

Governance and Investment of Provident and Pension Funds: The Case of Singapore and India

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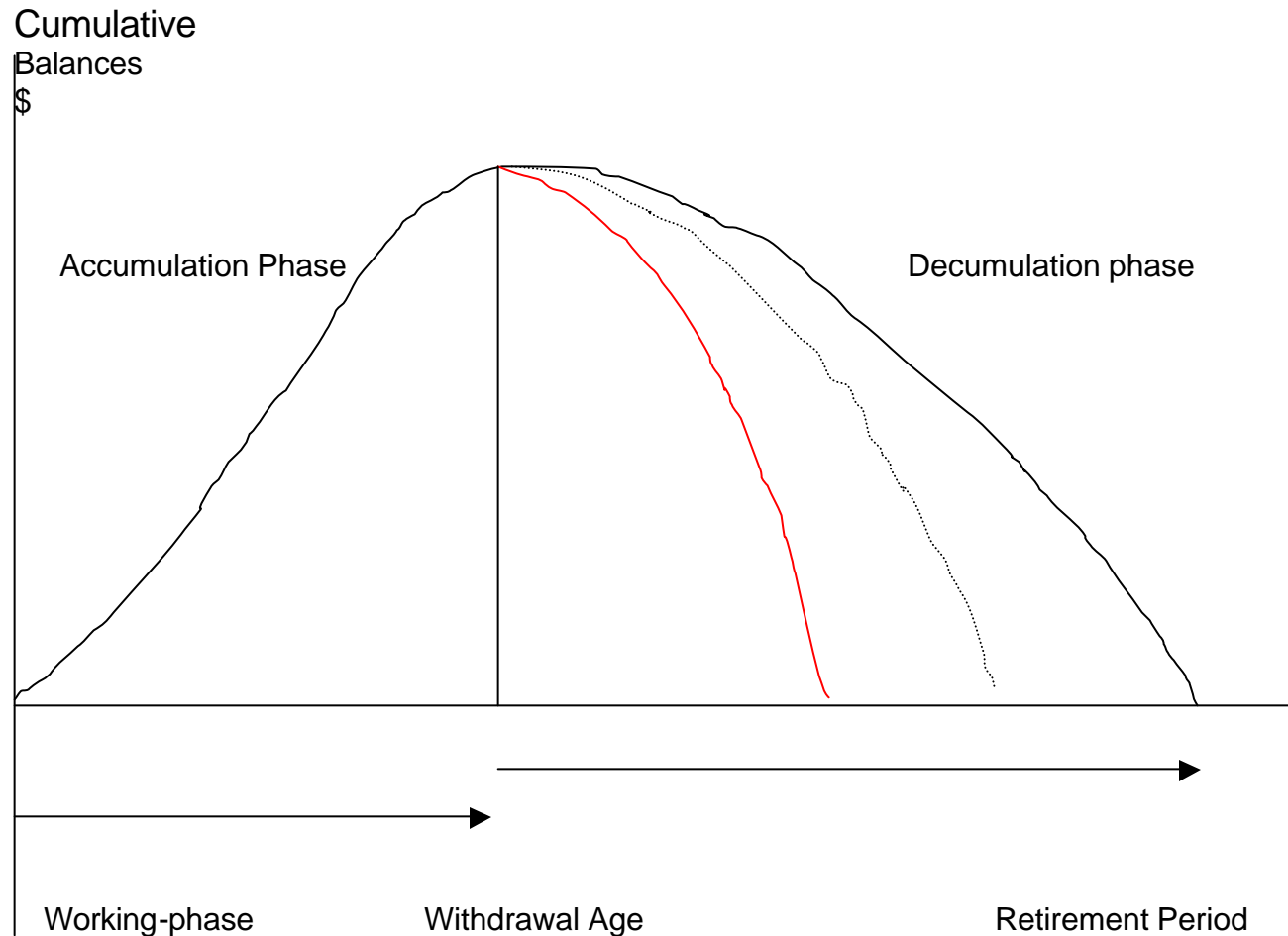
Organization

- Introduction
- Case Study of Singapore
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Introduction/ 1

- This presentation focuses on governance and investment policies and performance in Singapore and in India.
- These aspects are relevant during the accumulation/contribution phase and during pay-out/benefit distribution phase.

Figure 1
Accumulation and decumulation phases of DC schemes



Cumulative Balances = Net contributions (contributions minus withdrawals), plus interest credited on accumulated balances.

Decumulation phase: the funds accumulated can be spent rapidly or slowly. Death may occur before the funds are exhausted or reverse is also a possibility. So need to protect against longevity risk. As it is the purchasing power of the funds that is relevant, protection against the inflation risk is also desirable.

Source: Author

Introduction/2

- Governance concerns the requirements, such as the composition of the provident or pension fund board, disclosure norms, actuarial regulations, fiduciary responsibility, transparency and accountability, which all provident or pension fund organizations are expected to meet statutorily and by convention or tradition.
- The governance structure should permit professionalism and system-wide perspective.

