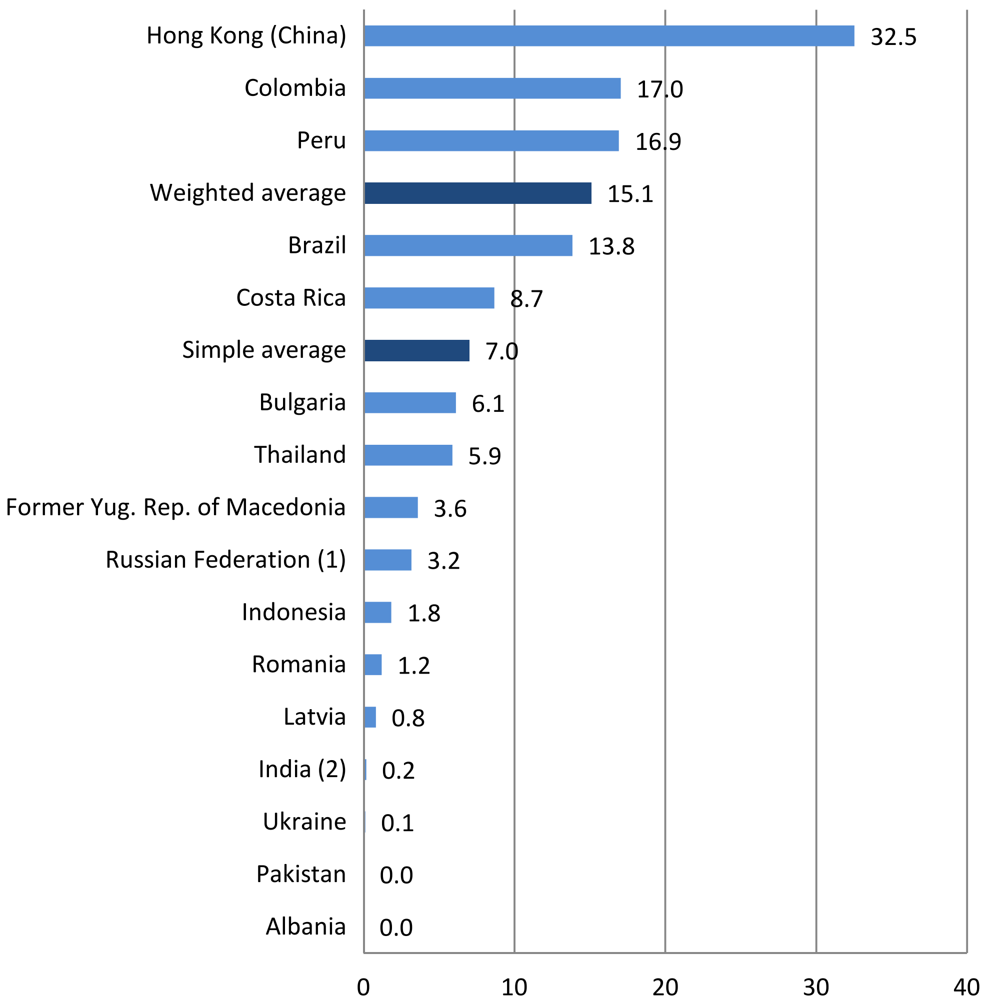
Conventionally, the focus has always been on "return" rather than "risk". Pension fund sponsors and trustees tend to see themselves as "return maximisers" rather than as "risk controllers". Even in India, a pension fund manager may bandy the return he generated without reference to the risk of the underlying portfolio. A deeper understanding of risk is rare to find. Pension fund risk may broadly be defined as the possibility that the fund's mission may not be achieved. Precise delineation and definition of all risks that the pension fund is exposed to is vital to good risk management. However, this is not a simple, but a highly challenging process.

PENSION FUND RISK

To the extent that assets and liabilities of a pension fund are not fully matched, the fund would be exposed to the following types of risk, which could cause underfunding.

1. Reinvestment risk
2. Inflation risk
3. Interest rate and price risks
4. Credit risk
5. Real wage growth risk
6. Insurance risks

CHART NO 1.2 SHOWS IMPORTANCE OF PENSION FUNDS RELATIVE TO THE SIZE OF THE ECONOMY COUNTRIES, 2011 (*AS A PERCENTAGE OF GDP*)



Source: OECD Global Pension Statistics.

METHODOLOGY

It's important to study about the performance of pension fund managers to know about the efficiency involved in maximization of returns and minimization of risk. There are so many factors influence on the performance of pension fund managers while calculating the returns, but one of the major factors is volatility of the stock market returns. In this globalised economy there are lot of changes in pension structure of the countries, even in India government changed from defined benefit scheme to defined contribution scheme and also private pension funds growing very fast in developing and developed economies. So the returns of these defined contribution funds depend of fund performance these fund performance resulted based on fund manager performances.

In this paper its made an attempt to know the returns from desired contribution based pension schemes in India, and also paper is covering the importance of fund managers performance for the growth and better returns of pension funds.

