


National Pension System

Agenda

- Overview - National pension system
 - Why NPS
 - Features of NPS
 - Exit process
- 

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National Pension System

National pension system is a unique scheme launched by Govt. of India which allows citizens of India to effectively plan for their retirement through safe and reasonable market based returns.

A subscriber can contribute regularly in a pension account during their working life, withdraw a part of the corpus in a lump sum and use the remaining corpus to buy annuity to secure their future.

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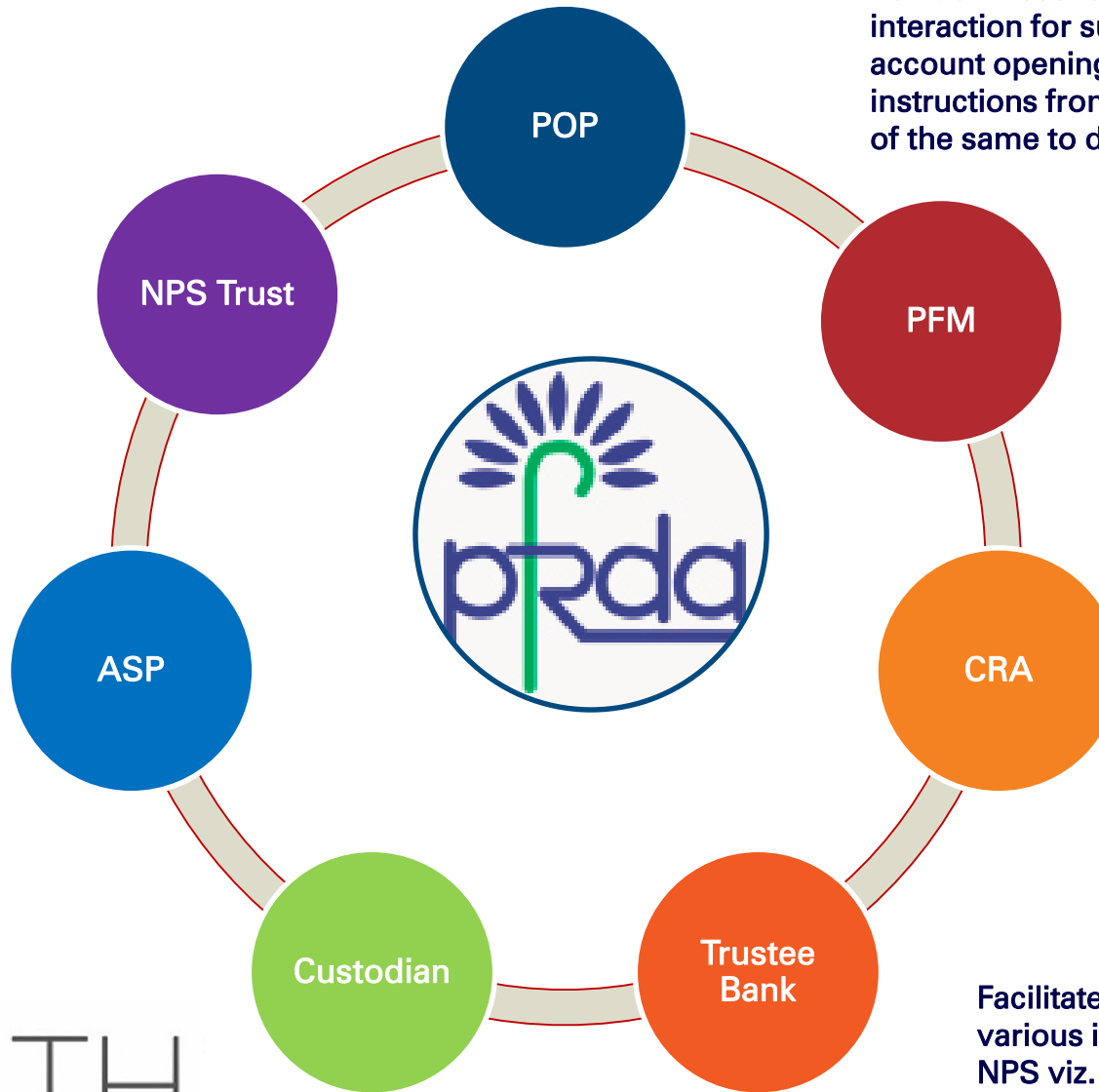
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Understanding NPS eco-system

