



Pension Mandate of Securities & Exchange Commission of Pakistan

Presentation By:
Akif Saeed
Securities & Exchange Commission of Pakistan

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Presentation Overview

1. Pensions in Pakistan
2. SECP Mandate Regarding Pension
3. Voluntary Pension System (VPS)
 - a) **VPS Structure**
 - b) **Contribution Stage**
 - c) **Investment Stage**
 - d) **Benefit Stage**
 - e) **Implementation of VPS**
 - f) **Issues in VPS**
 - g) **VPS Position in the World Bank Model**
4. Occupational Saving Schemes
5. Future Challenges



1. Pensions in Pakistan

a- Public Sector Retirement System

- Government pension (PAYG-Pension)
- General Provident Fund (Contributory)
- And/or Gratuity

b- Private Sector Retirement System

- Superannuation (PAYG-Pension)
- Provident Fund (OSS)
- Gratuity (PAYG-OSS)
- Employee Old Age Benefit Institution (EOBI)



2. SECP Mandate Regarding Pensions

SECP's role as a Pension Regulator has been defined in the Securities and Exchange Commission of Pakistan Act, 1997 through an amendment in 2003.

Section 20(4) The Commission shall be responsible for the performance of the following functions: - promoting and regulating development of private pension scheme and funds



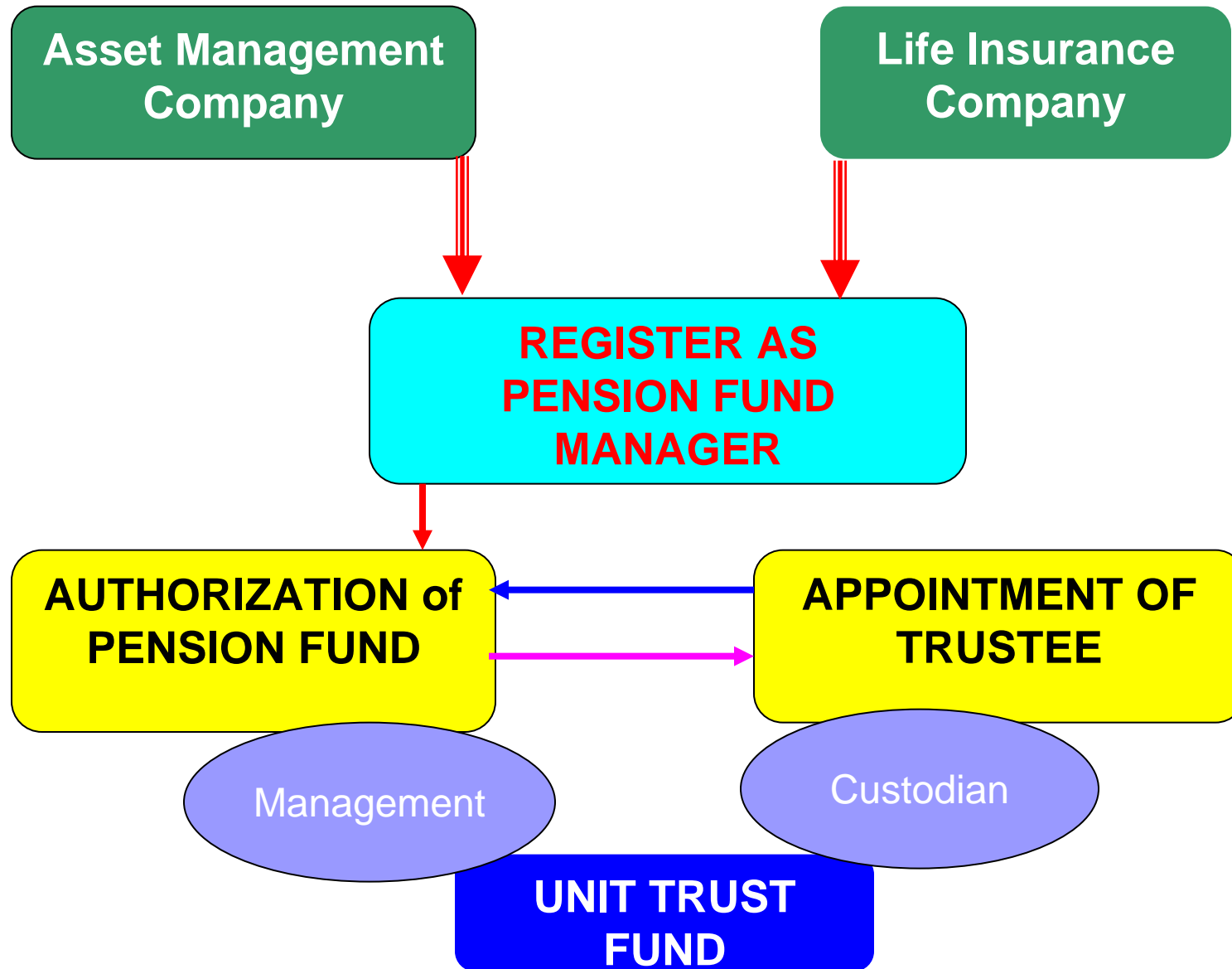
2. SECP Mandate Regarding Pensions (Contd.)


