INCOME PAYMENT PLAN OFFERED BY ARIF HABIB INVESTMENT MNAGEMENT LIMITED PAKISTAN ISLAMIC PENSION FUND - PIPF

Introduction

At the retirement age, the participants under the Voluntary Pension System have the option to buy an Approved Annuity Plan from a life insurance company or an Approved Income Payment Plan from a Pension Fund Manager.

Income Payment Plan which is also known as Income Drawdown Plan provides an option to the participant to defer purchasing an annuity (an income for life) until several years into retirement. The Plan allows receiving a regular income from the accumulated balance in the Individual Pension Account over the term decided by the participant while it stays invested with the Pension Fund Manager.

Risk Disclosure

Income Payment Plan avoids purchasing an annuity until the age of 75 by leaving accumulated balance invested in a range of assets. Participants must recognize that all investments involve varying levels of risk. The portfolios of the Sub-Funds consist of market-based investments and are subject to market fluctuations and risks inherent in all such investments and the value of Units of the Sub-Funds can fall as well as rise. It should also be noted that future annuity rates could be lower or higher than those available today, Income Payment Plan maintains the risk on the investor as opposed to a traditional pension annuity where the investment risk is taken on by the insurance company offering the annuity. The participants should read the Offering Document carefully to understand the investment policies, risks and tax implication and should consult legal, financial or tax adviser before opting for the Income Payment Plan.

Income Payment Plan offered by Arif Habib Investment Management Limited is as follows:

1. Options at retirement

When the Participant decides on his retirement age which can be any date between sixty and seventy years, the Participant is required to inform the Pension Fund Manager the chosen date of retirement by completing the prescribed Retirement Option Form (Form AHI-VPS-06) and submitting it at the Authorized Branch or office of the Distribution Companies at least thirty days before the chosen date of Retirement.

Participants have the following options:

(a) Withdraw up to 25% of the amount in his/her Individual Pension Account as cash, without being charged for tax on this amount

(b) Use the remaining amount to purchase an Approved Annuity Plan from a life insurance company of his/her choice; or,

(c) To enter in to an agreement with the Pension Fund Manager to withdraw from the remaining amount, monthly instalments till the age of 75 years or earlier, according to an Income Payment Plan, approved by the Commission.

The scheme provides every Participant an option to withdraw as tax-free lump-sum up to 25% of the balance in the Individual Pension Account. However, the more cash is withdrawn as tax-free lump-sum, the lesser pension shall be available from the Income Payment Plan during retirement and vice versa. Further it is not necessarily that every Participant needs full 25% of cash lump-sum at retirement. Lower the amount of lump-sum withdrawn, higher will be the pension payments. Furthermore the tax rate applicable on pension payment is likely to be lower than the tax rate on full income prior to retirement.

2. Eligibility

A Participant would be eligible to opt for an Income Payment Plan, at any time, after achieving the retirement age, as referred in clause (c) of Para 1 above. However, the participant can not opt for the Income Payment Plan if he has already purchased an Approved Annuity Plan from a life insurance company.

3. Features and Mechanics of the Income Payment Plan

When the Participant decides to start taking pension benefits, the participant first decides whether he/she wants to take a tax free cash sum. If the Participant decides to draw tax free cash, the sum of cash is transferred to the respective bank account of the participant and the balance amount breaks down into **two parts:** i.e. Part-A and Part-B:

Part A: Invests in the approved **PIPF Debt Sub-Fund** that *targets* to earn at least inflation, to provide a regular and stable real income (purchasing power) every month throughout drawdown period.

A portion of Part-A which will be used to pay current year monthly pensions, will be invested in the approved **PIPF Money-Market Sub-Fund** to further reduce volatility.

The portion of the Individual Pension Account to be placed in Part A will be calculated as follows:

$$\text{Part A} = \frac{\text{Accumulated Balance * (Age till Termination of IPP less retirement age)}}{\text{Years to live after retirement (Assumed as per average Life Expectancy)}}$$

For this purpose the insurance company assumes a life-expectancy of 85 years for an individual aged 75 (willing to purchase an annuity).