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- Investment Policies should permit effective diversification of assets, and help maximize risk-adjusted rate of return net of transaction and investment management costs and taxes.
- Investment policies should be consistent with the current and prospective institutional capacities and the depth of financial capital markets.
- The above requirements of governance and investment policies and performance have guided the two case studies on Singapore and India.

Case Study of Singapore / 1

- Among the high-income rapidly ageing societies, Singapore is unique in relying on a single tier (i.e. mandatory savings tier, managed by the state) to finance retirement needs.
- The mandatory savings pillar in Singapore is administered by the Central Provident Fund (CPF).
- There is also Government Pension Fund, and Armed Forces Provident Fund. But details about them are not available.
- A voluntary tax-advantaged retirement scheme, called Supplementary Retirement Scheme (SRS) was introduced in April 2001, but its impact has been very limited.

Details of the SRS are available from the following website.

http://www.mof.gov.sg/taxation/home_user/srs/tax_hme_srshtml

Case Study of Singapore / 2

- Total CPF assets, End 2002: S\$96.4 billion (US\$54.7 billion): 61.9% GDP
- Contributors as percent of labor force (CPF): 58.1 (Foreign workers are 25% of the labor force and are excluded)
- CPF is under Ministry of Manpower.
- CPF has administrative, but not policy autonomy.
- The Minister appoints the representatives from the government, employers, employees and professional experts.

Case Study of Singapore / 3

- Key Challenge: How to obtain services of Board members who are both competent and independent-minded in a country with mono-centric power structure, and information is regarded as a strategic instrument rather than a public good.
- Key governance challenges in Singapore arise from the above; and as will be shown shortly from the investment policies and procedures.

**Table 1: CPF Contribution Rates
(Applicable as on October, 2002)**

Employee Age (years)	Contribution By Employer (% of wage)	Contribution By Employee (% of wage)	Total Contribution (% of wage)	Credited Into		
				Ordinary Account	Special Account	Medisave Account
	Upto Wage ceiling of \$5000	Upto Wage ceiling of \$5000	Upto Wage ceiling of \$5000	%	%	%
35 & below	16	20	36	26	4	6
35 - 45	16	20	36	23	6	7
45 - 55	16	20	36	22	6	8
55 - 60	6	12.5	18.5	10.5	0	8
60 - 65	3.5	7.5	11	2.5	0	8.5
Above 65	3.5	5	8.5	0	0	8.5

Source: http://www.cpf.gov.sg/cpf_info/goto.asp?page=/cpf_info/Index_Members.asp

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- There are many schemes under the CPF system introduced over the years. So this is not purely retirement financing scheme (Table 2).
- Withdrawals/Contributions CPF (1987-99): 71.9%. So less than one-third of the total contributions are available for retirement purposes.

TABLE 2: Various Schemes under Singapore's CPF System

Type	Scheme	Year Introduced
Home ownership	Approved Housing Scheme	1968
	Approved Residential Property Scheme	1981
Investment	Singapore Bus Services (1978) Ltd Share Scheme	1978
	Approved Investment Scheme (AIS)	1986 ^a
	CPF Investment Scheme (CPFIS)- replacing AIS	1997 ^b
	Approved Non-Residential Properties Scheme (ANRPS)	1986
	Share-Ownership Top-Up Scheme (SOTUS)	1993
Insurance	Home Protection Insurance Scheme	1982
	Dependents' Protection insurance Scheme	1989
	Medishield Scheme	1990
	Eldershield Scheme	2002
Others	Company Welfarism through Employers' Contribution (COWEC) Scheme ^c	1984
	Medisave Scheme	1984 ^d
	Minimum Sum Scheme	1987
	Topping-up of the Minimum Sum Scheme	1987
	Loans for Tertiary Education in Singapore	1989
	CPF Top-up Scheme	1995

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- The CPF balance sheet states that all of \$96.4 billion is invested in non-marketable government securities.
- The interest paid on securities is a weighted sum of fixed deposit and saving deposit interest rates; and is determined quarterly.

