



# *National Pension System (NPS)*

*NPS – Pension nahi yeh Pran Hai*



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# About NPS



- ✓ NPS is a 'Government of India' initiative with an objective of Development of a sustainable and efficient voluntary defined contribution Pension System in India. It is regulated by PFRDA.
- ✓ NPS provides a platform for savings through four baskets of Investment - Equity (E), Corporate Bonds (C), Govt. Securities (G) & Alternate Asset Class (A) to create a Retirement Corpus (Pension Wealth), to enable subscriber for purchasing Annuity post retirement.
- ✓ It allows for withdrawal of up to 60% of the Retirement Corpus post retirement. The withdrawal can be spread over 10 Years post Retirement age. All the withdrawals are Taxfree.
- ✓ It is open for all citizens of India (Resident/Non Resident) who are between 18-65 years of age.

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# Advantages of NPS:



- ✓ **Lower Expense Ratio:** NPS is perhaps the world's lowest cost pension scheme. The total recurring expenses inclusive of the Fund Management fee and all other handling and administrative charges would work out to be around 0.21% p.a. The low cost would lead to generation of higher Retirement Corpus and hence the retirement benefits.
- ✓ **Ensures Complete Portability:** NPS provides seamless portability across jobs and across locations, unlike all current pension plans, including that of the EPFO. NPS account can be operated from anywhere in the country irrespective of employment and geography.
- ✓ **Flexibility:** NPS offers a range of investment options and choice of Pension Fund Managers (PFMs). The Subscribers have a freedom to change the PFM once a year and the Investment Mix twice a year. Choice of Life Cycle Fund is also available.
- ✓ **Well Regulated:** NPS is regulated by PFRDA, with transparent investment norms, regular monitoring and performance review of fund managers by NPS Trust.

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# Advantages of NPS.. Contd.....



## ✓ **Exclusive Income Tax Benefits for investments in NPS:**

- (i) An additional tax deduction on investment up to Rs. 50,000 in NPS under sub-section 80CCD (1B). This is over and above the Sec 80 C limit of Rs.1,50,000/-. This is an exclusive tax deduction available for investment in NPS only.
- (ii) Tax deduction on account of contribution by the individual subscriber to NPS can be claimed up to 20% of salary (Basic + DA) or 10% of Annual Income under Sec 80 CCD(1), subject to overall ceiling of **Rs. 1.50 lacs u/s 80 CCE** of Income Tax Act. 1961.
- (iii) Tax deduction on employer's contribution to NPS **up to 10 % of salary (Basic + DA)**, under Section 80 CCD(2). The upper cap on the amount is Rs.7.50 Lakhs.

Tax benefits mentioned in point (i) & (iii) above are exclusive deduction available for investment in NPS only.

- ✓ **EEE Status (Exempt Exempt Exempt) in line with EPF and PPF:** In NPS now there is complete tax exemption to the withdrawals on maturity. Hence, now there is Exemption at the time of Investment, Exemption at the time of accretion and Exemption at the time of Withdrawal) in line with EPF and PPF.

# NPS Taxability... The Present Status



Event	Taxability
Contribution in Tier-I Account	<ol style="list-style-type: none"> <li>Subscriber's own contribution: Additional deduction up to Rs.50,000/- under Sec 80 CCD(1B) available over and above Rs.1,50,000/- under Sec 80 C</li> <li>Employer's contribution: Deductible up to 10% of salary (Basic + DA) as additional deduction under section 80CCD(2). It has no upper cap on the amount.</li> </ol>
Accretion in Tier-I	Exempt
Withdrawal from Tier-I (including accretions)	<ol style="list-style-type: none"> <li>Amount used to purchase annuity (Minimum 40%) is exempt.</li> <li>Rest of the Retirement Corpus withdrawn TAXFREE.</li> </ol>
<p style="text-align: center;"><u>Additional Tax benefits extended to NPS</u></p> <ol style="list-style-type: none"> <li>Waiving service tax on the NPS corpus utilized for purchase of annuity.</li> <li>Tax exemption of the NPS corpus receivable by the nominee in case of death of the NPS subscriber .</li> <li>One time portability without any tax implication for shifting from (a) recognized provident fund and (b) superannuation fund to NPS.</li> </ol> <p style="text-align: center;"><u>In a nut shell, NPS now enjoys EEE Status in line with EPF &amp; PPF</u></p>	

# *Advantages to Corporates for NPS Implementation :*



- ✓ **Cost effective for the Organisation:** No extra cost involved in implementation of NPS on the part of employer.
- ✓ **Contributions made under NPS deductible as Business Expense:** Contributions made by the Employer (Up to 10% of Basic Pay + DA) is allowed as Business Expense under Section 36 (1) (iv a) of the Income Tax Act 1961
- ✓ **Convenience of implementing:** The Employer has to take the consent of Employee and get them enrolled for NPS. No action needs to be taken by the employer when the employee leaves the Organisation as the NPS Account opened in the name of employee is portable anywhere in the country irrespective of employment and geography.
- ✓ **No extra setup required** for Fund Management, Compliance, Audit, Record maintenance and servicing on the part of the employer.
- ✓ **No extra financial liability to the employer** like matching of minimum return as the fund is independently managed by the PFM appointed by PFRDA