a. Voluntary Pension System

b. Private Pension Schemes includes:

- Provident Funds (OSS)**
- Gratuity Funds (OSS)**
- Superannuation funds (pension)**

3(a). The VPS – Structure





3(a). The VPS – Structure (Contd.)


Key Characteristics of VPS

- **Choice** - Amount and frequency of contribution
 - Multiple pension accounts
 - Transfer of pension account
 - Selection of retirement age
 - Option to take 25% balance at retirement

- **Incentive** - Tax credit on contribution & tax free accretion

- **Portability** – Pension account is portable

- **Flexibility** – Salaried and self employed can contribute
 - Accounts for death/disability



3(a). The VPS – Structure (Contd.)

Key Characteristics of VPS (Contd.)

- **Security** – Independent trustee
- **Professional Fund Management** – At a time when access to government securities is restricted & is giving lower returns
- **Competition** - Among pension fund managers
- **Linkage** – Scope can be expanded
- **Inbuilt market feedback mechanism**
- **Simplicity** - Yet to be tested

3(a). The VPS – Structure (contd.)

Stages in VPS



3(b). The VPS – Contributions Stage

- All Pakistani citizens older than 18 years of age and who are registered tax-payers eligible to contribute; must not be member of occupational pension scheme
- Flexible contribution by individual, subject to limit of **20%** of taxable income for year, with 2% catch-up per year of age exceeding 40 years; maximum of 50% of taxable income in all cases
- Maximum contribution allowed in all cases during any financial year is **Rs.500,000** (employer + employee)
- Companies can contribute to their employees' VPS account balances

3(c). The VPS – Investment Stage

AGGRESSIVE SCHEME

DEBT: MIN 20%
 EQUITY: MIN 65%
 MM: NIL

TOTAL: MIN 85%
 Discretion: 15%

BALANCED SCHEME

DEBT: MIN 40%
 EQUITY: MIN 35%
 MM: MIN 10%

TOTAL: MIN 85%
 Discretion: 15%

CONSERVATIVE SCHEME

DEBT: MIN 60%
 EQUITY: MIN 10%
 MM: MIN 15%

TOTAL: MIN 85%
 Discretion: 15%

VERY CONSERVATIVE SCHEME

DEBT: MIN 40%
 EQUITY: NIL
 MM: MIN 40%

TOTAL: MIN 80%
 Discretion: 20%

UNIT TRUST FUND

EQUITY SUB FUND

- Min investment in listed shares of 90% of its NAV
- Investment in listed shares of any one company shall not exceed 5% of its NAV
- In case of green field companies investment in any one company shall not exceed 1% of the sub-fund.
- Investment in listed shares of any one sector shall not exceed 20% of its NAV
- Investment in listed shares of any particular company shall not exceed 10% of the company's' paid up capital
- Un-invested amount shall be kept in treasury bills of less than one year maturity or bank deposit.
- No investment shall be made in shares of Pension Fund Manager or an associate
- Investment shall only be in listed security and or a green field project

DEBT SUB FUND

- It should consist of tradable securities
- Weighted average duration of the fund shall not exceed 10 years
- At least 50% of the assets shall be invested in Government Securities
- Conditions for investment in securities other than Government Securities
 - If securities CR is: AA or higher
 - Invest upto 5% of the sub-fund
 - Investment shall not exceed 5% of the size of the issue
 - If securities CR is: A or A+
 - Invest upto 3.75% of the sub-fund
 - Investment shall not exceed 5% of the size of the issue
 - If securities CR is: A- or BBB
 - Invest upto 2.5% of the sub-fund in any such security with Life <5years
 - Investment shall not exceed 2.5% of the size of the issue

