Annexure B -For Public and Stakeholders Comments

Subject: Providing option of more Life Cycle Funds to the NPS subscribers

A. Launch of NPS and Current scenario

1. The National Pension System (NPS) was introduced in 2003 for all Central Government employees (except armed forces) who joined the service on or after 01.01.2004. The NPS marked a paradigm shift from the Defined Benefit Pension Scheme to Defined Contribution Scheme, thereby easing the escalating fiscal stress on the Government on account of rising pension liabilities. In 2009 different Schemes under the flagship of National Pension System regulated by PFRDA under the private sector and unorganised sector.

2. The National Pension System (NPS) has been arguably hailed as one of the best designed pension products domestically with its several unique features like full portability across jobs and geographical jurisdictions, choice of investment options to suit different risk appetites, option to choose from among several fund managers, no entry or exit loads, and perhaps the lowest fund management charges in the world. It is also regulated by a dedicated regulator.

3. The passage of the PFRDA Act in September 2013 followed by notification of the Act on 1st February 2014 marks an important milestone in the history of the Pension Sector reforms as the Act provides an overarching mandate to the PFRDA for promotion and development of old age security in India. In light of the paradigm shift in the pension landscape in the country, it is imperative to review the progress of NPS so far and realign the existing policy framework for Pension Funds within the mandate of the Act.

4. The NPS adopted a direct selling model to keep the costs low and to avoid the urge to mis-sell due to the embedded commissions. This distributor-free and agent-free model was designed to protect the individual and to maximise the pension wealth. It was adopted even at the risk of a slow start. The NPS architecture has been designed to create an enabling environment for the citizens to save for retirement.

5. Additionally, NPS also provides flexibility to subscribers where they can switch their pension funds among three options, i.e. equity, corporate bonds and government securities. They can also change their fund managers if they are not satisfied with the performance of Pension Funds.

B. Need of Revamping

- It is more than 12 years under NPS Govt. Sector and 6 (six) year since NPS was introduced in the market to cater to the retirement needs of Private Sector/Unorganised Sector subscribers.
- The NPS has made noticeable progress from the time of its inception, on boarding about 1 Crore subscribers with a total AUM exceeding 100000 crores by Dec 2015, with only 12% of the workforce covered by any kind of old age security in India, there is thus a huge untapped potential for NPS to expand. However, this would require multipronged approach with co-operation of multiple stakeholders including Central Government, State Governments, Autonomous bodies, trade bodies, Regulators and many more.

- Besides the expansion in coverage, the provision of old age income security also entails working towards adequacy of income post working life, which can be done by optimizing returns through appropriate investment guidelines. While devising the investment guidelines, the interest of the subscriber is to be kept paramount, balancing the security aspect with adequacy of returns. While returns on investment under DC scheme cannot be guaranteed, it is important to frame guidelines, which enable the pension funds to deliver good real rate of returns to the subscriber for meaningful old age income security, which cannot be done with overload of fixed income securities. Hence, an enabling environment is required to be created for the Subscriber to maximize his/her returns depending upon his/her risk appetite.

- The fiscal stimulus being provided by the Government each year through its budget announcements are a major boost to the NPS , propelling the built up of a pensioned society.

- The experience gained since last more than decade this has been quite obvious that the NPS system has a well laid out architecture, it has been able to draw enough attention from the individual subscribers by very little marketing and publicity. It is also perceptible that investor awareness towards the various financial products has grown to the extant where subscribers can decide about the mix of asset class and Pension Fund and change the same as per its discretion.

PROVIDING OPTION OF MORE LIFE CYCLE FUNDS TO THE NPS SUBSCRIBERS

1. The Expert Committee headed by Shri G. N. Bajpai was constituted in September 2014 to review investment guidelines for NPS in Private Sector with various terms of reference. One of the TORs was to reviewing the default scheme viz Life Cycle Fund.

2. The recommendations of EXPERT COMMITTEE TO REVIEW INVESTMENT GUIDELINES FOR NPS SCHEMES IN PRIVATE SECTOR handed over its report to PFRDA. The committee has given following deliberation on the said TOR as below:

   "On the road to Prudent investor regime, the Regulator may, in the interim allow introduction of a few new schemes to test the risk appetite of the subscribers and build their confidence in asset classes perceived to be riskier viz Equity through the life Cycle fund approach. While the existing life cycle Fund shall continue to be the one with maximum investment in equity pegged at 50% (option LC50), ***more life cycle funds (at least two more to begin with)*** *may be introduced keeping the core principle of "decreasing risk appetite with increasing age" intact with lower and higher ceilings in Equity to cater to both conservative subscriber and subscriber with a higher risk appetite."*

3. Further, one of the measure suggested by the said committee is to shift away from the fixed income fixated investment pattern and allowing more play to pension fund managers in equity, as a part of first phase to move to Prudential investor regime:-

   "Allowing floating of life cycle funds with equity cap at 75%".

4. Presently, NPS provides Life Cycle Fund option to the NPS subscriber with equity allocation up to 35 years is 50%. The agewise allocation of the Fund in these two Life Cycle Fund across the asset class 'E' , 'C' and 'G' is as under:-

   Table:-1

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	10%	10%	80%

1. In view of the para 2 & para 3 above, we have designed two more Life Cycle Fund may be called as "Aggressive Life Cycle Fund" with equity allocation of 75% at the age of 35 years and "Conservative Life Cycle Fund" with equity allocation of 25% at the age of 35 years. The proposed agewise allocation of the Fund in these two Life Cycle Fund across the asset class 'E' , 'C' and 'G' is as under:-

Table:-2

Aggressive Life Cycle Fund			
Age	**Asset Class E**	**Asset Class C**	**Asset Class G**
Up to 35 years	75%	10%	15%
36 years	71%	11%	18%
37 years	67%	12%	21%

38 years	63%	13%	24%
39 years	59%	14%	27%
40 years	55%	15%	30%
41 years	51%	16%	33%
42 years	47%	17%	36%
43 years	43%	18%	39%
44 years	39%	19%	42%
45 years	35%	20%	45%
46 years	32%	20%	48%
47 years	29%	20%	51%
48 years	26%	20%	54%
49 years	23%	20%	57%
50 years	20%	20%	60%
51 years	19%	18%	63%
52 years	18%	16%	66%
53 years	17%	14%	69%
54 years	16%	12%	72%
55 years	15%	10%	75%

Table:-3

Conservative Life Cycle Fund			
Age	**Asset Class E**	**Asset Class C**	**Asset Class G**
Up to 35 years	25%	45%	30%
36 years	24%	43%	33%
37 years	23%	41%	36%
38 years	22%	39%	39%
39 years	21%	37%	42%
40 years	20%	35%	45%
41 years	19%	33%	48%

42 years	18%	31%	51%
43 years	17%	29%	54%
44 years	16%	27%	57%
45 years	15%	25%	60%
46 years	14%	23%	63%
47 years	13%	21%	66%
48 years	12%	19%	69%
49 years	11%	17%	72%
50 years	10%	15%	75%
51 years	9%	13%	78%
52 years	8%	11%	81%
53 years	7%	9%	84%
54 years	6%	7%	87%
55 years	5%	5%	90%

- Further, the existing Default Life Cycle (LC 50) can be made more dynamic , reviewing the ECG pattern as per the market conditions.
- Another Life Cycle fund with Alternative asset class with a cap of 5 % can also be introduced.

Note: Comments may be offered vide e-mail on sumeet.kapoor@pfrda.org.in or in hard copy to the below address-

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