To be responsible for taking care of the funds under NPS by prudently monitoring / auditing portfolio of Pension Fund Manager on regular basis

Annuity Service Provider: responsible for providing Annuity Service after Subscriber exits from NPS

Responsible for the custody of underlying assets bought by PFMs



Point of Presence: Acts as first point of interaction for subscriber and is responsible for account opening, receiving contributions and instructions from Subscribers and transmission of the same to designated NPS intermediaries

Pension Fund Manager: To be responsible for managing the retirement savings of subscribers under NPS

Central Recordkeeping Agency: responsible for recordkeeping, administration and customer service functions for all subscribers of NPS

Facilitate fund transfers across various intermediaries of the NPS viz. PFMs, ASPs, Subscribers etc.

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NPS: Salient features & benefits

- Portable - Retirement account (with unique PRAN) may be retained across employers, location etc.
- Simple - Standard product designed by PFRDA
- Flexible - Choice of fund managers, investment options, annuity plans, annuity service providers and Point of Presence (POPs)
- Economical - Lowest cost investment product currently available in the market
- Unique tax benefits

Tax benefits

Salaried

- **Employer Contribution**
Up to 10% of salary (Basic +DA) is deductible from taxable income u/s 80CCD(2) of Income Tax Act
- **Employee Contribution**
Additional deduction up to ₹ 50,000 u/s 80CCD(1B)

Tax saving illustration

Income Head	Current	Suggested	
Basic salary	465,000	465,000	
House rent allowance	232,500	232,500	
Special allowance	756,696	710,196	→ Reduce this taxable part of the salary
Leave travel allowance	40,000	40,000	
Telephone reimbursement	-	-	
Food coupons	-	-	
Employer's contribution to provident fund	55,800	55,800	
Contribution to NPS under sec 80 CCD (2D)	-	46,500	→ Up to 10% of the basic salary can be invested in NPS
Total	1,549,996	1,549,996	

Tax saving illustration

Income Head	Current	Suggested	
Provident Fund	55,800	55,800	
PPF	84,200	84,200	
NPS under sec. 80CCE	-	10,000	→ NPS contribution u/s 80CCD (1)
NPS under sec. 80CCD (1B)		50,000	→ Individual Contribution
Contribution to NPS under sec 80CCD (2D)		46,500	→ Employer contribution Up to 10% of the basic salary
Total	140,000	246,500	

Estimated tax benefits

Age	Annual Base Salary	Principal Invested	Interest Earned	NPS Corpus	Estimated Tax Saving
30	300,000	3,398,496	13,187,913	16,586,409	10,50,135
35	300,000	2,193,178	6,271,163	8,464,341	6,77,692
40	300,000	1,372,859	2,784,449	4,157,308	4,24,213
45	300,000	814,563	1,104,570	1,919,134	2,51,700
50	300,000	434,597	354,828	789,425	1,34,290
30	500,000	5,664,161	22,005,234	27,669,395	17,50,226
35	500,000	3,655,297	10,466,054	14,121,351	11,29,487
40	500,000	2,288,098	4,648,467	6,936,565	7,07,022
45	500,000	1,357,606	1,845,037	3,202,643	4,19,500
50	500,000	724,328	593,405	1,317,733	2,23,817
30	1,000,000	11,328,321	44,048,539	55,376,860	35,00,451
35	1,000,000	7,310,594	20,953,280	28,263,874	22,58,974
40	1,000,000	4,576,196	9,308,512	13,884,708	14,14,045
45	1,000,000	2,715,211	3,696,205	6,411,416	8,39,000
50	1,000,000	1,448,656	1,189,846	2,638,503	4,47,635

