



Dr. H. Sadhak

PENSION FUNDS

LIC PF scores

The Pension Fund Regulatory & Development Authority (PFRDA) has increased the allocation from the government's pension fund to state-owned life insurer LIC's pension fund subsidiary, LIC Pension Fund (LICPF), in 2010-11 while trimming the allocation to State Bank of India (SBI) Pension Fund.

LIC Pension Fund received the highest allocation for the year 2010-11 among the three fund managers, which include SBI Pension Fund and UTI Retirement Solutions, based on its performance. LICPF emerged the best performer among these fund managers who manage retirement funds of government employees under the new pension scheme. LICPFL generated returns of 10.19 per cent, higher than the returns generated by the other two fund managers. The other two returned a bit lower than that of LICPFL.

The subsidiary of state-owned Life Insurance Corporation has been allocated 35 per cent of the retirement funds of central government employees, indicating a 6 per cent rise in the fresh allocation, while UTI Retirement Benefit Pension Fund saw a one per cent increase in allocation, and SBI Pension Fund's share has fallen from 40 per cent to 33 per cent.

The funds are allocated based on their returns. There is not much difference between the three fund managers, so there is marginal variation in terms of allocation. The three fund managers will manage around Rs. 4,900 crore for 2010-11. This includes central government and state government pension funds. If autonomous bodies and individuals are included, the total allocation goes up to Rs. 5,100 crore 38 per cent more than last year's Rs 3,700 crore. "This is because of the high number of subscribers, which is at 9.9 lakh currently," Rani Nair, executive director of PFRDA said. Individuals and others have the option to choose their manager.

According to Dr. H. Sadhak, chief executive officer, LICPF, "In a debt-oriented fund, size of the fund matters. Larger the size better the scope for good performance in terms of yield." However, with right mix of investment strategy across the sector, LICPF has maximised its return on its investments and has offered more than 10 per

cent return to its subscribers. Dr. Sadhak, who attributed the performance to scientific investing by the company, maintains that it would benefit from the new allocation as State Government trusts also generally use the same ratios as the Central Government for allocations. "I can assure you by another 5 years, the pension assets in the country are likely to be over Rs. 80,000 crore to Rs. 1 lakh crore given that PSUs and many of the private corporates are willing to join" adds Dr. Sadhak.

Pension funds follow PFRDA's investment guidelines. The PFRDA (Pension Fund Regulatory and Development Authority) has put a cap under which 55 per cent can be invested in Central and State Government securities, 40 per cent in corporate securities and PSU bonds, 15 per cent in equity and equity mutual funds and five per cent in money market instruments. This is the first time that LICPF has outperformed its peers. In the last three-years since the NPS came into effect, its allocation share has risen seven times from a mere 5 per cent in the first year 2008-09 to 35 per cent for FY 2010-11.

Meanwhile, the country's New Pension Scheme (NPS) is set for a major reform with the Pension Fund Regulatory and Development Authority (PFRDA), the interim regulator, deciding to do away with the cap on number of players and drawing up a "good-enough" incentive mechanism for the fund managers.

PFRDA is setting up a committee to suggest an incentive model for the stakeholders and ways to improvise the scheme. "The six pension fund managers permitted for the unorganised sector so far did nothing to sell the NPS because they had

quoted absurdly low fees to bag business and have ended up with prospects of incurring losses on addition of new subscribers. They need to be incentivised to push the scheme forward." according to PFRDA chairman Yogesh Agarwal.

Name of the Pension Funds	Allocation by NPS Trust		
	2008-09	2009-10	2010-11
LIC Pension Fund Ltd.	5%	29%	35%
SBI Pension Fund Ltd.	55%	40%	33%
UTI Retirement Solutions	40%	31%	32%
Total	100%	100%	100%