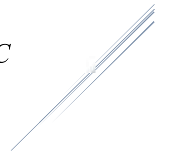
JULY 2024

# REPORT OF THE EXPERT COMMITTEE ON THE DEVELOPMENT OF PENSION PRODUCTS AT GIFT IFSC



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EXPERT COMMITTEE REPORT

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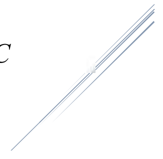

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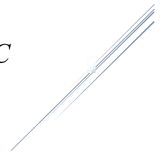

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## *Abbreviations*

| | |
|---|---|
| **ADB** | Asian Development Bank |
| **AED** | United Arab Emirates Dirham |
| **ALM** | Asset and liability management |
| **APY** | Atal Pension Yojna |
| **AUM** | Assets Under Management |
| **BOD** | Board of Directors |
| **CECA** | Comprehensive Economic Agreement |
| **CEO** | Chief Executive Officer |
| **CFA** | Chartered Financial Analyst |
| **CGT** | Capital Gains Tax |
| **CII** | Confederation of Indian Industry |
| **CPF** | Central Provident Fund |
| **CRA** | Central Recordkeeping Agency |
| **CSR** | Corporate Social Responsibility |
| **DB** | Defined Benefit |
| **DC** | Defined Contribution |
| **DEWS** | Dubai Employee Workplace Savings Plan |
| **DFI** | Development Finance Institutions |
| **DFSA** | Dubai Financial Services Authority |
| **DGM** | Deputy General Manager |
| **DIFC** | Dubai International Financial Centre |
| **ELSS** | Equity Linked Saving Scheme |
| **EOSB** | End-of-service Benefits |
| **EPFO** | Employees' Provident Fund Organisation |
| **ESG** | Environmental, Social, and Governance |
| **EU** | European Union |
| **FAQs** | Frequently Asked Questions |
| **FC** | Finance Company |
| **FI** | Financial Institution |
| **FME** | Fund Management Entities |
| **FSB** | Financial Stability Board |
| **FY** | Financial Year |
| **FY** | Financial Year |
| **GCC** | Gulf Cooperation Council |
| **GIFT** | Gujarat International Finance Tec-City |
| **GIFT City** | Gujarat International Finance Tec-City |
| **GST** | Goods and Services Tax |
| **ICAI** | Institute of Chartered Accountants of India |
| **IFSC** | International Financial Services Centre |
| **IFSC** | Indian Financial System Code |
| **IFSCA** | International Financial Services Centres Authority |
| **INR** | Indian Rupee |
| **IRAS** | Indian Railway Accounts Service |
| **KMP** | Key Managerial Person |

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| | |
|---|---|
| **LIC** | Life Insurance Corporation of India |
| **LRS** | Liberalised Remittance Scheme |
| **LRS** | Liberalised Remittance Scheme |
| **MAS** | Monetary Authority of Singapore |
| **MAT** | Minimum Alternate Tax |
| **MCA** | Ministry of Corporate Affairs |
| **MDB** | Multilateral Development Bank |
| **MEA** | Ministry of External Affairs |
| **MOSPI** | Ministry of Statistics and Programme Implementation |
| **MoU** | Memorandum of Understanding |
| **NAV** | Net Asset Value |
| **NBER** | The National Bureau of Economic Research |
| **NIFTY** | National Stock Exchange Fifty |
| **NPS** | National Pension Scheme |
| **NRI** | Non – Resident Indians |
| **NRIs** | Non-Resident Indian |
| **OCI** | Overseas Citizenship of India |
| **OECD** | The Organisation for Economic Co-operation and Development |
| **PFRDA** | Pension Fund Regulatory and Development Authority |
| **PIOs** | Person of Indian Origin |
| **PR** | Permanent Resident |
| **PSL** | Priority Sector Lending |
| **RBI** | Reserve Bank of India |
| **Ref** | Refer |
| **S&P500** | Standard & Poors500 |
| **SBI** | State Bank of India |
| **SDG** | Sustainable Development Goal |
| **SEBI** | Securities and Exchange Board of India |
| **SEZ** | Special Economic Zone |
| **SF** | Sustainable Finance |
| **SGD** | Singapore Dollar |
| **SME** | Small and Medium-sized Enterprise |
| **Src** | Source |
| **SRS** | Supplementary Retirement System |
| **SWP** | Systematic Withdrawal Plan |
| **TCS** | Tax collected at source |
| **TFR** | Total Fertility Rate |
| **TFR** | Total Fertility Rate |
| **TOR** | Terms of Reference |
| **UAE** | The United Arab Emirates |
| **UK** | United Kingdom |
| **UN** | United Nations |
| **USA** | United States of America |
| **USD** | United States dollar |
| **WEF** | World Economic Forum |

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## *Letter to Chairperson, IFSCA*

It is with pleasure that I present the Expert Committee on Pensions report, constituted by the International Financial Services Centers Authority (IFSCA). This report is the culmination of extensive research, thorough deliberations, and the collaborative effort of the committee members, who bring diverse expertise and insights from various segments of the financial services industry.

The mandate of the Expert Committee on Pensions was to evaluate the existing pension landscape, identify challenges, and propose actionable recommendations for structuring pension products targeting NRIs and foreign nationals; recommending necessary regulatory frameworks, implementing mechanisms, and strategies for distribution and marketing.

During our work, we conducted a comprehensive review of various voluntary pension products available in other jurisdictions (including India) and have arrived at a unique proposition by engaging with multiple stakeholders including pension fund managers, insurance companies, tax experts, and beneficiary groups. Key areas of focus included regulatory architecture, innovative yet simple product offering, conducive tax arrangements, and fostering greater awareness to prepare for retirement income security among potential subscribers to the proposed product.

The committee's recommendations are aimed at developing a robust, inclusive, and forward-looking pension ecosystem within the IFSC. Additionally, we suggest that IFSCA can play a proactive role in encouraging and incentivizing current asset management companies and their investment managers to be pioneers in this space. By nudging them to take the lead, they can gain a first-mover advantage, allowing them to test the market and establish themselves as innovators in addressing the gap in the pension sector which has high untapped potential. This initial phase can provide invaluable insights and pave the way for broader adoption of these niche pension products.

While certain features may not completely be within the scope of IFSCA, it will be heartwarming to see greater progress on the totalization agreements by India, which will be crucial in creating a regime for truly global workers. These agreements will ensure that expatriates and international workers are not disadvantaged in their pension entitlements, thus fostering a more integrated and attractive global workforce environment. It is

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encouraging that India is including mobility agreements in its new economic and strategic agreements.

The recommendations outlined in this report are designed to create a pension framework that not only meets the current demands of the NRIs and foreign expatriates but is also resilient and adaptable to future challenges. By focusing on niche products and different approaches for various groups, IFSCA will also gain valuable global regulatory experience, which will be instrumental as India integrates more deeply into the global financial system, and at some stage in no too distant future considers diversifying its pension investments by selectively including foreign assets, just as global pension funds invest in India. We believe implementing these recommendations will greatly enhance the attractiveness and efficacy of the overall Indian pension system, as well as within the IFSC.

The Committee very much appreciates very competent and professional support provided by the IFSCA staff, in particular Mr. Praveen Trivedi, Mr. Mihir Upadhayay and Ms. Kanika Singh.

On behalf of the committee, I would like to express our gratitude for the opportunity to contribute to this initiative.

PROF. MUKUL ASHER
COMMITTEE CHAIRPERSON

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### *Constitution of the Committee*

The mandate of the IFSCA is to create a world-class pension ecosystem with complete ease of doing business. Further, it needs to provide an efficient and facilitative regulatory system comparable with the best jurisdictions in the world to develop GIFT IFSC in India as a preferred destination for international financial services.

Considering the above IFSCA has set up a Committee of Experts on 'Development of Pension products in GIFT IFSC with the following terms of reference:

I. To identify the scope of providing a pension product targeting the NRIs working in other countries or any other foreign national working in the IFSC jurisdiction/India. For example, targeting the Gulf expats of India which add up to 1,78,44,616 (including NRIs, PIOs and Overseas Indians) as per the latest data by MEA.

II. To explore the regulatory framework that might be needed for the formulation of the investment and operation of a pension product in GIFT IFSC.

III. To suggest a mechanism of tie-up with other countries for the portability of the pension product.

IV. To suggest a roadmap in terms of distribution and marketing of the proposed products.

V. Any other relevant matter referred to by the IFSCA.

The committee consists of the following members:

| Sr. No. | Details of Committee Member | Capacity |
|---|---|---|
| 1 | **Prof. Mukul G. Asher**<br>Former Professor in the Lee Kuan Yew School of Public Policy at the National University of Singapore | Chairperson |
| 2 | **Shri AG Das**<br>Executive Director PFRDA and Board Member IFSCA | Member |
| 3 | **Shri Praveen Trivedi**<br>Executive Director, IFSCA | Member |
| 4 | **Shri Dinesh Pant** | Member |

| | | |
|---|---|---|
| | Appointed Actuary & Executive Director- Actuarial, LIC of India | |
| 5 | **Shri Dhirendra Kumar**<br>CEO, Value Research | Member |
| 6 | **Smt. Preeti Chandrashekhar**<br>India Business Leader- Health and Wealth, Mercer India; Vice President, Institute of Actuaries of India | Member |
| 7 | **Shri Anil Ghelani**<br>Head Passive Investments & Products. Previously: CEO & CIO - DSP BlackRock Pension Fund Managers | Member |
| 8 | **Shri Sunil Badala**<br>Partner and National Head, BFSI, Tax, KPMG in India | Member |
| 9 | **Shri Mihir Ashwin Upadhyay**<br>GM, Dept. of Capital Markets, IFSCA | Member Secretary |

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## Acknowledgements

The Committee would like to sincerely thank IFSCA, for constituting the Expert Committee on Pension and providing this opportunity for the members to discuss, deliberate and recommend actions to IFSCA for developing a world-class pension ecosystem in GIFT IFSC. The suggestions for various groups with whom the Committee has interacted have enriched the breadth of the committee's findings making it consultative, transparent, and inclusive.

The committee conveys its deep gratitude to all the stakeholders and special invitee members from the financial sector including LIC, HDFC Life, MAX Life, Axis PFM Ltd., Kotak, etc. for providing valuable insights on the emerging trends and latest developments. The Committee acknowledges the competent research and support of Ms. Kanika Singh, Assistant Manager, IFSCA, who supported the development of this report.

Sincere appreciation is extended to the Indian Embassies in the USA and UAE for their invaluable support in facilitating consultations with the NRI community. Their efforts have been instrumental in ensuring effective engagement and enhancing collaboration.

The committee would like to thank Mr. Jasmeet Singh, Assistant Manager, IFSCA and Mr. Paras Jain, Assistant Manager, IFSCA for their support in organising committee meetings.

The Committee would like to express great appreciation and sincerely thank the entire IFSCA Pensions Department for their valuable inputs, robust coordination, and extensive support towards the finalisation of the recommendations.

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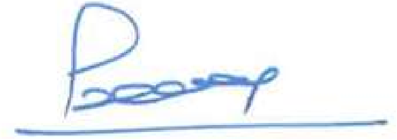
# MEMBERS

**PROF. MUKUL ASHER**
**Chairperson**

**SHRI AG DAS**
**Member**



**SHRI PRAVEEN TRIVEDI**
**Member**

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**SHRI DINESH PANT**
**Member**

**SHRI DHIRENDRA KUMAR**
**Member**

**SMT. PREETI CHANDRASHEKHAR**
**Member**

**SHRI ANIL GHELANI**
**Member**

**SHRI SUNIL BADALA**
**Member**

**SHRI MIHIR UPADHAYAY**
**Member Secretary**

## *Task Undertaken*

The Expert Committee on Pensions at the International Financial Services Centres Authority (IFSCA) integrated a transparent and inclusive approach, encompassing various facets of the pension landscape. Key elements of its working process included:

**Committee Meetings**: The committee initiated its deliberations with internal discussions to outline objectives and delineate the scope of its study in line with the Terms of Reference. The meetings were convened to establish frameworks, allocate responsibilities, and devise strategies for comprehensive research and analysis. Committee members brought sectional and diverse expertise including actuarial science, finance, investment, economics, tax, marketing and legal domains, enriching deliberations with multifaceted insights.

**Industry Consultation and Conversations:** Engaging with stakeholders including financial institutions like HDFC Life and other major Pension Fund Managers in India for product proposals offered valuable industry insights and ensured that the regulatory recommendations of the Committee are pragmatic, effective and can be implemented with ease.

**Committee Initial Meetings**: Overview of the System Around the World: Thorough examination of global pension systems provided valuable perspectives, considering diverse models, regulatory frameworks, and best practices.

**Discussions and In-person Meet**: In-person meetings facilitated detailed discussions, enabling members to exchange ideas, share expertise, and address complexities effectively. Experiencing the infrastructure firsthand at Gift City generated promise & potential and helped committee members envision and solidify its role within GIFT IFSC.

**Public Consultation with Special Emphasis on NRI Engagement**: The committee placed special emphasis on public consultation, ensuring a broad spectrum of inputs. Particularly, engagement with Non-Resident Indians (NRIs) in the USA and the Middle East was prioritized to incorporate their unique perspectives and address their specific concerns regarding pension regulations.

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**Drafting of Recommendation**: After extensive analysis and deliberation, the committee consolidated recommendations, drawing from collective expertise and aligning them with regulatory objectives. Continuous industry consultation with major Pension Fund Managers and Insurance companies ensured that regulatory suggestions remained responsive and conducive to innovation, fostering a vibrant pension ecosystem.

The working process of the Expert Committee on Pensions at IFSCA embodied inclusivity and collaboration, leveraging diverse expertise and industry insights to formulate recommendations aimed at fostering resilient and inclusive pension frameworks in financial services centers with a special focus on the Non-Resident Indians.

### *Industry Consultation with major Pension Fund Managers in India*

A series of Industry Consultations have taken place over the course of the committee's functions. Some of the major suggestions by the industry are as follows:

a) The product ought to stand out by possessing distinctive qualities, offering compelling reasons for selection that go beyond what NPS currently provides.
b) Currently, the NPS framework does not allow investment in commodities. Pension Fund Managers (PFMs) would need to develop a new framework to facilitate such investments.
c) Enable all entities, including insurance companies, not just pension fund managers, to introduce this product within the GIFT IFSC.
d) Enhanced focus should be placed on distribution and proximity to customers to ensure the viability of this business opportunity. It is recommended to prioritize understanding the customer first, followed by addressing distribution concerns and then focusing on fund management.
e) Allow for the possibility of creating funds that are solely focused on a particular geography, such as pure India equity funds, global funds, and others.

### *Public Consultation with NRIs in the USA and the Middle East*

The NRI community-based in the USA and UAE have shown considerable interest in the consultations and discussions towards a NON-INR denominated (initially involving USD) Pension Product at GIFT IFSC. Some of the areas of interest for the NRI community and their suggestions are as follows:

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- NRIs expressed a strong interest in ensuring that their investments are fully repatriable to their respective jurisdictions.
- They suggested the provision of tax concessions in their home jurisdictions.
- They proposed integrating the pension plan with medical policies or health insurance.
- They enquired about the possibility of incorporating the current dollar-denominated pension product within the scope of NPS itself.
- They recommended offering the option of portability across various jurisdictions.

*Figure 1 Consulation with the Indian Diaspora in United States*

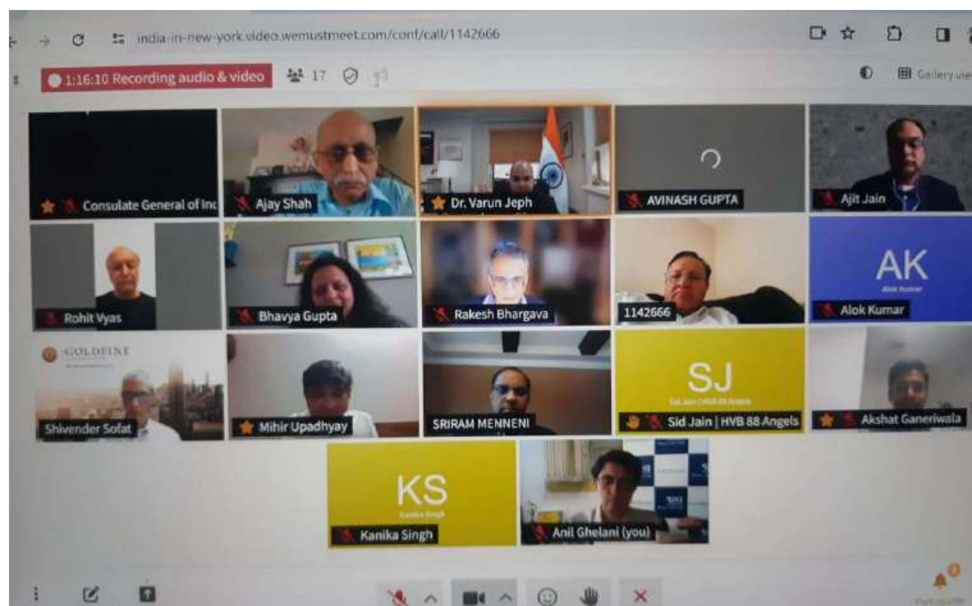
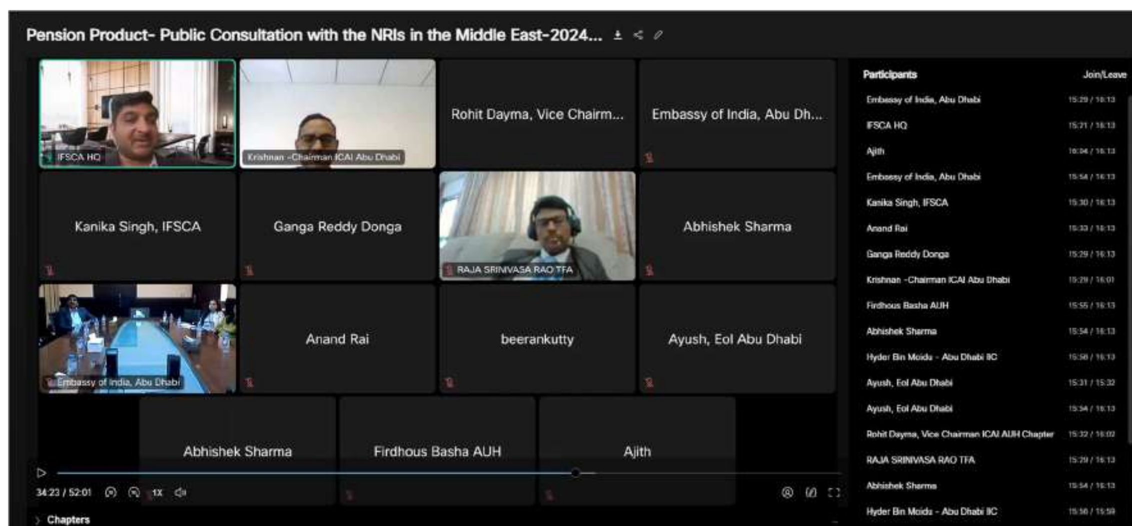



*Figure 2 Consultation with the Indian Diaspora in the Middle East*



# Executive Summary

Retirement planning is a critical aspect of financial security, yet it poses a unique challenge for global citizens, especially Non-Resident Indians (NRIs) and global citizens. The global workforce landscape has dramatically shifted, with more individuals than ever before relocating across borders for employment opportunities. This mobility, while advantageous for career growth, introduces complexities in managing retirement savings due to the diverse pension fund legislations and tax regimes encountered in different jurisdictions. Understanding these differences is crucial for NRIs and expatriates to ensure a stable and secure retirement.

The primary challenge in saving for retirement as an NRI or expatriate is the lack of pension fund portability. Every country has its own set of rules and regulations governing pension funds, which can significantly differ from one jurisdiction to another. These differences can lead to complications when attempting to transfer pension savings from one country to another, often resulting in reduced savings and potential financial insecurity during retirement. The disparities in tax laws further complicate this issue, as individuals may find themselves subject to double taxation or unable to avail of tax benefits due to their non-resident status.

In response to these challenges, the Gujarat International Finance Tec-City (GIFT) International Financial Services Centre (IFSC), under the aegis of the International Financial Services Centres Authority (IFSCA) offers a beacon of hope. Established as a global financial and IT services hub through an Act of the Indian Parliament namely the International Financial Services Centres Authority Act, 2019 (IFSCA Act), IFSCA aims to bridge the gap in the market for financial services that cater specifically to the needs of the global Indian community, including innovative retirement solutions that address the issues of portability and tax efficiency.

IFSCA is proposing to create an enabling regulatory ecosystem where the GIFT IFSC-based financial service providers will be able to offer cross-border voluntary pension schemes as a solution to the challenges faced by NRIs and expatriates. To make these schemes attractive, these pension products need to be designed to be flexible, allowing for the accumulation of retirement savings in a tax-efficient manner that is not hindered by cross-border employment. The ability to contribute to a single pension scheme from anywhere in the world

simplifies the retirement savings process, ensuring that individuals can maintain a consistent approach to their retirement planning regardless of their country of employment.

It is envisaged that during the accumulation phase, the retirement plans offered by the pension service provider will provide a wide range of investment options. From equity and debt instruments to more sophisticated investment vehicles, these plans allow individuals to tailor their investment strategy according to their risk tolerance and financial goals. This flexibility ensures that NRIs and expatriates can maximize their retirement savings, taking advantage of growth opportunities in various markets.

Approaching retirement, the focus shifts towards the decumulation phase, where the accumulated savings are converted into a steady stream of income. Therefore, the pension products to be offered should offer various options to manage this phase, including phased withdrawal plans, annuities, or a combination of both. These options provide retirees with the flexibility to choose how they wish to receive their retirement income, ensuring it aligns with their personal needs and financial circumstances.