This study throws the light on the efficiency of pension fund manager's performance regarding maximization of the returns by diversifying the risk by introducing different schemes, considering the major factor of stock market volatility.

DATA ANALYSIS

INVESTMENT PATTERN PRESCRIBED FOR PENSION FUNDS

1. Fresh accretions to the fund and redemption amounts of investments made earlier should be invested as per the proportions specified.
2. Interest received under each category should be reinvested in the same category, without reference to any pattern. More particularly, interest received on Special Deposit Scheme should be reinvested in the Special Deposit Scheme.
3. The prescribed asset allocation in India has two objectives: To ensure safety of funds by disallowing investment in 'risky' assets such as equities. Investment in public sector undertakings is seen by the government as safer compared to investment in private sector companies.
4. To direct pension fund investments into channels desired by the government.

INVESTMENT OPTIONS

- **Risky option**: The higher allocation in this option will be in equity. To decrease the risk, equity investment is allowed only in index funds which track Sensex or Nifty with the equity exposure is capped at 50 per cent.
- **Moderate**: In this option most of the exposure would be to corporate debt and fixed income securities with some exposure in equity and govt. securities. It will be moderately risky and rewarding.
- **Safe**: In this option mainly the investment will be done in government securities, and very little will be invested in equities.
- **Default option**: Allocation will be decided on your age, with high equity allocation when you are young, which reduce as your age increases. You can also decide your asset allocation as per your risk appetite. Moreover, individual will also have choice to choose from 3 different asset classes: equity (E type), Govt. securities (G Type) and Credit risk-bearing debt or fixed income based investments (C Type).
- **Active Choice investment**: Investor can mix E, C and G type options as per their choice proportionately.
- **Auto Choice investment**: This is auto choice life cycle fund and the investment allocation will be done based of investor's age. In this scheme, equity portion (Asset class E) will be 50 per cent till age 35 after which it will reduce 2 per cent per year until it becomes 10 per cent by age 55. Credit risk portion (Asset class C) will be 30 per cent till age 35 after which it will reduce 1 per cent per year until it becomes 10 per cent by age 55. Investor will have option of investing monthly or quarterly, but minimum 4 investments in a year is compulsory.
- **As per the notification by PFRDA**, currently only half of the investment can go into equities, even if investor chooses the equity type funds. This limit will only be reviewed after a year.
- There will be regular account statements to keep information transparent.
- ***Target Asset Allocation***

A fund's asset allocation determines its investment performance more than any other factor. Active management strategies such as stock picking, sector weightage and trading strategies have been shown to contribute relatively less to investment performance. How well a fund achieves its objectives is, therefore, determined by how well its trustees have drawn up a long-term asset allocation policy.

Point of Presence (POPs)

Points of Presence (POPs) are the first points of interaction of the NPS subscriber with the NPS architecture. The authorized branches of a POP, called Point of Presence Service Providers (POP-SPs), will act as collection points and extend a number of customer services to NPS subscribers.

PENSION FUND MANAGERS

Pension Fund Managers for Government Sector NPS

1. LIC Pension Fund Ltd
2. SBI Pension Funds Pvt. Ltd
3. UTI Retirement Solutions Ltd

LIST OF PENSION FUND MANAGERS FOR PRIVATE SECTOR NPS

1. HDFC Pension Management Company Ltd
2. ICICI Prudential Pension Funds Management Company Ltd
3. Kotak Mahindra Pension Fund Ltd
4. LIC Pension Fund Ltd
5. Reliance Capital Pension Fund Ltd
6. SBI Pension Funds Private Ltd
7. UTI Retirement Solutions Ltd

ASSET VALUATION METHODOLOGIES ACROSS COUNTRIES

TABLE NO 1.2: SHOWS ASSET VALUATION METHODOLOGIES ACROSS COUNTRIES

Area	Country	Valuation methodology
Latin America	Argentina	Market value except certain public bonds, which are valued at "book value"
	Bolivia	Market value
	Brazil	Market value except certain bonds, which are valued at "book value"
	Chile	Market value
	Colombia	Market value except certain variable income securities (equities), which are valued according to a liquidity index during the valuation date.
	Costa Rica	Market value except for those instruments which a period of maturity less than 180 days, where the valuation at market prices is optional.
	El Salvador	Market value
	Mexico	Market value. However, due to practical limitations (e.g. liquid markets), some securities are marked-to-model
	Peru	Market value
	Uruguay	Market value
CEE	Czech Republic	Market value except financial instruments held to maturity, securities of a collective investment fund or financial instruments not actively traded on market, for which the valuation procedure is the average price of executed transactions.
	Estonia	Market value except cash and deposits with credit institutions, which are valued according to their book value
	Hungary	Market value
	Poland	Market value
	Kazakhstan	Market value
North Amer	Canada	Market value
	United States	Market value
Western Europe	Netherland	Market value
	Sweden	Market value
	United Kingdom	Market value
Asia Pacific	Australia	Market value
	Hong Kong	Market value
	Japan	Market value

