

Downturn has little significance on pension funds: H Sadhak, CEO LIC Pension Fund

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MUMBAI: Even as the debate over pension [fund](#) reforms continues in the political arena, experts believe the changes should have been effected much



Dr H Sadhak, CEO, LIC Pension Fund

earlier. There currently are only three pension fund houses in India-- LIC Pension Fund, UTI Retirement Benefit Pension Fund, and SBI Pension Fund.

Economictimes.com spoke to LIC [Pension](#) Fund's Chief Executive Officer, Dr. H. Sadhak, on the need for reforms, the potential of such funds, and future prospects. He has been in the financial services industry for about 30 years, including pension funds, mutual fund, [life insurance](#) and banking. Excerpts from the interview:

Why do pension reforms assume importance in India?

India has taken a very important and timely decision to introduce New Pension System. Firstly, we are a young country, the average age being 26 years. But this is changing very fast due to fast growth of elderly population. Growth rate of elderly population in India is 3.8% as against general population growth rate of 1.8%.

Secondly, the coverage rate is also very low, only 11% of workers are covered by formal pension system while 89% still remain uncovered. Study has shown that there is no formal pension system for informal sector workers--about 310 million are uncovered.

Thirdly, current defined benefit (DB) pension system for civil service has become financially unviable for the central and state governments. According to one estimate, pension payment by the central and state governments was to the extent of 1.8% and 2.53% of GDP in 2004-05 respectively.

In view of the above, it is natural that a funded pension system with the scope of wider coverage is introduced. New Pension Scheme (NPS) is a funded defined contribution pension system with greater possibilities, to expand pension coverage.

What is the potential of the pension market in India? What participation do you foresee in pension schemes?

The potential of pension fund market depends on several factors including the size of population, growth structure, rate of ageing, alternative social security system, etc. Interestingly, pension market constitutes only 11% of the population and the rest 89% workers are excluded by current system. No formal pension programme is there for informal sector of the economy.

A study of potential pension market under new pension system conducted by Asian Development [Bank](#) in 2004 indicates that only 52 billion workers were covered under formal pension system while 310 million are uncovered. This indicates the vast potential in Indian pension market.

According to the estimate of Helene K. Poirson of IMF, Indian [retirement](#) market will grow from Rs 1,500 billion in 2010 to Rs 4,000 billion in 2025. Further, estimate of FICCI-KPMG on pension market in India indicates that without any pension reform, the market will grow from Rs 56,100 crore in 2002 to Rs 1,80,800 crore in 2025. Reforms will give a big boost to the pension market, which will grow to the extent of Rs 4,06,400 crore in 2025.

How does pension scheme add to capital market?



Dr H Sadhak, CEO, LIC Pension Fund

Pension system and capital market are very closely interlinked. Pension fund, as an institutional investor, supports the financial intermediation, facilitates resource transfer, provides better trade off between risk and return, supplies resources to various segments of the market through strategy of diversified investment process, manages uncertainty and gives price information.

The important functions of pension funds which have imparted the depth and structure of financial markets include collection of savings, investing in capital and financial market

across the geographic regions and market segments providing retirement benefits in terms of annuity, etc.

Does mutual fund investment hold any relevance in pension fund asset allocation?

Three important investment instruments for pension funds are debt, equity and mutual funds. Mutual funds are also slowly emerging as important destination of pension assets. Pension schemes of Belgium, Canada and Switzerland invested about 79%, 37% and 24% respectively in mutual funds during 2006. The non-OECD countries like Brazil and Chile invest about 56% and 35% respectively. It is, therefore, evident that not only the debt and equity markets, but also the mutual funds and alternative investment markets are being impacted by the emerging pension industry. Things will change in India too.

Pension funds invest only 5 per cent in equities. Are you in favour of increasing or decreasing this limit in view of current recession?

Pension fund is a long term investment proposition and would undergo 4 to 5 market cycles during 30 to 35 year span. Therefore, short term downturn has little significance. Pension funds are expected to provide reasonable risk adjusted return over a long term.

Presently, one scheme is operational with defined portfolio of 85 % in debt, 10% in equity mutual funds/ corporate bonds and 5% in equity. However, there can be an equity oriented scheme with higher equity component or debt oriented scheme with higher debt component. Personally, I believe there should also be a default option. But it all depends on the regulator.

Pension fund regulator PFRDA is planning to launch universal pension schemes in the country. What would be the pros and cons of this scheme?

Universal pension scheme, when launched, would be a welcome step since it would provide an opportunity to the unorganised and informal sector to join pension system for retirement savings. It would also offer tremendous opportunity for the pension industry to expand. We, however, need to make the system cost effective and easy to understand.

We at LIC Pension Fund welcome this and would like to join as a fund manager.

How do you rank LIC Pension fund?

LIC Pension Fund is a fully operational company. It has fulfilled all the regulatory requirements. A well designed fund management and risk management system is in place. So far as performance is concerned, we are very happy and I believe our return is quite satisfactory. You will come to know the relative performance when PFRDA releases the same.

What support do you get from the brand - LIC?

LIC Pension Fund is an independent public limited company and as per PFRDA guidelines, we maintain a firewall between our sponsor, LIC, and us. LIC also does pension business. So, instead of basking in LIC's image, we may be one of the competitors when unorganized sector opens to the new pension scheme. But LIC is a household name in India and most trusted brand, directly and indirectly, that is helping us, and our aim is to maintain that trust in LIC Pension fund too.

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