The retirement plans to be offered by the pension product providers from GIFT IFSC shall stand out for their tax efficiency, allowing individuals to maximize their savings by minimizing tax liabilities. The portability of these plans shall ensure that NRIs and global citizens can move freely across borders without worrying about the implications for their retirement savings. Moreover, the flexibility in investment and withdrawal options shall cater to the diverse needs of the NRIs and global citizens, providing a tailored approach to retirement planning.

Navigating the complexities of retirement planning is a daunting task for NRIs and global citizens. However, with the innovative solutions provided by GIFT IFSC, there is a pathway for achieving financial security in retirement. By addressing the challenges of pension fund portability and tax efficiency, GIFT IFSC's retirement plans should offer a comprehensive solution that can adapt to the unique needs of the global Indian community. As the world becomes increasingly interconnected, the importance of such flexible, portable retirement planning solutions will only grow, positioning GIFT IFSC as a pivotal player in the future of retirement savings for global citizens including NRIs.

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# 1 Introduction

## 1.1 GIFT IFSC and Pension

GIFT-IFSC, situated as an offshore jurisdiction within India, has the mandate to carve out a distinctive position to emerge as a global offshore centre for a wide range of financial services including products relating to long-term savings with a special emphasis on the pension sector. Establishing a conducive regulatory framework for such services would not only invigorate the financial services ecosystem within GIFT-IFSC but also empower India to capitalize on its inherent strengths in exporting these services to a global clientele.

Since the introduction of the National Pension Scheme (NPS), and more recently the Atal Pension Yojana (APY) on May 9, 2015, the pension sector has expanded considerably in India. As per the latest data available, the total number of subscribers to the NPS has increased over threefold from 15 million in March 2017 to over 52 million by March 2022. The pension assets under management have increased over four-fold from Rs. 1.75 trillion to Rs. 7.37 trillion during these 5 years.[1]

*Table 1 Subscribers to India's NPS: March 2017 to March 2022*

| Sector | March 2017 | March 2022 | Growth (%) |
|---|---|---|---|
| I. NPS | | | |
| - Central Government | 17.9 | 22.8 | 27.4 |
| - State Government | 33.3 | 55.8 | 67.6 |
| - Corporate | 5.9 | 14.0 | 137.3 |
| - All Citizen Model | 4.4 | 22.9 | 420.5 |
| II. APY (including NPS Lite) | 92.9 | 404.6 | 335.5 |
| III. Total (I + II) | 154.4 | 520.2 | 236.9 |

India's diaspora is estimated to be around 32 million[2]. According to the World Bank, India's inward remittances from abroad were USD 125 billion, (3.4 percent of GDP). Even if a small proportion of the inward remittances are invested in the proposed product, it would be one

[1] PFRDA working paper- Perspectives on the Pension- sector in India, as accessed on 02 July 2024- https://www.pfrda.org.in/myauth/admin/showimg.cshtml?ID=2159#:~:text=Since%20the%20introduction%20of%20NPS,5.2%20crore%20by%20March%202022

[2] https://www.epw.in/journal/2024/6/commentary/indian-diaspora.html as accessed on 02 July 2024

of the reasonable pools for the product. GIFT IFSC, being an offshore jurisdiction within India, is ideally suited for offering dollar-denominated pension products for NRIs, OCIs and foreign nationals who are exploring reliable and remunerative retirement products. Such products could help fill a gap as in many countries social security-type taxes and contributions they pay to the governments where they work do not accrue to them, and even when they do, portability is an issue, and so is the timing. The pension product proposed could enable the participants to at least partly benefit from India's growth, in addition to diversification of the retirement options in convertible currencies such as the U. S. dollar.

Our research and consultations with various stakeholders however strongly suggest that such voluntary long-term savings for pension products, even when tax incentivised, have a long gestation period, and requires commitment at the highest level of the sponsoring organization, (in this case GIFT-IFSCA), for a prolonged period. It is our assessment that the potential benefits outlined above are worth such a commitment.

Thus, with a special focus on Non-Resident Indians (NRIs), the proposed product at GIFT-IFSC holds good potential to develop and offer a globally competitive pension product. Such a move could address the evolving needs of NRIs, harness India's demographic dividend, and propel the growth of the pension sector, further solidifying GIFT-IFSC's stature as a key player in the international financial landscape.

## 1.2 Structure of the report

The report delves into the imperative need for pension products tailored to the requirements of Non-Resident Indians (NRIs including Overseas Citizens of India) and global citizens looking for flexible and reliable retirement solutions.

The report elucidates the rationale behind such initiatives and outlines a comprehensive framework for their development and implementation. It underscores the significance of demographic factors, India's growing integration with the global economy, the Liberalised Remittance Scheme (LRS), and the country's geo-economic and geo-strategic objectives in shaping the landscape for NRI-centric pension solutions.

The report proposes a detailed non-INR-denominated pension product design encompassing broad and specific features, delineating the various phases of a long-term savings pension

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plan. Additionally, several key considerations have been addressed to ensure its effectiveness reliability, and suitability for the participants.

The report examines the regulatory constraints and opportunities. The regulatory ambit also underscores the importance of promoting education, enhancing transparency through comprehensive risk disclosure, and facilitating portability in financial services thus aiming at fostering trust, empowerment, and accountability for the proposed pension product.

The report also highlights the importance of tax arrangements in fostering the attractiveness and efficacy of NRI/global citizen pension products. Furthermore, the report offers an implementation roadmap, delineating measures for stakeholders to realize the benefits of the envisioned pension framework. Finally, it presents policy suggestions and recommendations aimed at enhancing the reliability, inclusivity, competitiveness, and long-term financial security of NRIs, underscoring the transformative potential of tailored pension solutions in an increasingly interconnected world.

## 1.3 Rationale

There are several reasons why individuals as well as the Indian society will need to devote greater resources to provide income security to the elderly NRIs and global citizens.

As the global landscape evolves, so do the needs and aspirations of individuals, including Non-Resident Indians (NRIs). The demand for pension products tailored to the unique circumstances of NRIs arises from several factors, each highlighting the necessity and potential benefits of such offerings:

### Changing demographics and increased mobility

NRIs represent a significant demographic segment whose financial needs differ from those residing within India's borders. With globalization facilitating increased mobility, more Indians are living and working abroad, necessitating financial solutions that accommodate their international lifestyles. Demographic trends indicate a growing population of NRIs, many of whom seek to secure long-term savings and retirement options regardless of their country of residence.

### Long-term financial planning

NRIs often face complexities in financial planning due to factors such as varying tax regimes, currency fluctuations, and differing retirement ages across countries. Pension products designed specifically for NRIs can provide stability and predictability in retirement income, addressing uncertainties associated with cross-border financial management. Offering tailored pension solutions demonstrates a commitment to supporting the long-term financial well-being of NRIs, fostering trust and loyalty among this important demographic.

### International competitiveness and talent retention

India's growing status as a hub for global talent attracts skilled professionals from around the world, including foreign nationals working within its borders. Providing pension products that cater to the needs of non-Indian citizens working in India enhances the country's competitiveness in the global labour market. Such offerings can serve as incentives for foreign professionals to choose India as a long-term career destination, contributing to economic growth and innovation.

### Adapting to Global Retirement Trends

Many NRIs originate from countries with well-established pension systems and a strong culture of retirement planning. By offering pension products aligned with international standards and preferences, financial institutions can tap into the familiarity and trust that NRIs have with such arrangements. Adapting to global retirement trends not only meets the needs of NRIs but also positions India's financial sector as forward-thinking and adaptable to evolving market dynamics.

### Mitigating Risks and Enhancing Financial Security

NRIs often face unique risks related to currency exchange, geopolitical instability, and regulatory changes that can impact their financial security. Pension products tailored to the needs of NRIs can incorporate features such as currency hedging, portability, and flexible contribution options to mitigate these risks. By providing avenues for long-term wealth accumulation and retirement planning, such products empower NRIs to navigate financial uncertainties with confidence.

Demand for pension products catering to Non-Resident Indians is driven by a combination of demographic shifts, global mobility, and the need for tailored financial solutions in an increasingly interconnected world. By recognizing and addressing the specific requirements

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of NRIs, financial institutions can foster inclusivity, promote international competitiveness, and contribute to the long-term financial well-being of individuals across borders.

## 1.4 Demographic factors

Ideally, demographic trends of the universe of potential participants should be analysed. This universe comprises NRIs, members of LRS (Liberalised Remittance Scheme) and foreign professionals working in India.

For the first two groups, their demographic profiles would be very similar to that of the demographic profile of India as a whole. For the third group, many of whom will be from demographically mature economies, the need to have an additional long-term savings pension option would also be strong.

It is for the above reasons that the demographic trends of India are discussed below.

India is expected to age moderately rapidly over the next three to four decades. This is due to higher life expectancy as well as due to lower TFR (Total Fertility Rate). TFR refers to the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with age-specific fertility rates currently observed.

India's life expectancy at birth was 70.15 years in 2020. But for pension policy, it is the life expectancy at age 60 that is more relevant as it signifies the number of years after 60 that retirement income provision is needed. Life expectancy at age 60 refers to the average number of years that a person of 60 years could expect to live if he or she were to pass through life exposed to the sex- and age-specific death rates prevailing at the time of his or her age of 60 years, for a specific year.

The average life expectancy for women is higher than for men in India (Figure 3). This will increase as the status of women in the society improves further. Women however have generally lower participation rate in economic activities than men but require more resources in retirement. In India, the focus of social policies however should be on the family rather than the individual.

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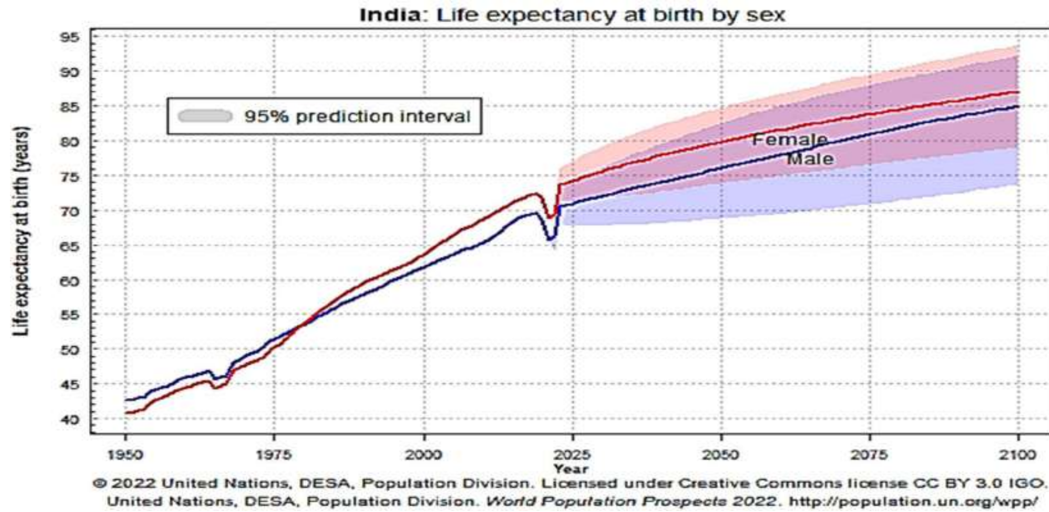
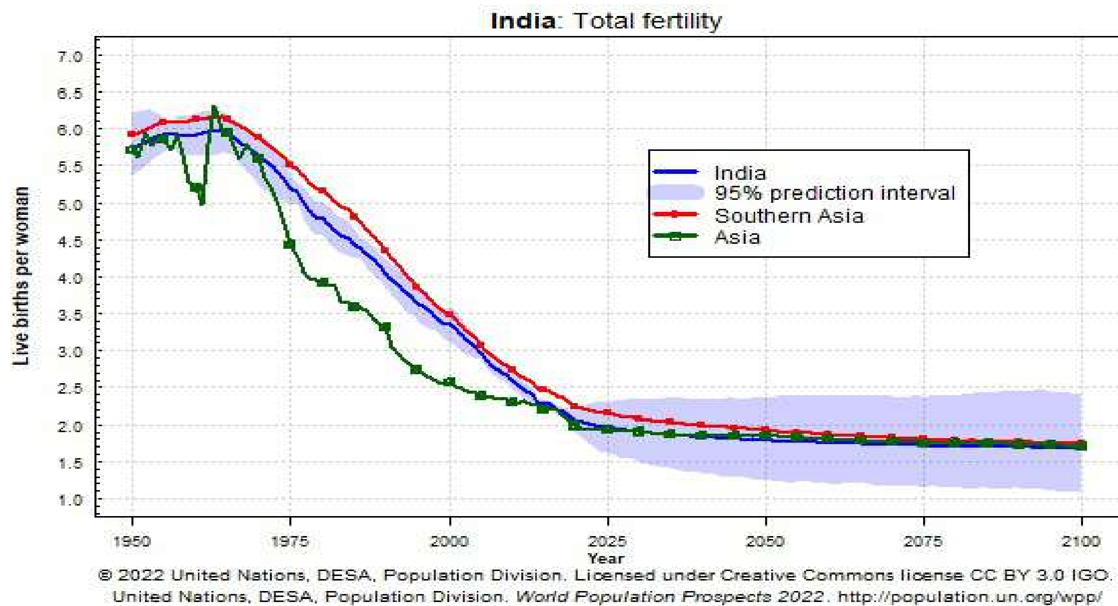
*Figure 3 Life Expectancy at birth by sex*




Pension policy should also monitor the remaining life expectancy at age 80 as persons above that age are likely to require more health care services and, in some cases, institutional care. In 2020, the average life expectancy in India at age 60 was 6.8 years, while the corresponding figure at age 15 was 57.5 years.

*Figure 4 India's Total Fertility*



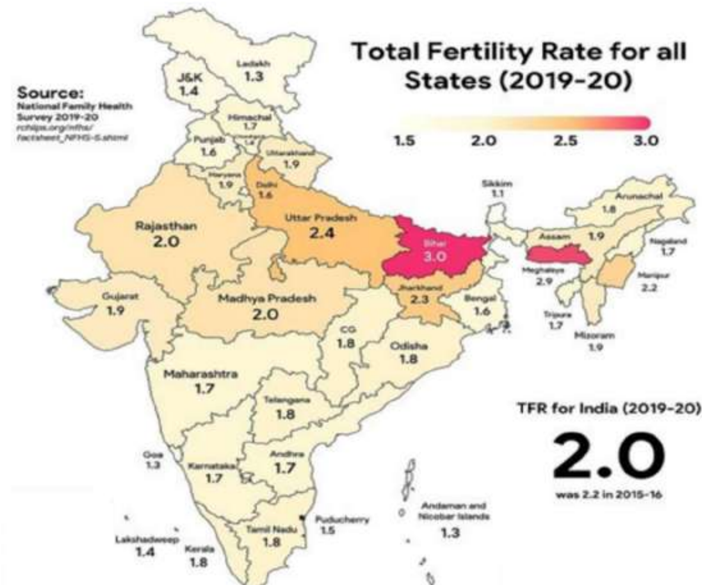

In 2020, life expectancy at age 60 for India was 18.02 years. Between 1975 and 2020, life expectancy at age 60 of India grew substantially from 14.16 to 18.02 years rising at an annual rate that reached a maximum of 4.70% in 1995 and then decreased to 2.22% in 2020. [3] This

[3] Data Illustration: 'India - Life expectancy at age 60 years for both sexes', Accessed on 16 October 2023, https://knoema.com/atlas/India/topics/Demographics/Age/Life-expectancy-at-age-60-years

trend is expected to continue in the next several decades before stabilizing. Both the policymakers and individuals need to provide for the increasing life expectancy in the future.

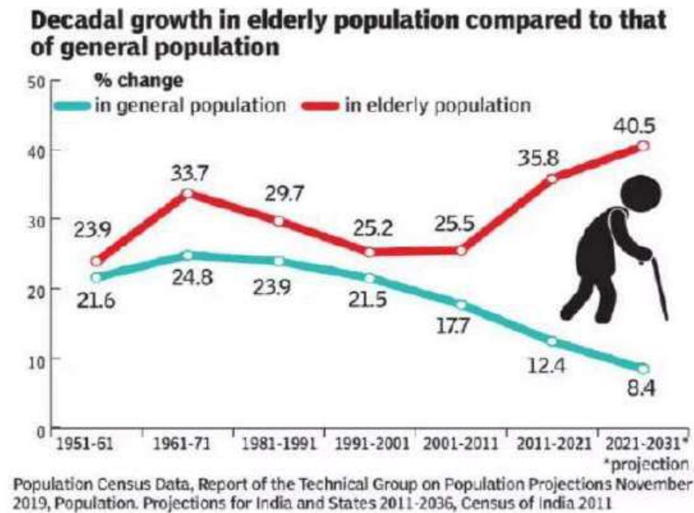
India's fertility rates have also been declining and have reached the rate at which over time the population becomes stable. However, as Figure 5 suggests the fertility rate varies across different states, implying potential for cross-country mobility from high to low fertility states.

*Figure 5 Total Fertility Rate across different states in India*




Source: National Family Health Survey 2019-20[4]

*Figure 6 Decadal Growth in the elderly population of India*



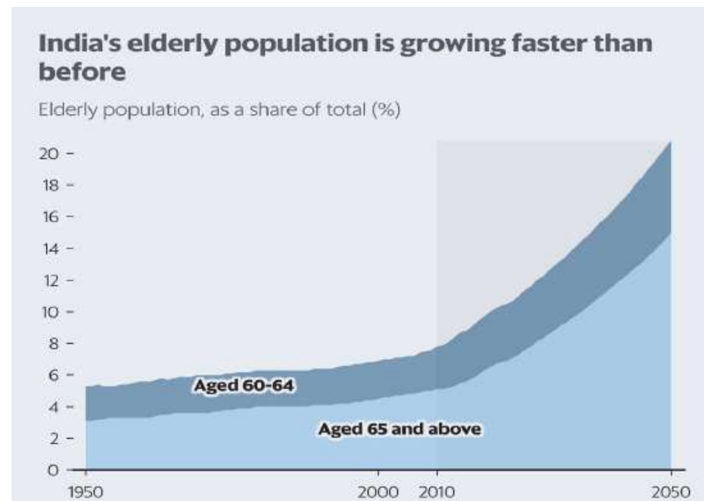

Source: Population Census Data, MOSPI

[4] iashris.com, India.In.Pixels, 26 November 2021- https://commons.wikimedia.org/wiki/File:Indian_States_by_TFR.jpg

Figure 6 suggests that the decadal growth in the elderly population since the 1950s has been much higher as compared to that of the general population.

The combination of rising life expectancy and declining TFR has led to the much higher growth of the elderly population compared to that of the general population, as suggested by the figure (decadal growth). This is also reflected in the growing share of those aged 60-64 years and those aged 65 years and above in the total population. Figure5 below suggests that these two categories accounted for only around 7% of the total population in 2010 and by 2050 this share is projected to be around 20%. It is the rapid pace of ageing of the population and not just its level that is the challenge for retirement income security as it shortens the time in which appropriate policy decisions need to be made.

*Figure 7 Growth Rate of India's elderly population*




Source: Mint Oct 18 Copy; UN World Population Prospects [5]

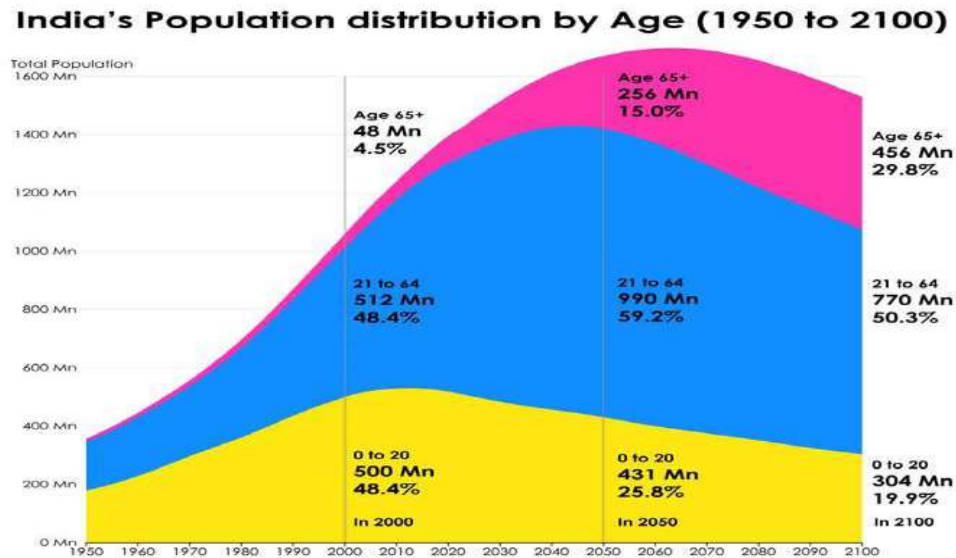
It would be useful at this juncture to visualise the relative as well as the absolute population by different age groups.

The Figure 8 suggests that the population of those between 0 and 20 years will decline not just relatively but also absolutely between 2000 and 2050. In contrast, those in the working age of 21 to 64 years will increase from 512 million (48.4%) to 990 million (59.2%) between 2000 and 2050. This is the age group that needs to participate in long-term savings in a disciplined manner as other sources of old age support are likely to be insufficient.

[5] Mint Oct 18 Copy; UN World Population Prospects, 2022, Accessed on Oct 19, 2023

The elderly which in Figure 8 are defined as those above 65 years of age (well above India's institutional retirement age) will increase moderately rapidly. In absolute numbers they will increase from 40 million in 2000 to 256 million in 2050- the corresponding figures as proportion of total population will be from 4.5% to 15%. These are very large numbers and to manage their income security long lead time is needed.

