

From 1st July 2008, tax free employer contributions to Provident Funds limited to Rs 100,000 pa

Up to 30 June 2008, employer contributions to Provident Funds up to 10% of basic pay were not taxable to employees. But under the Finance Act, 2008, from 1 July 2008 employer contributions in excess of 10% of basic or Rs 100,000 pa, whichever limit is lower, will be added to the taxable income of employees.

Employee contributions to Provident Funds are not tax deductible by the employee. He pays these from his after tax income.

Provident Funds are the bedrock of retirement benefits sponsored by Pakistani employers. No reason was stated for this change.

Nominal yields under National Savings Schemes increased on 24th June 2008

Nominal yields were increased for new investments made on or after 24 June 2008 in National Savings Schemes. The new rates, and the previous rates, are stated below.

Certificate	Nominal yield from 24 June 2008	Nominal yield up to 23 June 2008
10 year Def Sav Cert, if held to maturity	12.16 % pa	10.03 % pa
3 year Special Savings, if held to maturity	11.50 % pa	9.34 % pa
10 year Pensioners/Bahbood	13.56 % pa payable monthly	11.52 % pa payable monthly
5 year Regular Income	11.52 % pa payable monthly	9.24 % pa payable monthly

The official inflation rate for the year to June 2008 was 12.00%. If inflation continues at this rate, the real yields net of inflation would be:

DSC held to maturity:	0.14 % pa
SSC held to maturity:	(-) 0.45 % pa
Pensioners/Bahbood:	2.17 % pa
Regular Income:	0.13 % pa

These real yields would be reduced by income tax and zakat, where applicable. But the heaviest tax is inflation.

Fixed return investments are a gamble on future inflation. If inflation goes down, the lender gains and the borrower loses.

Suppose you bought a DSC on 30 June 1997, which matured on 30th June 2007. The nominal yield was 18.04% pa compound. During this period, average CPI inflation was 5.75% pa compound. The return net of inflation was a whopping 11.62 % pa compound, (or 11.39 % pa net of zakat). Government took a beating: no government can afford such high real rates.

If inflation goes up, the lender loses and the borrower gains. If you had bought an SSC on 30 June 2005 and held it to maturity till 30th June 2008, the nominal yield was 7.05% pa compound, CPI inflation was 9.21%, and the real yield was MINUS 1.98 % pa. Income tax and/or zakat would have reduced this.

UK National Savings offers Index- linked Savings Certificates

UK National Savings and Investments (nsandi.com) offers 3 and 5 year index linked certificates to individuals. Their value is linked to the UK Retail Price Index (RPI). In addition, a yield over RPI is paid, which varies from issue to issue. Currently it is 1% pa above inflation.

The certificates are free from UK Income Tax and Capital Gains Tax. Up to £ 15,000 can be invested in 3 years + another £ 15,000 in 5 year terms. New issues are announced periodically, and £ 15,000 can be invested in each issue.

These certificates are much fairer to both borrower (the UK Govt) and lenders (the public).

If Pakistan's Consumer Price Index gains public credibility and if the budget deficit reduces to a respectable level, then such tax free certificates should be issued in Pakistan. These are big ifs!

For the average Pakistani, especially a retiree, a low real yield of 3% pa or thereabouts would be better than risking unpredictable, widely fluctuating, and perhaps negative real yields.

Akhtar & Hasan needs actuarial students

A career as an actuary offers very good prospects to outstanding pre-engineering HSC or A level students, who excelled in mathematics.

The UK Institute of Actuaries (www.actuaries.org.uk) and the US Society of Actuaries (www.soa.org) hold exams in Pakistan. So it is possible to study here for a world-class actuarial qualification. The exams require very hard work over a period of years.

We have some vacancies in our stipendiary actuarial student scheme. If you know of anybody interested, please ask him or her to apply, if he or she meets these conditions:

passed the Pre-Engg HSC in 2008 with at least 80% average, including 85% in Maths; OR

passed three A level subjects in 2008, with A grades in at least two subjects including Maths.

The CV should state all marks or grades, in the SSC, HSC, O levels and A levels, and birth date.

The prospective applicant should visit our website www.akhasan.com, to know more about us, and about the work of an actuary.

Medical fashions in various countries

The following information from the Pakistan Institute of Management's "Management Outlook" of April 2008 shows how medical practices vary from country to country.

In the USA, there are 61 coronary heart by-pass operations each year per 100,000 population. In England and Wales, there are only 6 per 100,000 population.

In France, 3 times as many tranquillisers and sleeping pills are prescribed per person, compared with Spain.

An American with prostate cancer would undergo major surgery, but a Frenchman would get less drastic radiation therapy.

Management Association of Pakistan Seminar on Retirement Planning: presentation by Samee-ul-Hasan

Samee-ul-Hasan of our firm led this well attended seminar on the 13 Aug 2008. His presentation includes statistics on:

Inflation in Pakistan from 30 June 1958 to 30 June 2008.

Real returns net of inflation, income tax and zakat on:

(a) SSC's purchased from 1993 to 2005

(b) DSC's purchased from 1981 to 1998

(c) Investments in KSE 100 Index from 2001 to 2008

Improvement in Pensioners' Mortality and expectation of life

Increase in hospitalisation with age

He analysed who bears the various risks under DB Pensions, DB Gratuities and DC schemes. The presentation is on our web-site, and you may find it interesting.

The vanished silver rupee and the thrifty Mughal cavalry-man

The rupee was one tola (=11.666 grams) of silver from time immemorial. In 1942, because of World War II, the British Indian government halved the silver. And it is now a copper coin.

The pay of a Mughal cavalry-man was Rs 5 per month. It is said that he spent Re 1.25 on himself, Re 1.25 on his horse and sent Re 1.25 to his family, which was enough for one month.

And he saved the remaining Re 1.25.