

National Pension Scheme (NPS)- Pension Saving Scheme for Every Citizen

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ABSTRACT

National Pension Scheme's main aim is to provide old age income, reasonable market-based returns over the long run and extending old age security coverage to all citizens and thus helping investors to lead a comfortable life after retirement. The scheme is governed and monitored by an established autonomous body set up by the Government of India.

This research paper examines how aware investors are regarding the National Pension Scheme (NPS) and what all benefits this scheme offers to the subscribers/ investors. This study has used primary data and secondary data as well. The sample consists of 50 investors who have been randomly selected to examine the objective of this research paper.

1. Introduction

National Pension Scheme (NPS) is started by the Government of India for the citizen of India, the scheme is for the long-term saving which can give some support in older age, when they don't have any source of income, in order to support the expenses incurred at the old age. In other words, this can be said NPS is a voluntary, defined contribution retirement savings scheme.

National Pension Scheme has been designed to enable systematic savings during working life of the subscriber. It aims towards finding out a sustainable solution to provide an adequate retirement income to every citizen of India. All citizens from the age of 18 years to 65 years can invest in this scheme.

2. How NPS Works?

The scheme facilitates to invest with a minimum amount and allows investing as we wish. The citizen can access two types of accounts under this scheme namely:

2.1 Tier I

Tier I account primarily, aimed to only saving and the same can be utilized for the post retirement period, and it will not allow the citizen to with draw, before 60 years of age.

2.2 Tier II

Tier II account is allowed only when there is an active Tier I account in the name of the subscriber. It allows the account holder to withdraw the amount, whenever required. As Tier II is voluntary, it does not exempt from the tax.

Under the NPS, an individual's savings is pooled in a pension fund. These funds are invested by Pension Fund Regulatory and Development Authority (PFRDA) regulated professional fund managers as per the approved investment guidelines in the diversified portfolios comprising of government bonds, bills, corporate debentures and shares. These contributions would grow and accumulate over the years, depending on the returns earned on the investment made. [1]

The record keeping for all the NPS related activities are done by the National Securities Depository Limited (NSDL). After completion of the NPS investments paying period, the Annuity Service Provider (ASP) are the one who make sure the delivery of the pension for the account holder. Pension Fund Regulatory and Development authority (PFRDA), appointed eight companies for operating the pension fund. The investors can choose their fund operators. The companies are as follows:

- HDFC Pension Management Co. Ltd.
- ICICI Prudential Pension Fund Management Co. Ltd.
- Kotak Mahindra Pension Fund Ltd.
- LIC Pension Fund Ltd.
- Reliance Capital Pension Fund Ltd.
- SBI Pension Funds Pvt. Ltd.
- UTI Retirement Solutions Ltd.
- Pension Fund (PF) to be incorporated by Birla Sunlife Insurance Co. Ltd

At the time of a normal exit from NPS, the subscribers may use the accumulated pension wealth under the scheme either to purchase a life annuity from PFRDA empanelled life insurance company or withdraw a part of the accumulated pension wealth as lump-sum, if they choose to do so.

3. Benefits of NPS to Subscribers [2]

3.1 Low Cost

This scheme is considered to be the lowest cost pension scheme in the world. Administrative charges and fund management fee are also lowest.

3.2 Simplified Process

All applicants only need to open an account with any one of the POPs or through e-NPS and get a Permanent Retirement Account Number(PRAN).

3.3 Flexible

An applicant can choose his/her own investment option and Pension Fund or select the Auto choice to get better and desired returns.

3.4 Portable

An applicant can operate an account from anywhere in the country and can pay contributions through any of the POP-SPs irrespective of the POP-SP branch with whom the applicant is registered, even if he/she changes his/her city, job etc. and can also make a contribution through e-NPS. The account can be shifted to any other sector like government sector and corporate model in case, the subscriber changes his/her employment from one sector to another.

3.5 Prudentially Regulated

There is transparency in investment norms. Also, NPS trust regularly monitors and review the performance of funds.