MONEY MARKET SUB FUND

- The fund shall consist of short term debt instruments with duration not exceeding 1 year
- No restriction on the amount of investment in securities issued by the Federal Government
- Investment in securities issued by govt corp, provincial or city govts or by corporate entities upto 20% of the sub-fund.
- No restriction for amount of investment in banks deposits. However, investment in bank deposits of any one bank shall not exceed 25% of the sub-fund.

3(d).The VPS – Benefit Stage

Benefit payout in case of :

- i. Retirement at planned retirement age
- ii. Death/disability/disfigurement
- iii. partial or total withdrawal of account balance before retirement age

i. Retirement at planned retirement age:

A. Cash + Annuity

Withdraw up to 25% of individual pension account as **cash** and use remaining amount to purchase **annuity** from life insurance company of choice.

B. Cash + Income Drawdown + Annuity

Withdraw up to 25% of individual pension account as **cash** and **withdraw monthly installments** till age 75 years according to income payment plan. At end of period purchase **annuity** from life insurance company of choice.



3(d). The VPS – Benefit Stage (Contd.)

- ii. Death/Disability/Disfigurement : in case of the unfortunate disability of participant, he will be treated as having attained retirement age, regardless of the age at which he is at present.

In case of demise of the participant, his accumulated balance will be divided amongst his survivors as per nomination deed. Survivors can either withdraw amount as cash (taxable income for the year), or use amount as part of their own VPS balances

- iii. Partial/total withdrawal : Accumulated balances can be withdrawn in totality or partially before retirement age; entire amount subject to tax as income for the year at average of last 3 years



3(e). Implementation of VPS- An Update

- a) Arranged three seminars at Karachi, Lahore and Islamabad (major discussion focused on Rules and Tax treatment)
- b) Arranged three Advisory Committee Meetings for market feedback
- c) Based on the feedback, the rules and the tax treatment of VPS are being fine tuned
- d) So far five applications have been received under the rules which are being processed



