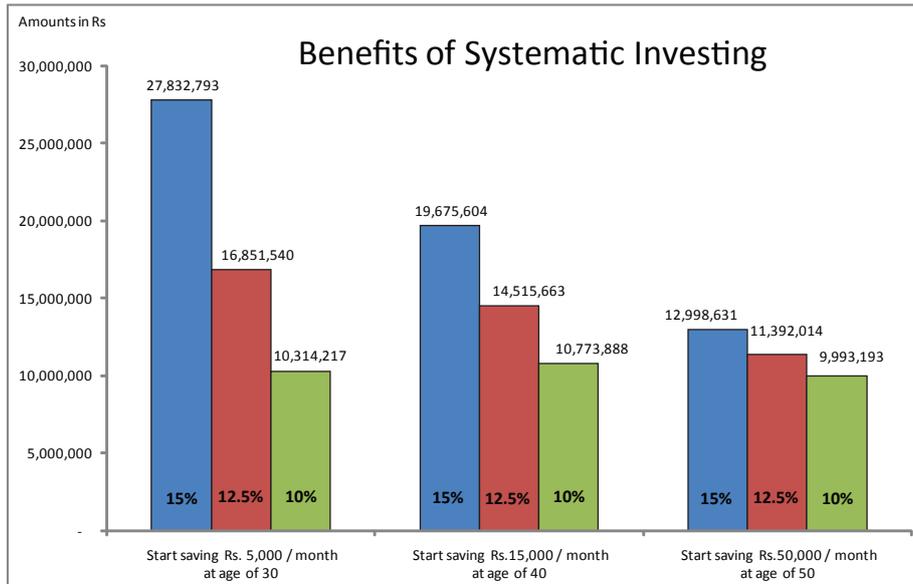




Voluntary Pension Schemes – An Attractive Avenue for Long-term Savings

At a stage in our life we stop working while we still need enough earnings to maintain our lifestyle. This stage is called retirement. In addition, during this time we would ideally like to spend our time relaxing with the family, traveling, and pursuing other interests which we put aside earlier owing to our busy work schedule. To finance all these activities we require savings that generate a regular income stream. A Pension Fund (Voluntary Pension Scheme – VPS) will help accumulate the savings needed to achieve the financial security desired after retirement.

It is recommended that people start saving and accumulating pensions as earlier as possible. An illustration of how systematic investing for a longer duration increases the value of savings growing at annual rate of 15%, 12.5% and 10% is given below:



Voluntary Pension Schemes (VPS) offer added benefits compared to other saving schemes like Provident Fund and Gratuity schemes. In a typical employee scheme, all employees are given similar asset allocation while in VPS each employee can choose an individualized asset allocation based on his/her risk/return profile and time horizon. Individuals are entitled to a tax credit of up to 20 % of the taxable income and an additional catch up rebate of 2% per annum for each year of age exceeding 40 years. Pension Funds continue even after change of employer unlike provident and gratuity funds. Investors can encash 50% of their accumulated balance from their accounts tax free at retirement and can buy annuity for the remaining amount. In case of unfortunate early retirement due to permanent disability the investor is entitled to all the benefits available at the time of retirement.

Following tables show the attractive tax benefits for investing in VPS:

TAX SAVINGS FOR THE SALARIED INDIVIDUALS

Per Month Income (Rs)	Allowable per year investment in Pension Fund for tax credit	Annual Tax Savings as a % of investment	Annual Tax Savings
50,000	120,000	1.7%	2,000
100,000	240,000	5.2%	12,500
200,000	480,000	10.2%	49,000
300,000	720,000	13.9%	100,000
650,000	1,560,000	21.3%	333,000

TAX SAVINGS FOR SALARIED INDIVIDUALS WHO JOIN VPS AT THE AGE OF 41 OR ABOVE

Investor's Age	Per Year Income	Annual Tax on salary	Allowable per year investment in Pension Fund for tax credit*	Annual Tax Savings
45 Years	1,200,000	62,500	360,000	18,750
	2,400,000	245,000	720,000	73,500
	7,800,000	1,665,000	2,340,000	499,500
50 Years	1,200,000	62,500	480,000	25,000
	2,400,000	245,000	960,000	98,000
	7,800,000	1,665,000	3,120,000	666,000
55 Years	1,200,000	62,500	600,000	31,250
	2,400,000	245,000	1,200,000	122,500
	7,800,000	1,665,000	3,900,000	832,500

NAFA has recently launched two Voluntary Pension Schemes, NAFA Pension Fund (NPF) and NAFA Islamic Pension Fund (NIPF). We recommend investors to invest in NAFA Pension Funds to optimize their wealth and enjoy host of other benefits enunciated above.

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