FUND ALLOCATION STRUCTURE

Investors have the option to actively decide as to how your NPS pension wealth is to be invested in the following three options:

E - "High return, High risk" - investments in predominantly equity market instruments

C - "Medium return, Medium risk" - investments in predominantly fixed income bearing instruments

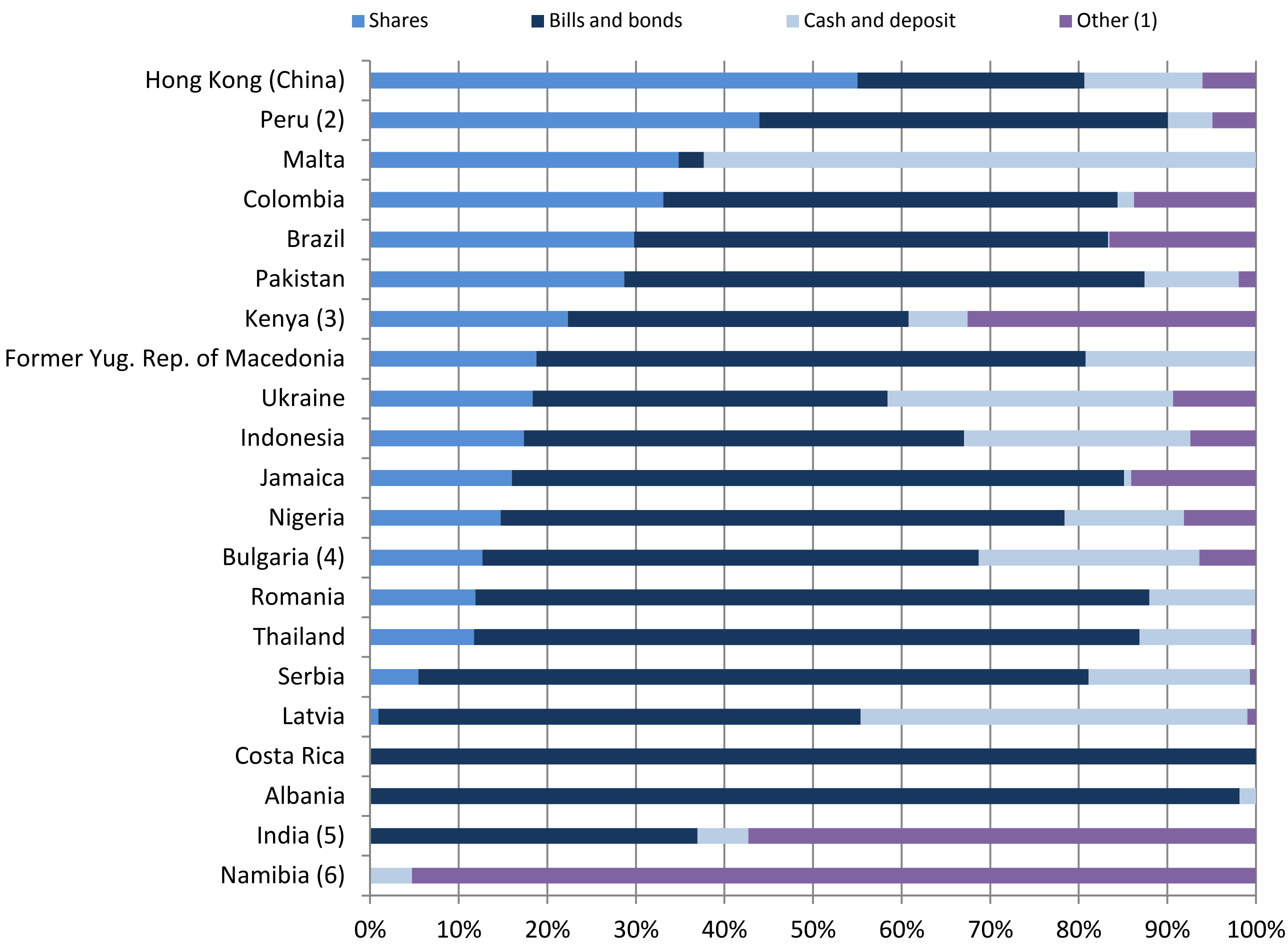
G - "Low return, Low risk" - investments in purely fixed income instruments.

