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Big Savers may Pay More for NPS

Panel proposes charge of 0.5% per transaction instead of a flat fee of ₹20, says move will protect small savers, incentivise sellers

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Big savers will have to pay more to invest in the New Pension Scheme (NPS) if the government accepts the recommendations of an expert panel chaired by former Sebi chairman GN Bajpai.

To improve the incentive for sellers and protect small savers, the panel has recommended a charge of 0.5% on every transaction instead of a flat fee of ₹20 paid by individual volunteer members now. The NPS manages the pension funds of civil servants who joined service from January 2004 and also individual volunteer members. Though well regulated, the scheme, which competes with other financial products

such as pension plans sold by insurance companies or mutual funds, has been floundering due to a faulty marketing model.

In its report submitted to the pension fund regulator Yogesh Agarwal last week, the Bajpai panel has recommended sweeping changes in the marketing model to widen the reach of NPS. These include, among other things, higher commission and fund management charges, lower central record keeping charges and allowing mobile companies and other private players to distribute the product, said a source privy to the report.

Today, subscribers pay a flat charge of ₹40 for opening an account and per transaction fee of ₹20, irrespective of the amount they regularly save. So, the distributors or the so-called points of presence—banks and financial institutions that open NPS accounts for subscribers—have little incentive to market the scheme. The ad valorem charge

is expected to incentivise distributors. Big savers who contribute more and earn higher returns will be charged more. The average return on the NPS was 11% last fiscal year. "Flat charges penalise the low-income population. It's much more fair to have a fee linked to the quantum of contribution. The real challenge is to discipline savings of the informal sector," says Gautam Bhardwaj, director, Invest India Economic Foundation.

The panel has recommended rationalising fund management charges which is a meagre 0.0009% for assets under management. With wafer-thin charges, fund managers can hardly afford to market the scheme using their money. However, the panel has said that the charge should automatically drop as volumes surge when more subscribers join the NPS. Subscribers also pay ₹280 every year as record-keeping fee. The committee is in favour of lowering the central record keeping agency (CRA) charges.

Allowing pension fund managers (PFMs) to float PoP (point of presence) subsidiaries to market NPS also features in the recommendations. PFMs would, however, not be al-

Saving For The Sunset Years

The New Pension Scheme (NPS) is open to every Indian citizen who can choose the amount s/he wants to set aside and save every year
The subscriber can choose her or his own investment option
The NPS is portable and the subscriber can change the pension fund manager

- ▶ **NPS** has a fixed fee for some transactions
- ▶ **Variable costs** are very low -- annual custodian charge of 0.0075 to 0.05%; fund management charge of 0.0009%
- ▶ **The NPS** is regulated by the Pension Fund Regulatory and Development Authority (PFRDA)



lowed to sell NPS directly. The panel has made out a case for allowing more PFMs as well. At present, there are seven fund managers including LIC Pension Fund, SBI Pension Fund and UTI Retirement Solutions and Reliance Capital Pension Fund.

Today, the government contributes ₹1,000 to the pension account of every new NPS subscriber. It covers the cost of starting an account with the central record-keeping agency and of carrying out transactions, and gives a positive return on the ve-

ry day of joining the NPS. The panel favours continuing the subsidy beyond five years. It also wants the pension and insurance regulator to work jointly to develop an annuities market. However, the biggest problem with the NPS is that it is relatively unknown. The scheme has around 2 million subscribers, of which around 13 lakh are government employees. Individual voluntary members are only around 50,000.

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