3(f). Issues in VPS

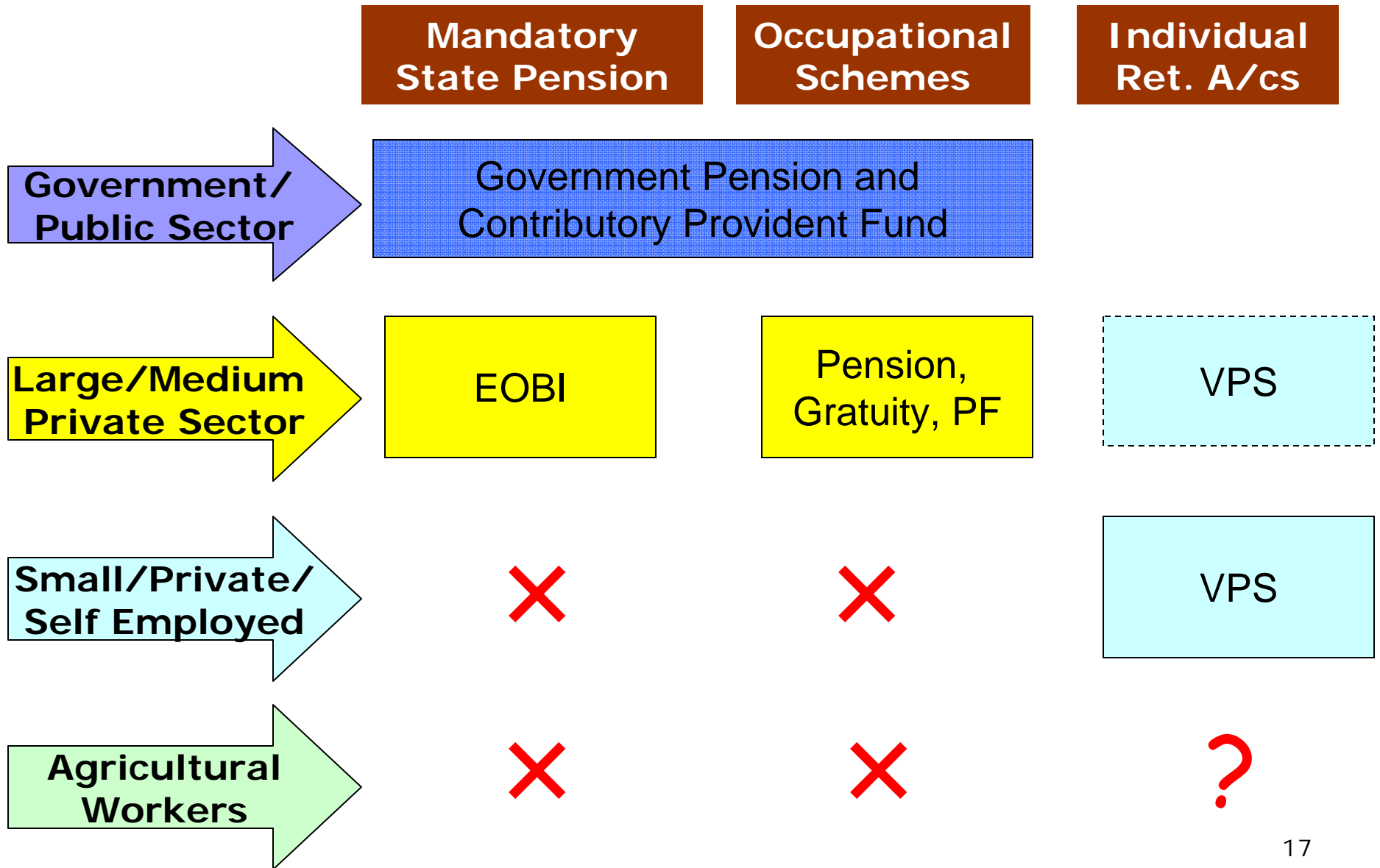
- a) Eligibility is restrictive and needs to be expanded for the success of VPS.
- b) Linkages between VPS and OSS needs to be improved.
- c) Tax treatment needs to be rationalized so that funds are channeled to retirement income and VPS remains competitive with other schemes.
- d) Rules are being brought under the SEC Act, 1997. Presently these are under CO, 1984

3(g). VPS in the World Bank Model

The World Bank Model

	Mandatory State Pension	Mandatory Occupational Schemes	Voluntary Individual Ret. A/cs
Objective	Redistribution	Savings	Savings
Form	Minimum Pension	Occupational Pension	Individual Accounts
Financing	Tax Financed	Fully Funded & Regulated	Fully Funded & Regulated

3(g). VPS in the World Bank Model (Contd.)