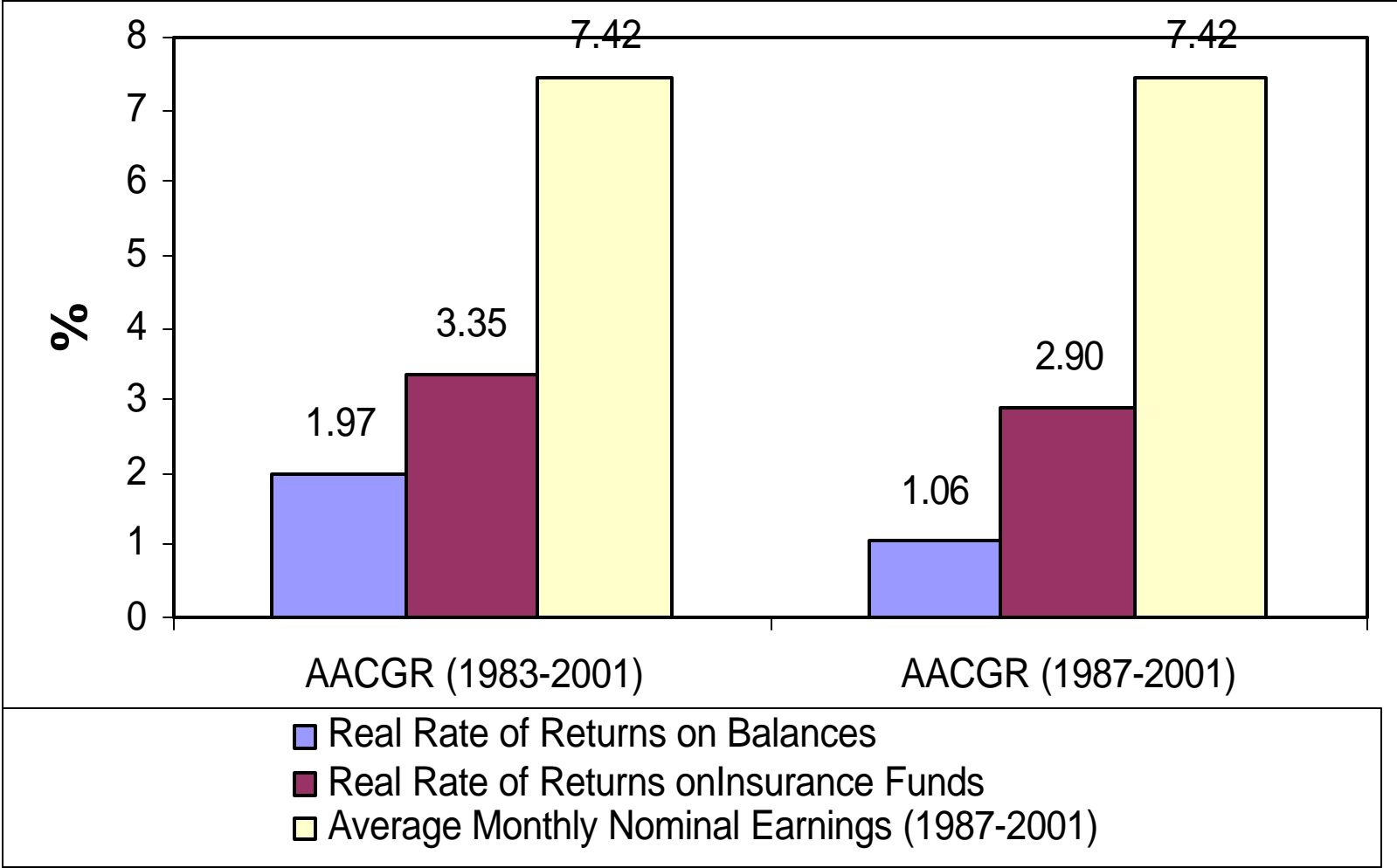
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- In actuality, as the government has been consistently enjoying budget surpluses, proceeds from bonds sold to the CPF Board are turned over to Singapore Government Investment Corporation (SGIC).
- The operations of the SGIC (and other government investment holding companies) do not have to be revealed because of statutory provisions. The proceeds however are widely believed to be almost wholly invested abroad.

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- There is thus a disconnect between the administered interest rate paid on CPF balances and the actual investments and returns obtained.
- The political risk inherent in this arrangement is very high.
- This arrangement has also not resulted in realizing the potential of the power of compound interest for members as shown in figure 3.

Figure 2: Singapore's CPF: Average Annual Compound Growth Rate (AACGR %)



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- The non-transparency and non-accountability of the CPF balances, along with administered rate of interest has turned the CPF from nominally DC-FF scheme to a Notional Defined Benefit (NDB) Scheme, financed on PAYG basis.
- To the extent the government holding companies earn higher than what is paid to the CPF members, implicit tax on CPF wealth occurs.

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- IMF has estimated that the Singapore Government Investment Corporation (SGIC) earned about 10.0 percent per annum during the 1990s, substantially higher than the average nominal return of 3.4 percent credited by the CPF.
- The implicit tax for 2000 is $(10.0 - 3.4 = 6.6)$ times \$90.3 billion, or \$5.96 billion, equivalent to 42 percent of contributions or 3.75 percent of GDP.

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- The implicit tax is recurrent, and it is regressive as low-income individuals hold proportionally greater wealth in the form of CPF balances
- Moreover, as only about a third of the labor force pays personal income tax, the low-income members do not receive tax subsidy for contribution, income on pre-retirement investments, and at the time of withdrawal. The cost of nominal rate of return guarantee of 2.5 percent is quite small, and does not counterbalance such a large implicit tax.