Investors can choose to invest their entire pension wealth in C or G asset classes and up to a maximum of 50% in equity (Asset class E). Investors can also distribute their pension wealth across E, C and G asset classes, subject to such conditions as may be prescribed by PFRDA. The investments will be made in a life-cycle fund. Here, the percentage of funds invested across three asset classes will be determined by a pre-defined portfolio

TABLE 1.3: SHOWS THE FUND ALLOCATION STRUCTURE - LIFECYCLE OF FUND

Age	Asset Class E	Asset Class C	Asset Class G
Up to 35 years	50%	30%	20%
36 years	48%	29%	23%
37 years	46%	28%	26%
38 years	44%	27%	29%
39 years	42%	26%	32%
40 years	40%	25%	35%
41 years	38%	24%	38%
42 years	36%	23%	41%
43 years	34%	22%	44%
44 years	32%	21%	47%
45 years	30%	20%	50%
46 years	28%	19%	53%
47 years	26%	18%	56%
48 years	24%	17%	59%
49 years	22%	16%	62%
50 years	20%	15%	65%
51 years	18%	14%	68%
52 years	16%	13%	71%
53 years	14%	12%	74%
54 years	12%	11%	77%
55 years and above	10%	10%	80%

CHART NO 1.3 SHOWS PENSION FUND ASSET ALLOCATION FOR SELECTED INVESTMENT CATEGORIES IN SELECTED COUNTRIES, 2011 (AS A PERCENTAGE OF TOTAL INVESTMENT)



Source: OECD Global Pension Statistics.

APPOINTMENT OF INVESTMENT MANAGERS

Trustees have a duty to take expert advice on matters where they need help. This will normally apply to the duty to invest. For investments which are covered by the Financial Services Act 1986, trustees will need advice from a person who is properly authorised to carry out investment business. For other investments not covered by the Financial Services Act 1986, the trustees will need to be satisfied that the person from whom they take advice has appropriate knowledge and experience. Under the Financial Services Act 1986 it is a criminal offence for a person who is not properly authorised to carry on investment business. This means that anyone involved in the day to day management of the pension scheme's investments, or anyone giving advice on investments, must be authorised to do so. It is unusual for a board of trustees to seek authorisation under the Financial Services Act 1986. In practice, most trustees delegate the work of investment management to an authorised investment manager. Usually the investment manager will be authorised by the **Investment Management Regulatory Organisation (IMRO**). As with other professional advisers, the investment manager must be appointed by the trustees in writing. In addition, the Financial Services Act 1986 requires the trust to have a formal agreement with the investment manager setting out the investment needs and responsibilities.

Consequent upon the consensus arrived at the Chief Ministers' Conference; Government has authorized PFRDA to appoint a Central Record-Keeping Agency (CRA) and three Fund Managers from the Public Sector to manage the accumulated funds of Central Government employees. The services of the CRA and the Fund Managers have also been offered to the State Governments to manage the funds of their employees.

PFRDA has identified National Securities Depository Limited (NSDL) as the CRA and is in the process of finalizing a contract with it. Three sponsors of Pension Fund Managers have also been appointed; they are SBI, LIC, UTI- AMC. All the three sponsors have incorporated Pension.

An NPS Trust has also been registered which will be the registered owner of assets under the NPS. Thus, all the intermediaries under the NPS have been identified and the system is now ready to be rolled out by 1st June 2008. As regards the cost structure of the NPS, the fund management charges are to be in the range of 3-5 basis points (0.03% - 0.05%) of assets under management. The record keeping costs are low compared to the low volume at present. This cost will decline further once the volume increases under the system. The total cost of the NPS is estimated to be around 1% of the total assets under management (AUM) in the initial years and expected to decline to less than 0.5% of AUM within few years of its operation.

AVAIL BENEFITS AT A LOW COST

TABLE NO 1.4: SHOWS COST OF FUNDS

Intermediary	Charge Head	Service charges*	Method of Deduction
CRA	PRA Opening charges	` 50	Through Cancellation of Units
	Annual PRA Maintenance Cost Per Account	`190	
	Charge per transaction	`4	
POP (Maximum Permissible Charge for each subscriber)	Initial subscriber registration	`100	To be collected upfront
	Initial contribution upload	0.25% of the initial contribution amount from subscriber subject to a minimum of `20 and a maximum of `25,000	
	Any subsequent transaction involving contribution upload	0.25% of the amount subscribed by the NPS subscriber, subject to minimum of `20 and a maximum of `25000	
	Any other transaction not involving a contribution from subscriber	`20	
PFM charges	Investment Management Fee	0.0009% p.a.	Through NAV deduction
Trustee Bank	Per transaction emanating from a RBI location	Zero	Through NAV deduction
	Per transaction emanating from a non-RBI location	`15	
Custodian (On asset value in custody)	Asset Servicing charges	0.0075% p.a. for Electronic segment & 0.05% p.a. for Physical segment	Through NAV deduction

**Service tax and other levies, as applicable, will be levied as per the existing tax laws.*

PENSION FUNDS (PFs)/PENSION FUND MANAGERS (PFMs)

Appointed PFMs would manage the retirement savings of subscribers under the NPS Lite. The PFMs are required to invest strictly in accordance with guidelines issued by the Government/PFRDA.

- The aggregators may choose one of the PFMs to whom the entire corpus can be entrusted, Or
- They may also choose to invest the contributions through all the three PFMs as per Central Govt. scheme.

