PFRDA Bill –the real context

The Pension Fund Regulatory & Development Authority Bill 2011 (PFRDA Bill) is almost the same version of the same bill introduced in parliament in 2005 with minor changes.

When the 2005 Bill was introduced, there had been murmuring and opposition among the government employees as it had direct bearing on the pension prospect of the Central Government employees who joined service on or after 1-1-2004 for whom government already notified a new contributory pension scheme 22nd December 2003.

The New Pension Scheme notified in December 2003 envisaged a contribution of 10% of wages by the employee with a matching contribution from the Central government as employer which together will form the pension account for the concerned employee. The Fund will be managed and handled by fund managers appointed by the PFRDA and the employees will get pension by the end of his service life and the pension amount will be determined by the return on investment of his pension fund made by the appointed fund manager.

Originally government employees used to get pension at 50% of his last pay drawn and the pension amount used to get revised with the changes in price indices. It was an assured amount. To get this system of assured pension system in place, the government employees had to forego their right to contributory provident fund, i.e., employer's matching contribution to PF. In lieu of that surrender of right, assured pension was granted to them to be paid from the consolidated fund of India. This system of assured pensionary benefit is called "benefit defined" pension system.

The New Pension Scheme brought about a paradigm shift in the entire concept of pension as a social security measure. Now the pension will be based on "defined contribution" meaning thereby that the pension amount will be governed by what the employee's "pension fund account" can earn from investment in the market. The NPS does not ensure any assured amount of pension to the employee despite his life-long contribution to his own pension fund. Both the Pension Scheme notified by the government and the PFRDA Bill (both 2005 and 2011) mentioned in clear terms that **" There shall be no implicit or explicit assurance of benefits market based guaranteed mechanism to be purchased by the subscriber". (Sec 20(2)(g) of the PFRDA Bill)**

Can market ever guarantee any assured return on investments ? In the present day market situation with extreme volatility in both the money market and the share market, the return on investment of public funds like pension-funds is destined to be uncertain and low. Moreover, the Fund managers appointed by the PFRDA will handle the fund not for charity but for their own profit. Hence whatever return on pension fund investment that will reach the pensioner will be the net amount after ensuring profit of the fund managers as well. In the context of natural uncertainty of the market, fund managers are naturally expected to neutralize their risk first and then take care of the risk of the pensioners who actually supplies capital to the fund managers through their life time savings in pension fund. Therefore the PFRDA Bill has paved the new regime of replacing assured pension by a pension system governed by the market forces playing with the employees' life time savings. Thus PFRDA Bill and the pension system it enforces is an onslaught on the social security right of the government employees, a loot on their pension fund.

Efforts for investing a part of the provident fund accumulations of the workers in stock market is being made since long by the government but owing to resistance by the unions that could not be done as yet. The whole system of counting upon the opinion of the workers through their representatives in the matter of investment of their own fund in their social security corpus has been given a go by in the new dispensation of PFRDA regime and the fund-managers and brokers will have the last say on how the employees' savings will be invested.

But the situation under which the PFRDA Bill 2011 has been put in place has opened another dangerous dimension. It is no more limited to the pension earnings of the Central Government employees alone or the state government employees in the states where state government also adopted the new pension scheme. The bill empowers the government to extend the ambit to all the existing pension schemes. **But most alarmingly, through PFRDA Bill the government now plans to attract the savings of the 46 crore unorganized sector workers for investment in the stock market on the same scheme of market based uncertain returns.**

The government has introduced New Pension Scheme, now named as "National Pension System" for unorganized sector workers. As per the scheme, which is now known as "Swabalamban" and being advertised a lot, the workers will have to contribute to pension fund minimum RS 1000/- per year and maximum Rs 12000/-. After making contribution for 30 years or so, at the age of 60 years the worker will be eligible to get 60 per cent of his contribution as lump sum and a pension of not less than Rs 1000 per month provided rest of his fund can ensure such return from the market. If his fund earns less, then the portion of lump sum receipt after retirement will go down and if his/her entire fund(100% of his

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Already, government started making aggressive effort to enroll workers in the so called Swabalamban Scheme. Anganwadi workers who have been struggling since long for pensionary benefit are now being pressurized in many states to accept "Swabalamban" by the respective state governments.