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- A recent simulation study by McCarthy, Mitchell and Piggott (2002) "Asset Rich and Cash Poor: Retirement Provision and Housing Policy in Singapore", *Journal of Pension Economics and Finance*, also suggests that the replacement rate from the CPF savings will be grossly inadequate.

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- Assumptions
 - Starting earning level of \$30,000 in 2000 (\$ 2,500 per month)
 - Real earnings growth of 2 percent per annum
 - Real housing returns of 4 percent per annum
 - Annual real interest rates of 0 percent and 1.5 percent for Ordinary and Special Accounts respectively
 - Inflation rate of 2.5 percent per annum
- Simulations undertaken are given in Table 3

Table 3: Estimated Earnings and Total Assets, Wealth Allocation and Replacement Rate for Base Case

Age	Real Earnings (\$000)	Total Wealth (\$000)	Asset Allocation (% or total)					Implied RR: Retirement Income/Final Earnings (%)	
			CPF: Ordinary	CPF: Special	Housing	Mortgage	Other	Earnings	Subsistence
50	60.9	1093.5	15	6	76	-4	7	17	120
55	67.3	1384.1	16	6	73	-1	6	23	202
60	74.3	1659.1	14	5	74	0	6	26	268
62	77.3	1774.3	14	5	75	0	6	28	296
65	82.0	1955.9	13	5	77	0	5	30	343

Notes: Author's (McCarthy et al.) calculation; assumes male head of household married to same age non-working wife.

Source: McCarthy, Mitchell and Piggott (2002).

Table 4: Sensitivity of Results to Potential Policy Changes

	A	B	C	D	E
	Total Wealth (\$000)	Proportion in Housing	Replacement rate		IRR on Property
			Earnings	Subsistence	
1 Base Case	1774.3	75%	28%	296%	5.82%
CPF Changes					
2. Both CPF Accts ROR up from 0% /1.5 % to 5% real	2052.6	65%	34%	359%	4.60%
3. % to Special CPF Acct up from 4% to 8%	1800.3	74%	30%	319%	5.34%
4. CPF contribution ceiling held at 0% nominal instead of 0% real	1598.5	83%	17%	186%	5.23%
5. CPF contribution rates lowered from 40% to 30%	1604.6	83%	14%	148%	4.61 %
HDB Changes					
6. ROR on HDB property falls 4% real to 0% real	768.5	36%	32%	339%	0.77%
7. ROR on HDB property 4% real->10 years, 0% real thereafter	749.1	37%	30%	322%	0.47%
8. ROR on HDB property 0% real->10 years, 4% real thereafter	1797.6	74%	30%	316%	6.04%
9.HDB resale levy falls from 22.5%/25% to 0%	2296.2	77%	34%	364%	7.42%
10. HDB capital subsidy doubles in nominal terms	2037.8	65%	49%	526%	8.84%

Notes: Author's (McCarthy et al.) calculation; assumes male head of household married to same age non-working wife.
 Source: McCarty, Mitchell and Piggott (2002).

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- Inescapable conclusion: the replacement rate will be inadequate, even when various parametric reforms are undertaken and even when only active contributors are considered.
- Converting property values into retirement income stream has several technical problems; and suffers from high transactions costs.

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- The Budget for 2003-04 has:
 - Lowered monthly salary ceiling from \$6000 to \$5,500 (from January 2004), and to \$5000 (from January 2005). This will drastically reduce replacement rate (as shown in Table 4).
 - Employee contribution rate for those aged 50-55 to be cut from 20% to 18% from January 2004, and to 16% from January 2005.
 - Both the above will raise individual income tax burdens
 - Higher contributions to special and Medisave Accounts over three years, from January 2004.

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- Generic reasons for low balances
 - Highly unequal wage structure
 - High rate of pre-retirement withdrawals
 - Relatively low return
 - High transaction costs of investments

Table 5 : Singapore: Cash Balances of CPF Contributors By Age As of December, 2000

Net Balances ('000\$)							Net Balance (\$ million)	Average Balance ('000\$)
	All Age Groups	Under 30	>30 - <40	>40 - <50	>50 - <55	Above 55		
< 10	199.2 (15.6)	118.4 (34.2)	31.4 (7.9)	22.1 (6.7)	6.6 (6.3)	20.8 (21.0)	906.8 (1.3)	4.6
>10-<50	558.2 (43.9)	184.8 (53.3)	178.1 (45.1)	104.6 (31.9)	29.0 (27.6)	62.1 (62.7)	15766.0 (23.1)	28.2
>50-<80	250.8 (19.7)	34.0 (9.8)	101.0 (25.6)	84.0 (25.6)	21.8 (20.8)	10.1 (10.1)	15845.5 (23.2)	63.2
>80-<100	97.8 (7.7)	6.9 (2.0)	38.7 (9.8)	37.6 (11.4)	11.5 (11.0)	3.1 (3.1)	8717.6 (12.8)	89.2
>100-<200	137.5 (10.8)	2.2 (0.6)	42.1 (10.6)	65.4 (19.9)	25.9 (24.7)	2.2 (2.2)	18244.7 (26.7)	132.7
>200	29.4 (2.3)	-	3.6 (0.9)	14.7 (4.5)	10.2 (9.7)	0.9 (0.9)	8741.0 (12.8)	297.2
All Groups	1272.9 (100.0)	346.0 (100.0)	394.8 (100.0)	328.2 (100.0)	104.8 (100.0)	99.1 (100.0)	68221.5 (100.0)	53.6