Assumptions

- 12% expected return on investment
- 8% yearly salary growth
- 10% annual contribution

Power of compounding & starting early

Investor starts investing from the age of	Remaining years for investing	Amount invested per month Rs	Total Amt. invested Rs Lacs	Fund value invested Rs Cr
25 years	35 years	10,000	42.00	5.47
27 years	33 years	10,000	39.60	4.34
29 years	31 years	10,000	37.20	3.44
31 years	29 years	10,000	34.80	2.72
33 years	27 years	10,000	32.40	2.15
35 years	25 years	10,000	30.00	1.69
37 years	23 years	10,000	27.60	1.33
39 years	21 years	10,000	25.20	1.04
41 years	19 years	10,000	22.80	0.80
43 years	17 years	10,000	20.40	0.62
45 years	15 years	10,000	18.00	0.47
47 years	13 years	10,000	15.60	0.36
49 years	11 years	10,000	13.20	0.26
51 years	9 years	10,000	10.80	0.19

- Assuming a retirement age of 60 years
- Annualized growth rate of 12%

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Features of NPS

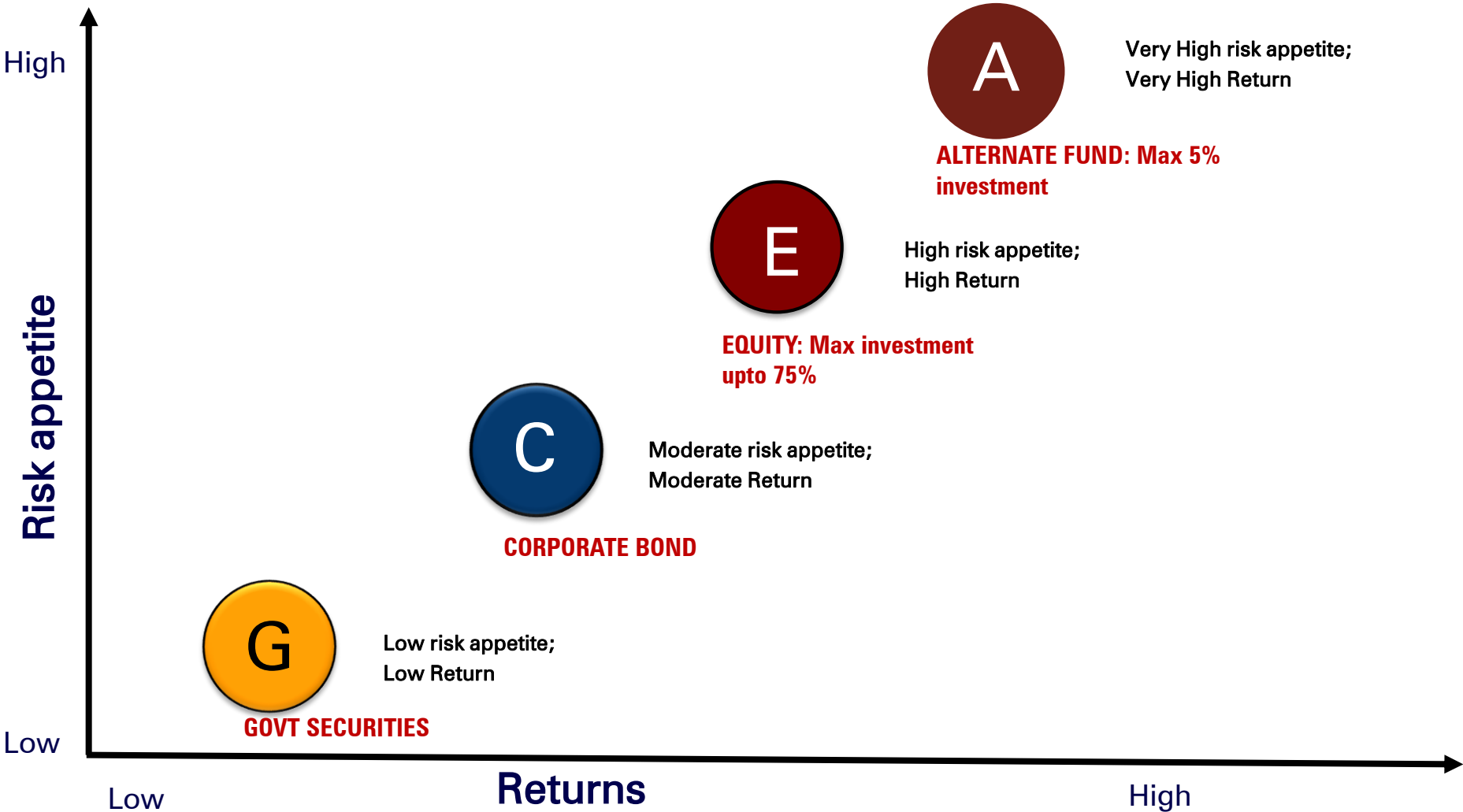
Tier 1

- Mandatory to open
- Restricted & controlled withdrawal
- Eligible for tax benefits
- Minimum contribution of Rs 500 at the time of account opening
- Minimum contribution of Rs 1000 in a financial year

Tier 2

- Voluntary
- No tax benefits
- Subscribers are free to withdraw anytime
- Funds are invested in a similar manner as Tier 1
- Minimum contribution of Rs 1000 at the time of account opening
- Rs 250 is the minimum amount per contribution

