

National Pension System (NPS)

National Pension System (NPS) which is administered and regulated by Pension Fund Regulatory and Development Authority (PFRDA) created by an Act of Parliament.

Besides the NPS, some mutual funds and insurance companies also offer Pension plan or retirement plan, which are not under the jurisdiction of PFRDA.

Apart from this the normal retirement plan options include EPFO, Retirement gratuity etc. is offered by employers to their workers and employees.

NPS is based on Personal retirement accounts (PRAs) created for individual members. NPS accumulates savings into subscriber's PRA while he is working and use the accumulations at retirement to procure a pension for the rest of his life.

Eligibility of National Pension System (NPS)

- Any citizen of India, whether resident or non-resident.
- Individuals who are aged between **18 – 60 years**.

Contribution in National Pension System (NPS)

A subscriber has to contribute a minimum annual contribution of Rs. 6000/- for his Tier I account in a financial year and if not contributed the account will be frozen.

For All citizens model	Tier I	Tier II
Minimum Contribution at the time of account opening	Rs. 500	Rs. 1000
Minimum amount per contribution	Rs. 500	Rs. 250
Minimum total contribution in the year	Rs. 6000	Rs. 2000
Minimum frequency of contributions	1 per year	1 per year

NPS offers two types of accounts to its subscribers:

- Tier I** :The primary account, which is a pension account which has restrictions on withdrawals and utilization of accumulated corpus. All the tax breaks that NPS offers are applicable only to Tier I accounts.
- Tier II**: In order to introduce some liquidity to the scheme, the PFRDA allows for a Tier II account where subscribers with pre-existing Tier I accounts can deposit and withdrawn monies as and when they want. NPS Tier II is an investment account, similar to a mutual fund in characteristics.

The contribution to voluntary savings account (also called Tier-II account) can only be made by the subscriber and not by any third party.

PFRDA has introduced new features to NPS in 2016, including more choices to lifecycle funds:

- Aggressive Life Cycle Fund (LC-75)** which allows subscribers equity exposure of up to 75% till 35 years of age. This is more suitable to a 20s investor.
- Conservative lifecycle fund** with a 25% starting equity exposure, may be suited to older investors.
- Automatically Lifecycle Fund.**

Every individual subscriber is issued a Permanent Retirement Account Number (PRAN) card and has a 12 digit unique number.

Changes approved in the National Pension System as of December 2018

- Mandatory contribution by the **Central Government enhanced by 4 percent from the existing 10 percent to 14 percent for employees covered under NPS Tier-I**
- Central government employees will be provided with freedom of choice for selection of Pension Funds and pattern of investment.
- Payment of compensation for non-deposit or delayed deposit of NPS contributions during 2004-2012
- **Contribution by Government employees under Tier-II of NPS will now be covered under Section 80 C for deduction up to Rs 1.50 lakh for the purpose of income tax** at par with schemes such as General (PF), Contributory PF, Employees PF and Public PF, with **lock-in period of 3 years**.
- The entire withdrawal will now be exempt from income tax as the tax exemption limit for **lump sum withdrawal on exit has been enhanced to 60 percent**.
- The new entrants to the central government service on or after January 1, 2004 are covered under the National Pension System (NPS).
- The Seventh Pay Commission (7th CPC), during its deliberations, examined certain concerns regarding NPS and made recommendations in the year 2015 such as setting up of a Committee of Secretaries in this regard.

Withdrawal under National Pension System (NPS)

- **Premature withdrawal in NPS before age of 60 years required parking 80% of the sum in an annuity.**
- **One can withdraw 20 percent of the corpus before 60 years** but he/she must buy annuity with 80 percent of the corpus.
- In 2016, **the NPS allowed withdrawal of up to 25% of contributions for specified reasons, if the scheme is at least 3 years old with certain conditions**. One can withdraw the complete amount if the pension collected is less than INR 2,00,000.

Funds of National Pension System (NPS)

Funds are managed by professional Fund Managers from Public & Private sector with proven track record and as per the PFRDA approved investment guidelines. At present there are 8 pension fund managers managing the pension wealth of subscribers. They are :

1. HDFC Pension Management
2. ICICI Prudential Pension Fund Management
3. Kotak Mahindra Pension Fund
4. LIC Pension Fund
5. Reliance Capital Pension Fund
6. SBI Pension Funds
7. UTI Retirement Solutions Ltd Pension Fund (PF) to be incorporated by Birla Sunlife Insurance Co. Ltd

Axis Bank, functions as **Trustee Bank**.

Stock Holding Corporation of India Ltd, functions as **custodian for NPS**.

Important Terms related to National Pension System(NPS)

- POP - Points of Presence
- AUM - Assets Under Management
- NPS - National Pension System
- PFM - pension fund managers
- CRA - Central Record Keeping agency
- PRAN - Permanent Retirement Account Number
- ASP – Annuity Service provider
- PFRDA - Pension Fund Regulatory and Development Authority