Source: Based on data supplied by the CPF Board; Annual Report of the CPF Board, 2000.

Notes: figures in brackets represent percentages. Total net balances (defined as balances after the pre-retirement withdrawals for housing, healthcare, investments, etc.) at December 2000, were \$68,221.5 million, and active contributors numbered 1.273 million, providing an average balance of \$53,600 equivalent to 1.27 times the per capita GNP. The active contributors in December 2000 were 58.1% of the labor force, and 44% of the total members numbering 2.9 million. By deduction, (\$90,298.3 – \$68,221.5) the average balance for the 1.6 million inactive members was \$13,800.

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THE CPFIS scheme:

- In contrast to investments by the CPF Board, this scheme is a pre-retirement withdrawal scheme. A member may open A CPF investment account with approved agent banks, all of whom are locally controlled banks. Their charges and fees are not regulated.
- Individual CPF members may invest their Ordinary Account balance as well as Special Account balance in approved assets.
- There is no limit on investments in shares through the approved Unit Trusts.
- There has been substantial liberalization of the CPF scheme over the years. As a result, members can currently exercise option for international diversification. But risks of such option remain high, particularly given relatively low level of financial literacy.

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- The realized profits can not be withdrawn. This may give rise to the lock-in effect.
- As At December,31 2002, Total amount Withdrawn Under the CPFIS – Ordinary account was S\$ 23.8 billion (US\$13.6 billion) (31.6 % of the Potential) by 722,001 members, or 24.1% of total members. The Average Investment Per Member was S\$32,990(US\$18,851).
- As At December 31, 2002, Total Investments Under CPFIS – Special account was S\$ 4.8 billion (US\$ 2.7 billion) (24% of the potential), by 407,126 members or 13.6% of total members. The average investment per member was S\$10,272 (US\$5,870).

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- **As there may be overlap between members investing in Ordinary Account and Special Account, the CPIF scheme is currently reaching at best 30% of the members.**
- **The Allocation (as at December 31, 2002) for CPFIS – Ordinary Account was:**
 - **Stocks, Loan Stocks and Property Funds S\$7,772 Million(32.6%);**
 - **Insurance Policies S\$13,471.2 Million(56.6%);**
 - **Unit Trusts S\$2,404.3 Million(10.1%);**
 - **Others S\$170.7 Million(0.7%).**

Thus the total amount of Funds invested was S\$ 23,818.6

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- The Allocation (as at December 31, 2002) for CPFIS – Special Account was:
 - Insurance policies S\$3,475.7 million (83.1%)
 - Unit Trusts S\$701.6 million (16.8%)
 - Deposits S\$4.6 million (0.1%)

Thus total amount of funds invested was S\$4,181.9 million.

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- Thus, individuals have invested on their own and not through unit trusts.
- Transactions costs of unit trust investments are high, with 5 to 7 percent spread between the offer and bid (buy and sell) prices common. Some effort to address this issue, but low average investment and small size of the unit trusts market major constraints.
- Investment performance under this scheme appears to be unsatisfactory but insufficient data for rigorous analysis.

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- The CPF Board is currently exploring ways to reduce transaction costs, but the oligopolistic nature of the asset management industry, and relatively low value of investible funds may constraint such exploration.
- The asset management industry, and life insurance companies are regulated by the Monetary Authority of Singapore.

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- Main Challenges in Investment Policies
 - Predominant role of the government in Singapore in the savings – investment intermediation process (result of large structural budget surpluses, substantial public sector, and mandatory CPF savings) has raised efficiency concerns
 - The process of actual investment of the CPF balances has raised transparency, adequacy and fiduciary responsibility issues.
 - Individuals however have wide choice of assets under the CPFIS scheme. But the fund management industry has neither economies of scale nor competitive environment while financial literacy levels remain inadequate. These have raised serious questions about transactions costs.

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Addressing Governance and Investment Policy Challenges

1. Reforms should result in much higher priority to fiduciary responsibility by the CPF board; greater transparency of the investment process and outcome; and lower transaction costs.
2. Formation of a separate asset management company with statutory requirement for fiduciary responsibilities and transparency should be considered.