How far the unorganized sector workers are going to be benefited by this scheme ? As they do not have any pension benefit at present, it is but natural that a good section of them will be attracted towards the scheme. Will they get any assured pensionary benefit after making contribution for the scheme ? No.

The Scheme is silent if there is a break in continuity of contribution which is but natural for the unorganized sector workers, frequently losing jobs and changing employment. What will happen if he contributes for five years thereafter for one year he fails to make contribution or after making contribution for say ten years became incapacitated to earn say at his forty years of age and could not continue contribution. Will he have to wait up to sixty years either to claim pension or lump sum payment. All these possibilities are not exceptional cases but a natural phenomenon in the life of the unorganized sector workers.

As per calculation, a worker after making contribution for 30 years at the rate of Rs 100 per month(Rs 1200 per year) will accumulate Rs 1,49,035/- which, if fully invested at 8 per cent return can ensure a monthly return of Rs 993/- to him. Now as per the scheme, if he is to get the minimum stipulated pension amount of Rs 1000/-, he will neither get any thing as lump sum. And there is no guarantee whether the investment of his fund will continue to fetch him 8 per cent return at all point of time. If it does not earn 8 per cent in any year, what will happen to his pension earning, the scheme is not clear about such happenings.

But one thing is amply clear. The new pension system will not ensure any secure pension amount for the unorganized workers despite his continuous contribution to pension fund. Pension amount will be governed by the return earned through investment in market. And the investment will not be merely in the form of credit at assured rate of interest but also in equity market as time to time decided by the fund managers. And such type of investment can no way ensure assured return.

The whole game-plan is altogether different. The share market needs a continuous flow of liquidity to keep up its temperature for the

speculators and brokers earn. Pension fund can be one such source for such liquidity as it belongs to none but the poor workers which can be risked for speculative purposes. In the name of providing pension to unorganized sector workers who do not have any social security benefits, the present scheme of Swabalamban has got a prospect of attracting crores of hapless workers to contribute for their old age security cutting their stomach at present. It has a propensity to garner lakhs of crore of rupees from a market in which 46 crore unorganized sector workers will be the customers. Obligation for paying pension will come after twenty or thirty years. The PFRDA Bill has already provided for the exit route for the fund managers and aggregators by section 20(2)(g) as quoted in the foregoing paragraph and also giving wide arbitrary power to PFRDA to decide and also denying the trade unions to have their say on the investment and delivery of the benefit to the workers as is the practice in case of Employees Provident Fund.

So far as the experiences of pension fund investment in the stock market in various countries in the world is concerned, on all occasions, workers money in pension fund was used to raise the temperature in the stock market to make the brokers and speculators gain and workers always lost in that exercise.

Therefore, it is no more a case of pension for a few crore workers in government sector whose rights and money is being looted. It a much bigger market of 46 crore unorganized sector workers who are being allured to pay for their old age security even by remaining half-fed having immense potential of garnering several thousands of crore for fuelling the stock market. Whether the poor contributors will really get old-age security is as uncertain as the stock market. But that question will arise after twenty years. Till that time the dacoity and plunder can go on and that is precisely the game plan of the speculator-captive government at the centre.

Pension will no more remain a secure social security, it will become a funding source for unscrupulous investors, both domestic and foreign, which will be used through speculative share market. The Government in order to please the foreign pension fund operators, in USA, has kept the avenue fully open for FDI investment. With this bill, if passed, the hard earned money of crores of unorganized sector will be utilized for speculation. Can the working class and the country as a whole tolerate such open and shameless fraud in the name of social security of millions ?
