NPS Pension Scheme – Details, Benefits, Rules, Withdrawal, Account Opening

There are many *pension investment schemes in India* that provide either a regular pension or attractive returns on your investment, post retirement. **National Pension System – NPS** is a government-backed retirement savings plan for any Indian citizen aged 18-60.

There was time when banks discouraged people from enrolling in NPS as they received only very low fund management fee. Tax payers didn't receive any tax deductions.

The scheme is slowly becoming popular with middle-class tax payers due to constant changes in the rules and better tax saving features. From 2011 onwards, employees could claim tax deductions under Sec 80CCD (1) in addition to Sec 80CCE.

The 2015 financial budget went a step further to make it for private sector employees and self employed. Salaried can claim extra deduction under Sec 80CCD (1B).

Although pension corpus withdrawal is taxable, this may change in near future as PFRDA is mulling over tax exemptions.

NPS DETAILS – NATIONAL PENSION SYSTEM

Compulsory retirement fund for government employees (except army forces)

NPS was introduced in 2009 for central and state government employees to replace old benefit-based scheme. Earlier, pension was based on the average of emoluments (basic salary, DA and standard allowances) earned during the last ten months of service and taking into account total years of service.

Under new scheme (similar to EPF), Indian government matches employees' contribution to the fund. Professional investment managers handle these funds under specified guidelines.

How does NPS work for other individuals?

This scheme is available for 18-60 year olds that include salaried employees, self employed, Indian citizens, and even non-resident Indians.

You can voluntarily join this scheme as an individual or through your company. Recently companies have been given the option to choose between NPS or and EPF. They can offer both pension schemes to their employees.

Some essential details:

1. Enrolled employers match their employees' contribution to NPS.

2. The general scheme has two tiers or accounts. Tier-| is mandatory while Tier-‖ is optional and only operational for those with Tier-| account.
3. Separate Swavalambam Yojna (NPS Lite) for economically-weaker sections
4. Atal Pension Yojna (APY) is for those working in unorganized sector.

Different accounts in National Pension Scheme NPS

This pension system has a two tier structure. Tier-1 is a compulsory account for government employees or company based subscribers. Tier-2, a type of saving accounts, is voluntary for any employee or individual.

Tier-1 pension account –

The initial contribution is Rs500 and minimum annual contribution is Rs 6000. You make a lump sum payment or pay in instalments of Rs 500 or more. I

f you have joined NPS as government employee or through company, you can contribute higher sums of money. Unlike other pension schemes, NPS locks your funds until you retire. Withdrawals are subject to restrictions.

Tier-I account differs for government and non government employee in terms of contribution, fund management, and withdrawals.

From December 2011, you can claim your own and employer contributions under Section 80CCD (1) and 80CCC (2). This is limited to 10% of basic pay and dearness allowance (DA) for both employee and employer contributions.

You can claim extra deduction of Rs 50,000 under Sec 80CCD (1B).

Your employer can record their contributions as business expense and claim tax credit.

Self-employed can claim a tax deduction up to 10% of total income under Sec 80 CCD (1) but has to be within the one lakh ceiling under Sec 80 CCE.

Tier-2 pension account –

This pension account is entirely voluntary and you can withdraw your funds at any time. However, you can only activate this account when you have an active Tier-1 account.

Government or employers do not contribute to this account. Initial contribution is Rs 1000 and minimum annual contribution is Rs 2000. You can make on yearly payment or pay a minimum Rs 250 or more per instalments.

NPS Lite or Swavalamban scheme –

This retirement fund is specifically aimed at providing pension for financially weaker individuals. This combines Tier-1 and Tier-2 system. The government contributes Rs 1000 per year and individuals match this.

Account holders can contribute more and withdraw any amount of money at any time.

Atal Pension Yojana (APY) –

This is for informal sector workers – anyone who has a bank account, don't have social security scheme membership, and don't pay income tax.

APY is open to these individual aged 18-40 and guarantees minimum fixed pension every month after they turn 60 through four pension slab systems. Subscribers remain in scheme for at least 20 years.

What are investment options available in NPS?

To provide you with maximum benefit on investment, PFRDA has provided three classes of assets. *National Pension System NPS* Retirement fund is invested in:

1. E – Equity (stocks) -> high-risk and fluctuating returns
2. G – Central and State government bonds or gilt funds -> Low risk but low returns
3. C – Fixed income securities (non-govt) and risk-bearing instruments with fixed income like fixed deposit, corporate bonds and liquid funds -> Medium risk and medium returns

You, as an individual contributor, you can make investment choices:

Active – when you handle your investment portfolio, you make an *active choice*. You may invest your money in risk-free securities or government bonds. Your colleague may take risks for greater returns and invest more in equity or liquid funds.

Auto – when you leave investment choice to fund managers, you make an *auto choice*. Based on your age, contributions and PFRDA stipulations, your manager will choose relevant investment assets.

Who manages your NPS funds?

Pension Fund Regulatory and Development Authority (PFRDA) has appointed 8 funds managers to handle contribution-related investments. Three manage government employees' funds while 8 handle funds for other individuals. SBI Pension Plan is default fund manager.

- LIC Pension Plan, UTI Retirement Solutions and SBI Pension Plan for government employees.
- UTI Retirement Solutions, SBI Pension Plan, IDFC Pension(merged in 2012 with SBI pension), ICICI Prudential Pension, Reliance Capital Pension and Kotak Mahindra Pension for others.