3.6 Tax Benefit to Employee

Individuals who are employed and contributing to NPS would enjoy tax benefits on their own contributions as well as their employer's contribution as mentioned below:

(a) Employee's own contribution- Eligible for tax deduction up to 10% of Salary (Basic + DA) under Section 80 CCD(1) within the overall ceiling of Rs.1.50 lacs under Sec 80 CCE.

(b) Employer's contribution-The employee is eligible for tax deduction up to 10% of Salary (Basic + DA) contributed by an employer under Sec 80 CCD(2) over and above the limit of Rs.1.50 lacs provided under Sec 80 CCE.

3.7 Tax Benefit for Self-Employed

Eligible for tax deduction up to 10 % of gross income under Sec 80 CCD (1) within the overall ceiling of Rs.1.50 lacs under Sec 80 CCE.

A subscriber is allowed deduction in addition to the deduction allowed under Sec. 80CCD(1) for additional contribution in his NPS account subject to a maximum investment of Rs.50,000/- under Sec. 80CCD 1(B).

Tax benefits would be applicable as per the Income Tax Act, 1961 as amended from time to time.

4. Objective of the Study

The research presented here has the below-mentioned objectives:

4.1 To study the awareness of NPS and how satisfied investors are with this scheme

4.2 To study the benefits of NPS for the subscribers

5. Research Methodology

5.1 Sample Size: 50

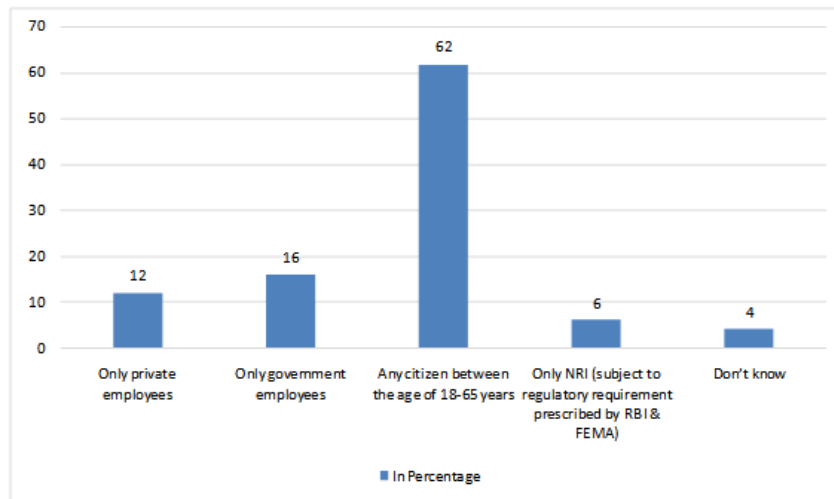
5.2 Data Collection

For the purpose of this study, we have selected fifty investors randomly from Delhi who has invested in National Pension Scheme. This study is basically descriptive in nature and the entire study has been conducted on the basis of both primary and secondary sources.

- **Primary Data:** Primary data is collected in the form of Questionnaire survey method and 50 investors were taken as samples from Delhi city. For the collection of data, a questionnaire was designed keeping in mind the objectives of the research.
- **Secondary Data:** The secondary data collected is mainly from the newspaper, websites, and research reports and already conducted survey analysis, other journals and various other sources mentioned below under reference section.

Q1: Do you know who can join National Pension System (NPS)?

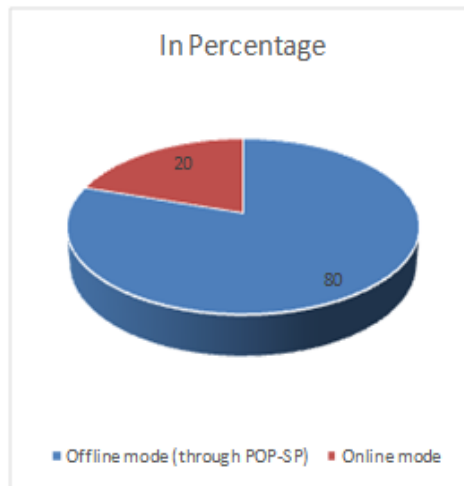
S.no	Choices	Percentage
1	Only private employees	12
2	Only government employees	16
3	Any citizen between the age of 18-65 years	62
4	Only NRI (subject to regulatory requirement prescribed by RBI & FEMA)	6
5	Don't know	4
Total		100



The figure shows that the majority of the respondents (62%) were aware of who all can join NPS system. And very few were not aware of the same.

