

# National Pension System

## What is NPS?:

### About NPS

National Pension System (NPS) is an investment cum pension scheme initiated by Government of India to provide old age security and pension of all citizen of India. NPS was rolled out for all citizens of India on May 01, 2009. The Scheme is regulated by Pension Fund Regulatory and Development Authority (PFRDA). The prime objective of the scheme is to provide social security to all citizens of India with an attractive long term savings avenue to plan for retirement through safe and reasonable market based returns.

A Citizen of India including NRI between age group of 18 and 65 years can join this Scheme. Subscriber can continue investing in the Scheme till the age 70 years after joining it.

*\*OCI and PIO are not eligible to join NPS*

### How NPS works?

The scheme is based on unique Permanent Retirement Account Number (PRAN) which is allotted to each subscriber upon joining. Subscriber contributes towards NPS periodically to accumulate corpus for retirement during his / her working life. On retirement or exit from the scheme, Corpus is made available to him / her with a mandate to invest some portion in annuity post retirement to get monthly pension.

### Types of NPS accounts

Each subscriber who joins the NPS is allotted a unique Permanent Retirement Account Number (PRAN). There are two types of accounts available to subscribers.

**Tier I account** is known as Pension Account where subscribers contribute his / her savings for retirement. This account has limited withdrawal options. All Investments for availing of Tax Benefits is done only in NPS Tier I Account.

**Tier II account** is known as Investment Account and optional to the subscribers. Subscribers are free to withdraw their savings as per their requirement without any exit load. An active Tier I account is a pre requisite for opening of a Tier II.

### Operating Tier I and Tier II NPS account:

Particulars	Tier I Account	Tier II Account
Minimum Initial contribution required	Rs. 500	Rs. 1000
Minimum Annual contribution required	Rs. 1000	Nil
Minimum contribution at any time	Rs. 500	Rs. 250
Minimum no. of contributions required per annum	1	Nil

*\*Tier I and Tier II account are tagged to same PRAN #. It's mandatory to open Tier I account once subscriber opts for NPS however opening Tier II account is optional.*

### **Tax Benefits under Investment in NPS:**

<b>NPS Account</b>	<b>Tax Benefit</b>
<b>Tier I</b>	<b><u>Self - Employed Individuals:</u></b> <ul style="list-style-type: none"><li>• Investment up to 20% of Gross Annual Income is deductible from taxable income u/s 80CCD (1) of Income Tax Act, 1961 subject to 1.5 lakhs limit of section 80C</li><li>• Additionally, investment up to Rs.50,000 is deductible from taxable income u/s 80CCD (1B) of Income Tax Act, 1961</li></ul> <b><u>Salaried Individuals:</u></b> <ul style="list-style-type: none"><li>• Investment up to 10% of Salary (Basic + Dearness Allowance) is deductible from taxable income u/s 80CCD (1) of Income Tax Act, 1961 subject to 1.5 lakhs limit of section 80C</li><li>• Additionally, investment up to Rs.50,000 is deductible from taxable income u/s 80CCD (1B) of Income Tax Act, 1961</li></ul>
<b>Tier II</b>	There is no tax benefit on investment towards Tier II NPS Account

### **Other Features of the scheme:**

- **Simple and Easy to understand:** NPS scheme remains same irrespective of the Service Provider. All applicant has to do is to open an account with any one POPs and get a Permanent Retirement Account Number (PRAN)
- **Low Cost:** Compared to similar market linked Pension schemes, NPS is the lowest cost pension scheme. Administrative charges and fund management fee are also lowest.
- **Portability:** NPS account is fully portable across different jobs and locations. NPS account number remains the same throughout irrespective of change of job or location of the Subscriber
- **Online accessibility:** Upon joining Subscriber receives CRA enabled online system access details (login ID and Password) to access his / her investment details online
- **Flexible Contribution mechanism:** Subscribers can chose to make Lumpsum adhoc contribution or set up ECS in his / her NPS account. He can choose to make increase / decrease contribution amount along with change in frequency as per his / her choice.
- **Prudently Regulated:** Transparent investment norms, regular monitoring and performance review of funds by NPS Trust