The best way to invest NPS contributions for future returns?

Before you invest in various instruments, analyse risk and return patterns of each asset (in E, G, and C class), work out portfolio allocation (how much % of funds goes into E, G or C), and then choose fund manager.

How will contributions be invested in various assets?

To protect your investment from stock-market fluctuations, you are currently allowed to invest up to 50% of your savings in equity. You can choose to place 100% of funds in government bonds or medium-risk investments.

Asset allocation for government employees –

From June 2015, 50% retirement savings is invested in government securities and gilt funds, 1-45% in debt funds, 1-5% in short-term debt funds, 1-15% in equity, and 1-5% in miscellaneous investments.

Active Asset allocation by individual –

If you prefer hands-on approach and prefer low-medium but assured returns, then put major percentage or 100% of your funds in G or C class assets. If you are willing to take risks on unpredictable returns, invest anything from1-50% in equity

Auto Asset allocation for individual –

If you are not sure about handling investments, choose this option. By opting for *Auto choice*, you let fund managers handle investment decisions and allocate your pension wealth among different asset classes.

They have to follow age-dependent stipulations specified by PFRDA and stay within prescribed percentages for fund allocation among E (Equity), G (Government Bonds) and C (Corporate Bonds) class assets.

If you haven’t marked any allocation choice in the application, it will be automatically taken as *Auto* and fund managers will handle your investment portfolio.

How does auto investment choice work in NPS?

The PFRDA has taken member's age into account and prescribed different fund allocation percentages among assets. This pre-defined portfolio varies for each investor and is called the Life-cycle fund.

At a lower age, your portfolio will contain high-risk and possible high-return assets. As you grow older, allocation in *National Pension System account* will reflect a conservative approach to risk-taking, and more of your assets will be in the medium-risk and low-risk category.

If you prefer a fund manager handling your portfolio, then auto allocations will be as follows:

1. If your enroll in scheme at minimum age of entry(at 18), 50% of savings fund will be invested in E class (equity or stock), 30% in C class (fixed deposits, corporate bonds) and only 20% in government or gilt funds.
2. This ratio of investment will remain fixed for all past and current contributions until you reach 36 years.
3. When you cross 36, your asset allocation undergoes a yearly change. Stock and medium-risk bearing instruments allocation will reduce by 2% each year, until you complete 55 years of age.
4. As a 55-year-old, your current asset allocation will be 10% in equity, 10% in C class, and 80% in low-risk, low-return gilt funds.

Withdrawing funds from different NPS accounts

Tier-I accounts –

From May 2015, partial withdrawals of contributions up to 25% are allowed under certain conditions. To use this, you have to be a member for 10 years and use amount for approved purposes like medical emergency, child's education or marriage.

This facility is allowed only 3 times during tenure of scheme with 5 year gap between each withdrawal.

Withdrawal of corpus from NPS:

- When you leave NPS before you reach 60, you can withdraw 20% of funds and buy annuity.
- When you turn 60, you can withdraw 60% of corpus but invest the rest in an IRDA annuity.
- You can defer withdrawal till you turn 70.
- You have a grace period of three years to invest in an annuity.
- After subscriber death, before or after maturity, nominee/s can withdraw their full share of corpus.

Investing in annuity post maturity

You buy annuity when you exit the fund or turn 60. Annuity is a series of payments spread over time. The six approved Annuity Service Providers (ASP) have to provide you with monthly pension income from your annuity fund.

There are different annuity schemes some of which also provide part or full pension to spouse after death of pensioner.

Charges and fees associated with National Pension Scheme?

Investors (you) pay handling & administrative charges and fund management fee. The fee is 0.0102% for government employees and 0.25% for others.

Process of opening NPS account

Forms for NPS and relevant information are offered at authorized entities, public and private banks and financial institutions called Points of Presence (POP).

1. Get forms from branches of POP. To find a POP in your area, visit the PFRDA website or this link – https://www.npscra.nsdl.co.in/pop-sp.php.
2. Along with form, submit your Identity Proof, Age/date of Birth Proof and Address Proof of Address.
3. Check status of your application on the website with your 17-difit receipt number.
4. On approval of application, you will receive a 12-digit Permanent Retirement Account Number (PRAN) through email alert or an SMS and a PRAN card by mail.

Other useful features of NPS –

- You can operate National Pension System NPS account from any location in India. You retain same account despite changes in your employment status.
- If you leave private sector job for a government job and vice versa, or you go from salaried to self employed and back, you enjoy benefits under relevant tier- setups in the same account.
- You can shift from one Point of Presence (POP) to another. You are allowed to submit your contributions from any POP in India.
- If you are not satisfied with fund manager or investment asset, you can change fund manager and realign your allocation among E, G, and C class assets. You can go from active choice to auto choice and back anytime during NPS duration.
- If you have Tier I & Tier II accounts, you can have different asset managers for each account and change these managers anytime.

You can add up to three nominees to your account and also change nominations in *Tier I accounts.* You are required to specify pension corpus allocation among the nominees (more than one) in terms of percentage. The individual shares should add up to 100%.

What happens to NPS fund corpus if you die?
In case of death, the nominee gets the lump sum. In case there is no nominee, then the legal heir will get the corpus of the NPS account holder. For more details you can check NPS Trust http://www.npstrust.org.in/.