*Figure 8 India's Population distribution by Age (1950 to 2100)*

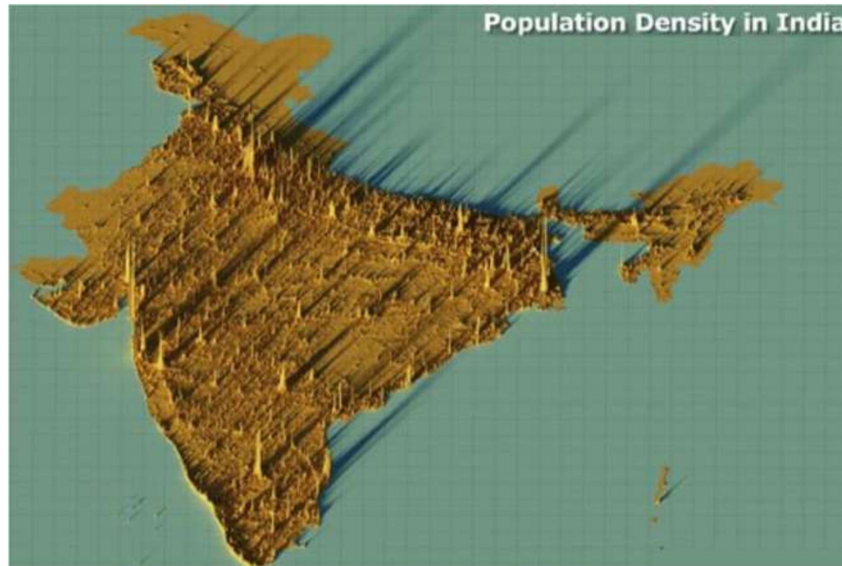



Source: UN World Population Aspects, 2022[6]

India's population density is however very unevenly spread as indicated in Figure 9 below. Regions such as the Gangetic plains, coastal areas, and metropolitan cities exhibit higher population density compared to other areas. India's focus on further developing coastal areas has implications for the need for USD-denominated pension products. This is because the coastal areas usually exhibit much higher cross-border movements of professionals in both directions who given their career and geographical location path, USD-denominated pension product would be specially suited for.

[6] @Stats_of_India with data from UN World Population Prospects 2022; 20 Dec, 2022; https://x.com/Stats_of_India/status/1605122190059655169

*Figure 9 India's Population Density*




Source: worldpop.org [7]

## 1.5 India's increasing integration with the world economy

In India's vision of emerging as a developed nation by the end of Amrit Kaal in 2047, integration with the global economy combined with Atmanirbharta has a critical role. As India encourages its businesses and professional and technical personnel to explore global economic opportunities and as it invites more and more foreign businesses and professional and technical workers to locate in India, their need for US dollar-denominated long-term savings pension products will correspondingly increase.

It is difficult to estimate the potential market for the US dollar-denominated long-term savings pension product suggested in this report. However, an indirect indication of the total potential may be estimated from the fact that India's total diaspora in the year 2022 was 32 million, of which the US contributed 4.9 million (15.3%), and UAE 3.4 million (10.6%), both of which are also among the two largest contributors to India's inward remittance flow. In 2021, the US contributed 23.4% of the remittances and the UAE 18%, followed by the UK (6.8%) and Singapore (5.7%). The total remittances to India stood at $ 89.13 billion in 2021 and it is reported that the total remittances was approximately $100 billion by 2022.

[7] @PratapVardhan with data from worldpop.org ; 'Population density map of India', 14 July 2022 ; https://x.com/Stats_of_India/status/1605122190059655169

Remittances to the country by non-resident Indians rose 26% year on year to about $112.5 billion in FY23[8]

There is also a structural shift from largely low-skilled, informal employment in the Gulf Cooperation Council (GCC) countries to a dominant share of high-skilled jobs in high-income countries such as the United States, the United Kingdom, and East Asia (Singapore, Japan, Australia, New Zealand). This has positive implications for the demand for the US dollar-denominated long-term savings pension product. While India's life expectancy is increasing, its institutional retirement age remains low at 58 years. However, the effective retirement age is at 67. Effective retirement age refers to the average age of exit from the labour force for workers aged 40 years and above.[9]

Another indicator for potential demand for USD denominated long-term savings pension product is the more than 1.3 million Indian students studying abroad in 2022 many of whom are in countries such as the United States (0.47 million), Canada (0.18 million), UAE (0.16 million), Australia (0.1 million) from which India receives significant remittances.

It may also be noted that many Indians are working abroad and do not have the opportunity to effectively benefit from the retirement savings scheme of either India or their country of work. A good example is the United States, where a 40-quarter contribution to their social security system is needed to qualify for the benefits. But many Indians, while contributing to the social security system of the United States are not able to meet 40 quarters contribution criteria. Now, they will have an avenue for long-term savings pension by participating in the proposed product. This is also likely to be the case with some of the self-employed.

## 1.6 Liberalised Remittance Scheme (LRS)

Under the Liberalised Remittance Scheme introduced in 2004, all resident individuals, including minors, are allowed to freely remit up to USD 2,50,000 per financial year (April – March) for any permissible current or capital account transaction or a combination of both.

According to RBI data the cumulative equity/debt investments under LRS between FY 2016-17 to FY 2023-24 were USD 4.7 billion.

[8] FE Bureau, 14 Aug, 2023, Accessed on Oct 17, 2023- https://www.financialexpress.com/policy/economy-remittances-to-india-grew-26-to-112-5-billion-in-fy23-3209644/2023
[9] Rida Khan, Oct 02, 2023, Accessed on Oct 17, 2023- https://www.visualcapitalist.com/retirement-age-by-country/

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The demand for LRS is likely to increase over time due to at least two, not mutually exclusive, trends. First, the strength of the middle-class Indians (defined as earning between INR ₹1.09 lakhs to ₹ 6.46 lakhs per year, over ₹5 lakh to ₹30 lakh annually in household terms) is expected to rise from 432 million persons in 2020-21 to 715 million in 2030-31 and to 1.02 billion in 2047. [10]

Secondly, by 2025, India is estimated to have 1,900 GCCs with a market to be worth USD 60 billion.[11] GCCs are places where a variety of an organisation's operations are managed- are expected to build competencies, cultivate global leadership and monetize services. Employees at the GCCs will be an identifiable potential market for the proposed USD-denominated long-term savings pension product.

To the extent LRS regulations permit, the proposed USD denominated long-term savings pension product could provide an avenue of diversification to LRS participants. At present there is a gap in this area as no such product is currently available to this group of individuals and businesses.

The committee therefore strongly recommends that the long-term savings pension product proposed in this report be permitted as an investment option to those participating in the LRS.

## 1.7 India's geo-economic and geo-strategic objectives

The proposed non-INR denominated long term savings pension product will increase the foreign assets owned by the Indian participants. This could make a modest contribution to India's geo-economic and geo-strategic objectives.

A huge pool of Pension corpus also provides significant investment power which is at the disposal of the Pension Fund Managers. The corpus can be invested in domestic infrastructure projects or even influence global financial markets through their strategic allocation. This can enhance country's economic competitiveness and geopolitical influence.

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[10] Shiva Rajora for Business Standard, July 05 2023, Accessed on Oct 18, 2023- https://www.business-standard.com/economy/news/indian-middle-class-will-nearly-double-to-61-by-2046-47-price-report-123070500864_1.html
[11] Article published on May 31, 2023; Accessed on Oct 18, 2023- https://timesofindia.indiatimes.com/city/bengaluru/india-to-have-19k-gccs-with-60bn-in-market-size-by-2025/articleshow/110576787.cms

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Pension Funds typically have long-term investment horizons that can support nation's long-term growth and competitiveness. This can help foster sustainable development and resilience in the economy. It has also been witnessed that large pension funds have been leveraged by nations to support international development initiatives, humanitarian aid and peace building efforts, enhancing their reputation and influence on the global stage.

# 2 Product design

The product is envisaged to be relatively simple and technology-enabled in all its aspects. The product is also designed to be flexible. The proposed long-term savings pension product facilitates a high degree of choice for individuals to plan this bucket of retirement income provision as will be evident from the discussion of the product design. The committee also recognises that in this product the design of the 'default option' is critical.

The Committee recommends that the USD-denominated long-term savings product to be regulated by IFSCA and be a voluntary defined contribution (DC) plan. The voluntary defined contribution (DC) plan implies that the participant accumulates long-term savings during economically active years, and then uses these savings for retirement income security. The role of IFSCA is to prudentially regulate the entities that provide such a long-term savings product denominated in USD.

In a DC plan, as the name suggests, contributions to be paid are defined but the final benefits depend on many factors such as the behaviour of the global markets and others. In contrast, a defined benefit plan makes the benefits to be paid explicit, but it leaves undefined how much contributions will be needed to meet the benefit obligations, and whether the sponsor(s) of the DB plan will be in a position to meet the obligations. The DB plans are particularly vulnerable to adverse demographic trends.

In any DC plan conceptually, there are two phases that need to be appropriately designed and implemented with a high degree of fiduciary responsibility. The first phase is when a participant accumulates the savings and the second phase is when it uses this savings for retirement income needs, which is called the decumulation phase. In a DC plan the appropriate rules for the period of accumulation, and the method of using accumulated savings for retirement need to be appropriately designed.

The Committee recognises that globally a voluntary long-term savings plan has a relatively long gestation period, and therefore the product providers as well as IFSCA will need to exhibit patience to nurture this product. The committee also wishes to stress that the proposed product is designed to be only one of the avenues or sources for retirement income. Therefore, even those who are members of other such plans will find it advantageous to participate in this product.

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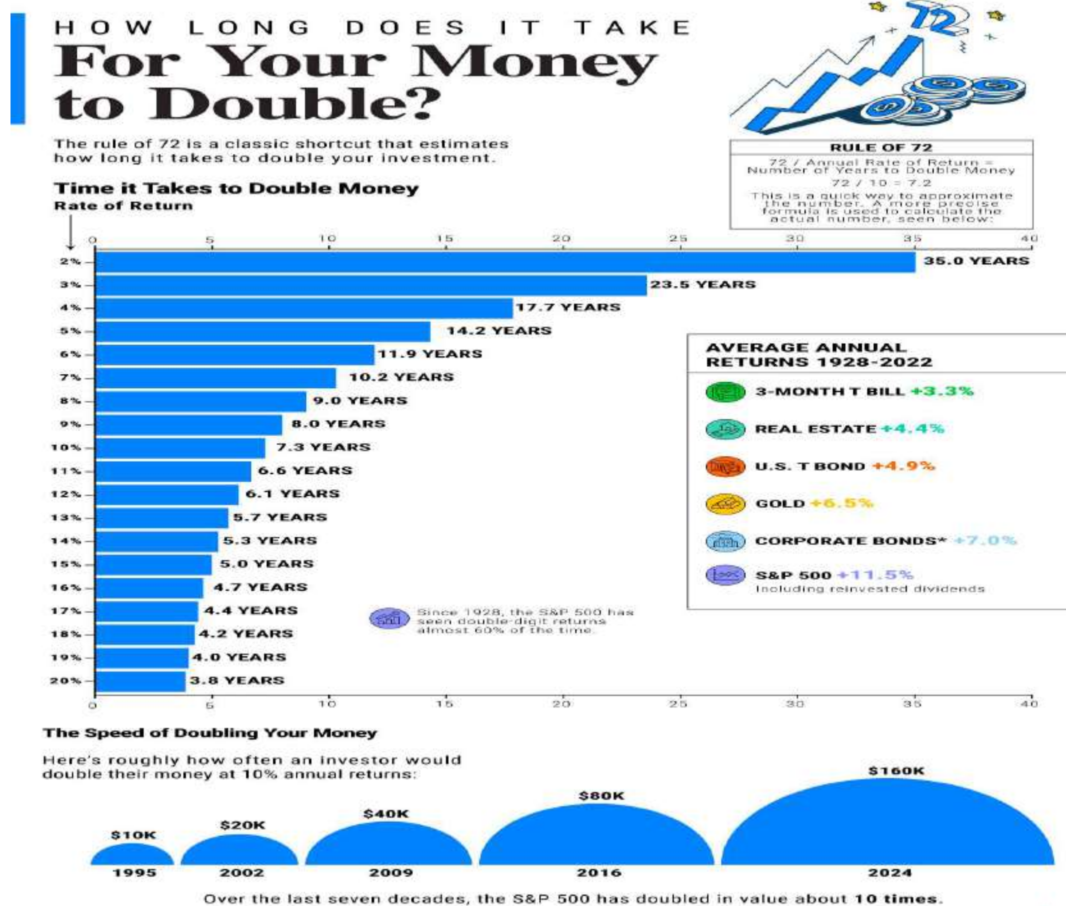
Figure 10 below provides the long-term returns in the US markets, in USD-denominated assets, and explains the 72 rule 12 concerning in how many years would the original principal amount double given the rate of return. It should be stressed that risk, return and volatility are usually correlated. Higher risk appetite and volatility management are much-needed skills for achieving higher returns. The figure shows that over the last seven decades, the S&P500 (Standard & Poors500) has doubled in value about 10 times but the past returns are not necessary indication of future returns. The design of the proposed USD-denominated long-term savings pension product has recognised the global market uncertainties and has framed the rules and regulations accordingly to prudentially balance risk and return.

*Figure 10 Average returns on USD assets*




Source: Illustration by Dorothy Neufeld[13]

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[12] The rule number 72 is divided by the interest percentage per period (usually years) to obtain the approximate number of periods required for doubling.

[13] Dorothy Neufeld, "Visualised: How Long Does it Take to Double Your Money", published on Sept 14, 2023.

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The Committee also recognises that in any DC plan annual management fees as a percentage of account balance have a major bearing on the extent to which the value of accounts declines. Estimates by Diamond (2016) indicate in Figure 11 that for a 40-year work career annual management fees as a percentage of the account balance of 1% reduces the accumulated balances by 19.6%.

*Figure 11 Impact of Annual Management Fees on the value of accounts*

**Decline in Value of Accounts Due to Fees After a 40-Year Work Career [a]**

| Type and Level of Fees | Percentage Decline in Account Value Due to Fees |
|---|---|
| Front-load fees (% of new contributions) of: | |
| 1 percent | 1 % |
| 10 percent | 10 % |
| 20 percent | 20 % |
| Annual management fees (% of account balance) of: | |
| 0.1 percent | 2.2 % |
| 0.5 percent | 10.5 % |
| 1.0 percent | 19.6 % |

Source: Presentation at National University of Singapore[14]

This recognition is reflected in the proposed design of the product.

## 2.1 Detailed design

### Designing a Defined Contribution (DC) pension product at a broader level

In designing a DC pension product, several key considerations must be addressed to ensure its effectiveness and suitability for participants. This type of pension plan places the responsibility of retirement savings and investment decisions on the individual, offering flexibility and autonomy in building a retirement nest egg. Here, we delve into the essential components and design principles of a DC pension product tailored for modern workforce dynamics and their retirement planning needs.

[14] Diamond, P (2016), "Good Pension Design," Presentation at the National University of Singapore, 12 Jan 2016

### Demographic analysis

A comprehensive understanding of the target demography is imperative in designing a defined contribution pension product that resonates with potential participants. This analysis should encompass various segments, including Non-Resident Indians (NRIs), foreign professionals working in India and global citizens. Demographic trends such as age distribution, income levels, and retirement aspirations provide valuable insights into the specific needs and preferences of the target audience, guiding product design and feature development.

### Lifecycle investment strategies

Recognizing the diverse investment goals and risk tolerances among participants, a defined contribution pension product should offer lifecycle investment strategies tailored to different life stages. These strategies dynamically adjust asset allocation over time, gradually shifting from higher-risk, growth-oriented investments in the early years to more conservative, income-focused assets as retirement approaches. By aligning investment strategies with participants' evolving risk profiles and time horizons, the pension product aims to optimize long-term returns while mitigating downside risk.

### Flexible contribution options

To accommodate varying income levels and financial circumstances, the pension product should provide flexible contribution options that empower participants to save according to their means and preferences. This flexibility may include the ability to adjust contribution amounts periodically and make voluntary contributions beyond mandatory minimums. By offering flexibility in contribution mechanisms, the pension product promotes inclusivity and accessibility, ensuring participation across diverse demographic segments.

### Investment diversification

A well-designed DC pension product emphasizes investment diversification to mitigate risk and enhance long-term returns. The investment menu should offer a broad array of asset classes, including equities, fixed income securities, real estate, and alternative investments, allowing participants to construct portfolios aligned with their risk tolerance and investment objectives. Additionally, the inclusion of target-date funds or model portfolios simplifies

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investment decision-making for participants, especially those with limited investment knowledge or experience.

### Transparent fee structure

Transparency in fee structures is paramount to maintain trust and confidence among participants in any financial product. Clear disclosure of fees, including management fees, administrative charges, and investment-related expenses, enables participants to make informed decisions and assess the overall cost-effectiveness of the pension plan. Moreover, offering low-cost investment options and actively monitoring and benchmarking fees against industry standards contribute to fostering a cost-efficient retirement savings environment.

### Educational Resources and Tools

Empowering participants with financial education resources and retirement planning tools is essential for driving engagement and promoting informed decision-making within a defined contribution pension product. Educational materials on topics such as retirement planning basics, investment principles, and asset allocation strategies shall equip participants with the knowledge and skills needed to navigate the complexities of retirement savings. Interactive tools, such as retirement calculators, risk tolerance assessments, and investment simulators, facilitate personalized financial planning shall encourage proactive participation in the pension plan.

### Comprehensive Governance and Oversight

Robust governance and oversight mechanisms are fundamental to ensuring the integrity and sustainability of any financial product. This entails establishing clear fiduciary responsibilities, implementing prudent investment policies, and conducting regular performance reviews and audits to monitor plan compliance and effectiveness. Additionally, appointing independent trustees or fiduciaries to oversee plan operations and investment decisions enhances accountability and safeguards participants' interests.

In summary, the design of a defined contribution pension product requires careful consideration of demographic trends, investment strategies, contribution options, fee structures, educational resources, and governance frameworks. By incorporating these elements into the product design, pension product providers can create a retirement savings

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vehicle that empowers participants to achieve their long-term financial goals and enjoy a secure and dignified retirement.

## 2.2 The design of the product for GIFT IFSC

This section covers investment, administration, trusteeship and governance structures and distribution and marketing.

The Committee emphasises that the pension is a push product and all the stakeholders have to play an active role in the development of this sector. Considering the social security aspects of the product the regulator, i.e. IFSCA, may also need to push this product as part of its developmental activity. The USD-denominated long-term savings pension product providers will need to be wooed by the regulator. Given the nature of the product, they will not become part of the product process automatically. So, individual potential product providers will have to be wooed strategically. The two critical phases of the pension product are explained below.

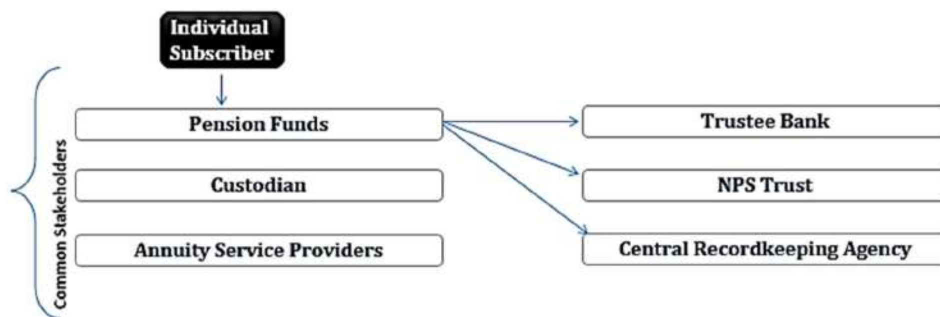
### Accumulation Phase

1. **Type of pension:** The product design section of the report elaborates on the framework for the GIFT Pension Product, aimed at addressing the unique needs of Non-Resident Indians (NRIs). At its core, the GIFT IFSC Pension Product is conceived as a Pillar 3 Personal Pension, offering individuals a voluntary avenue for long-term savings and retirement planning. The pillar 1 and Pillar 2 cater to the government and employer-linked pension respectively, which is not seen as feasible by the committee to be implemented at this stage in GIFT IFSC. This product distinguishes itself by its voluntary nature, empowering subscribers to proactively engage in securing their financial future.
2. **Nature of Pension - DB/DC:** The proposed pension plan will adopt a Defined Contribution (DC) structure, wherein subscribers contribute funds toward their retirement savings with no promise of defined benefits upon retirement. This design emphasizes individual responsibility and investment flexibility, aligning with the preferences and financial dynamics of subscribers seeking long-term financial security.
3. **Proposed Currency:** Initially, the pension product will be denominated in United States Dollars (USD), providing subscribers with stability and familiarity in their retirement savings. However, the report acknowledges the potential for expansion to

include other currencies in subsequent stages, reflecting the diverse needs and preferences of NRIs across different geographical regions and currency zones.

4. **Regulatory Framework:** The regulatory framework governing the proposed pension product encompasses provisions for fund management, custodial services, and other essential functions to ensure the integrity and effectiveness of the pension scheme. Specifically, the report advocates for the authorization of Fund Management Entities (FMEs) under the IFSCA (International Financial Services Centres Authority) Fund Management Regulations, 2022, or IFSC Insurance Office (IIO) under IFSCA (Registration of Insurance Business) Regulations 2021 supplemented by additional guidelines and regulatory structures as deemed necessary. This approach streamlines the regulatory process and promotes efficiency by permitting qualified FMEs and IIOs to launch pension products without the need for multiple entities. Moreover, the report emphasizes the importance of consolidating responsibilities within each FME and IIOs, drawing parallels to the current operational structure of Asset Management Companies or Insurance Companies. Under this model, each FME/IIOs assumes responsibility for functions such as custodianship, Central Recordkeeping Agency (CRA) services, Fund Management and banking operations, thereby ensuring accountability and coherence in the management of pension assets.