TAX IMPLICATION OF NPS

- Employer contributing to the NPS on behalf of an employee will get deduction from his income (i.e. employer's income) an amount equivalent to the amount contributed or 10% of BASIC SALARY + DA of the employee, whichever is less. (Section 36 (1) (iv a) of the Income Tax Act 1961)
- Corporate can help their employees to lessen tax burden by saving in NPS up to 10% of their basic salary. This investment is another avenue over & above those of Section 80C of the Income Tax Act 1961, to secure their retirement well in advance.
- Additional contribution by individual employee is eligible for deduction from Income under Section 80CCD of the Income Tax Act 1961. However, investments under Section 80C plus the premium on pension products on Section 80CCC should not exceed `1 lakh per assessment year to claim for the deduction.

RETURNS FROM FUNDS

Subscribers of National Pension System (NPS) regulated by Pension Fund Regulatory and Development Authority (PFRDA) earned double digit returns of as much as 14.19 per cent during 2012-13. The pension scheme for other than government employee with investment focus on corporate debt generated return of 14.19 per cent while investment in government debt earned 13.52 per cent, an official statement said. Besides, Swavlamban scheme generated a return of 13.40 per cent. Pension scheme for Central Government earned a return of 2.39 per cent while the scheme for State Government generated 13 per cent, it said. The NPS, which was introduced by the Central Government in January 2004 for its new entrants and subsequently extended to the private sector in May 2009, has accumulated a corpus of `33,000crore contributed by 50 lakhs subscribers, it said. It is not only the cheapest retirement product but also as the highest returns generating scheme, PFRDA added.

TABLE NO 1.5 SHOWS NAV OF NPS LITE SCHEME OF LIC AND SBI

Year	NAV of LIC NPS LITE-Govt. Pattern	NAV of SBI Pension Fund - NPS Lite
2010	10.07	10.22
2011	10.68	10.88
2012	11.94	12.16
2013	13.25	13.61

CHART NO 1.4: SHOWS NAV OF NPS LITE SCHEME

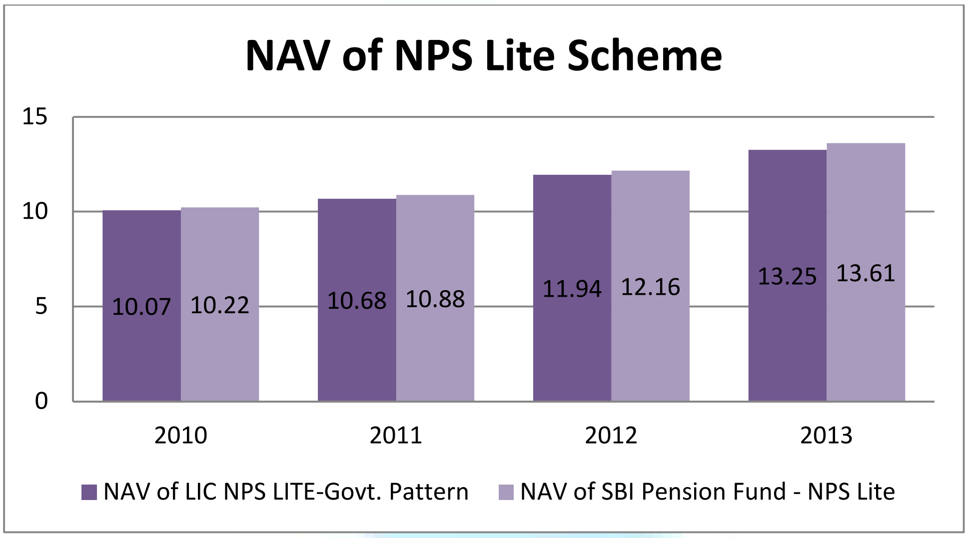
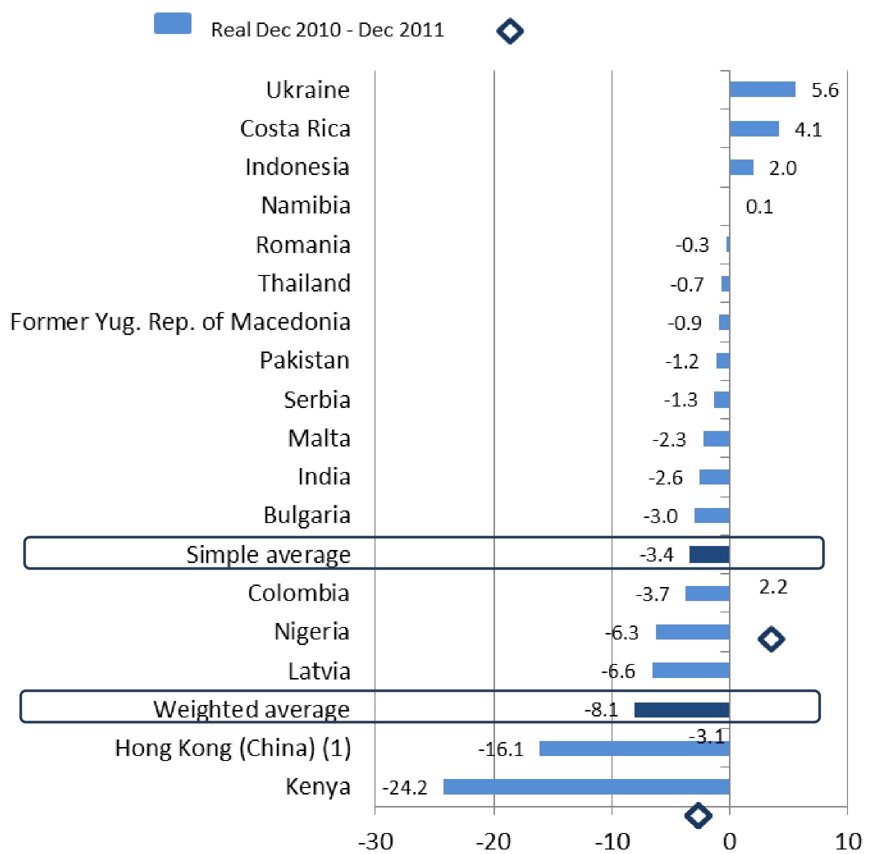