Q2: Which mode you used to open your NPS Account?

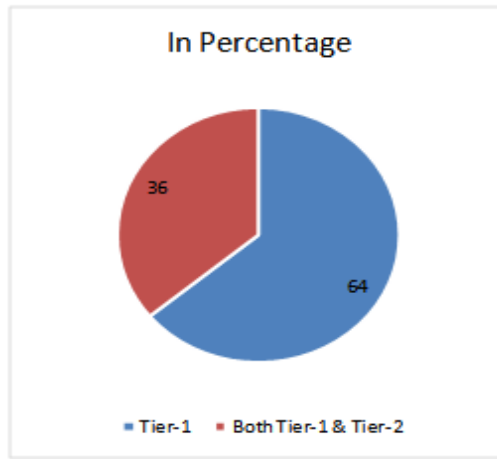
S.no	Choices	Percentage
1	Offline mode (through POP-SP)	80
2	Online mode	20
Total		100



The figure shows the proportion of respondents who whether opted for online or offline mode for opening their NPS account. The majority of the respondents (80%) agreed that they had opened their account using offline mode. However, a very small proportion (20%) of the respondents had opted for online mode.

Q3: Select the account you have opted for under the scheme?

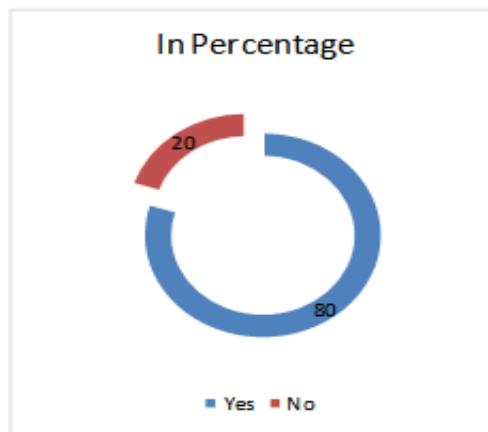
S.no	Choices	Percentage
1	Tier-1	64
2	Both Tier-1 & Tier-2	36
Total		100



The respondents were asked to indicate whether they have opted for Tier-1 or both Tier-1 & Tier-2 account under NPS. The results showed that (64%) of the respondents were agreed that they opted for Tier-1 only whereas (36%) opted for both Tier-1 & Tier-2.

Q4: Do you know the minimum contribution amount that is required to open the account under NPS?

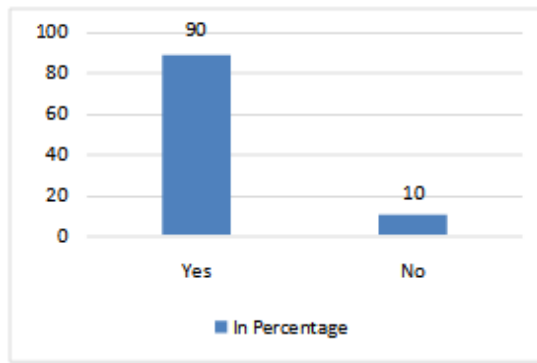
S.no	Choices	Percentage
1	Yes	80
2	No	20
Total		100



The results of the study depict that 80% of the respondents agreed that they know the minimum amount of contribution that is required to open the account under NPS.

Q5: Do you know the contribution amount that you and your employer both are required to contribute under NPS?

