PRESS RELEASE

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SECP organizes workshop on new regulatory framework of Voluntary Pension Schemes

ISLAMABAD, March 4: The Securities and Exchange Commission of Pakistan (SECP) held a capacity building workshop for journalists at its head office, focusing on enhanced scope of Voluntary Pension System (VPS) regulatory framework. The event aimed to raise public awareness and understanding of Voluntary Pension System.

Khalida Habib, Executive Director, Specialized Companies Division explained the participants that the regulatory framework has been amended to allow employers to offer fully funded defined contribution pensions to their employees in a fail-safe environment. This change was made through amendments in the VPS Rules, 2005 and NBFC&NE Regulations, 2008. This allows Group Companies, Holding Companies, Federal Governments, and Provincial Governments to provide comprehensive post-retirement income solutions.

Significant amendments in VPS rules:

1. Evolve and Enhance the scope of Voluntary Pension System (VPS) Framework by allowing Employers, both in the public and private sectors, to offer fully funded defined contribution pensions in a fail-safe environment to their work force.
2. Introduction of professional management of post-retirement savings of the (employees), both in the public and private sector, by SECP licensed/registered entities with minimum rating of “AM2”.
3. Graduating away from the traditional Pay-As-You-Go Pensions with Defined Benefit structure, which have remained a burden on the Government exchequer, largest employer in the country in terms of funding the pension bill out of current expenditure.
4. Ensuring that pension liabilities in the future are fully funded with benefit of accumulation through regular contributions in order to avoid defaults directly hurting the old-age beneficiaries.
5. Transforming the regulatory framework to steer the overall pension savings paradigm of the country towards global best practices.
6. Aligned the regulatory framework with SECP's vision to meet the evolving financial needs of modern work force.
7. Amendments in the VPS Rules, 2005 along with corresponding amendments in the NBFC&NE Regulations, 2008 have been notified after a careful assessment of the needs for a vibrant and futuristic pension landscape in Pakistan.

8. Extensive engagements with sector and global experts prior to introducing flexibility for the Employer Based Pensions within the framework of VPS which is the only Defined Contribution Based Pension Platform in Pakistan.
9. Allowing flexibility to the workers/employees to save and grow their investments according to their individual risk profiles and old age income needs.
10. Further strengthen the overall risk framework of VPS to ensure quality of services and investment management, a minimum Asset Manager Rating criterion of 'AM2' has been introduced for Asset Management Companies, Life Insurance Companies and newly allowed Investment Advisors who wish to offer Employer Pension Funds under the VPS.
11. Enhanced inclusiveness of the VPS Framework by allowing Non-Resident Pakistanis holding Pakistan Origin Cards to save for retirement in Pakistan and benefit from what is offered to the resident Pakistanis.
12. Bring Pakistan at par with the well-established pension solutions like 401(k) retirement plans in the USA.
13. Revolutionizing but also preserving the inherent spirit of VPS to allow self-employed or informal sector work force to save for their retirement age financial needs while formally including the formal employment sector.

Synopsis of Key Elements of the Amendments

1. **Flexible and Empowering**
   - The amendments provide flexibility both for employers and the employees.
   - Employers are now fully enabled to offer pension solutions for their employees according to their HR strategies with control over the (i) – Retirement Age of their Employees, (ii) – setting limits to allowed withdrawal at retirement age to ensure that sufficient savings are available for post-retirement income, (iii) – Restricting the withdrawals during the working age to ensure healthy accumulation and growth of savings for post-retirement needs.
   - Whereas, the employees can enjoy safe, portable (moving from one employer approved pension fund to another) and empowering experience of saving efficiently for their old-age financial needs managed by professional investment and pension experts.

2. **Employer Specification of Terms**

- Concept of **"Employer Pension Fund"** means a specialized pension fund offered only to the employees of a particular employer and not available to the general public.
- Such employers may include but not limited to Group Companies, Holding Company, Federal Government or a Provincial Government for all participants employed in their respectively owned or controlled institutions, authorities, local governments etc.
- It must be noted again that in case of Employer Pension Funds, Employers are fully enabled to specify terms and conditions for retirement age, early withdrawal and lump-sum encashment (commutation) upon retirement by their employees; while ensuring that

remaining balance is sufficient to generate sustainable income according to the needs of the employees.

- Employers shall enter into agreements with the Pension Fund Managers of their choice and best suitability to demarcate such terms and conditions.

3. <u>Who can offer Employer Pension Fund?</u>

- A Life Insurance Company, Asset Management Company or an Investment Advisor registered as Pension Fund Manager with a minimum Asset Manager Rating criterion of 'AM2'.
- In the past, the Investment Advisors were not allowed to be registered as Pension Fund Managers.
- However, these amendments have opened up the market for new players with strong credentials and ability to manage long terms pension savings in an efficacious manner.

4. <u>Reducing Expense Burden and Abolishing Entry Fee to Reduce Financial Impact upon Retirement Savings:</u>

- There is no entry fee or front-end load allowed to be charged for Employer Pension Funds, and Employers have the autonomy to negotiate the Management Fee with Pension Fund Managers through their agreements.

  For example, the KPK Government has successfully negotiated Total Expense Ratio (including all expenses chargeable to the Pension Funds) with Pension Fund Managers, securing rates with a discount of 60% to the permissible limits (i.e. 0.75% for Money Market and Debt Sub-Fund, 1% for Equity Index Sub-Fund, and 1.75% for Equity Sub-Fund.