*Figure 12 Proposed Pension Product Architecture*




Source: IFSCA

5. **Fund Manager (PPP):** The eligibility criteria for participation in the proposed pension product are delineated to ensure inclusivity and accessibility for a diverse range of individuals. Specifically, the scheme welcomes participation from Non-Resident Indians (NRIs) or Persons of Indian Origin (PIOs) employed outside India, recognizing their contributions to the global workforce and their need for secure retirement

planning options. Additionally, NRIs or PIOs currently employed within the GIFT IFSC are eligible to enroll in the pension scheme, acknowledging the unique demographic composition of this financial hub. Furthermore, foreign nationals working within GIFT IFSC may also join the pension program, reflecting the commitment to fostering an inclusive and diverse participant base. By extending membership eligibility to these distinct groups, the pension product aims to cater to the varied needs and circumstances of individuals seeking long-term financial security and retirement planning opportunities.

6. **Who can join:** The eligibility criteria for participation in the proposed pension product are supplemented by specific exclusion criteria to delineate individuals and entities ineligible for enrollment. Primarily, residents of India are precluded from joining the pension scheme, aligning with the intended focus on catering to the financial needs of Non-Resident Indians (NRIs) and individuals with international employment or residency status. Additionally, the scheme prohibits participation from corporate entities such as companies, trusts, funds, or other bodies corporate or associations, emphasizing the emphasis on catering to individual retirement planning needs rather than institutional entities. These exclusion criteria aim to ensure clarity and coherence in defining the target demography for the pension product while upholding regulatory compliance and safeguarding the integrity of the scheme.
7. **Contribution:** The section on contribution to be made provides clarity on the investment parameters for participants in the proposed pension product tailored for the subscribers. Notably, the scheme adopts a flexible approach, with no restrictions imposed on the amounts that individuals can invest. This openness allows participants to tailor their investment contributions according to their financial capabilities and retirement goals, fostering inclusivity and accessibility within the pension scheme. Additionally, the report stipulates a minimum instalment amount of US$ 10, ensuring affordability and accessibility for a wide range of participants. Moreover, the absence of an upper cap on investment amounts affords participants the freedom to allocate substantial resources toward their retirement savings, facilitating wealth accumulation and long-term financial security.
8. **Know Your Customer (KYC) and Anti-Money Laundering (AML):** The section on Know Your Customer (KYC) and Anti-Money Laundering (AML) compliance outlines the

regulatory requirements and procedures for participant onboarding within the proposed pension product. Drawing parallels to the onboarding process for Pension Product Provider (PPP) the KYC and AML procedures for pension participants aim to establish robust due diligence measures to mitigate financial risks and ensure regulatory compliance. Participants will be required to undergo thorough identity verification and screening processes, consistent with international standards and best practices. These procedures encompass the collection of relevant documentation, verification of identity and address, and assessment of risk factors to safeguard the integrity and security of the pension scheme. By aligning with established KYC and AML protocols, the pension product upholds transparency, integrity, and accountability in its operations, thereby fostering trust and confidence among participants and regulatory stakeholders.

9. **Contributions during wealth accumulation phase:** The segment on contributions during the wealth accumulation phase elucidates the permissible types of contributions within the proposed pension product tailored for Non-Resident Indians (NRIs). Participants are afforded flexibility in their contribution mechanisms, with all types of contributions deemed permissible to facilitate wealth accumulation. This inclusivity extends to self-contributions, enabling participants to add funds at any periodicity according to their financial capabilities and retirement goals. This structured approach ensures consistency and reliability in pension savings, complementing individual self-contributions to bolster retirement preparedness. By accommodating diverse contribution sources and frequencies, the pension product promotes engagement and participation among participants while fostering long-term financial security and wealth accumulation.
10. **Investment universe:** The investment universe section delineates the composition of the portfolio within the proposed pension product tailored for Non-Resident Indians (NRIs), encompassing a diversified range of asset classes to optimize long-term growth and mitigate risk. The portfolio comprises three primary asset classes: Equity, Debt, and Commodities, each strategically allocated to achieve suitable diversification and balance. Historical data underscores the variability in asset class performance over time, necessitating a diversified approach to mitigate volatility and optimize returns.

The investment portfolio will maintain a combination of these asset classes to capitalize on their respective strengths and minimize correlation risks.

a. Equity Investments (50-75%): The equity component of the portfolio encompasses a range of investment avenues, including equity securities listed on IFSC and recognized Indian stock exchanges, initial public offerings (IPOs), and equity-related securities such as futures and options for hedging and rebalancing purposes. Additionally, exposure to equity-oriented mutual funds and exchange-traded funds (ETFs) regulated by SEBI will be capped at 5% of the portfolio.

b. Debt Investments (20-50%): The debt allocation consists of debt securities meeting stringent credit rating criteria listed on recognized stock exchanges in FATF jurisdictions (including India). The investment universe for debt securities adheres to prudent guidelines established by the IFSCA.

c. Commodity Investments (5-20%): The commodity segment encompasses exposure to gold and silver through exchange-traded funds (ETFs) listed on IFSC and other recognized stock exchanges in FATF jurisdictions (including India), as well as exchange-traded commodity derivative contracts. This diversified approach to commodity investments enhances portfolio resilience and capitalizes on potential inflation-hedging benefits.

This comprehensive investment strategy aims to optimize risk-adjusted returns and ensure long-term wealth accumulation for participants within the pension product.

11. **Returns profile:** The returns profile of the proposed pension product for Non-Resident Indians (NRIs) is intricately linked to the investment universe, offering market-linked returns reflective of the performance of underlying asset classes. The investment strategy aligns with the principle of market efficiency, whereby returns are driven by the performance of equity, debt, and commodity markets. As such, participants can expect returns that vary in accordance with prevailing market conditions and the performance of selected investment instruments. Unlike traditional savings products offering assured returns, the pension product does not guarantee fixed returns, emphasizing the market-linked nature of returns. This approach underscores the importance of prudent asset allocation and diversification to optimize returns while managing risk effectively. By embracing market-linked returns, the pension product

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aligns with global investment best practices and aims to deliver competitive long-term performance for participants seeking to build wealth and secure their financial future.

12. **Withdrawals:** The withdrawal provisions within the proposed pension product for Non-Resident Indians (NRIs) are designed to offer flexibility and cater to the diverse needs and preferences of participants during the retirement phase. Participants have the option to withdraw their accumulated wealth in its entirety, providing them with full control over their retirement savings. Additionally, the scheme allows participants to choose from multiple withdrawal options tailored to their individual financial objectives. Participants may opt to continue their investments and initiate a Systematic Withdrawal Plan (SWP), enabling periodic withdrawals while maintaining their investment exposure. Alternatively, participants have the option to convert their accumulated wealth into an annuity, providing a stream of guaranteed income during retirement. These withdrawal options empower participants to customize their retirement income strategy based on their unique circumstances and financial goals, enhancing their overall retirement experience and ensuring financial security in the later stages of life.

    The withdrawal provisions within the pension product offer flexibility, allowing participants to withdraw 100% of their accumulated wealth or opt for alternative strategies such as initiating a Systematic Withdrawal Plan (SWP) or converting their wealth into an annuity to ensure financial security during retirement.

    The committee suggests that the minimum threshold amount for stating a pension may be ascertained based on the accumulated corpus and availability of reasonable pension be it SWP or annuity out of that accumulated corpus. An amount below such threshold should be allowed to be withdrawn in lumpsum.

## Decumulation Phase – SWP and Annuity

The decumulation phase encompasses various strategies that incorporate guarantees against investment, inflation, longevity, and other biometric risks. These strategies necessitate that individuals meticulously plan the periodic withdrawal amounts from their pension reserves, especially in scenarios where the benefits derived from public or private pension schemes are insufficient to cover regular living expenses. This planning involves considerations about one's remaining lifespan and the strategic allocation of residual funds for the duration of

retirement. Conventional disbursement methodologies encompass fixed-term (nominal or inflation-adjusted) life annuity contracts, structured withdrawal plans, and lump-sum distributions, alongside a plethora of hybrid models that facilitate risk-sharing, such as longevity-linked life annuities. The overarching goal of these diverse decumulation approaches is to effectively mitigate longevity and investment risks while striving to optimize based on specific objectives, which may include maximizing consumption, preserving the purchasing power of assets, reducing the probability of financial depletion, smoothing income fluctuations, achieving an equilibrium between secured income sources and accessible assets, and considering bequest aspirations.

The above section mentions the withdrawal point in brief; however, this section covers in detail the SWP and the Annuity aspects as these options will be appropriate in the initial stage.

## Systematic Withdrawal Plan (SWP)

**The Importance of Systematic Withdrawal Plans (SWP) in Pension Planning**

Retirement is a significant phase of life that brings both excitement and apprehension. On one hand, it marks the end of the traditional working years, and on the other, it signifies the beginning of a new chapter where financial stability becomes crucial. One of the fundamental aspects of retirement planning is ensuring a steady income source to cover daily expenses, medical bills, and other essential needs. This is where systematic withdrawal plans (SWP) play a pivotal role.

SWP is a structured approach to managing retirement income, where retirees receive a predetermined amount from their pension corpus at regular intervals, typically monthly or quarterly. The Committee believes that SWP may be essential in pension planning and the reasons for this are mentioned below:

1. Ensuring a Regular Income Stream: One of the primary reasons SWP is crucial in pension planning is its ability to provide a regular income stream during retirement. Retirement is often associated with reduced or no earned income, which can be a source of anxiety for many individuals. SWP addresses this concern by offering a predictable and consistent cash flow.
   Imagine retirement as a journey where your pension savings are like the fuel for a financial vehicle. Without a systematic plan, a person is at a risk of running out of fuel

sooner than expected, leaving the person stranded. SWP ensures that a person have a continuous supply of fuel, allowing her/him to navigate the road of retirement with confidence.

2. Mitigating Longevity Risk: Longevity risk, or the risk of outliving one's savings, is a significant concern in retirement planning. As life expectancies continue to rise, retirees face the challenge of making their savings last for potentially several decades. SWP helps mitigate this risk by offering a strategy that ensures income for as long as the retiree lives.

   Consider a retiree who opts for a lump-sum withdrawal of their pension savings. While this may provide immediate access to a substantial amount, it does not address the critical issue of longevity. What if the retiree lives longer than expected? Without a systematic income plan, they could find themselves in financial distress in their later years.

   SWP acts as a shield against longevity risk by spreading withdrawals over the retiree's expected lifespan. This not only enhances financial security but also provides peace of mind, knowing that there will always be a source of income, regardless of how long retirement lasts.

3. Budgeting and Financial Planning: Effective budgeting and financial planning are essential components of a successful retirement. SWP facilitates these aspects by providing retirees with a structured income stream that aligns with their expenses and financial goals.

   During retirement, individuals need to allocate funds for various purposes, including basic living expenses, healthcare costs, discretionary spending, and emergencies. SWP allows retirees to create a detailed budget that ensures they have sufficient funds for each category. This level of precision and planning enhances financial stability and prevents overspending or falling short on essential expenses.

   Moreover, knowing the exact amount that will be received through SWP at regular intervals empowers retirees to make informed decisions about their financial future. It provides a sense of control over their financial circumstances, reducing stress and uncertainty.

4. Psychological Comfort: The psychological aspect of retirement cannot be underestimated. The transition from a structured working life to a more leisurely

retirement phase can be challenging, especially when it comes to financial matters. SWP contributes significantly to the psychological comfort of retirees.

Imagine a retiree who is unsure about their financial future, relying solely on unpredictable investment returns or sporadic withdrawals. The uncertainty can lead to stress, anxiety, and even negatively impact their overall well-being. SWP alleviates this uncertainty by providing a dependable income source.

The psychological comfort derived from SWP is twofold. First, it offers peace of mind by ensuring that funds are readily available to meet daily needs. Second, it allows retirees to focus on enjoying their retirement years rather than worrying about financial instability.

5. Investment Continuation and Beating Inflation: Retirees often seek ways to preserve and potentially grow their investments during retirement to combat the erosion of purchasing power caused by inflation. SWP facilitates this objective by allowing retirees to keep their pension funds invested in a diversified portfolio while simultaneously receiving regular income.

   Imagine a retiree who opts for a lump-sum withdrawal and places all the funds in a savings account. While this provides immediate access to the entire pension corpus, it exposes the retiree to inflation risk, as the purchasing power of their savings may decrease over time.

   SWP enables retirees to strike a balance between accessing funds for daily expenses and maintaining investments that can potentially grow. By staying invested in a diversified portfolio, retirees can earn returns that can outpace inflation, preserving the real value of their retirement savings.

   Systematic withdrawal plans (SWP) can be indispensable in pension planning due to their ability to provide a regular income stream, mitigate longevity risk, facilitate budgeting and financial planning, offer psychological comfort, and enable investment continuation. These benefits collectively contribute to a financially secure and fulfilling retirement.

   SWP acts as a lifeline, ensuring that retirees have a reliable source of income that lasts as long as they live. It empowers retirees to manage their finances effectively, make informed decisions, and enjoy their retirement years without the constant worry of financial instability.

As retirees embark on their retirement journey, SWP serves as a trusted companion, guiding them towards a prosperous and stress-free retirement. It is a financial tool that aligns with the vision of a retirement that is not only financially secure but also emotionally and psychologically fulfilling.

Ultimately, SWP is an essential element of retirement planning that helps individuals transition from their working years to a retirement filled with comfort, confidence, and contentment.

## Annuity options during decumulation phase

During the decumulation phase of retirement planning, individuals often seek ways to convert their accumulated savings into a steady income stream to support their lifestyle. Annuities are financial products designed for this purpose, offering various options to provide guaranteed income for retirees. Let's explore some common annuity options available during the decumulation phase:

1. **Single Life Annuity**: A single life annuity provides regular payments for the lifetime of the annuitant (the person who buys the annuity). It offers the highest initial payout because payments continue only until the annuitant's death, making it suitable for individuals without dependents or who prioritize maximizing their own income. There are no survivor benefits for this annuity, so if the annuitant dies early, payments cease, potentially leaving no benefits for heirs.
2. **Joint Life Annuity**: A joint life annuity provides payments for the lifetime of two individuals, typically a retiree and their spouse. For this annuity payments continue as long as either annuitant is alive, ensuring income for the surviving spouse after the death of the primary annuitant. Initial payments may be lower compared to single life annuities because they are based on the joint life expectancy of both annuitants.
3. **Term-Certain Annuity**: Term-certain annuities guarantee payments for a specified period, regardless of whether the annuitant is alive. This annuity provides a certainty of income for a predetermined period, offering a safety net if the annuitant passes away prematurely. If the annuitant outlives the term, payments cease unless the annuity is structured with additional features such as a guaranteed minimum payment period.

4. **Inflation-Indexed Annuity**: This annuity option adjusts payments periodically to account for inflation, helping retirees maintain purchasing power over time. It protects against the erosion of purchasing power caused by inflation, ensuring that income keeps pace with rising living costs. Initial payments may be lower compared to fixed annuities, and the indexing feature may result in lower initial payouts, especially during periods of low inflation.
5. **Variable Annuity**: Variable annuities offer the potential for higher returns by investing premiums in underlying investment options such as stocks, bonds, or mutual funds. This annuity provides the opportunity for growth through market investments, offering the potential for increased income over time. However, variable annuities come with investment risk, and fluctuations in the market can affect the value of the annuity and future income payments.

Thus, annuities offer a range of options during the decumulation phase, allowing retirees to tailor their income streams to their individual needs, risk tolerance, and financial goals.

*The Committee is of the view during withdrawal a subscriber should have an option of choosing SWP or Annuity or a combination of SWP and Annuity along with the lumpsum withdrawal (40% maximum) at the time of withdrawal.*

## 2.3 International experiences

### Singapore Supplementary Retirement Scheme (SRS)

The primary retirement income security scheme in Singapore is that of the Central Provident Fund (CPF). It is a Defined Contribution Scheme (DC). The contribution rate varies according to age, but as on January 01, 2023, for those below 55 years of age, employers contribute 17 percent of the wage, and employee contribute 20 percent for a total of 37%.

The CPF is not just a retirement savings scheme, but also has provisions for financing housing, investments and healthcare. The CPF is however mandatory only for Singapore citizens and permanent residents who are working in Singapore.

For foreigners working in Singapore, a supplementary Retirement System (SRS) was introduced in 2001 as a tax incentive scheme to voluntarily save for retirement. The SRS is also open to Singapore citizens and Permanent Residents.

SRS accounts (only one per individual) can be opened with the designated banks. Contributions to SRS are tax-free and only 50% of withdrawals from SRS are taxable at retirements. The annual cap on SRS contributions is SGD 15,300 for Singapore Citizens and Permanent Residents and SGD 35,700 for foreigners.

In a given year about 60% of the account holders contribute to their account. This is not unusual for a voluntary scheme. Overwhelming proportion of members are from the upper middle class. For this group the average contribution in the year is around SGD 14,000. The account holders can invest their money in bonds and unit trusts, among others.

Withholding taxes are imposed on expats withdrawing their SRS sums. If someone not a Singapore citizen or PR takes out money or investments from their SRS account, they will be charged a withholding tax of either 50% or 100% of the amount withdrawn, depending on the type of withdrawal.

The SRS bank operator will withhold an amount tax at the prevailing non-residential tax rate of 22% at the point of withdrawal. This sum will be remitted to IRAS.

Please note that the withholding tax is not the final amount of tax you owe. The tax withheld from your SRS withdrawal will be used as a credit to reduce your tax liability. It also means that if there is any remaining unused tax credit, it will be refunded back to you.

In 2021, the total SRS membership was around 290,000 with a contribution of SGD 14.4 billion.[15] Given that SRS was introduced in 2001, this implies that only 14,500 individuals joined SRS per year on average. This is an illustration of the slow gestation period for such a voluntary retirement savings scheme. While it is commonly known and utilised by Singapore citizens and Permanent residents, details are not available from the official sources. These sources also do not provide detailed data on total SRS savings and their breakdown among various assets.

The committee's assessment is that Singapore's SRS has quite different objectives than the proposed USD denominated long term savings plan. It is noteworthy that the SRS has been able to attract very few foreigners working in Singapore. Moreover, the investments are

[15] Calvin Yang for Strait Times; July 18, 2022; Accessed on Oct 18, 2023- https://www.straitstimes.com/singapore/more-people-voluntarily-contributing-to-retirement-scheme-amid-economic-uncertainties

primarily in the Singapore market and include insurance and fixed deposits. Most of SRS savings are invested in SGD denominated assets.

### Dubai Employee Workplace Savings Plan (DEWS)

In 2020, the DIFC launched the DEWS Plan in line with changes in the DIFC employment law to transform the way end-of-service benefits (EOSB) were managed and to drive a culture of long-term savings that is aligned to global best practices. DEWS stands for the DIFC Employee Workplace Savings Plan. It has also been chosen by the Government of Dubai as the mechanism to deliver its "Savings Scheme for employees in the Government of Dubai" initiative. DEWS offers a voluntary savings option, allowing employees to secure their financial future with ease by making additional voluntary contributions for DIFC employees and aims to also move from a defined benefit structure to a funded, professionally managed defined contribution plan.

In March 2021, the DIFC said 19,182 employees from 1,187 companies had registered with the DEWS plan, which had more than $127

The committee assesses that there are some similarities between DEWS and the proposed USD denominated long term savings pension product, however the differences are also worth noting. First, both are based on the DC principles, but DEWS is mandatorily employer- based as opposed to the voluntary individual participation based nature of the proposed product. Second, DEWS permit a wide variety of funds and asset classes including sharia-compliant assets for investment while our proposed product has relatively simple investment options.

Third, the charges and fees are also relatively higher. The proposed product in this report has simplicity and flexibility as key principles and therefore the product design explicitly takes into account the minimisation of fees and charges for the given quality of service provision.

Fourth, DEWS has opted for centralized service providers. But the product suggested in this report will have investment and administration undertaken by the fund managers approved and supervised by IFSCA.

The key lesson for our report from the DEWS plan is the professionalism with which it has been designed and is being administered.

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### ROTH Individual Retirement Account (IRA) – K401 plan

In the realm of retirement planning within the United States, ROTH IRA (Individual Retirement Account) and 401(k) plans stand out as significant tax-advantaged saving instruments for individuals. This comprehensive overview delves into essential aspects such as eligibility criteria, governance structures, service providers, fees, and employer contributions that are pivotal for both participants and industry insiders.

### ROTH IRA

The ROTH IRA is named after Senator William Roth Jr., was established as part of the Taxpayer Relief Act of 1997. It was designed to provide individuals with a tax-advantaged retirement savings option that differed from traditional IRAs. Unlike traditional IRAs, contributions to a ROTH IRA are made with after-tax dollars, and qualified withdrawals, including earnings, are tax-free.

**Eligibility**: To contribute to a ROTH IRA, individuals need earned income within certain limits. As of 2024, single filers face phase-out starting at $129,000 of modified adjusted gross income (MAGI), with a cap at $144,000. For married couples filing jointly, the phase-out initiates at $204,000 MAGI, ceasing entirely at $214,000.

**Governance**: ROTH IRAs are characterized by their self-directed nature, offering a range of investment choices including stocks, bonds, mutual funds, and ETFs, under the oversight of the Internal Revenue Service (IRS).