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3. Its Board should have independent and competent members regulated by the newly constitutes Provident Fund Authority (PFA).
4. Between 10 to 15 percent of the CPF contributions should be diverted to the asset management company (with the rest for housing, health care, and others) remaining with the current CPF Board.
5. Overall medium term (2 to 4 years) current accumulated balances of \$96 billion should be transferred to the new asset management company.

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6. The current CPFIS scheme should be restructured to restrict individual choice and the funds should be also centrally managed.
7. The new asset management company can use its expertise and large pool of funds to provide choice to members to allocate their balances among limited number of portfolios of differing risk-return profile. A member may be given a choice to reallocate the portfolio every three to four years.

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8. The asset management company can use its expertise and large pool of funds to reduce transactions and investment management costs; and to provide effective diversification with transparency. It can encourage funds management industry in Singapore in a wholesale
9. The SRS need to be restructured to be more attractive to voluntary savers for retirement. As formal employer-employee relationship less of a norm due to globalization, restructuring should take this into account.

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10. The tax treatment of both CPF approved annuities and those by the private sector needs to be evenhanded, instead of discriminating against the latter as currently.
11. Similarly tax disincentives against company pension schemes need to be removed.

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- Major constraints in addressing the challenges:
 - Overcoming resistance from the beneficiaries of the current system.
 - Over-reliance on the property sector, encouraged by use of the CPF system as country's primary mortgage financing arrangement, with monopoly state supplier of housing. Any significant adverse impact on property values would have serious economic and political impacts. This largely explains lack of boldness in ERCs recommendations.
 - Mind-set of the policymakers which insists on relying on a single-tier (quite inadequate at that) to finance old age. Indeed, 2003-04 budget measures effectively undermine even the limited role of CPF in providing for retirement.

Case Study of India / 1

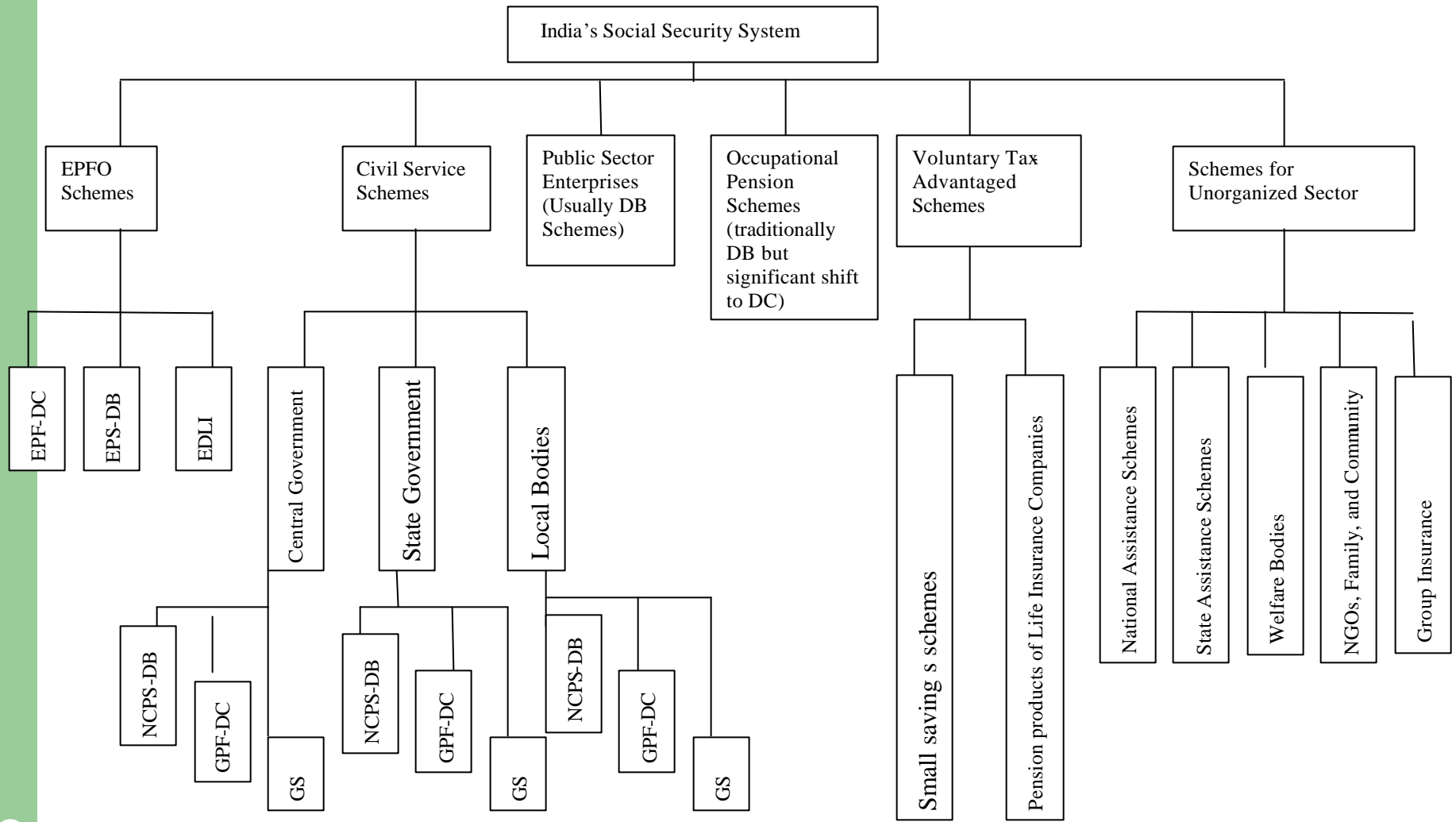
- Five components of the system in Figure 3
 - (i) Civil service schemes at the State and Central Government Levels
 - (ii) Public Sector Enterprises: these include insurance companies, Reserve Bank of India, public sector banks, electricity boards, oil companies such as ONGC, industrial entities etc which have their own pension schemes, managed by them with little supervision. Most of these are contributory, but the details of these schemes are not known and neither their actuarial soundness.