### **NPS Architecture and Intermediaries:**

NPS has un-bundled architecture where different activities are performed by different entities (intermediaries) as shown below:

<b>Activity</b>	<b>Who manages it</b>
Sourcing of Customers	It is managed by financial institutions registered with PFRDA. They are called Point of Presence (POP)

Back office Operations	Activities like NPS account opening, system support, call centre support, customer grievance redressal support etc are managed by separate entity and is known as Central Recordkeeping Agency (CRA) – Karvy / NSDL.
Fund Management	Fund houses having strong patronage and track record of providing superior market based returns have registered with PFRDA and are known as Pension Fund Managers (PFM). Currently eight Pension Fund Managers are appointed by PFRDA
Providing Pension	It's taken care of by Life Insurance companies. They are called Annuity Service Providers (ASP) – Currently Five Annuity service providers are appointed PFRDA for NPS subscribers
Custody of funds	Custodians are responsible for the custody of underlying assets bought by PFMs. It is taken care of by Stockholding Corporation of India Limited. (SHCIL)
Channelization of money	Channelization of money from POP to PFM and PFM to Customer is taken care through a designated bank. It is known as Trustee Bank (TB) – AXIS Bank is Trustee bank

**Pension Fund Managers:**

There are currently 8 Pension Fund managers registered with PFRDA:

HDFC Pension Fund Management Company Limited

Reliance Capital Pension Fund Limited

UTI Retirement Solutions Limited

Kotak Mahindra Pension Fund Limited

LIC Pension Fund Limited

SBI Pension Funds Limited

ICICI Prudential Pension Funds Management Company Limited

Birla Sunlife Pension Management Limited

**Investment Pattern:**

NPS offers below funds options for investment to its Employees:

**Equity (E):** A 'high return – high risk' fund that invests predominantly in equity market instruments. (It is capped at 50% under Active choice.)

**Corporate Debt (C):** A 'medium return – medium risk' fund that invests predominantly in fixed income bearing instruments (such as bonds issued by entities other than Central and State governments)

**Government Securities (G):** A 'low return – low risk' fund that invests purely in fixed income bearing instruments (such as bonds issued by Central and State government)

**Alternate Investment Fund (A) :** Investment under this Fund is made in commercial mortgage based securities or Residential mortgaged based securities, units issued by Real Estate Investment Trusts regulated by SEBI, Asset backed securities regulated by SEBI, units of Infrastructure Investment Trusts regulated by the SEBI. (It is available in Active choice only and capped at 5%

Further NPS offers its Subscribers the flexibility to design their own portfolio via below two investment approaches –

**Active choice:** Depending on the risk appetite of the Subscriber, he/ she can design his/ her portfolio by allocating funds across any of the four asset classes. Under Active choice, Investment towards Equities

and Alternate Investment Fund is capped at 75% and 5% of the total contribution respectively. However if any subscriber wants to contribute 100% of contribution towards Corporate Bonds or Government securities that is allowed.

**Auto-choice / Life cycle Fund:** In this approach, the pension fund will be invested in the three asset classes (E, C and G) in the defined proportions based on the age of the Subscriber as per the chosen Life Cycle Fund. For e.g. For Subscribers in younger age group, higher exposure to Equities would be available and as the age nears the retirement exposure to Government securities would be increased. Auto choice further offers the employee the choice between the below Life Cycle Funds as per his/her risk appetite:

LC- 75 Aggressive life Cycle Fund

LC- 50 Moderate life Cycle Fund

LC- 25 Conservative life Cycle Fund

**Investment Pattern chart for LC - 75**

**Aggressive life Cycle Fund is stated below:**

Age of Subscriber	E	C	G
< = 35 years	75%	10%	15%
36	71%	11%	18%
37	67%	12%	21%
38	63%	13%	24%
39	59%	14%	27%
40	55%	15%	30%
41	51%	16%	33%
42	47%	17%	36%
43	43%	18%	39%
44	39%	19%	42%
45	35%	20%	45%
46	32%	20%	48%
47	29%	20%	51%
48	26%	20%	54%
49	23%	20%	57%
50	20%	20%	60%
51	19%	18%	63%
52	18%	16%	66%
53	17%	14%	69%
54	16%	12%	72%
> = 55 years	15%	10%	75%

**Investment Pattern chart for LC - 50**

**Moderate life Cycle Fund is stated below:**

Age of Subscriber	E	C	G
< = 35 years	50%	30%	20%
36	48%	29%	23%
37	46%	28%	26%
38	44%	27%	29%
39	42%	26%	32%
40	40%	25%	35%
41	38%	24%	38%

42	36	23	41
43	34	22	44
44	32	21	47
45	30	20	50
46	28	19	53
47	26	18	56
48	24	17	59
49	22	16	62
50	20	15	65
51	18	14	68
52	16	13	71
53	14	12	74
54	14	12	74
55	14	12	74

**Investment Pattern chart for LC - 25 Conservative life Cycle Fund is stated below:**

Age of Subscriber	E	C	G
< = 35 years	25%	45%	30%
36	24%	43%	33%
37	23%	41%	36%
38	22%	39%	39%
39	21%	37%	42%
40	20%	35%	45%
41	19%	33%	48%
42	18%	31%	51%
43	17%	29%	54%
44	16%	27%	57%
45	15%	25%	60%
46	14%	23%	63%
47	13%	21%	66%
48	12%	19%	69%
49	11%	17%	72%
50	10%	15%	75%
51	9%	13%	78%
52	8%	11%	81%
53	7%	9%	84%
54	6%	7%	87%
55	5%	5%	90%

- Subscriber can switch between Pension Fund Managers once in a financial year

- Subscriber can switch between Investment Pattern i.e. from active to auto choice or vice-versa and asset allocation twice in a financial year

**Charges applicable under NPS (Exclusive of GST)**

Intermediary	Charge Head	Charges	Frequency of deduction	Mode of deduction
POP (Service Provider)	Subscriber Registration	Rs.200/-	One time	From the contribution amount / paid by subscriber up front
	Contribution Processing*	0.25%	On each transaction	
	Non – Financial Transaction Processing	Rs.20/-		
	Persistency Charge#	Rs.50/-	Per annum after first year	From NPS Account (by cancelling the units) on the last day of the calendar quarter
CRA (Karvy)	PRAN Generation	Rs.39.36/-	One time	From NPS Account (by cancelling the units) on the last day of the calendar quarter
	Account Maintenance	Rs.57.63/-	Per annum	
	Financial Transaction Processing	Rs.3.36/-	On each transaction	
Fund Manager	Investment Management	0.01%	Per annum	Recovered through NAV deductions
Custodian	Asset Servicing	0.0032%		
NPS Trust	Trust Management	0.005%		

\*Minimum Rs.20 and Maximum Rs.25,000 per contribution

# Applicable only on Retail NPS accounts

**Partial withdrawal from NPS Tier I account:**

- Partial withdrawal is allowed after three years from the date of Tier I account opening
- Subscriber can withdraw up to 25% of his own Contributed amount (and not the Corpus) from Tier I Account
- Partial withdrawal is allowed only for specific emergencies like child's marriage, higher education, buying home, treatment of critical illness etc

- Maximum 3 withdrawals are permitted during entire life span

### **Exiting NPS membership**

Subscriber can close his / her NPS account after 10 years of account opening or attaining the age 60 years whichever comes first