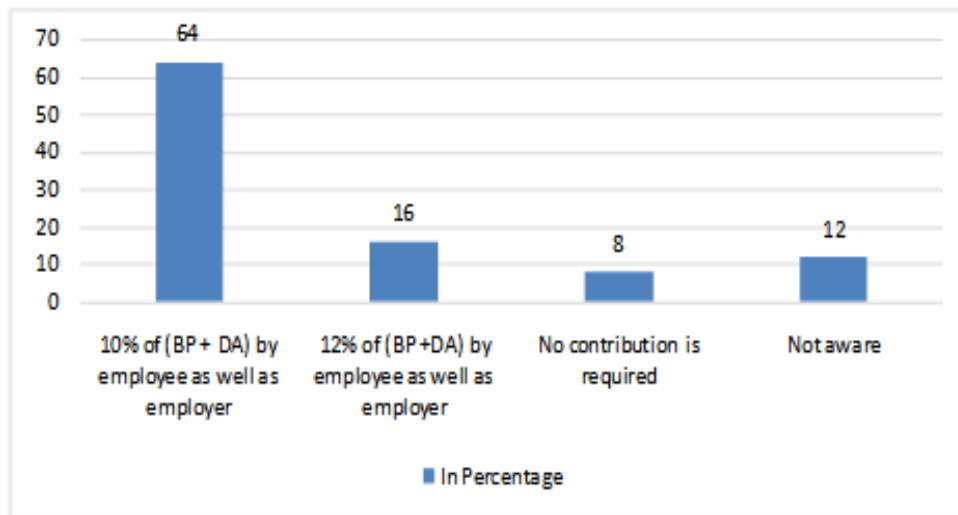
S.no	Choices	Percentage
1	Yes	90
2	No	10
Total		100



The results of the study depict that 90% of the respondents agreed that they know the minimum amount of contribution that they and their employer's both are required to contribute under NPS.

Q6: If yes, then what is the contribution percentage?

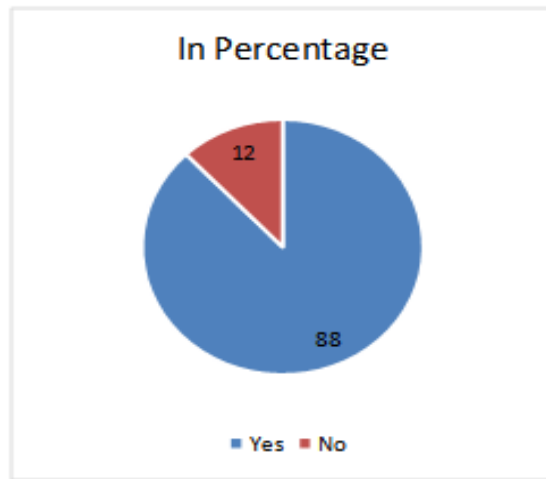
S.no	Choices	Percentage
1	10% of (BP + DA) by employee as well as employer	64
2	12% of (BP +DA) by employee as well as employer	16
3	No contribution is required	8
4	Not aware	12
Total		100



64% of the respondents were correct in selecting the contribution percentage. Whereas few were wrong, few agreed no contribution required and 12% respondents were not even aware about the same.

Q7: Do you know the regulatory authority who decides where your contribution will be invested?