Case Study of India / 2

So there is an obvious need to regulate them to make them transparent and accountable, with emphasis on fiduciary responsibility.

- (iii) The Employees Provident Fund Organization (EPFO) schemes
- (iv) Voluntary tax advantaged savings schemes: these comprise Post Office Savings Bank Schemes (constituting nearly 10 percent of GDP); individual and group annuities of life insurance companies (these are currently regulated by the IRDA).
These four components at best cover only about a fifth of the labor force.
- (v) Public Assistance and other schemes for the life time poor at the Centre and in the States.

Figure 3: India's Social Security System



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Table 6: India: Total investments, EPFO schemes (as on March 31, 2001)

EPFO Scheme	Amount (Rs Billion)
Employees Provident Fund Scheme (EPF)	859.3 billion
Employees Pension Scheme (EPS)	239.8 billion
Employees Deposit Linked Insurance Scheme (EDLI)	27.8 billion
Total	1126.9 billion
	(US\$ 23.1 billion at US\$1 = Rs 48.7)
GDP at market prices (1999-2000)	19,296.97 billion
Total as % of GDP	5.84 %

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- In addition, small savings schemes, many of which are for retirement, have balances of about 10 percent of GDP.
- For all of these, the ultimate contingent liability is with the Central Government. So governance issues and investment policies relating to these schemes are also relevant.
- If the balances in all the components (including small savings) are added, total pension assets will be around 20% of GDP.
- They are likely to increase rapidly in the future, as private insurance companies begin providing pension products; and existing system is reformed.

Table 7: Rates of Contribution for EPFO Schemes, 2001

Scheme	Contribution as % of Covered Wage ^a			
	Employer	Employee	Government	Total
EPF ^b	3.67	12.0	Nil	15.67
EPS	8.33	Nil	1.16	9.49
EDLI	0.50	Nil	Nil	0.50
Total	12.50 ^c	12.0	1.16	25.66

EPFO: Employees Provident Fund Organization; EPF: Employees Provident Fund
 EPS: Employees Pension Scheme; EDLI: Employees Deposit Linked Insurance Scheme

Table 8: India, Investment Guidelines of the EPFO

i	Central Government Securities	25%
ii	a) State of Government Securities; and/or b) Any other negotiable securities unconditionally guaranteed by the Central Government or any State Government except those covered under (iii)(a) below.	15%
iii	a) Bonds/ Securities of “Public Financial Institutions”, “Public Sector Companies”, Infrastructure Development and Finance Company Limited (IDFC) and/or b) Certificates of deposit issued by a public sector bank	40%
iv	To be invested in any of the above categories as decided by the Board of Trustee	20%
v	The Board of Trustee, subject to their assessment of the risk return prospects, may invest up to 10% out of (iv) above, in private sector bonds/ securities which have an investment grade rating from at least two credit rating agencies.	

Table 9: India, Investment Guidelines of the IRDA

i	Government Securities	not less than 20%
ii	Government Securities or other approved securities (inclusive of (i) above)	not less than 40%
ii	Balance to be invested in Approved i Investments ^a a) Equity / Preference Shares of the Company b) Debentures (Convertible/ partly convertible/non-convertible) c) Short/ Medium/ Long term loans d) Any other permitted investments as per the Act/Regulation	not exceeding 60%

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- Average Annual Compound Rate of interest on EPFO balances, 1986-2000 period:
 - Nominal: 11.8 percent
 - Inflation Rate (CPI): 9.0 percent
 - Real Rate: 2.7 percent

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- **Summary points about EPFO**
 - The EPFO is under under the Ministry of Labor. The EPF Board of Trustees is appointed by the Minister, with representation by Government, employees and employers.
 - The tendency is to regard EPFO and its schemes as welfare-oriented. This undermines application of Pension Economics and international benchmarking in organizational effectiveness.
 - The EPFO is an unusual organization in that it combines both the DC-FF scheme and DB social insurance scheme.
 - Expertise needed for each is however different.
 - Combining the two also reduces transparency of the schemes. There are widespread justifiable concerns among the experts about the actuarial sustainability of the EPS scheme.