Fund options under NPS



*New fund Scheme A – Infrastructure Trust Bonds & Real Estate.

Investment choices

Active Choice

- Subscriber decides fund allocation between Equity(E), Corp. bonds (C) and Govt. Securities(G)
- Up to 75% can be invested in Equity and 5% in alternate assets
- Allocation can be change twice in a FY

Auto Choice

- 3 investment options are available; Aggressive (LC 75), Moderate (LC 50) & Conservative (LC 25)
- Asset allocation between Equity(E), Corporate bonds (C), Govt. Securities(G) depends on age of subscriber



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Exit from NPS

Vesting criteria	Benefits
Upon normal superannuation (60 year)	<ol style="list-style-type: none">1. Min 40% of the NPS corpus should be annuitized.2. The balance 60% is paid as lump sum to the subscriber.3. If the corpus is less than Rs 2 Lacs then full withdrawal is permitted.
Exit from NPS before the age of normal superannuation	<ol style="list-style-type: none">1. Min 80% of the NPS corpus should be annuitized2. The balance is paid as a lump sum to the subscriber and it is tax free3. If the corpus is less than Rs 1 Lacs then full withdrawal is permitted.
Upon death	<ol style="list-style-type: none">1. NPS corpus (100%) would be paid to the nominee/ legal heir of the subscriber and there will be no purchase of annuity2. The nominee can choose to take the annuity as well