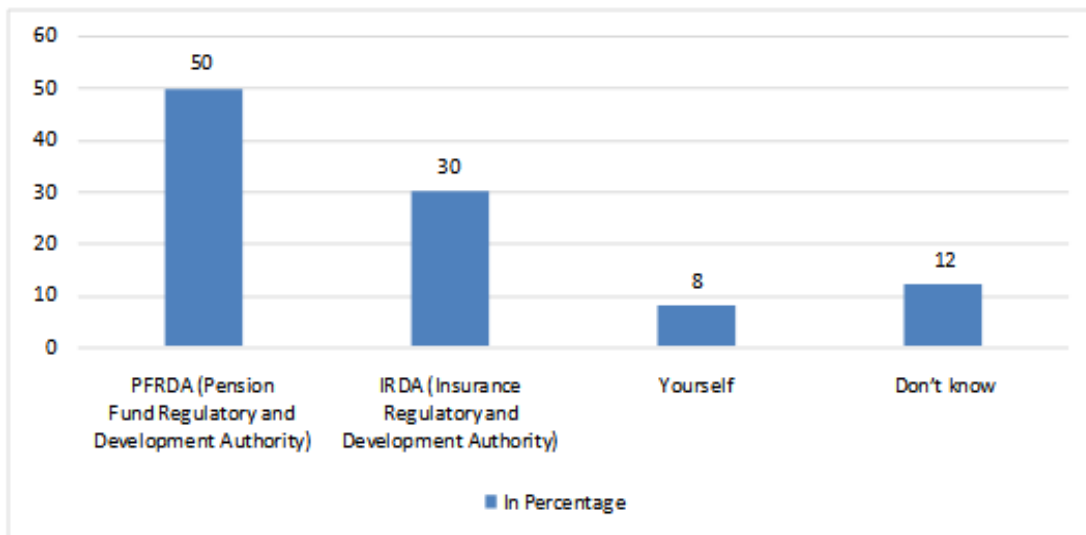
S.no	Choices	Percentage
1	Yes	88
2	No	12
Total		100



88% respondents knew which regulatory authority will decide where the contribution will be invested. Whereas 12% were not aware of the same.

Q8: If yes, please specify:

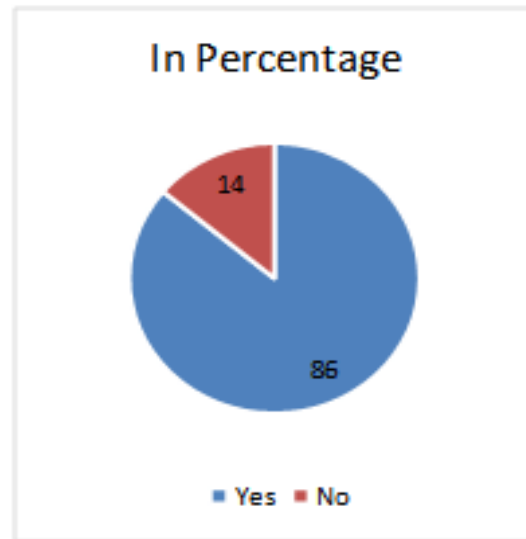
S.no	Choices	Percentage
1	PFRDA (Pension Fund Regulatory and Development Authority)	50
2	IRDA (Insurance Regulatory and Development Authority)	30
3	Yourself	8
4	Don't know	12
Total		100



The results of the study depict that 50% of the respondents were correct as to which authority will decide where the contribution will be invested.

Q9: Are you satisfied with the returns provided under NPS?

S.no	Choices	Percentage
1	Yes	86
2	No	14
Total		100



The results of the study depict that 86% of the respondents are satisfied with the returns provided under NPS. Whereas only 14% are not satisfied.

6. Suggestions

6.1 To the Investor

- Before investment, an investor should make its own analysis
- Investors those are looking best retirement solutions, they can choose these schemes

6.2 To the Company

- To maximise good return at least to meet out the bench mark, then only the investors may park their surplus funds in this category
- To reduce the fee/charges for motivating more investors

6.3 To the Government

- More amounts of incentive and motivation is required to attract more investors
- The government should give minimum guaranteed pension amount to the investor. Then, more investors will become interested

7. Conclusion

At last, this can be concluded on the basis of primary research that people are well aware of who all can join NPS, modes of opening different accounts, contribution amount, percentage and regulatory authority who invests the contribution of investors further. Also, this can be said that majority of the respondents were satisfied with the returns which are provided under the National Pension Scheme (NPS).

This scheme offers various benefits to the subscribers as it is the lowest cost pension scheme in the world with the simplified process of opening account in offline as well as online mode. Applicants can also choose his/her own investment option and Pension Fund or select Auto choice option to get better and desired returns. This scheme also provides transparency in investment norms as well. One more added advantage of this scheme is in the form of tax benefits it offers to subscribers which is applicable as per the Income Tax Act, 1961 as amended from time to time.

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