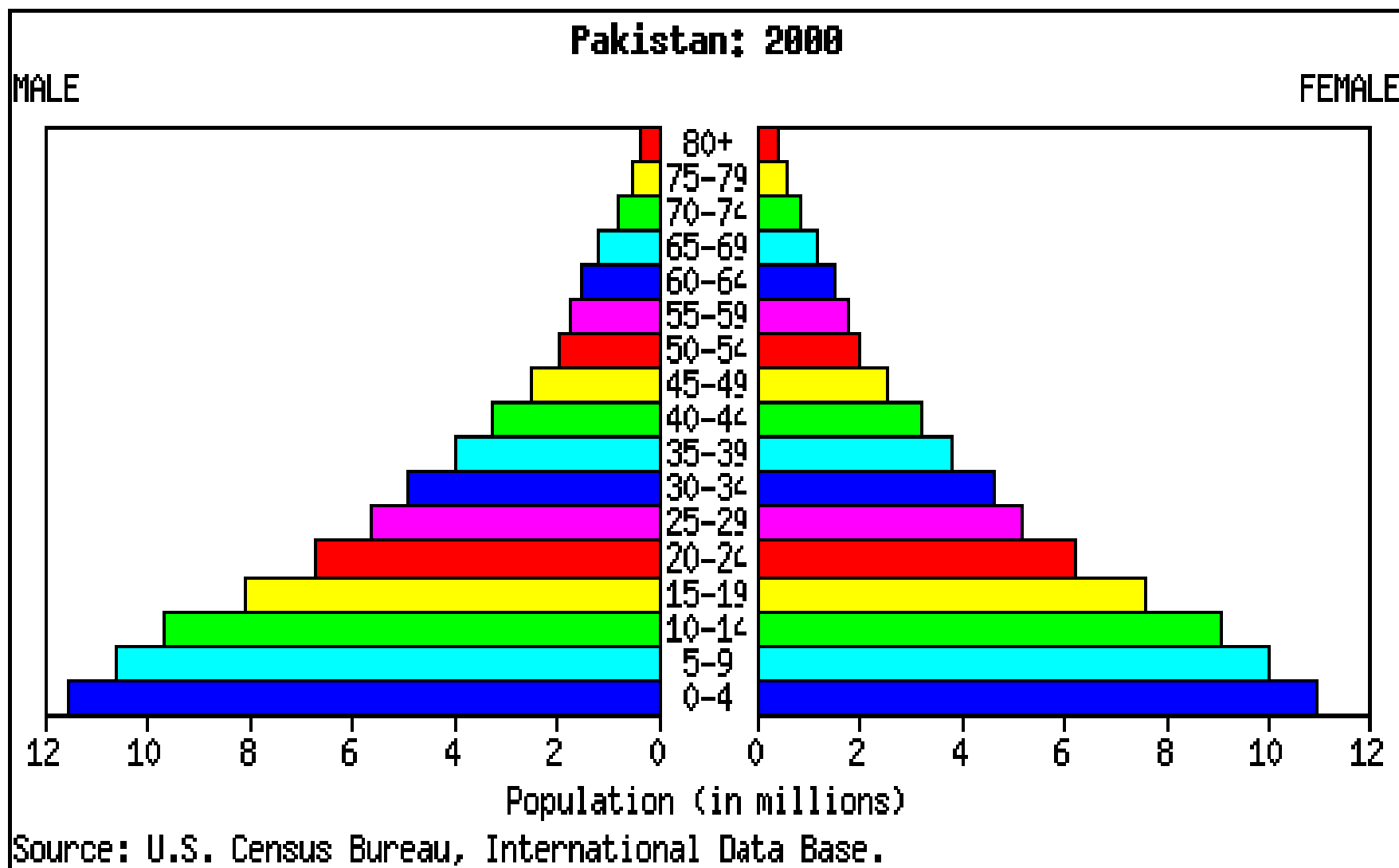
4. Occupational Saving Schemes

- a) Schemes in Pakistan:
 - Provident Fund
 - Gratuity Fund
 - Superannuation Fund

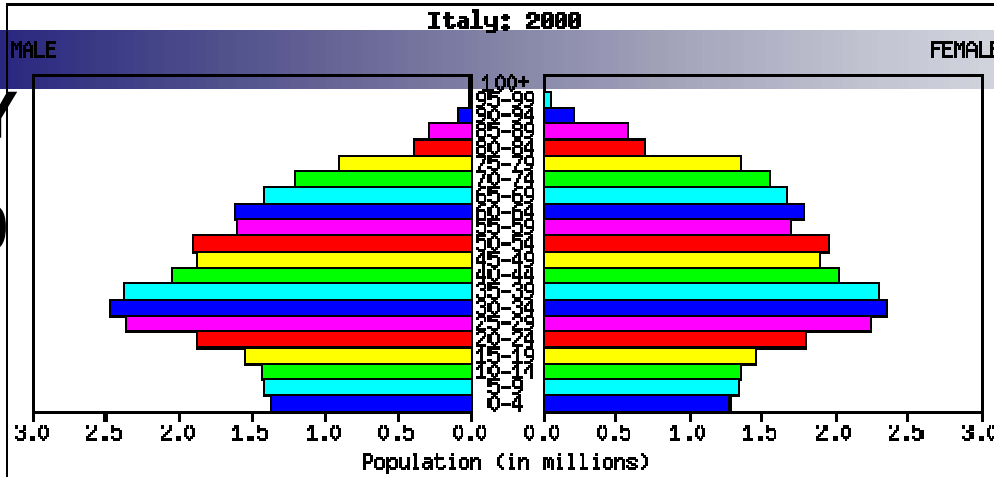
- b) Presently CBR is regulating these schemes purely from tax standpoint.

- c) No data is available in terms of number of schemes, structure, whether funded or unfunded.