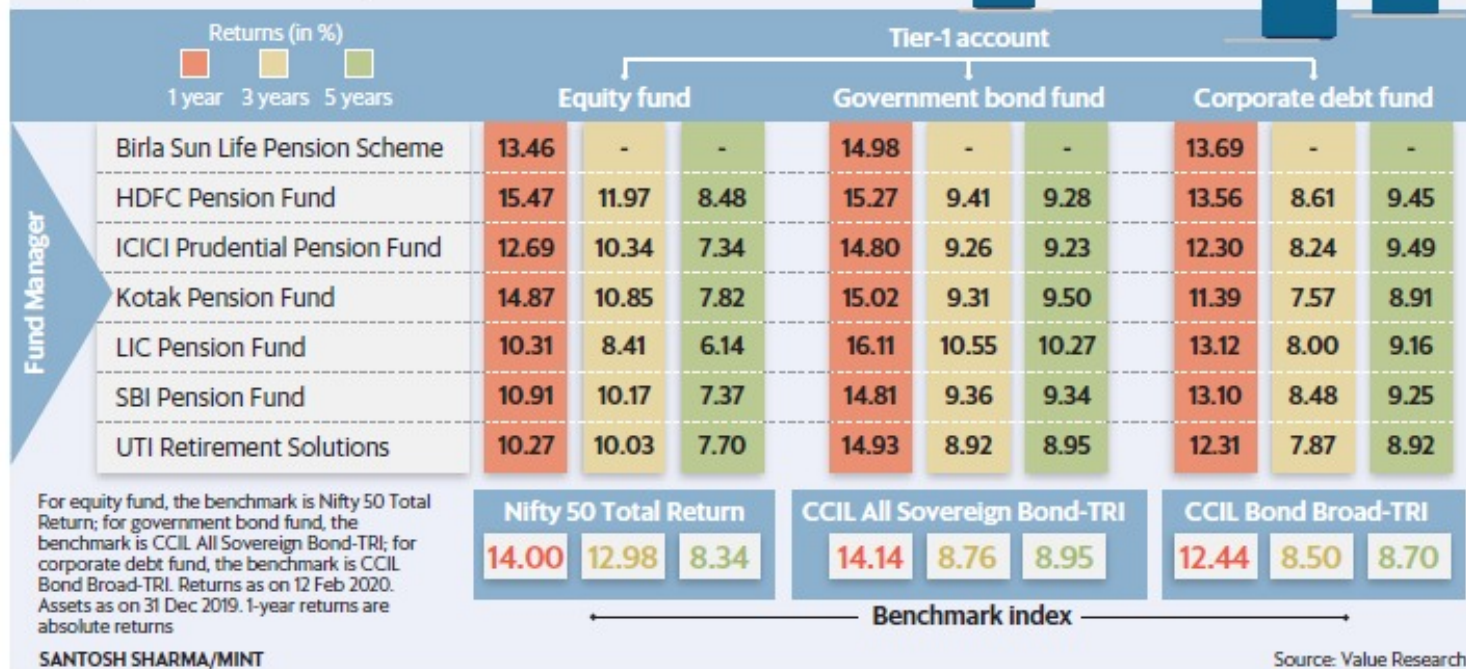
Partial withdrawal from NPS

PFRDA has eased the norms of partial withdrawal from NPS

- Subscriber can now withdraw 3 times from NPS corpus after completing 3 years in the system.
- The gap of 5 years between two withdrawal has been removed
- Subscriber can withdraw 25% of contribution made by them; excluding contribution made by employer & interest generated
- Withdrawal is permitted for the below reasons
 1. Education of self & children
 2. Marriage of children
 3. Due to critical illness of self / spouse / children
 4. Construction / purchase of residential property
 5. For starting a business

Check how your NPS investments are faring

There are very few retirement products that help you accumulate a retirement nest egg and one such product is the National Pension System (NPS). It is a market-linked, defined-contribution product that needs you to invest regularly in the funds of your choice. The returns are based on the performance of the fund that you choose. There are eight pension fund managers to choose from and one of the ways to do that is by tracking the returns. Here is a breakdown of the performance of different funds—equity fund, government bond fund and corporate bond fund—of the private-sector NPS.



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Active allocation

Age	Cap On E	Cap On C	Cap On G	Cap On A
Up to 50	75%	100%	100%	5%
51	72.5%	100%	100%	5%
52	70.0%	100%	100%	5%
53	67.5%	100%	100%	5%
54	65.0%	100%	100%	5%
55	62.5%	100%	100%	5%
56	60.0%	100%	100%	5%
57	57.5%	100%	100%	5%
58	55.0%	100%	100%	5%
59	52.5%	100%	100%	5%
60 & above	50.0%	100%	100%	5%



- In case the equity allocation increases due to the increase of the subscribers age, then by default excess portion of equity will move to Govt. Securities by default
- If the subscriber is of age less than 50 and chooses less than 75 % in equity, then the tapering will be age/percentage of the equity cap as per the table above.