**Service Providers**: These accounts are offered by banks, brokerage firms, and mutual fund companies, available for direct opening by participants or through employer-sponsored plans like SIMPLE or SEP IRAs.

**Charges and Fees**: Participants may encounter account maintenance fees, transaction fees, and investment management fees, making it vital to understand the fee structure for impact assessment on investment returns.

**Employer Contributions**: Unlike 401(k) plans, ROTH IRAs do not mandate employer contributions, though some employers offer them within retirement plans as an employee benefit.

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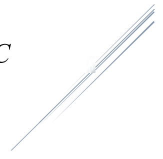

### 401(k) Plans

The 401(k) plan concept emerged in the late 1970s as a provision in the Revenue Act of 1978, which allowed employees to defer compensation into retirement accounts on a tax-deferred basis. Initially, 401(k) plans were used by a few large companies as a supplement to traditional pension plans. The Economic Recovery Tax Act of 1981 made 401(k) plans more attractive by allowing salary deferrals to be made on a pre-tax basis, reducing participants' current taxable income. Throughout the 1980s and 1990s, the popularity of 401(k) plans grew significantly as more employers offered them as primary retirement savings vehicles. Many employers began offering matching contributions to encourage employee participation and boost retirement savings.

**Eligibility**: As employer-sponsored accounts, 401(k) eligibility varies by employer plan rules, with some allowing immediate participation and others setting waiting periods or minimum requirements.

**ERISA Governance**: Governed by the Employee Retirement Income Security Act (ERISA), 401(k) plans have standards for plan administration, fiduciary responsibilities, and participant rights, with employers acting as plan sponsors.

**Service Providers**: Employers partner with financial institutions, recordkeepers, and TPAs for plan management, encompassing tasks like recordkeeping, compliance, and participant communication.

**Plan Fees**: Including administrative, investment management, and individual service fees, these charges can significantly impact account balances and returns, necessitating thorough review by participants.

**Employer Contributions**: Many employers encourage participation through matching contributions, subject to vesting schedules that dictate employee entitlement to these funds.

Both ROTH IRA and 401(k) plans are cornerstone elements of U.S. retirement planning, offering tax benefits and potential for savings growth. For participants and professionals

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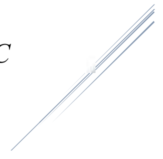

alike, a deep understanding of each plan's eligibility, governance, service provision, fees, and employer contributions is crucial for effective retirement strategy formulation.

# 3 Regulations/ regulatory framework

The Committee feels it is crucial to strike a balance between providing a framework that encourages voluntary participation and safeguarding the interests of the contributors. Here is a set of recommended regulatory formulation guidelines.

## 3.1 Governance and oversight

### Regulatory establishment

1. IFSCA will be tasked with formulating the pension product regulations that define the broad parameters under which a PPP can file the application with the Authority for approval.
2. The Authority to supervise, conduct investigations and take corrective measures including enforcing actions ensuring impartial governance of the pension provider.

### Compliance standards and audits

1. **Clear compliance standards**- Define clear and stringent compliance standards that PPPs must adhere to. This includes requirements related to fund management, disclosure, reporting, and participant communication.
2. **Regular audits-** Mandate regular audits of PPP to assess their compliance with established standards. These audits should be conducted by IFSCA or approved external auditors to ensure accuracy and impartiality.

### Enforcement mechanisms

1. **Graduated enforcement measures-** Institute a graduated system of enforcement measures, ranging from warnings to fines, suspension, or revocation/cancellation of licenses, based on the severity of non-compliance. This ensures proportionate responses to different levels of regulatory violations.
2. **Prompt corrective actions-** IFSCA to take prompt corrective actions in cases of non-compliance. Timely interventions safeguard contributors' interests and maintain the integrity of the pension scheme.

### Participant representation

1. **Participant advisory forum-** Establish a participant advisory forum within the regulatory framework. This forum represents the interests of contributors and

provides valuable input on regulatory decisions, ensuring that the regulatory body considers the perspectives of those it seeks to protect.

2. **Accessible grievance mechanisms-** Implement accessible grievance mechanisms for contributors to report concerns or disputes directly to the regulatory body. This empowers contributors to play an active role in the oversight process.

## 3.2 Eligibility criteria

### Age criteria

1. **Inclusion principle:** Eligibility should span a broad age spectrum, promoting inclusivity. Participants could range from early-career individuals to those approaching retirement, ensuring diverse representation.
2. **Minimum age requirement:** Specify a reasonable minimum age for participants, ensuring they have the legal capacity to enter into financial contracts and make long-term investment decisions.
3. **Maximum age limit:** While inclusivity is encouraged, consider setting an upper age limit to balance the scheme's sustainability and address the potential challenges of late-stage contributions. (Example: Under NPS one can contribute till the age of 70 years)

### Employment status

1. **Open to all employment types:** Ensure the scheme is accessible to individuals across various employment statuses, including full-time, part-time, contractual, and self-employed individuals.
2. **Exclusion criteria:** Clearly outline any specific employment categories that are ineligible, ensuring transparency and preventing misuse of the pension scheme.

## 3.3 Inclusivity measures

### Accessibility initiatives

Implement outreach programs to make information about the pension scheme widely available, reaching individuals of varying socioeconomic backgrounds. This could include educational workshops, online resources, and partnerships with community organizations.

### Simplified enrollment procedures

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Streamline the enrollment process, minimizing paperwork and administrative burdens. Utilize digital platforms to enhance accessibility, allowing individuals with diverse backgrounds and technological literacy levels to participate.

#### Language and communication considerations

Provide information in multiple languages and formats to cater to a diverse population. Clear communication channels, including helplines and email support, should be established to address queries and concerns, ensuring that language barriers do not impede participation.

### Preventing Misuse

1. **Anti-fraud measures/KYC requirements:** Implement stringent identity verification/ KYC processes to prevent fraudulent enrollments. Regularly audit participant information to ensure compliance with eligibility criteria and promptly address any discrepancies.
2. **Monitoring and reporting:** Establish a robust monitoring system to track participant demographics and contributions. Regular reports should be generated to identify any anomalies, enabling timely intervention in cases of potential misuse or non-compliance with eligibility criteria.

By intricately defining and expanding on eligibility criteria, the regulations should aim to strike a balance between inclusivity and prevention of misuse, ensuring that the defined contribution pension scheme remains accessible, fair, and sustainable for all participants.

## 3.4 Contribution limits

### Minimum contribution limits

1. **Ensuring affordability:** Establish a reasonable minimum contribution limit that ensures affordability for a diverse range of participants. This minimum should be set to encourage broad participation without placing undue financial strain on contributors.
2. **Gradual increment options:** Consider incorporating provisions for gradual increments in minimum contributions over time. This allows participants to start with a manageable amount and gradually increase their contributions as their financial capacity improves.

### Maximum contribution limits

1. **Preventing disproportionate influence:** To prevent abuse and maintain the democratic nature of the scheme, define a maximum contribution limit. This limit aims to ensure that no single contributor, regardless of income, exerts disproportionate influence over the fund.
2. **Regular reviews and adjustments:** Institute a mechanism for periodic reviews and adjustments of maximum contribution limits. This ensures that the limits remain relevant to economic conditions and prevent them from becoming obsolete or excessively restrictive.

## 3.5 Accessibility measures

### Flexibility in contribution frequency

1. **Encouraging regular contributions:** Encourage regular contributions by allowing participants the flexibility to choose their contribution frequency—whether monthly, quarterly, or annually. This accommodates varying income patterns and financial preferences.
2. **Safeguards for Infrequent Contributions:** Implement safeguards to ensure that participants who contribute infrequently or miss contributions are not penalized disproportionately. This could involve a grace period or a mechanism for catch-up contributions without severe penalties.

## 3.6 Educational initiative

### Promoting informed decision-making

Develop educational programs to inform participants about the implications of different contribution levels. This empowers contributors to make informed decisions aligned with their financial goals and retirement objectives.

### Online contribution platforms

Provide user-friendly online platforms for contributors to manage and adjust their contributions. This not only enhances accessibility but also facilitates real-time monitoring and adjustments to contribute to their pension accounts.

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## 3.7 Preventing abuse

### Regular audits and compliance checks:

1. **Ensuring adherence:** Institute regular audits to verify participants' compliance with contribution limits. This proactive measure identifies any attempts at abuse and allows for timely corrective action.
2. **Swift enforcement measures:** Define clear consequences for contributors who breach contribution limits. Swift enforcement measures, such as warnings, penalties, or account restrictions, deter potential abuse and reinforce the integrity of the scheme.

### Public reporting

1. **Enhancing transparency:** Promote transparency by requiring PPP to publish aggregated data on contributions. This public reporting ensures accountability and allows stakeholders to assess the scheme's overall health.
2. **Anonymous reporting mechanism:** Establish an anonymous reporting mechanism for contributors or concerned parties to report suspected abuse. This encourages a collective responsibility for maintaining the scheme's fairness and integrity.

## 3.8 Risk disclosure

### Comprehensive risk factors

1. **Incorporate all relevant risks:** Mandate PPP to disclose a comprehensive list of risks associated with each investment option. This includes market risks, credit risks, liquidity risks, and any specific risks related to the asset classes involved. Contributors should have a clear understanding of the potential challenges associated with their investment choices.
2. **Scenario analysis:** Encourage PPP to conduct scenario analyses illustrating how various economic scenarios could impact the performance of the investment options. This forward-looking approach helps contributors envision potential outcomes and make more informed decisions.

### Clear and understandable language

1. **Plain language requirement:** Specify that risk disclosure documents must be written in clear, plain language to enhance accessibility. Avoiding technical jargon ensures that

contributors, regardless of their financial literacy levels, can comprehend the risks associated with their investments.

2. **Visual aids:** Allow and encourage the use of visual aids, such as charts and graphs, to supplement written risk disclosures. Visual representations can enhance understanding and engagement, particularly for contributors who may find textual information challenging.

### Timely and periodic disclosures

1. **Pre-enrollment disclosure:** Mandate PPP to provide comprehensive risk disclosure documents to potential contributors before enrollment. This ensures that individuals have access to crucial information when deciding to participate in the pension scheme.
2. **Periodic updates:** Require regular updates on risk factors associated with chosen investment options. This could be provided quarterly or semi-annually, allowing contributors to stay informed about evolving market conditions and associated risks.

### Comparison of risk levels

1. **Benchmarking risk levels:** Implement a system for benchmarking the risk levels of different investment options against a standardized measure. This allows contributors to compare the risk profiles of various choices and make more informed decisions.
2. **Risk tolerance assessment:** Encourage PPP to offer tools or assessments for contributors to evaluate their risk tolerance. This information can be used in conjunction with the risk profiles of investment options, aiding contributors in selecting options aligned with their risk comfort levels.

### Interactive Workshops and Webinars

1. **Engaging contributors:** Facilitate interactive workshops or webinars on risk disclosure to engage contributors actively. This hands-on approach can enhance understanding and enable contributors to ask questions and seek clarifications.
2. **Case studies:** Incorporate case studies into educational initiatives, illustrating real-world scenarios where specific risks materialized. Case studies provide practical insights and contribute to a deeper understanding of risk dynamics.

### Independent Risk Assessments

1. **Independent validation**: Encourage PPP to seek third-party assessments of the risk disclosures provided. Independent validation ensures an unbiased evaluation, instilling confidence in contributors about the accuracy and completeness of the disclosed information.
2. **Transparency in assessment findings**: Mandate PPP to transparently communicate the findings of third-party risk assessments to contributors, fostering trust and accountability.

By incorporating comprehensive risk disclosure measures, using clear language, providing timely updates, facilitating interactive education initiatives, and encouraging independent risk assessments, the regulations shall empower contributors with the knowledge needed to make well-informed investment decisions within the defined contribution pension scheme.

## 3.9 Portability

### Universal portability

1. **Employment change:** Enshrine the principle of universal portability, allowing contributors to seamlessly transfer their pension funds when changing employment. This will ensure that individuals are not financially penalized or restricted in their pension choices due to shifts in their career paths.
2. **Self-employed individuals:** Extend portability provisions to self-employed individuals, recognizing the changing nature of work. This inclusive approach ensures that all contributors, regardless of employment status, can maintain continuity in their pension savings.

### Minimal transfer charges

1. **Capping transfer charges:** Regulate and cap the fees associated with transferring pension funds. This prevents contributors from incurring exorbitant charges, ensuring that the benefits of portability are not overshadowed by financial burdens.
2. **Transparent fee structures:** Mandate PPPs to maintain transparent fee structures for fund transfers. Clear communication of fees allows contributors to make informed decisions and encourages fair competition among PPPs.

### Prompt transfer processes

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1. **Defined transfer timelines:** Specify a defined timeline within which pension funds must be transferred upon request. This ensures that contributors experience minimal disruptions in their pension savings and can seamlessly transition between employers.
2. **Automation of processes:** Encourage the automation of transfer processes to reduce administrative delays. Automation not only expedites fund transfers but also minimizes the likelihood of errors, providing a smoother experience for contributors.

### Interoperability standards

1. **Interoperable systems:** Establish interoperability standards to facilitate seamless transfers across different PPPs. This standardization ensures that contributors can move their funds effortlessly, irrespective of the specific provider involved.
2. **Data Portability framework:** Develop a data portability framework that allows the secure transfer of contributor information between PPPs. This framework safeguards contributors' data privacy while enabling efficient fund transfers.

### Communication and notification protocols

1. **Clear communication to contributors:** Mandate clear communication to contributors about their portability rights and procedures. Contributors should be well-informed about the steps involved, timelines, and potential implications of transferring their pension funds.

### Post-transfer tracking and support

1. **Tracking mechanisms:** Implement mechanisms to track the performance of transferred funds post-transfer. This allows contributors to monitor the success of their pension investments even after changing employment.
2. **Support for queries:** Establish dedicated channels for post-transfer support, addressing any queries or concerns contributors may have about their transferred funds. This ongoing support ensures a positive experience for contributors throughout the portability process.

By ensuring universal portability, regulating transfer charges, streamlining transfer processes, implementing interoperability standards, establishing communication protocols, and providing post-transfer support, these regulations aim to enhance flexibility and empower

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contributors to seamlessly manage their pension savings in a dynamic employment landscape.

## 3.10 Vesting period

### Definition and purpose

1. **Clear definition:** Define the vesting period explicitly within the regulatory framework, outlining its purpose in aligning contributor interests with the long-term objectives of the pension scheme.
2. **Encouraging long-term commitment:** Communicate that the vesting period serves to encourage contributors to make a long-term commitment to the pension scheme, fostering a sense of continuity and stability.

### Duration and gradual vesting

1. **Sensible duration:** Specify a sensible duration for the vesting period, balancing the need for long-term commitment with contributors' desire for reasonable access to their pension funds. This duration should be determined with consideration for both individual and systemic factors.
2. **Gradual Vesting:** Consider a gradual vesting structure where contributors progressively gain ownership of employer-contributed funds over time. This approach acknowledges the value of sustained participation and rewards contributors for their ongoing commitment.

### Partial vesting triggers

1. **Employment/voluntary contribution milestones:** Allow for partial vesting triggers tied to specific employment milestones. For example, contributors may achieve partial vesting after completing a certain number of years of service, promoting loyalty and commitment.
2. **Performance-linked vesting:** Explore the option of performance-linked vesting, where contributors earn partial ownership based on performance metrics. This incentivizes active participation and aligns individual efforts with the overall success of the pension scheme.

### Vesting period waivers

1. **Special circumstances:** Provide provisions for vesting period waivers in cases of special circumstances, such as disability or sudden unemployment. This ensures that contributors facing unforeseen challenges can access their vested funds when needed.
2. **Flexibility for shorter vesting in certain cases:** Allow flexibility for shorter vesting periods in certain cases, such as for employer-matching contributions. This accommodates the dynamic nature of the workforce and employer practices.

### Communication and transparency

1. **Transparent disclosure:** Mandate PPPs to transparently communicate the vesting period details to contributors during the enrollment process. Clear and comprehensive disclosure ensures that contributors are aware of the conditions governing access to their funds.
2. **Regular updates:** Require regular updates on vesting status, ensuring that contributors are informed about their progress toward full vesting. This transparency builds trust and reinforces the long-term commitment encouraged by the vesting period.

### Educational initiatives

1. **Vesting workshops and materials:** Facilitate educational workshops and provide materials explaining the significance of the vesting period. This empowers contributors to appreciate the long-term benefits of staying vested and making informed decisions about their participation.
2. **Online tools for vesting calculations:** Develop online tools that allow contributors to calculate their vesting status based on different scenarios. This interactive approach enhances understanding and engagement with the vesting process.

By defining the vesting period's purpose, determining a sensible duration, incorporating partial vesting triggers, allowing for waivers, ensuring clear communication, and promoting educational initiatives, the regulations shall aim to align contributor interests with the long-term objectives of the defined contribution pension scheme.

## 3.11 Default investment option

### Balanced portfolio design

1. **Diversified Asset Allocation:** Mandate the default investment option to have a balanced and diversified asset allocation, including equities, fixed-income instruments, and potentially alternative investments. This diversified approach mitigates risk and provides contributors with exposure to different asset classes.
2. **Risk-return considerations:** Define risk-return parameters for the default option, ensuring that it strikes a balance between potential returns and the associated level of risk. This balance is crucial to accommodate contributors with varying risk appetites and time horizons.

### Automatic enrollment

1. **Opt-out mechanism:** Implement an automatic enrollment mechanism for contributors who do not actively select an investment strategy. Contributors should have the option to opt out if they prefer to choose their investment options independently.
2. **Clear communication:** Require PPPs to clearly communicate to contributors about the default investment option, the opt-out mechanism, and the importance of actively choosing their investment strategy to align with their financial goals.

### Lifecycle fund considerations

1. **Incorporate lifecycle fund features:** Consider incorporating features of lifecycle funds into the default investment option. These funds automatically adjust the asset allocation based on the contributor's age and time to retirement, providing a hands-off, yet dynamic, investment strategy.
2. **Transition to customized strategies:** Facilitate an easy transition for contributors from the default option to more customized investment strategies. This ensures that contributors have the flexibility to adjust their approach as their financial circumstances and goals evolve.

### Cost-effectiveness and transparency

1. **Cost caps:** Implement cost-effective measures for the default investment option, including caps on management fees. This ensures that contributors are not unduly burdened by high fees, especially when they may not actively choose their investment strategy.

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2. **Transparent fee disclosure:** Mandate transparent disclosure of fees associated with the default option. Clear communication about fees enhances transparency, allowing contributors to make informed decisions and understand the cost implications of their investments.

### Educational materials

1. **Information on default option:** Develop educational materials explaining the features, risk-return profile, and long-term considerations of the default investment option. This information empowers contributors to understand the default option's role in their pension strategy.
2. **Comparison tools:** Provide online tools that allow contributors to compare the default option with other available investment strategies. Comparison tools help contributors assess whether the default option aligns with their risk tolerance and financial objectives.

### Ongoing communication

1. **Regular updates:** Require PPPs to provide regular updates to contributors invested in the default option. Updates should include performance summaries, changes in asset allocation, and educational content to keep contributors informed and engaged.
2. **Encouragement to reassess:** Encourage contributors to reassess their investment strategy periodically, even if they initially opted for the default option. This ensures ongoing alignment with their evolving financial goals.

By focusing on a balanced portfolio design, automatic enrollment mechanisms, lifecycle fund considerations, cost-effectiveness, transparency, educational initiatives, and ongoing communication, these regulations aim to ensure that the default investment option in the defined contribution pension scheme is a prudent and accessible choice for contributors.

## 3.12Communication & education

### Mandatory information dissemination

1. **Frequent communication requirements:** Mandate PPPs to engage in frequent communication with contributors. This includes regular updates on account performance, changes in the pension scheme, and relevant regulatory updates.

Frequent communication ensures that contributors are consistently informed about their investments.

2. **Defined communication channels:** Specify a range of communication channels through which PPPs must disseminate information. This could include online portals, email, physical mail, and other accessible mediums, ensuring that contributors receive information through channels suitable to their preferences and technological access.

### Comprehensive account statements

1. **Detailed account performance:** Require PPPs to issue comprehensive account statements to contributors regularly. These statements should include detailed information on account performance, contributions, fees, and a clear breakdown of the asset allocation.
2. **Educational elements:** Incorporate educational elements into account statements, providing explanations of financial terms, performance metrics, and the implications of different investment decisions. This promotes financial literacy among contributors.

### Interactive online platforms

1. **User-friendly interfaces:** Mandate PPPs to maintain user-friendly online platforms. These platforms should allow contributors to access account information, simulate different investment scenarios, and manage their pension accounts with ease.
2. **Educational resources:** Integrate educational resources into online platforms, such as videos, tutorials, and interactive tools. This approach caters to contributors with varying learning preferences and enhances their understanding of pension-related concepts.

### Regular educational workshops

1. **Frequency and accessibility:** Require PPPs to conduct regular educational workshops for contributors. These workshops should cover topics such as investment strategies, retirement planning, and updates on pension regulations. Ensuring the accessibility of workshops accommodates diverse contributor schedules.
2. **Specialized workshops:** Encourage specialized workshops addressing specific needs, such as investment strategies for different life stages or financial planning for particular demographics. Specialized workshops provide targeted information tailored to contributors' unique circumstances.

### Personalized communication

1. **Tailored information:** Promote the use of personalized communication strategies, where PPPs tailor information based on contributors' preferences, risk tolerance, and life stages. Personalization enhances engagement and ensures that information is relevant to individual contributors.
2. **Retirement planning guidance:** Offer personalized retirement planning guidance, including projections of potential retirement income and recommendations for adjusting contributions or investment strategies. This proactive approach empowers contributors to make informed decisions aligned with their retirement goals.

