

National Pension System fund managers can invest directly in equities

The interim pension regulator, in a sudden move in mid-January, has allowed fund managers for the private sector National Pension System (NPS) to invest directly into equities. The step by the regulator, while enabling funds to prune transaction costs, has led to worries about the retirement savings of subscribers being exposed to potentially “riskier” investment instruments.

“We have given them two options - either mimic index funds or go in for more active investments by investing in stocks listed on the BSE Sensex or Nifty Fifty or those which have derivatives,” said Yogesh Agarwal, chairman, Pension Fund Regulatory and Development Authority (PFRDA). Till now, the NPS, which was set up for private citizens, offered an option for investing up to 50 per cent of a subscriber’s corpus in equities. But under the guidelines, fund managers could invest only in mutual funds.

“Mutual funds tend to have hidden charges that take their expense ratio to anywhere between 1 to 3 per cent annually. If the NPS truly has to be a low-cost solution, fund managers need to start investing on their own,” Agarwal said, adding that the new norms would not only help reduce transaction costs by two per cent but also improve returns of subscribers.

The interim regulator, though, is yet to communicate the change in investment norms to the existing subscribers of the NPS. Instead, it has left this to the fund managers to explain.

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