CHART NO 1.5 SHOWS CALCULATED AVERAGE REAL NET INVESTMENT RETURN OF PENSION FUNDS IN SELECTED COUNTRIES, 2011 IN PER CENT



Source: OECD Global Pension Statistics.

Performance of Pension Fund Managers, managing funds of Government Employees, was reviewed by the New Pension System Trust (NPST). The weighted average return as on 30/09/09, as reported by the Pension Fund Managers (un-audited figures), is as under:-

TABLE NO 1.6: SHOWS WEIGHTED AVERAGE RETURN AS ON 30/09/09 (MTM BASIS)

Sl. No.	Name of the Company	Returns (%)	% of funds allocated	Weightage %
1	LIC Pension Fund Ltd.,	10.57	29	3.0653
2	SBI Pension Fund Pvt. Ltd.,	13.41	40	5.364
3	UTI Retirement Solution Ltd.,	12.73	31	3.9463
			Weighted Average Return	**12.3756%**

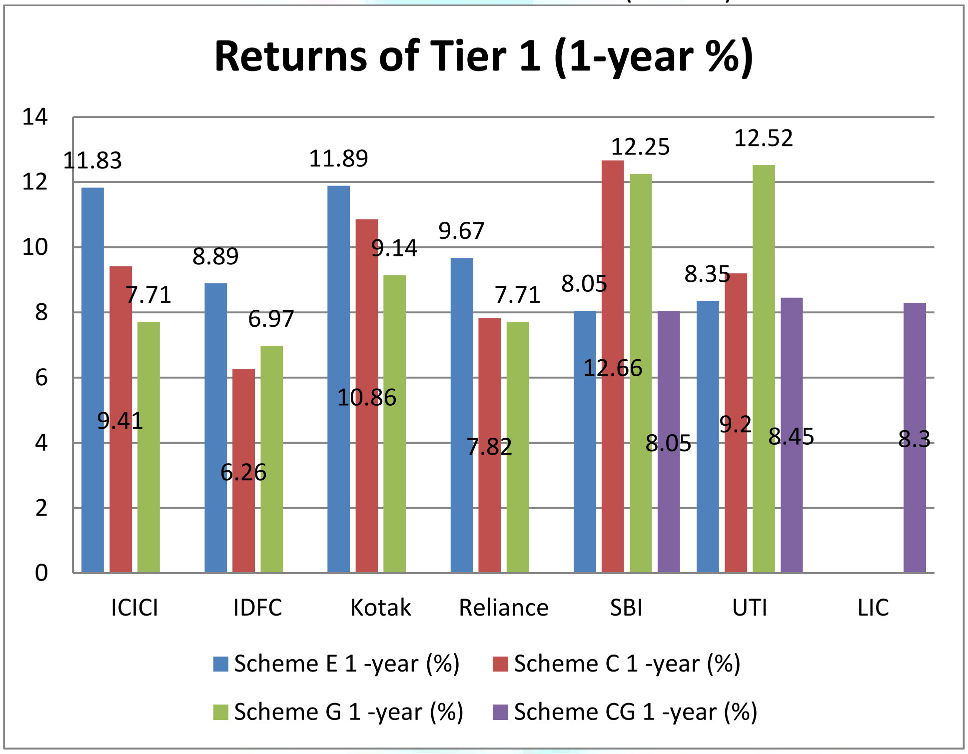
Source: OECD Statistics

TABLE NO 1.7: SHOWS RETURNS OF TIER 1 (1 –YEAR %)

	Scheme E	Scheme C	Scheme G	Scheme CG
PMF	**1 -year (%)**	**1 -year (%)**	**1 -year (%)**	**1 -year (%)**
ICICI	11.83	9.41	7.71	-
IDFC	8.89	6.26	6.97	-
Kotak	11.89	10.86	9.14	-
Reliance	9.67	7.82	7.71	-
SBI	8.05	12.66	12.25	8.05
UTI	8.35	9.2	12.52	8.45
LIC	-	-	-	8.3