5. Future Challenges

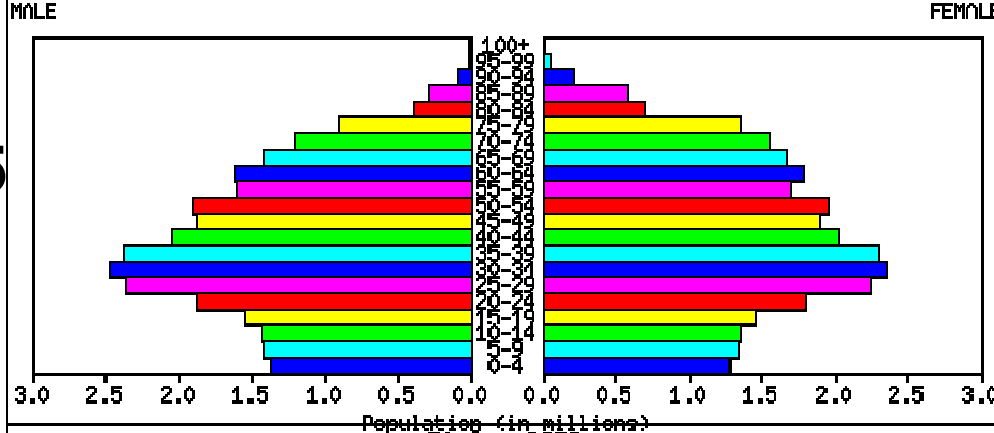


ITALY
2000



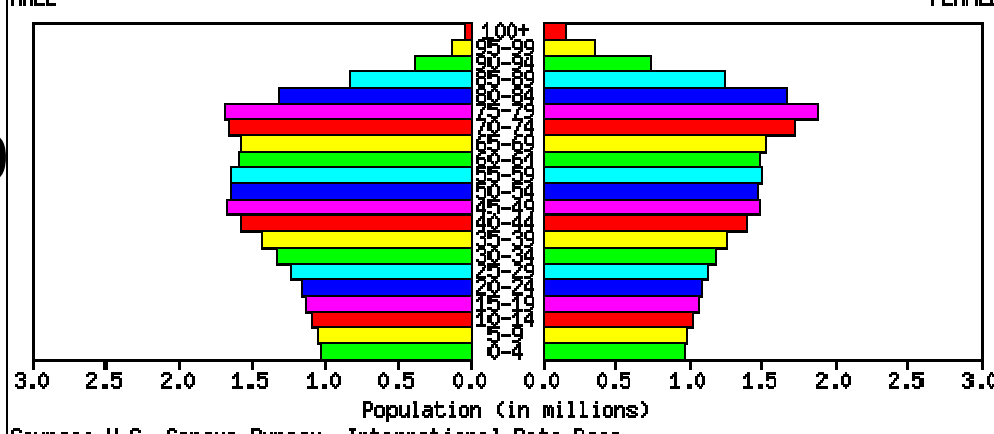
Source: U.S. Census Bureau, International Data Base.

2025



Source: U.S. Census Bureau, International Data Base.

2050



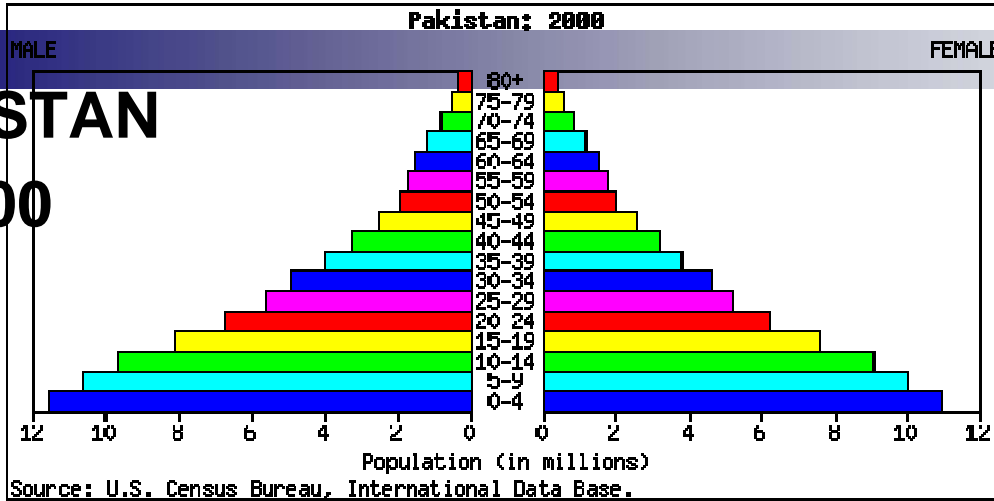
Source: U.S. Census Bureau, International Data Base.