Each month a payment is withdrawn from this accumulated balance (in PIPF Money Market Fund) according to the following formula:

$$\text{Pension Payment} = \frac{\text{accumulated balance at beginning of the month}}{\text{No. of drawdown payments remaining for the year}}$$

Two things are evident from this formula:

- This would ensure that Part A reduces to zero by the end of the drawdown period and not before that. At end of the Drawdown period, an Approved Annuity Plan will be purchased with the balance in Part B.
- Monthly Pension will not remain constant throughout, instead is expected to increase each month due to the investment income earned on money market investments.

Monthly Payments under the Income Payment Plan shall be subject to tax at the then tax rates applicable to that individual.

Part B: Invests in the approved **PIPF Equity Sub-Fund and PIPF Debt Sub-Fund** till termination of Income Payment Plan. At the time of termination of Income Payment Plan, total balance in this Part shall be used to purchase an Approved Annuity Plan from an insurance company of the Participant's choice.

The portion of accumulated balance to be placed in Part B will be calculated as follows:

$$\text{Part B} = \frac{\text{Accumulated Balance* (Years to live after retirement less age till termination of IPP)}}{\text{Years to live after retirement (Assumed as per average life expectancy)}}$$

The portion of accumulated balance Placed in **Part-B** will be invested in both the approved **PIPF Equity Sub-Fund** and **PIPF Debt Sub-Fund** as per the following table:

Part B – Allocation Scheme *Years to termination of Income Payment Plan* are complete years to termination of Income Payment Plan at any date. So 3.1 or 2.9 years would be considered 3 years for the purpose.		
Years to termination of Income Payment Plan	**% of Part B invested in PIPF Equity Sub-Fund**	**% of Part B invested in PIPF Debt Sub-Fund**
10 or more	100%	0%
9	90%	10%
8	80%	20%
7	70%	30%
6	55%	45%
5	40%	60%
4	30%	70%
3	20%	80%
2	10%	90%
1	0%	100%

This table illustrates percentages set at different durations of Income Payment Plan. **However, the risk that Part B over the period invested does not rise in value as much as expected which may lead to lower real monthly annuity compared to the last withdrawn monthly pension from the Income Payment Plan.**

4. Payment of Pension

Drawing from the Income Payment Plan will commence after completing one month in the Plan. The payment will be made on the 25th day of every month, (or the first working day following that in the event the 25th is a closed day). AHIM will issue the instructions to the Trustee to credit the amount to the Participants designated banker.

Monthly payments under the Income Payment Plan shall not be in excess of the amount calculated through formulas mentioned in para (3) above.

5. Investment Policy

Investment in sub-funds will be made in accordance with the Investment Policy prescribed by the Commission from time to time.

6. Fees and Charges

Fees and Charges will be charged in line with the provisions of the Trust Deed. The Commission may review the fees specified from time to time and any change shall also be applicable to the Income Payment Plan.

7. The advantages and disadvantages of Conventional Annuities and Income Payment Plans:

Advantages and disadvantages of annuities and Income Payment Plan are as under:-

Advantages of the Conventional Annuities:

- Simple, easy to understand
- Once set up, income is fixed and secure
- The income will never run out, however long an individual is alive
- Available for funds of all sizes
- No ongoing reviews required
- No investment risk: not affected by stock market falls, or economic slumps

Disadvantages of the Conventional Annuities:

- Can be inflexible
- Cannot be changed
- An annuity (without value protection) cannot generally be passed on to the successors as a lump sum
- Current annuity plans do not offer any inflation protection
- Current annuity rates are perceived to be low
- Spouse's benefits must be set up at outset – so can be wasted on divorce or if spouse dies first
- Not affected by stock market rises

Advantages of the Income Payment Plan (unsecured Pension) before age 75

- An individual does not have to make a one-off decision
- Individual retains investment choice and control
- Can potentially pass the unutilized fund in lump-sum on to the successors (less tax where applicable)
- More flexible

- An individual can plan the income he receives to match his requirements
- Participants achieve their lifestyle through the monthly withdrawals in an increasing pattern attempting to keep up with rising inflation
- Potential for growth and increasing income

Disadvantages of the Income Payment Plan (unsecured Pension) before age 75:

- More complex, an individual may need advice
- Requires regular review

8. Death of the participant

In case of death of a participant before the completion of the Income Payment Plan, all the units of the sub-funds in Part A and Part B to his credit shall be redeemed at the net asset value notified at close of the day of intimation of death and the amount due shall be credited to his Individual Pension Account, which shall earn the applicable market rate of interest for such deposits.

