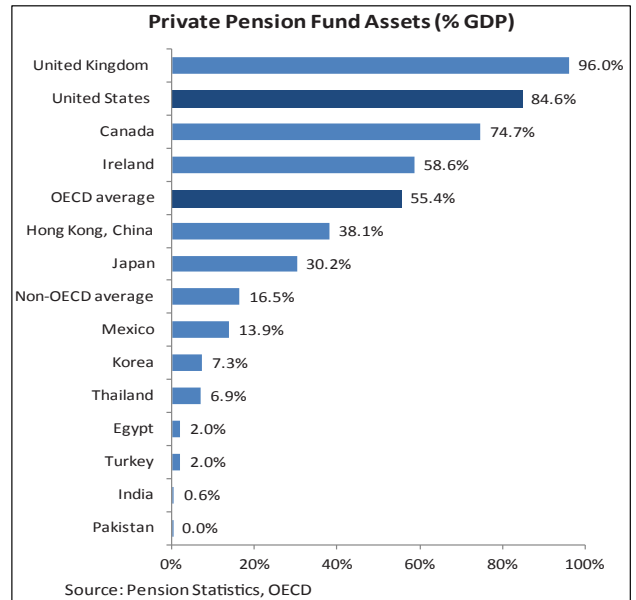


## Voluntary Pension Schemes (VPS) - An Attractive Retirement Savings Product

Savings are an important determinant of economic growth of a country because higher savings lead to higher investments, which in turn boost economic development and prosperity. Weak institutions, political instability, inconsistent economic policies, low rank in ease of doing business, weak judicial system, and unsupportive regulatory framework act as an obstacle for attracting Foreign Direct Investments (FDI) and Foreign Portfolio Investments (FPI) in Pakistan. Hence, much of the difference in economic performance between Pakistan and other developing countries over the last few years could be attributed to low rates of savings and investment in Pakistan. Pakistan's national savings and investments rates currently stand at just around 14.5% and 15.1%, respectively of the GDP. Besides public dissaving, one reason for Pakistan's low savings rate is lower level of contractual savings in the country.



Existing occupational saving and pension schemes, cover only government and private sector corporate employees, and usually remain unfunded or underfunded. Voluntary pension schemes (VPS), offer a retirement saving platform to all private citizens of Pakistan. However, they are in an infancy stage despite good growth during the last few years. According to the latest OECD global pension statistics, private pension assets in Pakistan form less than 0.1% of GDP compared to 55% for OECD countries, and 16% for selected non-OECD countries. Pakistanis, in general are not aware of the existence or attractiveness of these schemes, especially the tax benefits.

Voluntary Pension Schemes (VPS) are an attractive alternative to retirement savings, offering myriad benefits compared to conventional occupational schemes like Provident Fund and Gratuity schemes. For instance, VPS are actively managed by investment professionals, with vast experience and successful performance track record in managing savings and investments. In a typical employee scheme, all employees have similar asset allocation since they are part of the same pool, while in VPS each employee has the flexibility to choose an individualized asset allocation based on his/her risk/return profile determined by the investment time horizon, liquidity needs, and willingness and capacity to take risk. Further, investment allocations being flexible could be changed twice a year. VPS also offer portability and continuity as investors can easily switch between available pension fund managers. VPS offers the participants both shariah compliant and conventional investment options. Unlike Provident Fund and Gratuity Scheme, the pension plan continues even after change of the employer. In addition to this, VPS provide special tax benefits, not available in other Investment vehicles. Individuals are entitled to a tax credit ranging from 20% to 50% of the taxable income, based on their age.

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	Annual Tax Savings	Tax Savings as % of Investment
45 Years	1,200,000	59,500	360,000	17,850	5.0%
	2,400,000	242,000	720,000	72,600	10.1%
	7,800,000	1,662,000	2,340,000	498,600	21.3%
50 Years	1,200,000	59,500	480,000	23,800	5.0%
	2,400,000	242,000	960,000	96,800	10.1%
	7,800,000	1,662,000	3,120,000	664,800	21.3%
55 Years*	1,200,000	59,500	600,000	29,750	5.0%
	2,400,000	242,000	1,200,000	121,000	10.1%
	7,800,000	1,662,000	3,900,000	831,000	21.3%

\*Maximum allowable investment is 50% of the previous year income

NAFA launched two Voluntary Pension Schemes, NAFA Pension Fund (NPF) and NAFA Islamic Pension Fund (NIPF), in July 2013. These pension funds have delivered attractive returns since inception as depicted in the following Table. Investors who invested in NAFA Pension Fund (Equity) have more than doubled the value of their investment in two and a half year. We recommend investors to consider NAFA Pension Funds for their retirement savings to optimize their wealth, and enjoy tax and other benefits enunciated above.

Performance Since Inception of the Funds (July 02, 2013 till October 31, 2015)			
		Cumulative Return	Value of Rs. 100 invested
NAFA Islamic Pension Funds	Equity Sub-Fund	115.8%	216
	Debt Sub-Fund	15.8%	116
	Money Market Sub-Fund	15.5%	116
NAFA Pension Funds	Equity Sub-Fund	115.8%	216
	Debt Sub-Fund	29.8%	130
	Money Market Sub-Fund	17.9%	118