Over 65
2001 18.4%
2015 22.3%

Impact of low birth rate, ageing population continues

PAKISTAN

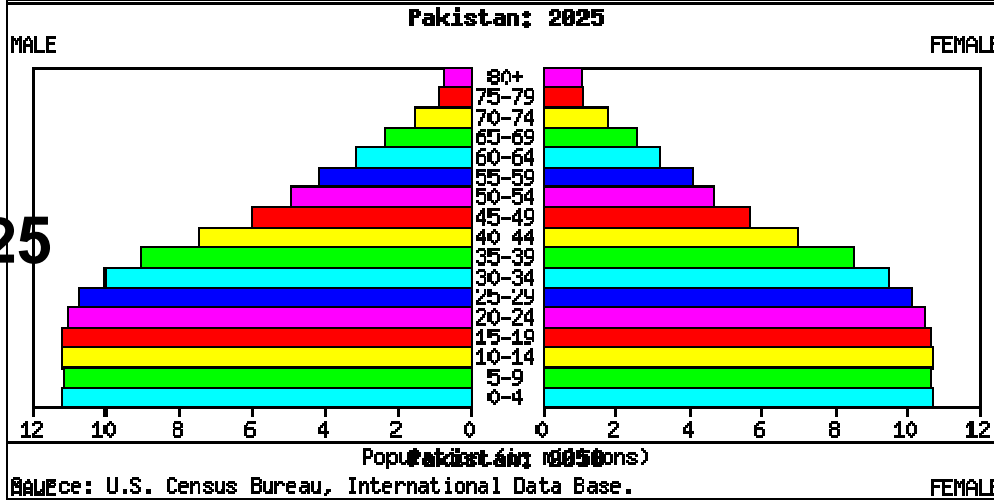
2000



-2001
3.7% over 65

-2015
4.0% over 65

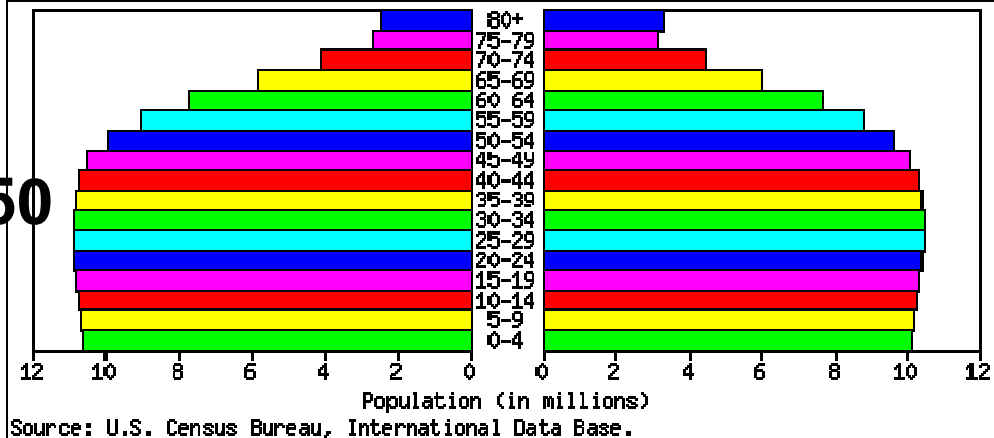
2025



-2025
11.8 million over 65

-2050
10.4% over 65

2050



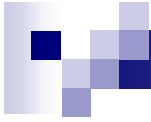
.....falling mortality rates



5. Future Challenges

some international comparisons
Population aged 65 and above

	<u>India</u>	<u>Iran</u>	<u>Italy</u>	<u>Pakistan</u>	<u>Russia</u>
2001	5.0%	4.5%	18.4%	3.7%	12.8%
2015	6.3%	4.9%	22.3%	4.0%	14.3%



Question & Answers