Auto allocation

Age	Aggressive			Moderate			Conservative		
	Equity	Corp. Bonds	Govt. Sec	Equity	Corp. Bonds	Govt. Sec	Equity	Corp. Bonds	Govt. Sec
< = 35 Yrs	75%	10%	15%	50%	30%	20%	25%	45%	30%
36	71%	11%	18%	48%	29%	23%	24%	43%	33%
37	67%	12%	21%	46%	28%	26%	23%	41%	36%
38	63%	13%	24%	44%	27%	29%	22%	39%	39%
39	59%	14%	27%	42%	26%	32%	21%	37%	42%
40	55%	15%	30%	40%	25%	35%	20%	35%	45%
41	51%	16%	33%	38%	24%	38%	19%	33%	48%
42	47%	17%	36%	36%	23%	41%	18%	31%	51%
43	43%	18%	39%	34%	22%	44%	17%	29%	54%
44	39%	19%	42%	32%	21%	47%	16%	27%	57%
45	35%	20%	45%	30%	20%	50%	15%	25%	60%
46	32%	20%	48%	28%	19%	53%	14%	23%	63%
47	29%	20%	51%	26%	18%	56%	13%	21%	66%
48	26%	20%	54%	24%	17%	59%	12%	19%	69%
49	23%	20%	57%	22%	16%	62%	11%	17%	72%
50	20%	20%	60%	20%	15%	65%	10%	15%	75%
51	19%	18%	63%	18%	14%	68%	9%	13%	78%
52	18%	16%	66%	16%	13%	71%	8%	11%	81%
53	17%	14%	69%	14%	12%	74%	7%	9%	84%
54	16%	12%	72%	12%	11%	77%	6%	7%	87%
> = 55 Yrs	15%	10%	75%	10%	10%	80%	5%	5%	90%

NPS Charges

Intermediary	Charge head	Service Charges		Deduction Method
POP	Initial subscriber registration and contribution upload	Rs. 200		To be collected upfront
	Any subsequent transactions	0.25% of contribution, Min. Rs 20 Max. Rs 25000		
	Non-Financial	Rs 20		
	Contribution through eNPS	0.10% of contribution, Min. Rs 10 Max. Rs 10000		
CRA		NSDL	Karvy	Through cancellation of units
	PRAN Opening charges	Rs 40	Rs 39.36	
	Annual PRA Maintenance cost per account	Rs 95	Rs 57.63	
	Charge per transaction	Rs 3.75	Rs 3.36	
Custodian	Asset Servicing charges	0.0032% of AUM for Electronic segment & Physical segment		Through adjustment in NAV
PF charges	Investment Management Fee	0.01% of AUM		
NPS Trust	Reimbursement of Expenses	0.005% of AUM		

Annuity options

- Life Annuity - Pension (Annuity) payable for life at a uniform rate to the annuitant only.
- Joint Life, Last Survivor w/o ROP - Get pension for life and same pension continues for my spouse for life after the annuitant
- Joint Life, Last Survivor with ROP - Get pension for life and same pension continues for spouse for life. After spouse, nominee receives a lump sum payout
- Pension (Annuity) payable for 5, 10 or 15 and thereafter as long as the subscriber is alive.
- Pension (Annuity) payable for life increasing at a simple rate of 5% p.a.
- Pension (Annuity) for life with a provision of 50% or 75% purchase price returned to nominee
- Life Annuity with Return of Balance Purchase Price
- Life Annuity with Return of Purchase Price to the nominee
- Life Annuity with ROP on Critical illness (CI) or Permanent Disability due to accident (PD) or Death
- Joint Life, Last Survivor with ROP in parts
- NPS – Family Income (available for NPS subscribers only)

THANK YOU

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