# NPS Tax Advantage ... ...an illustration



Particulars	Annual Salary	
	Current Structure	Suggested with NPS
Basic	12,00,000	12,00,000
Employer's Contribution to PF (12%)	1,44,000	1,44,000
Employer's Contribution to NPS (10%)	0	1,20,000
HRA	4,80,000	4,80,000
Other Taxable Allowance/ Perquisites	5,76,000	4,56,000
<b>Total CTC</b>	<b>24,00,000</b>	<b>24,00,000</b>
Less Deductions:		
- Employer's Contribution to PF (12%)	1,44,000	1,44,000
- 80 CCE (under Section 80 C)	1,50,000	1,50,000
- Employer's Contribution to NPS (80 CCD(2) - Up to 10% of Basic)	0	1,20,000
- Self Contribution to NPS -80 CCD (1B)	0	50,000
Total Taxable Income	21,06,000	19,36,000
Tax on Total Income	4,62,070	4,09,030
Tax Savings	-----	53,040

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# How is it superior to other perceived Retirement Plans ?



Parametres	<=== Products ===>			
	NPS	MF Pension Products	Insurance Pension Products	PPF
<b>Tax Deductions</b>	1. Self contribution :- Opportunity of Extra Tax Savings under Sec 80 CCD (1B) up to Rs.50,000/- which is in addition to the Sec 80 C Limit 2. Employer's Contribution :- Qualifies for Additional Tax Deduction under Section 80 CCD(2) upto 10% of Salary	Only under Sec 80 C Limit	Only under Sec 80 C Limit	Only under Sec 80 C Limit
<b>Expense Ratio</b>	Ranges between 0.26% to 0.28%	Ranges between 2% to 2.50%	Ranges over 2.50%	Government Administered
<b>Returns</b>	Market Linked	Market Linked	Market Linked	Assured
<b>Asset Allocation</b>	Subscribers can customize based on their Risk appetite. Also change twice a Year without any exit load	Based on Investment Objective of the Scheme. Investor can not customize it.	Based on Investment Objective of the Scheme. Investor can not customize it.	Government Administered
<b>Liquidity</b>	Limited liquidity before Retirement Age	Liquidity available subject to exit load	Liquidity available subject to huge exit load	Liquidity not before 7th Year
<b>Tax Treatment on Maturity</b>	- The amount used for purchasing Annuity (Min 40%) – TAXFREE - Rest of the Withdrawal of the Retirement Corpus is totally TAXFREE (Has a EEE Status)	- LTCG on debt funds are taxed at the rate of 20% after indexation. ; - LTCG on Equity Funds in excess of Rs 1 lakh is taxed at the rate of 10% without the benefit of indexation	Maturity Amount TAXFREE	Maturity Amount TAXFREE
<b>Fund Managers</b>	Can be Changed once a Year without any exit load	Can not be Changed	Can not be Changed	N/A

# Types of Schemes available under NPS under Private Sector (All Citizens model)



- ✓ Here, the subscribers have 2 choices: **Active Choice** and **Auto Choice**
- ✓ The **Active Choice** offers flexibility to subscribers to decide the asset allocation between the 4 asset classes namely Equity (E), Corporate Bonds (C), Govt. Securities (G) and Alternate Assets (A). Under this choice, the subscribers can choose their asset allocation pattern subject to the following limits. They can also change their asset allocation pattern twice in a year.

Age (Years)	Cap on Equity (E)	Cap on Corp Bonds (C)	Cap on Govt Securities (G)	Cap on Alternate Assets (A)
Upto 50	75.0 %	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 and above	50.0 %	100%	100%	5%

# Types of Schemes available under NPS under Private Sector(All Citizens model)



**Under Auto Choice, the subscribers have choice of three Life Cycle Funds**

Life Cycle Fund	Asset Class E	Asset Class C	Asset Class G
Aggressive (LC 75)	Maximum 75% , reduces to 15% with increasing age	Starts with 10% allocation , increases by 1% with increasing age each year till age 45. Then reduces again from age 50 to 10%	Minimum 15% , increases to 75% with increasing age
Moderate ( LC 50)	Maximum 50% , reduces to 10% with increasing age	Starts with 30% allocation , decreases by 1% with increasing age to 10%	Minimum 20% , increases to 80% with increasing age
Conservative (LC 25)	Maximum 25% , reduces to 5% with increasing age	Starts with 45% allocation , decreases by 2% with increasing age to %	Minimum 30% , increases to 90% with increasing age