### **Pre- Mature Exit: Closure of NPS account before attaining the age 60 years**

- Up to 20% of Corpus can be withdrawn in lump sum
- Balance Corpus mandatorily to be invested in Annuity
- If the total Corpus is less than or equal to Rs. 1 lakh, there is no mandate to invest in to Annuity

### **Exit on Maturity: Closure of NPS account on attainment of 60 years**

- Up to 60% of Corpus can be withdrawn in lump sum
- Balance Corpus mandatorily to be invested in Annuity
- If the total Corpus is less than or equal to Rs. 2 lakh, there is no mandate to invest in to Annuity

Subscriber can avail either of the below flexibilities on exit at the age of 60 years:

### **Continuation with the Account till 70 years**

- Subscriber gets the flexibility to keep investing till the age 70 years

### **Deferment of Investment in Annuity**

- Subscriber can defer annuity investment upto 3 years from the retirement age
- The amount will remain invested with the Fund Manager and will keep on growing

### **Deferment of Corpus withdrawal**

- Subscriber can withdraw the amount any time before attaining the age 70 years
- Subscriber can withdraw the amount in lump sum or in installments (maximum 10 installments allowed)
- The amount will remain invested with the Fund Manager and will keep on growing

For customers who joined NPS after 60 years of age, below Exit rules apply to them:

### **Exit on Maturity:**

- Subscriber can exit after completion of 3 years from the date of joining NPS
- Up to 60% of the corpus can be withdrawn in lump sum and balance has to be annuitized

### **Pre-Mature Exit:**

- Subscriber exiting before completion of 3 years would be considered as Premature exit
- Up to 20% of corpus in lump sum can be withdrawn and balance has to be annuitized

Subscribers joining NPS post 60 yrs can continue to contribute max till 70 yrs however they do not have the option to defer annuity or lump sum withdrawal

*\*In case of death of the subscriber during fund accumulation phase, the corpus accumulated in the NPS account can be claimed by the nominee/ legal heir*

## **Tax Treatment at the time of Exit from NPS Tier I account:**

- Tax Treatment on Lumpsum corpus withdrawal
  - **Partial Withdrawal:** Corpus withdrawn is tax exempt
  - **Pre-Mature Exit:** Corpus withdrawn in lump sum is tax exempt
  - **Exit on Maturity:** 40% of Corpus withdrawn in lump sum is tax exempt. subscriber can take out balance 20% of Corpus by paying tax (if falling into tax bracket) or invest in Annuity

*The Union Cabinet in its Meeting on 6th December, 2018 has **enhanced** the **Tax exemption** limit for lump **sum withdrawal 60%** from 40%. With this, the entire withdrawal will now be exempt from income tax. This is **expected to happen effective 1st April 2019** with appropriate change in tax rule.*

- Tax treatment on Annuity
  - Amount invested in Annuity is tax exempt
  - Pension received out of investment in annuity is treated as Income and will be taxed appropriately, if subscriber is falling into any tax bracket

## **Investment in Annuity**

- On retirement / exit from NPS before retirement, Subscriber needs to select an Annuity Service Provider and Annuity Scheme to avail of monthly Pension out of the investment towards Annuity
- Annuity Service Providers (Life Insurance Companies)
  - HDFC Standard Life Insurance Company Limited
  - ICICI Prudential Life Insurance Company Limited
  - LIC Of India
  - SBI Life Insurance Company Limited
  - Star Union Di-ichi Life Insurance Company Limited
- Subscriber can compare the annuity rates of the above ASP under the below are the Annuity Schemes and chose annuity plan and annuity service provider at the time of Exit:
  1. Pension payable for life at a uniform rate to the Subscriber only
  2. Pension for life with return of purchase price on death of the Subscriber
  3. Pension for life with a provision of 100% of the annuity payable to spouse of the annuitant during his/her lifetime on death of the annuitant
  4. Pension for life with a provision of 100% of the annuity payable to spouse of the annuitant during his/her lifetime on death of the annuitant with return of purchase price on death of last survivor