### Periodic compliance reporting

1. **Regular reporting to regulatory body:** Institute requirements for PPPs to submit periodic reports to the regulatory body regarding their communication and education initiatives. This reporting ensures that providers adhere to regulatory standards and actively engage in informing contributors.
2. **Audit of educational programs:** Include provisions in the regulations to audit the content and effectiveness of educational programs offered by PPPs, ensuring their compliance with established standards.

By enforcing frequent communication, comprehensive account statements, interactive online platforms, regular educational workshops, personalized communication, and regulatory compliance requirements, the regulations should aim to ensure that contributors are consistently informed, educated, and empowered to make sound and well-informed decisions regarding their defined contribution pension accounts.

## 3.13Withdrawal & annuity options

### Partial and full withdrawal conditions

1. **Partial withdrawal eligibility:** Define conditions for partial withdrawals, allowing contributors to access a portion of their accumulated pension savings before retirement. Consider circumstances such as medical emergencies, education expenses, marriage of kids or home purchases. This provides contributors with the flexibility to address specific financial needs.

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2. **Full withdrawal at retirement:** Specify that contributors are eligible for a full withdrawal of their pension savings upon reaching the retirement age. This option provides contributors with the flexibility to manage their retirement income according to their individual circumstances.

### Income drawdown and lump sum options

**Flexible income drawdown:** Allow contributors to choose flexible income drawdown options during retirement. This could include periodic withdrawals, phased withdrawals, or a systematic withdrawal plan, providing contributors with control over the pace at which they access their retirement funds.

### Annuity option

**Annuity options:** Allow contributors to voluntarily choose annuity options for a portion or the entirety of their pension savings. Provide a range of annuity products, including fixed, variable, and inflation-linked annuities, allowing contributors to tailor their retirement income to their preferences and needs.

### Survivor benefits and joint annuities

1. **Survivor benefits:** Define survivor benefits, allowing contributors to designate beneficiaries who will receive a portion of their pension savings in the event of their death. Survivor benefits provide contributors with the assurance that their loved ones will be financially supported.
2. **Joint annuities:** Offer joint annuity options for contributors and their spouses, ensuring continued income for the surviving spouse after the contributor's death. Joint annuities provide a valuable feature for contributors seeking to provide long-term financial security for their spouses.

### Communication and education initiatives

1. **Retirement planning seminars & compulsory attendance:** Mandate PPPs to conduct retirement planning seminars for contributors approaching retirement age. Attendance should be compulsory to ensure that contributors receive comprehensive information about withdrawal options and annuity choices.
2. **Interactive sessions:** Include interactive sessions in retirement planning seminars, allowing contributors to ask questions and seek personalized guidance on withdrawal

and annuity decisions. Interactive sessions enhance understanding and empower contributors to make informed choices.

#### Online retirement planning tools

1. **Personalized simulators:** Develop personalized online retirement planning tools, such as withdrawal calculators and annuity option simulators. These tools enable contributors to model different scenarios and assess the financial implications of various withdrawal and annuity choices.
2. **Educational webinars:** Host educational webinars on withdrawal and annuity options, providing contributors with accessible information. Webinars can cover topics such as tax implications, investment strategies, and the long-term impact of different retirement income choices.

By defining conditions for partial/full withdrawals, offering flexible income drawdown and lump sum options, outlining annuity conversion requirements, including survivor benefits and joint annuities, and implementing communication and education initiatives, the regulations should provide contributors with the flexibility and knowledge needed to make informed decisions about their defined contribution pension accounts during retirement.

### 3.14Periodic review

#### Review frequency and triggers

1. **Regular review schedule:** Mandate a regular schedule for the periodic review of regulations governing the defined contribution pension scheme. This could be conducted annually or at intervals that align with the dynamics of financial markets and economic conditions.
2. **Trigger events:** Specify trigger events that may prompt an unscheduled review. These events could include significant changes in economic indicators, demographic shifts, or international regulatory developments. Having trigger events ensures that regulations remain adaptive to emerging trends and challenges.

#### Market and economic analysis

1. **Comprehensive market analysis:** Regulatory authorities should conduct comprehensive market analyses during periodic reviews. This analysis should assess

the performance of pension funds, prevailing economic conditions, and potential impacts of market changes on contributors' pension savings.

2. **Integration of economic forecasts:** Integrate economic forecasts into the review process, considering projections for interest rates, inflation, and other relevant economic factors. This forward-looking approach ensures that regulations anticipate and respond to potential future challenges.

### Demographic considerations

1. **Ageing population impact assessment:** Include an impact assessment on regulations related to ageing population. Consider how demographic shifts, such as an increase in retirees, may affect the sustainability of the pension system and the financial well:being of contributors.
2. **Inclusivity analysis:** Conduct an inclusivity analysis to ensure that regulations cater to diverse demographics, accounting for factors such as gender, income levels, understanding and employment status. This promotes a pension system that accommodates the unique needs of contributors.

### Benchmarking against international best practices

1. **Regular international benchmarking:** Establish a practice of regular benchmarking against international best practices in pension regulation. This benchmarking process should identify areas where aligning with global standards could enhance the effectiveness and competitiveness of the defined contribution pension scheme.
2. **Integration of innovations:** Encourage the integration of innovative practices observed in other jurisdictions. This ensures that the defined contribution pension scheme remains adaptive to evolving global trends and incorporates innovations that could benefit contributors.

### Consultation

1. **Inclusive & mandatory stakeholder consultation:** The Regulator should conduct inclusive stakeholder consultations during the review process. This involves seeking input from PPPs, contributors, employer representatives, and other relevant stakeholders. Inclusive consultation ensures that regulations reflect the diverse perspectives and interests of all stakeholders.

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2. **Public feedback mechanisms:** Establish public feedback mechanisms, such as open forums or online surveys, to collect input from the broader public. Public participation enhances transparency, accountability, and the democratic legitimacy of the regulatory review process.

### Adaptability measures

1. **Built-in adaptability clauses:** Introduce built-in adaptability clauses in the regulatory framework. These clauses allow for flexible adjustments to regulations based on the findings of periodic reviews, emerging trends, or unforeseen challenges. Built-in adaptability ensures that regulations can evolve without the need for extensive legislative changes.
2. **Fast-track procedures for urgent changes:** Implement fast-track procedures for urgent changes identified during reviews. This ensures that critical adjustments can be made promptly to address immediate challenges or seize opportunities.

By mandating regular reviews with trigger events, integrating economic and demographic analyses, benchmarking against international best practices, conducting inclusive stakeholder consultations, and implementing adaptability measures, these regulations aim to create a dynamic and responsive framework for the defined contribution pension scheme, ensuring its continued relevance and effectiveness in a changing landscape.

## 3.15 Regulatory carveout for GIFT IFSC

For enabling the regulatory framework for Pension in GIFT IFSCA, a suitable exemption must be carved out by the Government of India as under the current PFRDA Act, section 25. "Prohibition of investment of funds of subscribers outside India— No pension fund shall directly or indirectly invest outside India, the funds of subscribers."

Section 25 must be exempted for IFSCA, and a broader investment horizon should be provided for the pension funds that are managed from this jurisdiction. The Government may thus consider issuing a notification under section 31 of IFSCA Act 2019, exempting the enforceability of Section 25 of the PFRDA Act 2013.

# 4 Tax design

## 4.1 Importance of taxation for a product

Favourable tax regime and multilayer tax holiday has always been a critical factor driving the ecosystem of a country. Providing beneficial tax regime has been a preferable strategy for many countries to attract foreign talent.

In this league, a vibrant pension plan in IFSC can act as a catalyst, attracting foreign investment. Central to this transformation is the fostering of a supportive tax and regulatory environment, enhancing transparency and ease of compliance. Recognizing the significant impact a pension plan can have (basis the tax attractiveness of the plan), this report seeks to review and recommend an environment that not only welcomes but actively incentivizes the investment in the proposed pension plan.

## 4.2 Prevailing social security / other popular system in India and income tax recommendations for proposed product at a high level

### Employees' Provident Fund (EPF)

The social security is predominantly governed by the Employees Provident Funds and Miscellaneous Provisions Act, 1952 (EPF Act) which was enacted to provide retirement and insurance benefits to employees. It broadly covers organisations mandatorily if employee size is 20 or more. Further, voluntary registration is also possible under specific criterion. The said Act also applies to an International Worker (IW)[16], other than an excluded employee[17], employed after the 1st day of October 2008 if other conditions are also

[16] IWs have been defined[16] to mean:

- An Indian employee[16] who have contributed to the social security programme of a country that has a social security agreement (SSA) with India and who have gained or are going to gain eligibility for benefits under the respective SSA;

**An employee other than an Indian employee, holding other than an Indian passport, and working for an establishment in India to which the EPF Act applies**.

[17] An "**excluded employee**"[17] has been defined to mean:

*(i)* *An International Worker, who is contributing to a social security programme of his country of origin, either as a citizen or resident, with whom India has entered into a social security agreement on reciprocity basis and enjoying the status of detached worker for the period and terms, as specified in such an agreement; or*

satisfied. This IW concept is very important and relatable for foreigners in India as well as for few NRIs.

A social security benefit payable in the host country may become an added cost to the employer in expat case scenario and it is in this context that social security agreements (SSAs) come into perspective. SSA, also known as Totalization Agreement, is a bilateral instrument to protect the social security interests of workers posted in another country. In addition, individuals covered under the India-Singapore bilateral comprehensive economic agreement (CECA) and are contributing to the social security system of Singapore, would also be considered as 'excluded employee' for the purposes of EPF provisions. While India has made a good progress in this area, SSA with major countries like USA, Canada and UK are still not there.

EPF benefit is not available unless an individual is an employee and working in a covered establishment on which the said Act is applicable.

### National Pension System (NPS)

NPS is a scheme regulated by the Pension Fund Regulatory and Development Authority ('PFRDA'), which is voluntary in nature and is widely used by the individuals, especially participants at corporate levels.

The Scheme caters to the retirement planning needs of the employees. It is a defined contribution scheme wherein individuals can decide where to invest their money. NPS is a voluntary scheme wherein both employer and employee or either of them/ any other individuals can contribute to the scheme. Such contributions can be made over and above the employee provident fund contributions / superannuation contributions also being made by the employer. Under NPS account, two sub-accounts – Tier I & II are provided. Tier I account is mandatory, and the subscriber/ individual has option to opt for Tier II account opening and operation. An NRI between the age of 18 – 60 years, as on the date

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*(ii)* *An International Worker, who is contributing to a social security programme of his country of origin, either as a citizen or resident, with whom India has entered into a bilateral comprehensive economic agreement containing a clause on social security prior to 1st October 2008, which specifically exempts natural persons of either country to contribute to the social security fund of the host country*

of submission of his/her application and complying with the extant KYC norms, can open an NPS account.

### Public Provident Fund

The Public Provident Fund (PPF) is a long-term savings and investment vehicle offered by the Indian government, providing individuals with a means to build a corpus while enjoying tax benefits.

However, the individuals who are not an Indian citizen, are not eligible to open a new PPF account. An NRI cannot invest in PPF, however, if one's status subsequently changed from resident Indian to NRI, the account was allowed to be run till maturity as of now.

Accordingly, in all the above schemes, there is a gap as far as its availability/ benefits are concerned for NRIs/ foreign citizens. Hence, this is a need of the hour to also have such a scheme which can be beneficial for the said category of individuals and can also attract foreign investment in India.

The proposed USD denominated long term savings plan can be a rewarding option for such individuals when they are working outside India (without being in an employee relationship) and are under strict eligibility criterion to recoup social security benefits of the host country. Hence, this product's relevance is being explored with respect to the said population who may want to contribute in the said plan on voluntary basis.

We have attached herewith Annexure C to explain the income tax provisions around above funds at a high level, as applicable for an individual.

Further, general taxability of capital gains income in the hands of a non-resident is included in Annexure D.

Any income received by Recognised Provident Fund, Approved Superannuation Fund, Approved Gratuity Fund, New Pension System Trust is exempt under the Indian Income Tax Act.[18]

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[18] Income Tax Act exempts the following under section 10;

i. income in nature of interest on securities and any capital gains of the fund arising from the sale, exchange or transfer of such securities which are held by, or are the property of, any provident fund to which the Provident Funds Act, 1925 (19 of 1925), applies,;
ii. any income received by the trustees on behalf of a recognised provident fund;

Keeping in mind the vision of our Hon'ble prime Minister as expressed by him while presiding the event at GIFT IFSC on 29th July 2022, the tax design of proposed pension plan is mentioned below.

## 4.3 Proposed IFSC USD denominated long term savings plan

### Proposed coverage

There can be different scenarios like below where proposed product can be availed by different stakeholders

- NRIs outside India who may want to contribute to IFSC pension product on voluntary basis.
- Expats in IFSC in India; and
- Expats who are working in India DTA.
- Non- Indian Citizens

The investment would however be subject to the local regulations of the respective country of these expats as well.

The proposed Tax recommendations have been elaborated under section 5 point 8 of the report.

iii. any income received by the trustees on behalf of an approved superannuation fund;
iv. any income received by the trustees on behalf of an approved gratuity fund;
v. any income received by any person for, or on behalf of, the New Pension System Trust established on the 27th day of February, 2008 under the provisions of the Indian Trusts Act, 1882 (2 of 1882);

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# 5 Recommendations

1. The Committee recommends that it will be a NON-INR Denominated pension product in a currency as notified by IFSCA.
2. For enabling the regulatory framework for Pension in GIFT IFSC, a suitable exemption has to be carved out by the Government of India, as under the current PFRDA Act, section 25. "Prohibition of investment of funds of subscribers outside India. —No pension fund shall directly or indirectly invest outside India, the funds of subscribers." Section 25 has to be exempted for IFSCA registered pension funds and a broader investment horizon should be provided for the pension funds that are managed from this jurisdiction.
3. The Pension Product Provider (PPP) should either be registered under the ambit of IFSCA (Fund Management) Regulations, 2022 or under the Insurance regulations of IFSCA and will apply for product approval with the Pension Division.
4. IFSCA to issue Regulations for the pension products and conduct of the Pension Product Providers.
5. Government of India should have bilateral talks for Totalisation agreements, especially with the USA and UK. There are trade negotiations going on with UK, so it will be useful to have an item on pensions and the totalization with India can be discussed.
6. IFSCA should procure membership of IOPS. This will help in integrating with the other jurisdictions.
7. Government of India may consider issuing the tax incentive as recommended by the Committee.
8. Tax Recommendations:
   i. Proposed taxation at contribution stage: There have been certain developments over the period of time under the Indian pension (social security system) and its taxation especially in case of NPS, to provide more lucrative options to attract and retain the best talent inspite of additional cost to Indian exchequer. Under this backdrop, the taxation for the said pension product has been proposed to be as lucrative as possible. It is proposed that during the contribution period, a deduction can be provided up to INR 150,000 under the current Section 80C of the Indian Income Tax Act, 1961 from the taxable income.

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ii. Taxation on accretions: There should not be any taxes levied on the accretions generated during the contribution period on the said funds.

iii. Taxation at withdrawal stage: At this stage, it is proposed that there should not be any income taxes on the withdrawal amount.

iv. Availability in New tax regime: The exemption should be allowed to the individual even if they opt for the new tax regime[19].

v. Grandfathering even when a Non-Resident becomes a Resident: Grandfathering of tax benefit towards withdrawal should apply on the accumulated funds in the said pension fund even if a Non-resident (during the investment years) becomes a Resident in India later.

vi. Income of IFSC Pension Scheme/ Trust: There should not be any taxes levied on any income earned by IFSC Pension Scheme/ Trust.

Above proposed recommendations once finalized, would also be required to be incorporated in the Income Tax Act basis due approval by the relevant authorities.

[19] Section 115BAC of the Indian Income Tax Act, 1961

# 6 Annexures

## Annexure A - HDFC proposal- pension product for GIFT city employees

### 1. Background

HDFC Life International (the Company) is a wholly owned subsidiary of HDFC Life, India. The Company is based in the Dubai International Financial Centre (DIFC) and is regulated by the Dubai Financial Services Authority (DFSA).

In November 2022, the Company received a license to open an overseas branch (IFSC Insurance Office) of the Company in IFSC, GIFT City India. The overseas branch can manufacture and distribute Life and Health Insurance products in respect of the following classes of insurance.

| Life Insurance | Non- Life Insurance |
|---|---|
| Class I – Life and annuity | Class 1 – Accident |
| Class II – Marriage and birth | Class 2 – Sickness |
| Class III – Linked long term | |
| Class IV – Permanent health | |
| Class VI – Capital redemption | |
| Class VII – Pension fund management | |

### 2. Leveraging Global Market Experience and Know-how

The Company has developed in- depth understanding of the needs of the Clients/Customers as well as the offerings available in global markets enabling us to manufacture and market propositions which will be strongly compelling and will resonate well with potential customers.

- Equipped to leverage the market experience gained over the past few years to price life (mortality) and health (morbidity) risks effectively
- Ability to co-create customized life and health insurance products across segments
- Focus on creating an engaged ecosystem of tailored risk solutions for partners
- Ability to drive innovation and efficiencies through use of technology
- Maintaining efficient risk management systems and robust internal control standards

### 3. The Opportunity

GIFT City is an emerging global financial and IT services hub, a first of its kind in India, designed to be at or above par with globally benchmarked business districts. It is supported by state-of-the-art infrastructure encompassing all basic urban infrastructure elements along with an excellent external connectivity. Leading companies from Financial Services, Technology and all other services sector have already started setting up offices in the Special Economic Zone (SEZ).

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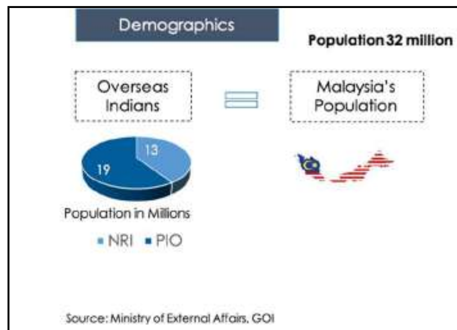
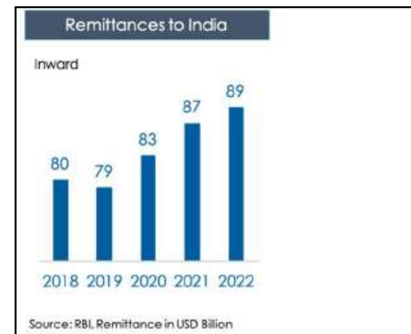
GIFT City is changing the economic face of India on the global map as a centre of excellence in the Financial Services domain. It is also expected to create large employment opportunities in the field of services industry. There are over 200 entities already set up in GIFT City including global names such as KPMG, Bank of America, Standard Chartered Bank, Marsh, Edelweiss amongst many others.




**Global Indian Pension Scheme** is conceptualized to be a foreign currency denominated retirement savings program which would be made available through an end-to-end online platform. This program will be useful for both individuals & groups(entities).

**Enrollments will be open for:**

**(i) Individuals**

a. NRIs (working or residing outside India)

b. PIOs & OCIs

c. Foreign nationals working in GIFT City

**(ii) Entities**

a. Entities in GIFT City

b. Entities outside India

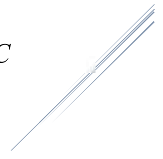
Entities will have option to either

(i) Enroll all employees on mandatory basis

(ii) Enroll employees on voluntary basis (Entities will also have option to fund or not fund under this option)

This program offered from GIFT City SEZ will be a proposition fully aligned with international standards.

Currently there is no retirement scheme available in non-INR currency to enable retirement savings.



**4. Proposed Scheme Structure**

The program will be made available on both individual and group structure to address customers as Individuals and as Entities.