*Source: NSDL

CHART NO 1.6: SHOWS RETURNS OF TIER 1 (1 –YEAR %)



*Source: NSDL

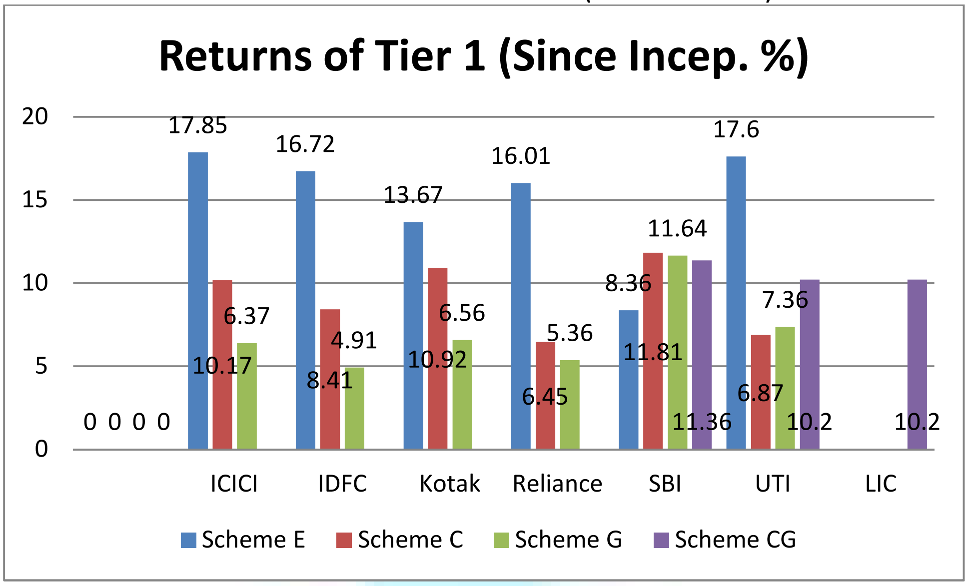
TABLE NO 1.8: SHOWS RETURNS OF TIER 1 (SINCE INCEPTION %)

	Scheme E	Scheme C	Scheme G	Scheme CG
PMF	**Since Incep. (%)**	**Since Incep. (%)**	**Since Incep. (%)**	**Since Incep. (%)**
ICICI	17.85	10.17	6.37	-
IDFC	16.72	8.41	4.91	-
Kotak	13.67	10.92	6.56	-
Reliance	16.01	6.45	5.36	-
SBI	8.36	11.81	11.64	11.36
UTI	17.6	6.87	7.36	10.2
LIC	-	-	-	10.2

*Source: NSDL

*Inception date of Scheme E, C and G are 1st May 2009 and Scheme CG is 1st April 2008

CHART NO 1.7: SHOWS RETURNS OF TIER 1 (SINCE INCEPTION %)



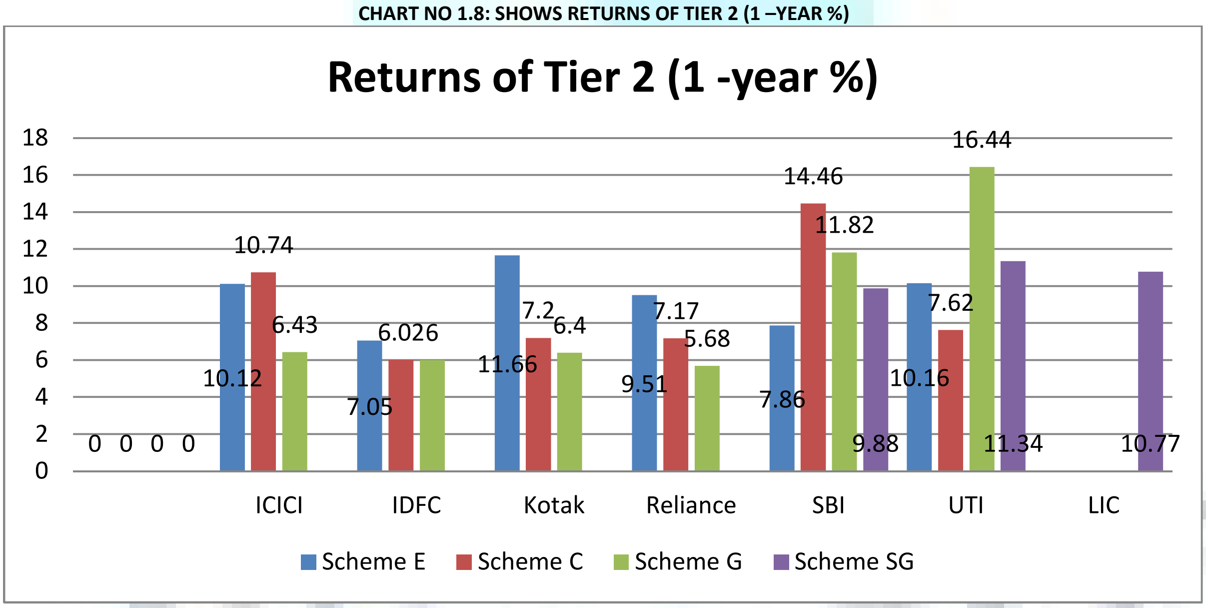
*Source: NSDL

TABLE NO 1.9: SHOWS RETURNS OF TIER 2 (1-YEAR %)