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- **Summary points about EPFO**

- The EPS scheme has a maximum replacement rate of 50 percent, but the no inflation indexation. So the replacement rate available at retirement declines continuously until death.
- The EPFO's service quality is accurately perceived to be quite low.
- As noted the real rate of return provided by the EPFO is low, resulting in low replacement rate.
- The EPFO also has not developed any in house investment management expertise, while it's investment policies are even more restrictive that the IRDA guidelines.

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- **Summary points about EPFO**

- The primary challenge for the EPFO is therefore to provide benefits to its members and to the economy as a whole which are commensurate with the high contribution rates.
- The EPFO authorities are aware of this challenge and they have instituted a three year reform program called `Reinventing EPFO' to address it.
- The EPFO will however be judged by the results that it delivers.

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- **The 2003-04 Central Government Budget Measures on Pension**
 - **New entrants to Central government (except Armed Forces) on portable DC scheme, with equal contributions from the employer and the employee (the implementation date has not been announced).**
 - **Pension Fund Regulatory and Development Authority (PFRDA) to be set up, supervised by the Ministry of Finance.**
 - **The contributors will have individual accounts; and specialized pension funds will offer a basket of choices.**
 - **Non-Central government employees may join, but the Central government will not contribute or legally guarantee the returns.**
 - **Implicit moral liability however will still be on the Central government.**
 - **The expected date of operation is end of 2003 or early 2004.**

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- The 2003-04 budget proposes *Varishtha Pension Bima Yojana* (VPBY) to be administered by the LIC.
- Under VPBY, any citizen above 55 years of age, could pay a lump-sum, and get a monthly return in the form of a pension for life. The minimum and maximum pensions are pegged at Rs.250 and Rs. 2000 per month respectively. These amounts are not indexed to inflation.

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- There is a guaranteed return of 9 percent per annum for this scheme.
- The difference between the actual yield earned by the LIC under this scheme and the 9 percent will be made up by the central government.
- The subsidy therefore is explicit. However, it would have been better to have pegged the guaranteed rate at a small premium to the market rate, rather than at an absolute level.

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Main Governance and Investment Policy Challenges in India

- **Various components not integrated.**
 - Therefore, system-wide approach to design, implementation, and evaluation is absent.
 - No overall regulatory authority.
 - Regulation of provident and pension funds in India is undertaken through three sources (Hinz, R.P. and Nageswara Rao, 2002, p.13)
 - ✓ Income Tax Act of 1961
 - ✓ EPF Act of 1952
 - ✓ Indian Trusts Act, 1882

Case Study of India / 13

- Design details not consistent with international good practices in key areas such as:
 - benefit and contribution formulas.
 - actuarial studies (these are not transparent and not undertaken periodically with a view to adjust benefits and contributions)
 - administration and compliance;
 - portability and vesting; and
 - investment policies and management.

Case Study of India / 14

- **Addressing Governance and Investment Policy Challenges**
 1. De-link provident and pension funds from central and state budgetary financing. Central government's portable DC scheme; and gradual phasing out of Special Deposit Scheme steps in right direction.
 2. As an initial step, the investment guidelines should be made consistent with the IRDA guidelines.
 3. Make a gradual shift from administered interest rates to market rates on contractual savings and on "small savings" schemes
 4. Provide human and other resources to the EPFO to strengthen its investment management expertise. This should also include expertise in contracting out of a portion of the funds on a competitive basis.

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5. Consider widening the scope Pension Fund Regulatory and Development Authority (PFRDA) in India to help provide a system-wide perspective, more effective supervision, and greater professionalism in governance, investment management, service orientation, and use of technology.
6. The PFRDA should also regulate EPFO (EPFO's regulatory functions should be transferred, and EPFO should be asked to follow PFRDA's investment, service quality, disclosure and other guidelines); PSUs and State and local government's DC plans should also be under PFRDA.
7. PPFA should co-ordinate with IRDA, SEBI, and Proposed regulator for NBFCs.

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8. **Continue gradual and selective capital account liberalization. This may permit mutual funds to diversify internationally. Use of GDRs and ADRS to be further encouraged.**
9. **Incorporate stock-market listing (with significant free float) in on-going active divestment process. Several large IPOs (Maruti, TCS, etc.) will be implemented in 2003. T + 2 stock market settlement cycle implemented in India should help in this regard.**
10. **Plan to develop an active state and municipal bond market over the next decade. This is consistent with the objective of public-private partnership in infrastructure.**
11. **For the very poor, fiscal resources must be found to more adequately fund social assistance programmes, and deliver the services more effectively. So larger governance issues are relevant here.**