- It is important to note that in order to make VPS more beneficial for employees and to ensure that maximum amount contributed by the Employees and their Employers go into the savings, the possibility of charging of selling and marketing expenses to participants of pension funds, both for existing and proposed, has been excluded.

5. <u>Inclusion of Investment Advisors</u>

Now, in addition to earlier eligibility of Asset Management Companies and Life Insurance Companies, the licensed Investment Advisors with minimum Asset Management Rating of 'AM2' are also allowed to be registered as pension fund managers for Employer Pension Funds, broadening the range of expertise available to investors.

6. <u>Strengthening the Risk Framework - Imposition of Minimum Asset Managers Rating of AM2 for Employer Pension Fund Managers</u>

In order to further strengthen the overall risk framework and ensure quality of services and investment management, a minimum Asset Manager Rating criterion of 'AM2' has been introduced for any of the eligible entities (i.e., Asset Management Companies, Life

Insurance Companies and Investment Advisors) who wish to offer Employer Pension Funds under the VPS.

7. **<u>Who Shall be Eligible Participant for Employer Pension Fund and generally in VPS?</u>**

- Personnel employed by the particular Employers offering Employer Pension Fund shall be eligible participants for the Employer Pension Fund.

8. **<u>Expanding the Scope of Eligibility of VPS to Non-Resident Pakistanis</u>**

- Individuals over the age of eighteen years who have a valid National Tax Number or a Computerized National Identity Card (CNIC) or ***<u>National Identity Card for Overseas Pakistanis (NICOP) or Pakistan Origin Card (POC).</u>***
- This amendment has allowed the Non-Resident Pakistanis to benefit from the VPS Framework by saving for their retirement age in their homeland.

9. **<u>Allowing Pension Fund Managers to Offer Annuity Products</u>**
   - In addition to the annuity products currently offered by Life Insurance Companies, the amendments now demand the Pension Fund Managers to offer post-retirement annuity products (life contingent annuities) to the VPS pensioners.
   - The Pension Fund Managers may offer such annuity product on individual or on group-basis by joining hands with other Pension Fund Managers in a pool.

10. **<u>Instances where a Pension Fund Manager becomes Ineligible?</u>**
    - The “Employer” or the “SECP” can appoint another Pension Fund Manager in case of cancellation of registration of an existing Pension Fund Manager.

11. **<u>Enhancing the Scope without any Change in the Primary Structure of VPS Framework</u>**
    - The primary structure of the pension funds remains unchanged, including the benefits of tax credit/rebate to pension savers.
    - The regular pension funds shall continue to serve the self-employed and informal sector.

12. **<u>What shall be the retirement age for Employer Pension Funds?</u>**
    - Retirement age shall be as per the agreement between employer and pension fund manager and shall be disclosed in the offering document.

13. **<u>Will participants be allowed to make early withdrawals?</u>**
    - As allowed under the VPS Framework, the participants can withdraw their savings from the accumulated balances in the pension account before retirement only after payment of applicable taxes.

- In case of Employer Pension Funds, early withdrawals shall be subject to the conditions as defined in the agreement between employer and pension fund manager and disclosed in the Offering Documents of the Fund. Such additional conditions, as laid down in the Income Tax Ordinance, 2001, shall also be applicable.
- It is important to note that the purpose of pension savings is to save and accumulate maximum for generating income for the post-retirement age.

Existing Market Data

14. **How many Pension Fund Managers are duly Registered with SECP?**
    There are currently 14 Pension Fund Managers registered with SECP including two licensed Life Insurance Companies. 12 PFMs are currently offering Employer Pension Fund under an agreement with KPK Government.

15. **How many Voluntary Pension Funds are currently operational in Pakistan?**
    Currently, 43 Voluntary Pension Funds are operational in Pakistan including 21 funds under the category of Employer Pension Funds by KPK Government. Top 5 Asset Management Companies including Meezan, UBL, NBP, MCB and Atlas are managing around 80% of AUMs.

16. **What are the total Assets under Management being Managed by Pension Fund Managers?**
    As of January 31, 2024, the total assets under management by Pension Fund Managers account to be Rs. 61.32 Billion including 0.657 Billion AUM by Employees of KPK Government.

17. **What's the current AUM/Investment Mix?**
    At present, 22% of the AUM are allocated to Equity Sub-Funds, while Money Market Sub-Funds make up 50% of the AUM, and Income/Commodity Schemes represent 28% of the total AUMs.

18. **What are the number of participates in Voluntary Pension Schemes?**
    As of December 31, 2023, there are 69,743 active investor accounts with balances exceeding zero. Additionally, there are 33,288 accounts with zero balances totaling to 102,031 accounts.

19. **Are there other potential employers in the pipeline considering the adoption of the "Employer Pension Fund"?**
    Yes, every formal sector employer, whether in the Public or in the Private Sector is the potential beneficiary of these amendments. For example, the Government of Punjab is actively pursuing the adoption of the Employer Pension Fund Regime under the VPS Rules, 2005, following a similar approach as the KPK Government. As informed, Government of Punjab has also recently carried out relevant amendments in its Civil Servants Act, 1973 to allow shifting from DB to DC pensions.

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