	Scheme E	Scheme C	Scheme G	Scheme SG
PMF	1 -year (%)	1 -year (%)	1 -year (%)	1 -year (%)
ICICI	10.12	10.74	6.43	-
IDFC	7.05	6.02	6	-
Kotak	11.66	7.2	6.4	-
Reliance	9.51	7.17	5.68	-
SBI	7.86	14.46	11.82	9.88
UTI	10.16	7.62	16.44	11.34
LIC	-	-	-	10.77

*Source: NSDL

CHART NO 1.8: SHOWS RETURNS OF TIER 2 (1 –YEAR %)



*Source: NSDL

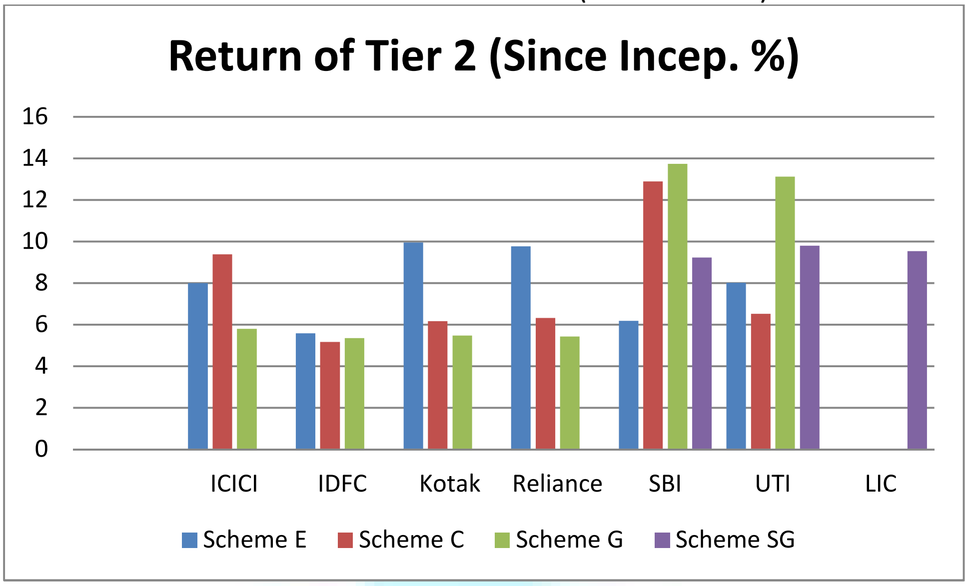
TABLE NO 1.10: SHOWS RETURNS OF TIER 2 (SINCE INCEPTION %)

	Scheme E	Scheme C	Scheme G	Scheme SG
PMF	Since Incep. (%)	Since Incep. (%)	Since Incep. (%)	Since Incep. (%)
ICICI	7.99	9.38	5.79	-
IDFC	5.58	5.17	5.34	-
Kotak	9.95	6.17	5.47	-
Reliance	9.77	6.32	5.43	-
SBI	6.18	12.88	13.74	9.22
UTI	8.01	6.52	13.11	9.8
LIC	-	-	-	9.53

*Source: NSDL

*Inception date of Scheme E, C and G are 14th December 2009 and Scheme SG is 25th June 2009

CHART NO 1.9: SHOWS RETURN OF TIER 2 (SINCE INCEPTION %)



*Source: NSDL

CONCLUSION

With the above analysis it is concluded in this paper, there has been a continuing trend into index funds and a movement away from active fund management, as a portfolio strategy for pension funds. It's suggest that there appears to be a role for active fund management of pension funds. It's very important the performance of the fund managers to give better returns on pension funds because retired person depend on the accumulated value of the assets in the pension fund at retirement. This is clearly situation for a defined contribution scheme where the relationship between the value of the fund and the pension is explicit. The value of the pension fund increases over time due to defined contribution and return from investment on the funds. These returns depends on the asset allocation and portfolio construction decisions of the fund managers.

The fund managers want to construct a good portfolio based on the investment objectives, by choosing best among the portfolio strategies of aggressive or passive portfolios, the portfolio which he manages should give good return when compared to the index return and another very important role by minimising the risk associated with the pension funds. Identifying and understanding the long term sustainability of defined contribution scheme in India in regard to return and risk will be considered for further research.

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