# Asset Allocation under Auto Choice



Age	Aggressive Life Cycle Fund (LC-75)			Moderate Life Cycle Fund (LC-50)			Conservative Life Cycle Fund (LC-25)		
	Asset Class (in %)			Asset Class (in %)			Asset Class (in %)		
	E	C	G	E	C	G	E	C	G
Up to 35 years	75	10	15	50	30	20	25	45	30
36 years	71	11	18	48	29	23	24	43	33
37 years	67	12	21	46	28	26	23	41	36
38 years	63	13	24	44	27	29	22	39	39
39 years	59	14	27	42	26	32	21	37	42
40 years	55	15	30	40	25	35	20	35	45
41 years	51	16	33	38	24	38	19	33	48
42 years	47	17	36	36	23	41	18	31	51
43 years	43	18	39	34	22	44	17	29	54
44 years	39	19	42	32	21	47	16	27	57
45 years	35	20	45	30	20	50	15	25	60
46 years	32	20	48	28	19	53	14	23	63
47 years	29	20	51	26	18	56	13	21	66
48 years	26	20	54	24	17	59	12	19	69
49 years	23	20	57	22	16	62	11	17	72
50 years	20	20	60	20	15	65	10	15	75
51 years	19	18	63	18	14	68	9	13	78
52 years	18	16	66	16	13	71	8	11	81
53 years	17	14	69	14	12	74	7	9	84
54 years	16	12	72	12	11	77	6	7	87
55 years	15	10	75	10	10	80	5	5	90

# Exit / Withdrawals / Liquidity options available in NPS



## At the age of 60 or age of superannuation

Atleast 40% of the accumulated pension wealth to be used for purchase of annuity/pension. Remaining amount can be withdrawn as lumpsum.

Option to delay purchase of annuity by upto 3 years.

Option to delay withdrawal of lumpsum amount till the age of 70.

*If the subscriber so desires, he/she has the option to continue contribution to the NPS account till the age of 70. If the subscriber avails this option, he/she can stop making contributions at any point of time.*

Where accumulated pension wealth is less than Rs 2 lacs, the subscriber has the option of withdrawing the entire corpus without purchasing any annuity.

## Exit before the age of 60 or attaining superannuation

Allowed only after a continuous subscription of 10 years

Atleast 80% of the accumulated pension wealth to be used for purchase of annuity/pension. Remaining amount can be withdrawn as lumpsum.

No option to defer purchase of annuity

No option to defer withdrawal of lumpsum amount

Where accumulated pension wealth is less than Rs 1 lac, the subscriber has the option of withdrawing the entire corpus without purchasing any annuity.

A partial withdrawal of accumulated pension wealth of the subscriber, not exceeding 25% of the contribution and excluding contribution made by employer, if any, is allowed before the age of superannuation for special purposes (child's higher education, marriage , purchase / construction of house / flat and treatment of specified illness) subject to the certain terms and conditions.

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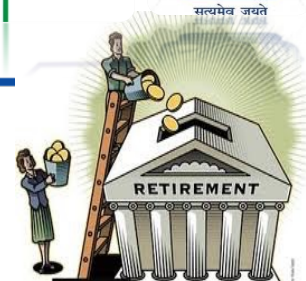
# Charges under NPS:



Intermediary	Charge Head	Service Charge		Method of Deduction
PoP	Initial Subscriber Registration (One Time)	Rs. 200/-		To be collected upfront
	Initial Contribution and All Subsequent Contributions	0.25% of the amount deposited Minimum: Rs.20/- & Maximum: Rs.25000/-		
	Any Non Financial Transaction	Rs.20/- per Transaction		
	Persistency > 6 months & Rs 1000 contribution	Rs 50 per annum		
	Contribution through eNPS	0.10% of contribution, Min. Rs 10, Max. Rs. 10000		
CRA Charges	CRA --->.	Karvy CRA	NSDL CRA	ThroughNAV Cancellation/ Deduction
	PRA Opening (One Time)	Rs. 39.36	Rs.40/-	
	PRA Maintanance (Per Annum)	Rs. 57.63	Rs.95/-	
	Per Transaction (Financial / Non Financial)	Rs.3.36	Rs.3.75	
Custodian	Asset Servicing (Per Annum)	0.0032%		
PFM	Investment Management Fee	0.05 % per Annum Approx.		
The overall expense ratio (PoP Charges + CRA Charges+ PFM Charges+ Custodian Charges) will be about 0.27% to 0.28%.				

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# *Types of Annuity available under NPS:*



- Pension (Annuity) payable for life at a uniform rate to the annuitant only.
- Pension (Annuity) payable for 5, 10, 15 or 20 years certain and thereafter as long as you are alive.
- Pension (Annuity) for life with return of purchase price on death of the annuitant (Policyholder).
- Pension (Annuity) payable for life increasing at a simple rate of 3% p.a.
- Pension (Annuity) for life with a provision of 50% of the annuity payable to spouse during his/her lifetime on death of the annuitant.
- Pension (Annuity) for life with a provision of 100% of the annuity payable to spouse during his/her lifetime on death of the annuitant.

## Disclaimer :

- Investments in the scheme are subject to the risk involved with various asset class.
- Past performance may or may not be sustained in future. Nothing contained herein shall amount to the PFM having assured any minimum rate of return on the investment.
- All investment in Pension Funds and securities are subject to market risks and the NAV of the funds may go up or down depending on the factors and forces affecting the securities market.
- For complete information of NPS please refer to the Offer document and/or log on to PFRDA website [www.pfrda.org](http://www.pfrda.org).

# THANK YOU