**5. Proposed Plan Features:**

- Individual enrollment on online platform
- Voluntary enrolment for employees of entities
- Optional insurance benefits (Death & Disability insurance riders)
- Fund switching will be allowed
- No pre-defined minimum contribution amount. It can be as low as USD 100 per month.
- Global fund options available
- Annuity options can be made available in US Dollars after end of service
- Low fund management fees
- Easy onboarding and contribution management through online system
- Daily NAV reports can be made available on system to both employers and employees to check fund value
- Options to switch from group to individual incase employee resigns from employer

**6. How will the plan work?**

1. Global Indian Pension Scheme Online System can be made available by HDFC Life International. This system will enable us to:

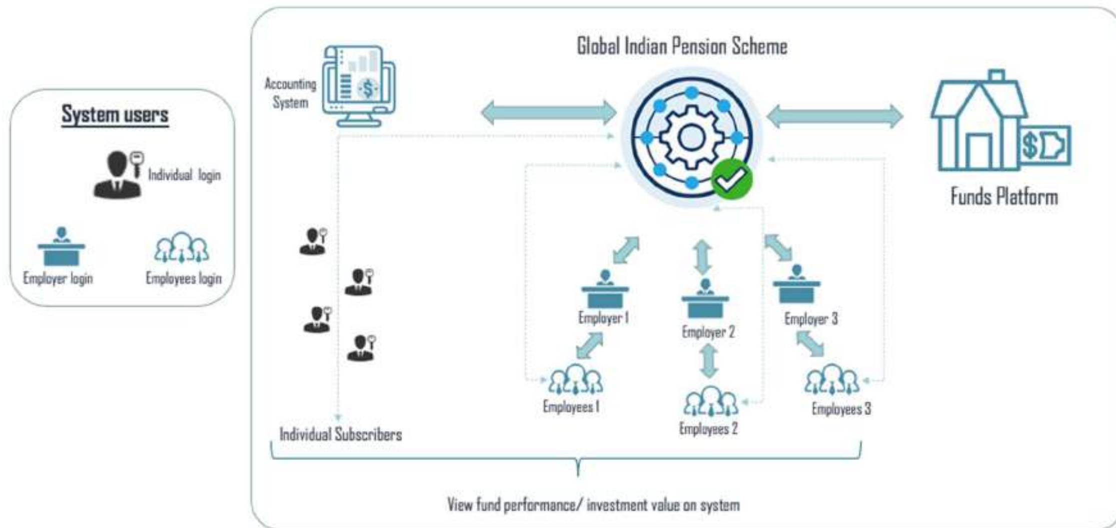
    a. Onboard Individuals

    b. Onboard Entities (Onboard employers and employees – addition/deletion of employees)

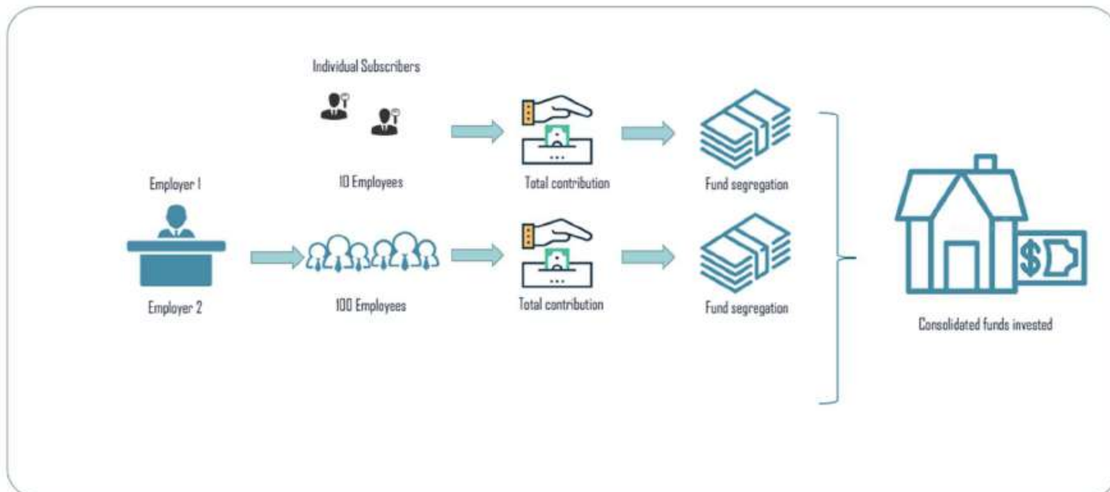
    c. Define and record contributions from the employers and employees

    d. Allocate funds to the fund platform

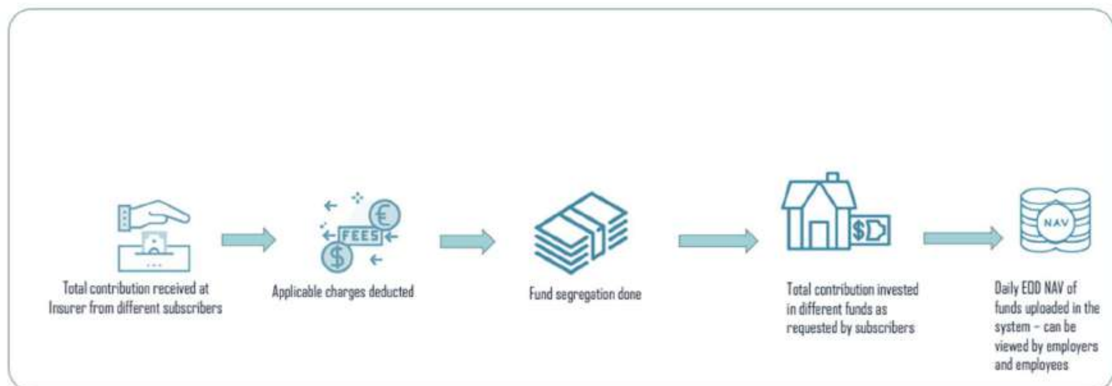
    e. View NAV reports




2. Scheme enrolment:




3. Funds Management:




4. Fund Withdrawals:

Fund withdrawal will be done on the basis of subscriber's request

## 7. Proposed Product Specifications <u>(only illustrative, will be customized as required)</u>

| **CLASS OF PRODUCT** | Class VII – Pension fund management |
|---|---|
| **CURRENCY** | US Dollars |
| **BENEFITS** | A. Maturity Benefit:<br>Market Value of contribution based on funds chosen<br>Investment = 100% of premium<br><br>B. Protection Benefit:<br>i) Death due to accident – 100% of sum assured<br>ii) Permanent Total Disability – Own/Suited Occupation, accelerated (Accident) – 100% of sum assured<br>iii) Medex and Repat – based on actuals<br><br>C. Annuity options to be made available |
| **SURRENDER CHARGES** | Surrender: Can be allowed anytime subject to charges<br>Surrender Charge: x % of Account Value (X- is To be Decided) |
| **CONTRIBUTION MODE AND METHOD** | **Modes:** annual, semi-annual, quarterly, monthly, weekly, daily<br>**Method for regular contribution payments:** can be done through salary deduction |
| **INVESTMENT TYPES** | 100% of premium amount invested. Fund types:<br>1. Fixed deposit<br>2. Market funds |
| **ANNUAL MAINTENANCE CHARGE** | Can be kept at X% of Account Value, charged monthly. (X- is To be Decided) |

## 8. Fund options:

This program aims to offer investment choices based on following risk categories

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| High Risk | High - Medium Risk | Medium Risk | Medium to Low Risk | Medium to Low Risk | Low Risk |
|---|---|---|---|---|---|
| | | | | | |

**A. Pre-Designed Strategies:** This will carry combination of funds based on risk profile of the customer and

across themes like

| High Risk | High - Medium Risk | Medium Risk | Medium to Low Risk | Medium to Low Risk | Low Risk |
|---|---|---|---|---|---|
| | | | | | |
| Global Index | Global Equity | Global Balanced Fund | Global Balanced Fund | Global Gold Funds | Global Debt Fund |

| **Base Criteria** | **Minimum Requirement** |
|---|---|
| Track record | 15 years of track record by fund house and 5 years of track record of the fund |
| Assets under Management | USD 5 billion at fund house level |
| Regulated by | SEC (USA) or FSA (UK) or SEBI (India) or EU (Europe) or MAS (Singapore) |
| Exit load/ charge | Nil |

| **Investment Thresholds** | **Details** |
|---|---|
| Global Index | Up to 100 % Equity indices, 5% in cash + short-term money market |
| Global Equity | Up to 100 % Equity, 5% in cash + short-term money market |
| Global Balanced Fund | Debt: 40% to 60%, Equity: 40% to 60% , 5% in cash + short term money market |
| Global Debt Fund | 100% Debt, 5% in cash + short-term money market |
| Global Gold Funds | 100% Gold Funds, 5% in cash + short-term money market |

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**B. Individual Global Funds**: This will allow investment across Equity, Debt, Balanced however with

limitations as follows

| High Risk | High - Medium Risk | Medium Risk | Medium to Low Risk | Medium to Low Risk | Low Risk |
|---|---|---|---|---|---|
| | | | | | |
| Class 1 | Class 2 | Class 3 | Class 4 | Class 5 | Class 6 |
| Any fund where equity index composition is more than 30% | Any fund where equity composition is more than 30% | Any fund where government securities composition is more than 50% | Any fund where government securities composition is more than 70% | Any fund where government securities composition is more than 80% | Any fund where government securities composition is more than 80% |
| Any fund where corporate bond composition is more than 30% | Any fund where corporate bond composition is more than 10% | Any fund where corporate bond composition is 0- 5% | Any fund where corporate bond composition is 0-5% | Any fund where corporate bond composition is less than 2% | - |

| **Base Criteria** | **Minimum Requirement** |
|---|---|
| Track record | 15 years of track record by fund house and 5 years of track record of the fund |
| Assets under Management | USD 5 billion at fund house level |
| Regulated by | SEC (USA) or FSA (UK) or SEBI (India) or EU (Europe) or MAS (Singapore) |
| Exit load/ charge | Nil |

| **Investment Thresholds** | **Details** |
|---|---|
| Class 1 | Up to 5% |
| Class 2 | Up to 5% |

| | |
|---|---|
| Class 3 | Up to 30% |
| Class 4 | Up to 60% |
| Class 5 | Up to 80% |
| Class 6 | Up to 80% |

**9. Distribution:**

Program like this will have significant dependence on distribution plan. While we will provide a completely online journey to subscribers, we believe in current times, using partnerships and collaborations with both traditional and non-traditional routes will be essential to reach out to potential subscribers.

We would like to list some potential distribution routes

| **Potential partners** | **Role** |
|---|---|
| Indian Banks overseas | Promotion & Fund Transfer |
| Exchange houses and remittance companies | Promotion & Fund Transfer |
| Fintech companies | Promotion & Fund Transfer |
| Indian Consulates | Promotion & awareness |
| Professional Indian groups ( CA chapters, Insurance Forums, clubs etc ) | Promotion & awareness |
| Local insurers and banks | Promotion & awareness |

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**Annexure 1**

**Proposed System Screens**

1. **Employer Dashboard:**

2. **Employer Contribution Upload Screen:**

Group savings plan

Hi, Nicolas

Tasks

Upload your employees and contribution

Employees

Add Employee

Drag and Drop your

Or

Browse Files

History

Filter

| State | Errors | File name | Uploaded | |
|---|---|---|---|---|
| Success | - | Example0137781738283 | 18/08/2021 14:19:35 | Download |
| Success | - | Example0137781738283 | 18/08/2021 14:19:35 | Download |
| Success | - | Example0137781738283 | 18/08/2021 14:19:35 | Download |
| Fail | - | Example0137781738283 | 18/08/2021 14:19:35 | Download |

## 3. Employee Dashboard

Group savings plan

Home

Funds

Contribution

Support

Hi, Van gogh

Summary

This Month

Your Employer has added AED 3000

You've saved AED 7000

Total AED 10,000

Contributions

75% AED 7500 Your Contribution

25% AED 2500 Employer contribution

100% AED 10,000 Accrued

Contribution History

Filter

| State | Starts on | Ends On | Employer Amount (AED) | Employee Amount (AED) | Accrued (AED) | Total (AED) |
|---|---|---|---|---|---|---|
| On - progress | 12/12/2021 | 11/01/2022 | 3,000 | 7,000 | 10,000 | 10,180 |
| Success | 12/11/2021 | 11/12/2021 | 2,700 | 8,300 | 10,000 | 10,200 |
| On - progress | 12/12/2021 | 11/01/2022 | 3,000 | 7,000 | 10,000 | 10,180 |
| Success | 12/11/2021 | 11/12/2021 | 2,700 | 8,300 | 10,000 | 10,200 |

## Annexure B - Product proposal by LIC

### I. Objective

Demand of pension benefit is increasing continuously due to improvement in life expectancy, awareness, and affordability. The design of proposed pension plan is expected to cater to the wide-ranging needs of pension benefit for foreign nationals employed in GIFT City as well as all eligible citizens of India.

### II. General Description

Under the proposed pension plan, there will be two phases viz. Accumulation Phase and Decumulation Phase. During the Accumulation Phase, the premium paid by the policyholder will be accumulated and during the Decumulation Phase, the accumulated corpus at the end of Accumulation Phase (i.e. date of vesting) can be utilized to provide lump sum amount, annuity or drawdown to the policyholders as per the option excersied by them as per their lifestyle requirements.

#### 1. Proposed Structure of the product

The pension product can be offered on following platforms:

- Individual Unit Linked pension product – for individuals.
- Group Unit Linked Pension product- For Groups
- Guaranteed nature of returns but which can be a guaranteed and reviewable benefits linked to some benchmarks or a combination thereof.

#### 2. Eligibility Criteria broadly can be as under

| | | |
|---|---|---|
| a. | Minimum Age at entry | 0 years for individual policyholders and 18 years (completed for employees) |
| b. | Maximum Age at entry | 65 years (last birthday) can be higher too |
| c. | Minimum vesting age | 50 years |
| d. | Maximum vesting age | 75 years |
| e. | Accumulation Period | Vesting Age- Age at entry |
| f. | Minimum Accumulation Period | 5 years |
| g. | Minimum fund value for exercising the options on the date of vesting | Rs. 20,00,000 in Indian rupee or say USD 20000 |

#### 3. Contribution/Premium

Employer or the policyholder shall be allowed to contribute any amount (subject to minimum of USD1000) before the vesting of the pension policy. The contribution can be made as a Single Premium, Regular Premium (Yearly, Half-yearly, and Monthly) or as a Top up Premium. Non-payment of any regular premium shall not result in lapsation of the policy. The employer or policyholder shall have the flexibility to choose any amount for regular/single premium or top up for each payment.

**4. Choice of Funds**

The insurer shall offer the following funds:

i. Government Securities

ii. Corporate bonds

iii. Equity

iv. Index linked fund.

v. Foreign currency instruments

The policyholder shall have the choice of proportion to be invested under each fund as per the allowable desired options. Each contribution /Premium paid, after deduction of Charges (in any), shall be utilized to purchase units of the Fund chosen. The Unit Fund Value shall be subject to deduction of various other charges either as cancellation of number of units or by adjusting the Net Asset Value (NAV). The value of units may increase or decrease, depending on NAV.

The policyholder can change the proportion of amount to be invested under each fund twice in a year.

The insurer can offer guarantee of minimum return under each fund or guarantee of return of premium paid.

## III. <u>Benefits during Accumulation phase</u>

**1. Death Benefit**

An amount equal Fund Value as on the date of intimation of death shall be payable to nominee / beneficiary.

In case of death of the Life Assured before the date of Vesting, the Nominee shall utilize the entire proceeds or part thereof for purchasing immediate or deferred annuity at the then prevailing annuity rates from the insurer or may withdraw value of fund in lumpsum.

2. **Benefits on permanent disability**

The fund may be utilized to provide annuity or withdraw the fund for medical treatment**.**

3. **Surrender**

The surrender of policy during accumulation period shall be allowed subject tax laws and other regulations. The surrender value shall be fund value at the time of surrender less the surrender penalty, if any.

4 **Riders**

The policyholders may be allowed to be offered rider benefits such as Accident benefits, Critical illness or term cover as an optional rider as per the underwriting criteria and product design

**IV. <u>Benefits during Decumulation phase</u>**

1. **Benefits on Vesting**

On survival of the policyholder till the date of Vesting, the following Options shall be available to the policyholder:

a. To utilize the entire proceeds to purchase immediate or deferred annuity at the then prevailing annuity rates from the insurer

b. To commute say up to 60% and utilize the balance amount to purchase immediate or deferred annuity at the then prevailing annuity rates from the insurer. This amount and proportion can be flexible

c. To keep full or part of the accumulated fund in dropdown account and utilize the balance amount to purchase immediate or deferred annuity at the then prevailing annuity rates from the insurer

If the accumulated fund value as on the date of vesting is less than certain amount the policyholder shall be allowed to withdraw the total fund value on the date of vesting.

The accumulated corpus at the end of the accumulation period may be utilized to purchase annuity/income benefit in the manner described below:

a. **Fixed Annuity**

The following options under immediate as well as deferred annuity shall be available for annuitization of fund value at the prevailing annuity rates as on the date of annuitization:

i. “Life annuity” which provides guaranteed regular income during the lifetime

ii. "Life annuity with return of purchase price**"** which provides guaranteed regular income during the lifetime and purchase price is returned in the event of death of the annuitant

iii. Life annuity with early return of purchase price

iv. "Annuity certain for a specific period and life thereafter" which provides which provides guaranteed regular income during the specific period regardless of survival of the annuitant and life annuity thereafter

v. Life annuity with return of purchase price on diagnosis of Critical Illness

vi. Life annuity with return of balance of purchase price on death of annuitant

vii. Impaired Life Annuity

viii. Increasing annuity (under single life as well as joint life options)

ix. Joint Life annuity with a provision for 100% or 50% or such other percentages of annuity to Secondary Annuitant on death of the Primary Annuitant.

x. Joint Life annuity with a provision of 100%, 50% or such other percentages of annuity to Secondary Annuitant on death of the Primary Annuitant and Return of Purchase Price on death of Last Survivor.

xi. Other annuity options for joint lives such as increasing annuity, annuity with early return may also be allowed.

xii. Draw down options as per the lifestyle needs of individuals and as per the product feature

**b. Index Linked Annuity**

The accumulated corpus may be utilized to purchase annuity which varies with defined market index or indices such as NIFTY 50, S&P 500 etc. The policyholder may have the options to receive certain portion of the annuity at a fixed guaranteed rate and rest of the annuity to vary with defined market index or indices.

**c. Inflation Linked Annuity**

The annuity payments will move each year in line with Retail Price Index. The design aims to protect the real value of annuity payments.

**d. Reviewable Annuity**

The annuity amount payable to the annuitant shall be initially guaranteed for a certain period, say 5/10 years, after which the amount payable shall be reviewed and revised upward or downward depending on the prevailing rates. Revised rates shall not be lower than the annuity rates offered to the new policyholders as on the date of review.

**e. Income Drawdown**

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- Policyholders may be allowed to take regular withdrawal from their accumulated corpus without having purchase to immediate annuity.
- On death, the remaining value of the fund is payable to a nominated beneficiary, or the beneficiary can choose to continue with drawdown arrangement.
- The income drawdown amount may be capped at a level so as to ensure that corpus does not deplete before the lifetime of the policyholder and policyholder may be able to purchase immediate annuity at any point of time.
- This option provides the policyholder flexibility to buy annuity by considering personal circumstances and also policyholder may buy the immediate annuity when annuity rates become better.

**2. Death Benefit after date of vesting**

Death benefit shall depend upon the annuity/ drawdown option chosen by the policyholder.

**3. Surrender after date of vesting**

Payment of surrender value after the date of vesting shall depend upon the annuity/ drawdown option chosen by the policyholder.

## V. Options available to policyholders

**1. Extension & reduction of Accumulation Period**

Policyholders shall have the flexibility to change the vesting age (3 months before the date of vesting) subject to the eligibility criteria. However, the revised Accumulation Period shall not be less than the duration elapsed.

**2. Loan**

The policyholder can avail policy loan during the Accumulation Period. Loan amount up to 50% of the fund value can be availed. Applicable interest rate on loan can be say equal to 1.50% plus the prevailing yield on 10 year Government Securities or any other appropriate benchmark. The policyholder shall pay loan interest on quarterly or half yearly basis and he can repay the loan any time subject to minimum charge of half yearly interest. If loan interest is not paid on due dates and the outstanding loan amount including interest exceeds the fund value, the policy will be foreclosed after giving intimation to the policyholder.

**3. Partial Withdrawal**

The policyholder shall be allowed partial withdrawal upto 60% of fund value during the accumulation period once in a 3 year on diagnosis of Critical Illness or loss of job etc.

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**4. Riders**

The following riders shall be available to the policyholder during the accumulation period subject to eligibility criteria of riders and availability of fund for the deduction of rider premium from the fund:

- Term Assurance Rider
- Accidental Death & Disability Rider
- Accident Benefit Rider
- Critical Illness Rider

**5. Switching the insurer**

The policyholder can change the insurer during the Accumulation Period and at the time of opting for annuitization subject to some charges and some free switch options.

**6. Option to holdback annuity**

During deccumulation phase, after the start of annuity as per the option selected by the policyholder, policyholder shall have flexibility to hold back annuity payments for some period. After the end of such period the enhanced annuity shall be payable to the policyholder.

## VI. Charges and other administrative aspects

**1. Charges under the product**

The following charges shall be applicable during the accumulation period:

**Fund Management Charge (FMC):** FMC shall be levied as a percentage of the value of assets and shall be appropriated by adjusting the Net Asset Value. This is a charge levied at the time of computation of NAV, which is usually done on daily basis. The current cap on fund management charges in respect of each of the fund shall be say 50 basis points.

**Guarantee Charge:** This charge shall also be levied as a percentage of the value of assets and shall be appropriated by adjusting the Net Asset Value on daily basis. The maximum Guarantee Charge shall be 25 basis points.

**Partial Withdrawal or Surrender charge**: This charge shall be levied at the time of partial withdrawal or complete surrender of policy and shall be fixed percentage of fund subject to maximum of a monetary limit.

**Switching Charge:** This charge shall be levied on switching of monies from one fund to another available within the product or switching of monies from one insurer to another insurer.

**Rider Charges:** The cost of rider cover (opted for by policyholder) can be deducted from the fund value each month.

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### 2. Investment Management

Each insurer shall have a Board Approved Investment Policy and Standard Operating Procedure for investment of funds under the product. The policy should specify the allowable Investment category, exposure /prudential norms, decision making authority, periodical monitoring of performance, risk management etc.

Investible categories to include debt instruments having minimum credit rating, equity shares of companies having dividend payment history, debt instruments having adequate collateral/guarantee etc. Exceptions to be reported to Board/Board delegated Committee and ratification of the same by providing acceptable justifications.

Investment strategy should try to match the liability by nature, terms and currency. Reporting of ALM position on periodic basis should be to Board/Committee.

Derivative should be allowed to hedge the Interest rate risk or exposure in equity shares and use of Credit Default Swap or any other instruments to reduce the investment in debt securities should also be allowed.

The insurer shall ensure having a dedicated and trained Asset Management Team for the product and appropriate system for the daily operations required for each fund.

### 3. Distribution of the product

The distribution of the product shall be allowed through agents, insurance intermediaries and directly through the website without involvement of any agent/ intermediary. In case of purchase of policy directly without involvement of any agent/ intermediary, the policyholder shall be eligible for lower fund management charges.