The total amount in the Individual Pension Account of the deceased participant shall be divided among the nominated survivors according to the percentages specified in the nomination deed and each of the nominated survivor shall then have the following options, namely :-

(a) withdraw his share of the amount subject to the conditions laid down in the Income Tax Ordinance 2001 (XLIX of 2001);

(b) transfer his share of the amount into his existing or new individual pension account to be opened with the Pension Fund Manager, according to VPS Rules;

(c) use his share of the amount to purchase an annuity on his life from a Life Insurance Company, only if the age of the survivor is fifty-five years or more;

(d) use his share of the amount to purchase a deferred annuity on his life from a Life Insurance Company to commence at age fifty-five years or later.

9. Nominee

The individual participant may designate and also change the Nominee under the Income Payment Plan. In registering a nomination, the Pension Fund Manager does not accept any responsibility as to its validity, legal effect or meaning.

10. Term of the Income Payment Plan

There is no maximum term for the Income Payment Plan as long as the plan terminates at or before age 75, at which point the individual has to purchase an annuity or withdraw the funds after paying tax on them. Plan must however be of at least one complete year.

11. Transfer of Funds under Income Payment Plan

The Participants have the options during the tenure of the Income Payment Plan to transfer the remaining balance (Part A & Part B) to another Pension Fund Manager or life insurance company to purchase an Approved Income Payment Plan or an Approved Annuity Plan respectively. No fee will be charged to participants in case of incoming transfers into the Income Payment Plan.

12. Winding Up

In the event of winding up of the Pakistan Islamic Pension Fund the units standing to the credit of the Participants will be dealt with in the light of VPS Rules, 2005 and Trust Deed.

13. Validity of the Terms of the Income Payment Plan

Should there be any changes in the Income Tax Ordinance or due to any directive given by the Commission under the Voluntary Pension System Rules in respect of the Income Payment Plan, the Pension Fund Manager may vary the benefits and conditions as directed by the Commission. Notice in writing of any such variation shall be sent to last address of the individual recorded by the Pension Fund Manager.

14. Approval

The Income Payment Plan of Arif Habib Investment Management Limited has been approved by the Commission.

However, it must be distinctly understood that such Approval or authorisation neither implies official recommendation by the Commission to contribute into the Pension Fund nor does the Commission take any responsibility for the financial soundness of the Income Payment Plan offered by Arif Habib Investment Management Limited.

15. Risk disclosure

- The Sub-Fund(s) target return cannot be guaranteed. The portfolio of the Sub-Fund(s) is subject to market fluctuations and risk inherent in all such investments. It should be noted that the value/price of Units of the Sub-Funds can fall \as well as rise.

- Income drawdown will reduce the size of accumulated balance and the investment growth may not be sufficient to maintain the level of income. The level of income taken out may need to be reviewed if the balance amount becomes too small.
- Investment performance may be lower than the assumptions made.
- The income received may be lower or higher than the amount that could have been received from an annuity, depending on the performance of investments.
- As annuity rates can change substantially and rapidly, there is no guarantee that at the time of purchasing an annuity, the rates will be favourable.
- The Units of Sub-Funds are not bank deposits and are neither issued by, insured by, or the obligation of the Commission, any Government agency, any of the shareholders or the Pension Fund Manager, or any other bank or financial institution.

Conversely, purchasing a life annuity at retirement is advised in the following circumstances:

- The retiree expects to live longer than the average life expectancy assumed in annuity prices.
- The retiree is of the view that interest rates would fall in future.