### 4. Onboarding & servicing

The onboarding and servicing of the product shall be online only through a single website/app for all insurers. The policyholders shall be authorized for exercising all options available under the product and other servicing aspects such as change in nomination, change in address, email, mobile, option to change the insurer during accumulation period, generation of fund statement and transaction history, etc. Unique ID for each policyholder shall be generated at the time of onboarding and the same ID shall continue even after the change of the insurer.

### 5. Standard Product

There shall be a standard product in which all charges and options shall be fixed by the Authority. This standard product can be modified by the Authority only.

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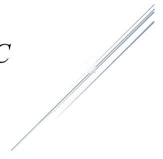

However, the insurers shall also be allowed to launch and distribute additional pension products with minor / variations from the Standard Product after the approval of the Authority.

------------------

## Annexure C - Current tax provisions vs proposed tax provisions for the pension product

(A) Taxation at contribution stage in the hands of employee and employer/ individual contributing in the given schemes, as applicable

| | **Current tax provisions in employee's hands** | | **In Individual's hands** | **Proposed taxation for the proposed IFSC pension product** |
|---|---|---|---|---|
| | **EPF** | **NPS** | **PPF** | |
| **General** | | | | All exemptions, deductions listed below to be allowed under both individual tax rate regimes. |
| **Employer's contribution** | Tax free up to 12% of salary, subject to below. Further, interest earned during contribution period up to specified percentage[20] is exempt during contribution period subject to below and taxation, as applicable, at withdrawal stage. | Taxable, however deduction[21] is allowed up to 10% of salary[22]. | Not applicable | Not applicable – as currently scheme is not proposed for employer-employee scenerio. |
| | However, contribution[23] exceeding INR 750,000 per FY would be taxable[24] as perquisite separately.<br><br>Further, annual accretion (interest, dividend etc.) to the extent it relates to the amounts taxed as above, shall also be taxed[25]. | | | |

[20] Rule 6 of Part A of Fourth Schedule to the Income Tax Act, 1961 ('the Act')
[21] Section 80CCD(2) of the Act
[22] As per Explanation to Section 80CCD, '*Salary' includes dearness allowance (if the terms of employment so provide), but excludes all other allowances and perquisites.*
[23] In aggregation of 12 per cent of specified salary under Employee Provident Fund, 10 per cent of specified salary under NPS and Superannuation Fund contribution
[24] Section 17(2)(vii) of the Act
[25] Section 17(2)(viia) of the Act

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| **Employee's contribution** | • Allowed as a deduction[26] from the taxable income in India, subject to upper limit provided under the Act[27]<br><br>• Accretion in form of interest income relating to the contributions made to the said funds, in excess of specified contribution would | Employee's contribution (not exceeding 10 percent of salary) towards NPS is allowed as a deduction[29] per FY, subject to the upper limit as provided under the Act 30. In case person is not an employee, up to twenty per cent of gross total income is allowed as a deduction per FY subject to the upper limit as provided | • Contribution by the individual (not necessarily an employee) is allowed as a deduction[33] from the taxable income in India, subject to upper limit provided under the Act[34]<br><br>• Accretion in form of interest income relating to the contributions made to the said funds, in excess of specified contribution would be | No exemption/ deduction proposed at contribution stage.<br><br>No taxes on the accretion accrued (dividend/ other investment income) during the contribution period on the said funds. |
|---|---|---|---|---|

[26] Section 80C of the Act
[27] Section 80CCE of the Act
[29] Section 80CCD(1) of the Act
[30] Section 80CCE of the Act
[33] Section 80C of the Act
[34] Section 80CCE of the Act

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| | | | | |
|---|---|---|---|---|
| | be taxable[28] in the respective year of contribution. | under the Act[31]. | taxable[35] in the respective year of contribution. | |

[28] As per Proviso to section 10(11) and 10(12) of the Act – extracts as under:

***"Incomes not included in total income.***

*10. In computing the total income of a previous year of any person, any income falling within any of the following clauses shall not be included—*

*………………………………….*

*(11) any payment from a provident fund to which the Provident Funds Act, 1925 (19 of 1925), applies or from any other provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette:*

*Provided that the provisions of this clause shall not apply to the income by way of interest accrued during the previous year in the account of a person to the extent it relates to the amount or the aggregate of amounts of contribution made by that person exceeding two lakh and fifty thousand rupees in any previous year in that fund, on or after the 1st day of April, 2021 and computed in such manner as may be prescribed59 :*

*Provided further that if the contribution by such person is in a fund in which there is no contribution by the employer of such person, the provisions of the first proviso shall have the effect as if for the words "two lakh and fifty thousand rupees", the words "five lakh rupees" had been substituted;]*

*………..*

*(12) the accumulated balance due and becoming payable to an employee participating in a recognized provident fund, to the extent provided in rule 8 of Part A of the Fourth Schedule :*

*Provided that the provisions of this clause shall not apply to the income by way of interest accrued during the previous year in the account of a person to the extent it relates to the amount or the aggregate of amounts of contribution made by that person exceeding two lakh and fifty thousand rupees in any previous year in that fund, on or after the 1st day of April, 2021 and computed in such manner as may be prescribed59c:*

*Provided further that if the contribution by such person is in a fund in which there is no contribution by the employer of such person, the provisions of the first proviso shall have the effect as if for the words "two lakh and fifty thousand rupees", the words "five lakh rupees" had been substituted;"*

[31] Section 80CCE of the Act

[35] As per Proviso to section 10(11) and 10(12) of the Act – extracts as under:

***"Incomes not included in total income.***

*10. In computing the total income of a previous year of any person, any income falling within any of the following clauses shall not be included—*

*………………………………….*

*(11) any payment from a provident fund to which the Provident Funds Act, 1925 (19 of 1925), applies or from any other provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette:*

*Provided that the provisions of this clause shall not apply to the income by way of interest accrued during the previous year in the account of a person to the extent it relates to the amount or the aggregate of amounts of contribution made by that person exceeding two lakh and fifty thousand rupees in any previous year in that fund, on or after the 1st day of April, 2021 and computed in such manner as may be prescribed59 :*

*Provided further that if the contribution by such person is in a fund in which there is no contribution by the employer of such person, the provisions of the first proviso shall have the effect as if for the words "two lakh and fifty thousand rupees", the words "five lakh rupees" had been substituted;]*

*………..*

*(12) the accumulated balance due and becoming payable to an employee participating in a recognized provident fund, to the extent provided in rule 8 of Part A of the Fourth Schedule :*

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| | | | | |
|---|---|---|---|---|
| | Further, taxation at withdrawal stage would also apply on contributions (on which deduction is claimed) and accretions thereon earned on entire contributions. | Additional deduction[32] of up to INR 50,000 per FY is also available.<br><br>Further taxes as applicable at withdrawal stage would also need to be paid | | |

**(B) Exemption at the time of withdrawal:**

| **<u>Current tax provisions in employee's hands</u>** | | | **Proposed taxation for the proposed IFSC pension product** |
|---|---|---|---|
| **<u>EPF</u>** | **<u>NPS – Tier I Account</u>** | **<u>PPF</u>** | |
| • Withdrawal of PF accumulated balance[36] | Exempt up to 60%[38] of the amount payable | Withdrawal (done as per the Rules of the said Scheme) would be | There should not be any income tax applicable on |

*Provided that the provisions of this clause shall not apply to the income by way of interest accrued during the previous year in the account of a person to the extent it relates to the amount or the aggregate of amounts of contribution made by that person exceeding two lakh and fifty thousand rupees in any previous year in that fund, on or after the 1st day of April, 2021 and computed in such manner as may be prescribed59c:*

*Provided further that if the contribution by such person is in a fund in which there is no contribution by the employer of such person, the provisions of the first proviso shall have the effect as if for the words "two lakh and fifty thousand rupees", the words "five lakh rupees" had been substituted;"*

[32] Section 80 CCD(1B) of the Act

[36] As per part A of Fourth Schedule on 'Recognized Provident Funds' – Para 2(f)

*"Definitions.*

*2. In this Part, unless the context otherwise requires,—*

…………………

*(f) "accumulated balance due to an employee" means the balance to his credit, or such portion thereof as may be claimable by him under the regulations of the fund, on the day he ceases to be an employee of the employer maintaining the fund;"*

[38] Section 10(12A) of the Act

| | | | |
|---|---|---|---|
| is exempt[37] subject to qualifying at least one of the few mentioned conditions. One of such conditions says that employee should have rendered continuous service for a period of five years or more | to the employee under the Scheme at closure/ opting out. Barring few exceptions, at least 40% of the amount would need to be invested to purchase a life annuity from one of the specified life insurance company. | exempt[39] from taxation in India including interest earned thereon. | the said withdrawal (whether full/ partial). Further, no taxes should be applicable on relevant annuity payments as well. |

[37] As per Rule 8 of Part A of Schedule 4 of the Act extracted below:

*"Exclusion from total income of accumulated balance.*

*8. The accumulated balance due and becoming payable to an employee participating in a recognised provident fund shall be excluded from the computation of his total income—*

*(i) if he has rendered continuous service with his employer for a period of five years or more, or*

*(ii) if, though he has not rendered such continuous service, the service has been terminated by reason of the employee's ill-health, or by the contraction or discontinuance of the employer's business or other cause beyond the control of the employee, or*

*(iii) if, on the cessation of his employment, the employee obtains employment with any other employer, to the extent the accumulated balance due and becoming payable to him is transferred to his individual account in any recognised provident fund maintained by such other employer; or*

*(iv) if the entire balance standing to the credit of the employee is transferred to his account under a pension scheme referred to in section 80CCD and notified by the Central Government.*

*Explanation.—Where the accumulated balance due and becoming payable to an employee participating in a recognised provident fund maintained by his employer includes any amount transferred from his individual account in any other recognised provident fund or funds maintained by his former employer or employers, then, in computing the period of continuous service for the purposes of clause (i) or clause (ii) the period or periods for which such employee rendered continuous service under his former employer or employers aforesaid shall be included."*

[39] Section 10(11) of the Act

| | | | |
|---|---|---|---|
| • TDS[40] is applied at the time of withdrawal.<br>• Post cessation of employment interest would be taxable. | • Exempt up to 25%[41] of the contributions made by the employee on partial withdrawal (as permitted basis applicable terms of the NPS Scheme). | | Grandfathering of tax benefit towards withdrawal/ pension payments should apply on the accumulated funds in the said pension fund even if a Non-resident (during the investment years) becomes a Resident in India later. Further, the tax benefit should be available on the said income even to the surviving beneficiaries (in case of death of investor). |

[40] *Section 192(4) of the Act:*

> *"(4) The trustees of a recognised provident fund, or any person authorised by the regulations of the fund to make payment of accumulated balances due to employees, shall, in cases where sub-rule (1) of rule 9 of Part A of the Fourth Schedule applies, at the time an accumulated balance due to an employee is paid, make therefrom the deduction provided in rule 10 of Part A of the Fourth Schedule."*

*As per Rule 10 of Part A of Schedule 4 of the Act extracted below:*

> *"**Deduction at source of tax payable on accumulated balance.***
>
> *10. The trustees of a recognised provident fund, or any person authorised by the regulations of the fund to make payment of accumulated balances due to employees, shall, in cases where sub-rule (1) of rule 9 applies, at the time an accumulated balance due to an employee is paid, deduct therefrom the amount payable under that rule and all the provisions of Chapter XVII-B shall apply as if the accumulated balance were income chargeable under the head "Salaries"."*

*Section 192A of the Act:*

> ***"Payment of accumulated balance due to an employee.***
>
> *192A. Notwithstanding anything contained in this Act, the trustees of the Employees' Provident Fund Scheme, 1952, framed under section 5 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (19 of 1952) or any person authorised under the scheme to make payment of accumulated balance due to employees, shall, in a case where the accumulated balance due to an employee participating in a recognised provident fund is includible in his total income owing to the provisions of rule 8 of Part A of the Fourth Schedule not being applicable, at the time of payment of the accumulated balance due to the employee, deduct income-tax thereon at the rate of ten per cent :*
>
> *Provided that no deduction under this section shall be made where the amount of such payment or, as the case may be, the aggregate amount of such payment to the payee is less than fifty thousand rupees."*

[41] Section 10(12B) of the Act

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| | | |
|---|---|---|
| • Monthly pension, if any, receivable in future would be taxable in the hands of the recipient as per applicable tax laws in that year.<br>• Further, commuted value of pension, if any received, would also be taxable subject to exemption[42] as available under the Income tax law. | | |

[42] ***10.*** *In computing the total income of a previous year of any person, any income falling within any of the following clauses shall not be included—*

*…………*

*10(10A)(ii) any payment in commutation of pension received under any scheme of any other employer, to the extent it does not exceed—*

*(a) in a case where the employee receives any gratuity, the commuted value of one-third of the pension which he is normally entitled to receive, and*

*(b) in any other case, the commuted value of one-half of such pension,*

*such commuted value being determined having regard to the age of the recipient, the state of his health, the rate of interest and officially recognised tables of mortality*

## Annexure D - High level non-resident tax rates on capital gains

**<u>In the case of Non-resident individuals, the Taxability of Capital gain & other income is as follows at a very high level for the period 1 April 2024 to 31 March 2025, as per general provisions of the Income Tax Act, 1961 ('the Act') Relevant benefit under the applicable Double Tax Avoidance Agreement may be examined</u>**:

| Particulars | Taxability on Capital gains as computed basis the provisions under the Act |
|---|---|
| **Long Term Capital Gains** | |
| Listed shares / Units of equity oriented Mutual Fund/unit of business trust (subject to Securities Transaction Tax having been paid at specified times). Basic exemption/ slab benefit not available from the said income.[43] Further, Chapter VI-A deduction is not available from said income.[44] | 10% on capital gain - above Rs. 100,000 (No Indexation)[45] |
| Listed shares / Units of Mutual Fund/unit of business trust - Transfer undertaken on a recognized stock exchange located in IFSC, where the consideration for such transfer is received or receivable in foreign currency | 10% on capital gain - above Rs. 100,000 (No Indexation)[46] |
| Debt Mutual Fund acquired prior to 1 April 2023. Chapter VI-A deduction not available.[47] | 20%[48] |
| Unlisted securities or shares of a company not being a company in which the public are substantially interested | 10% (No indexation) |
| Listed securities (other than a unit) or zero-coupon bond | 10% (No indexation)/ 20% |
| **Short Term Capital Gains** | |
| Listed shares / Units of equity oriented Mutual Fund/unit of business trust (subject to Securities Transaction Tax having been paid at specified times). Basic exemption/ slab benefit not available from the said income. Further, Chapter VI-A deduction is not available from said income. | 15%[49] |
| Listed shares / Units of Mutual Fund/unit of business trust - Transfer undertaken on a recognized stock exchange located in IFSC, where the consideration for such transfer is received or receivable in foreign currency | 15%[50] |

[43] Proviso to Section 112A(2) of the Income Tax Act, 1961 ('the Act')
[44] Section 112A(5) of the Act
[45] Section 112A of the Act
[46] Section 112A(3) of the Act
[47] Section 112(2) of the Act
[48] Section 112(1)(c)(ii) of the Act
[49] Section 111A of the Act
[50] Sec 111A of the Act

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| Debt Mutual Fund/Unlisted shares | Slab rates |
|---|---|

*Please note that Provisions of Chapter XII-A of the Act are not included above which refers to the special provisions relating to certain incomes of non-residents. Further, above rates are high level and taxability may need to be analyzed on case-by-case basis.*

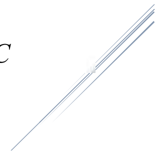
## Annexure E - Third pillar voluntary pension plans in key jurisdictions globally

| | SINGAPORE | DUBAI | AUSTRALIA | CANADA |
|---|---|---|---|---|
| **PRODUCT** | **Supplementary Retirement Scheme (SRS)** | **Golden Pension Scheme** | **Retirement savings accounts (RSAs)** | **Registered Retirement Savings Plan (RRSPs)** |
| **MINIMUM CONTRIBUTION** | • Currently, one can contribute up to a maximum of S$15,300 per year for Singapore citizens/PR (S$35,700 per year for foreigners) into your SRS account<br>• One will get a dollar-for-dollar tax relief on SRS contributions, which will be applied in the following Year of Assessment. | • Companies can register for the National Bonds' Golden Pension scheme by either investing their employees' end-of-service benefits accumulated over the years as a lump sum or invest a portion of it.<br>• Employees have the flexibility to also contribute to the pension scheme from as little as Dh100 ($27.22) a month.<br>• Under the pension scheme, employers open individual accounts for their employees and the money will be proportionately distributed. | The Retirement Savings Account is a type of investment account that allows individuals to save for their retirement in a tax-efficient manner. It is a government-approved scheme that encourages people to save for their future. RSAs are typically offered by banks, building societies, life insurance companies, and certain other financial institutions. They are designed to be low risk, meaning they generally offer a lower rate of return compared to other investment options. However, the primary attraction of an RSA is its | Contribution- 18% of earned income with max limit of $30,780 in 2023.<br><br>Note:<br>If one didn't make your maximum contribution in previous years, they're able to carry any unused contribution room forward to use this year or in future tax years until age 71.<br>One can also have more than one RRSP, but the annual contribution limit stays the same, whether contributing to one plan or three.<br>If one over-contributes to RRSP, the Canada Revenue Agency will tax the excess amount at 1% per month. One can overcontribute by $2,000 without a penalty. However, won't get a tax break on |

| | SINGAPORE | DUBAI | AUSTRALIA | CANADA |
|---|---|---|---|---|
| | | | relative safety and stability. A notable feature of an RSA is the flexibility it offers. One can choose how much they want to contribute and when, within certain limits set by the government. | the extra contribution. |
| **TAX INCENTIVE** | The relief amount is the actual amount of SRS contribution made by the contributor and/or the employer (on your behalf) in the preceding year. Contributions to SRS are eligible for tax relief. SRS contributions made on or after 1 Jan 2017 are subject to a cap on personal income tax relief of S$80,000 per Year of Assessment from Year of Assessment 2018.<br><br><u>Investment returns are accumulated tax-free and only 50% of the withdrawals from SRS are taxable at retirement (referred to as a “50% tax concession”).</u> | No substantial tax incentive at present. | The contributions made to RSA are tax-deductible. Additionally, the earnings on RSA are tax-deferred.<br><br>Therefore, enjoying the same tax concessions as superannuation funds. | 1.Lower tax bracket at retirement.<br>2. When you withdraw money from RRSP, one pays tax, though possibly at a lower rate if retired. |
| **INVESTMENT UNIVERSE** | • Fixed deposits<br>• Singapore Government Securities, including Singapore | • National Bonds will invest employee s’ end-of-service | | Cash, Canadian and foreign equities, ETFs, Guaranteed investment certificates (GICs), Savings bonds, |

| | SINGAPORE | DUBAI | AUSTRALIA | CANADA |
|---|---|---|---|---|
| | Savings Bonds (SSBs)<br>• Stocks<br>• Exchange traded funds (ETFs)<br>• Single premium insurance products, including endowment plans. The products' life coverage (including total and permanent disability benefits) is capped at three times the premiums.<br>• unit trusts,<br>• annuity plans.<br>• Shares, REITs and ETFs. | benefits in money markets, such as deposits with banks, sukuks and in the company's income-generating real estate portfolio.<br>• The company will have a low-to-medium-risk approach for this type of investment. | | government bonds and corporate bonds, T- bills, Eligible mutual funds. |
| **WITHDRWAL STAGE** | The contributor may withdraw funds from SRS account at any time. Withdrawals can be made:<br>• in cash;<br>• in the form of investments for the qualifying types of withdrawal.<br><br>1.5% Early Withdrawal penalty | The new voluntary system has come into effective implementation on 1 November 2023. Monthly contribution rates by employers have been set at 5.83 per cent of the monthly basic salary of employees who serve less than five years, and 8.3 per cent of the basic salary of | One can generally access RSA funds once they reach the preservation age, which is currently set at 55 years in Australia.<br><br>Accumulation RSAs - Can choose to receive RSA funds as a lump sum, a regular income stream, or a | Depending on the type of account:<br>1.High-interest RRSP savings accounts<br>2.GICs-Guaranteed Investment |

| | SINGAPORE | DUBAI | AUSTRALIA | CANADA |
|---|---|---|---|---|
| | Withdrawals in the form of monies or investment from your SRS Account are subject to income tax and added to your other taxable income (e.g. employment, rental). It will be taxed based on the prevailing tax rate. The time and circumstances of the withdrawal determine the taxable amount of the withdrawal.<br><br>When a foreigner or Singapore Permanent Resident withdraws from his SRS account, the withdrawal is subject to withholding tax with varying options:<br>1. Withdrawal options in normal course<br>2. Withdrawal on medical grounds<br>3. Withdrawal in full on terminal illness and deemed withdrawal on death | those who serve more than five years. Migrant workers registered by their employers in the system will also have the option to make voluntary contributions, whether in monthly or lumpsum payments which shall not exceed 25 per cent of the total of their total annual salary. The scheme also allows voluntary participation for self-employed individuals, those with freelance work permits, non-nationals working in the public sector, as well as UAE nationals working in the government and private sectors, however with only additional voluntary contributions. | combination of both.<br><br>Pension RSAs- Designed to provide with a regular income in retirement. One can transfer accumulated RSA funds into a pension RSA when one retires, and then receive regular payments from it. The amount of these payments can be adjusted each year to account for inflation and changes in the financial circumstances. | Certificate<br>3. Mutual Funds<br>4. Segregated Fund policies |
| **NO. OF SUBSCRIBERS** | The number of SRS account holders rose by 75 percent from 2020 to 2022 and over the same period, contributions increased from S$12.2 billion to S$16.3 | New Scheme. Insufficient data. | Recently announced. | |



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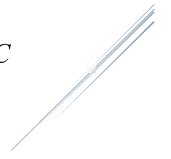

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