Pension without a Government Job?

NPS Makes It Possible

The good news is that as per a United Nations report life expectancy in India has improved from 32 at the time of Independence to 65 at present, and is expected to touch 75 by 2050. The other side to this development is that one of the youngest nations of the world will also have a large number of elders in the years to come. Understandably, most of you born on this side of the world – where a social security system assuring 'cradle to grave' security is donkey's years away and cost of living is constantly increasing– are planning something or the other for financial security in old age. It is in this context that *Consumer Voice* brings to you an in-depth analysis of the National Pension System (NPS) that was started with the objective of providing retirement income to all citizens.

Launched on 1 January 2004, the National Pension System was initially meant for government employees – except the armed forces – joining government service on or after 1 January 2004. Subsequently, on 1 May 2009, the NPS was opened to all citizens – they could now join the scheme on a voluntary basis.

The NPS is a 'defined contribution' pension scheme – this means that a customer will invest a predefined sum every month in a fund chosen by them and at the time of retirement will have a

lump-sum amount depending on the performance of that fund. This is different from the earlier pension system where the amount one received every month after retirement was determined by the government and increased periodically (also called defined benefit system). Under the NPS, after retirement one will have to depend on their corpus for their monthly pension.

It is basically a market-linked retirement investment product with a structured setup. NPS accounts can be opened through intermediaries called points of presence (PoP), commonly known as service-providing branches/offices (of banks and NBFCs). They are also authorized to receive contributions. Such individual contributions are pooled into a 'pension fund' that is invested in the market in approved securities.

Who Regulates the NPS?

The Pension Fund Regulatory Authority (PFRDA) has authorized 58 institutions, including public sector banks, private banks and private financial institutions, as PoPs for opening NPS accounts of citizens. It is to be noted that all contributions in NPS grow and accumulate over the years, depending on the returns earned on such investments. Therefore, it has to be understood that such returns are totally market-related.

NPS Schemes

As per the NPS investment guidelines, pension fund managers manage three separate schemes, each investing in a different asset class. The three asset classes are equity (E), government securities (G) and credit risk-bearing fixed-income instruments (C).

- **E Class:** Here the investment is mainly in equity. The fund managers invest in Index funds that replicate the portfolio of either BSE Sensex or NSE Nifty 50.
- **G Class:** Here the investment is in government securities like Government of India bonds and state government bonds.
- **C Class:** Here the investment is in fixed-income securities with credit risk – that is, securities other than government securities.

The subscriber has the option to decide how the money is to be invested in the three asset classes. This is called 'active choice'. On the other hand, if the subscriber does not exercise any option, the contribution will be invested in accordance with the 'auto choice' option. This option has a predefined portfolio wherein, at the lowest age of entry of 18 years, the allocation will be 50 per cent in E Class, 30 per cent in C and 20 per cent in G. This ratio is applicable till 36 years of age.

From 36 onwards, the weight in E and C asset classes decreases and the weight in G Class increases annually till it reaches 10 per cent in E, 10 per cent in C and 80 per cent in G at 55 years of age. The 'auto choice' option is based on the time-tested truism that though risky in the short run, equities beat all other asset classes in the long run.

When to Withdraw?

- On exiting from the scheme at 60 years, the subscriber can withdraw 60 per cent of the amount as lump-sum; the balance 40 per cent should be invested in life-annuity schemes that will serve as pension.
- Should you exit from the NPS before attaining 60 years (taking VRS or for any other reason), you will receive 80 per cent of the accumulated pension wealth as annuity pension every month, while 20 per cent of the pension fund will be repaid in one lump-sum.
- In the unfortunate event of the death of the subscriber at any time during the subscribed period, the entire accumulated pension wealth shall be paid to the nominee/legal heir of the deceased. No annuity pension is payable thereafter.
- The PFRDA also provides (under PFRDA Act, 2013) for partial withdrawal not exceeding 25 per cent of the contribution made by the subscriber subject to certain conditions/regulations.

The NPS Corporate Model

Introduced in December 2011, this provides a platform for corporate entities to extend old-age social-security benefits to their employees through flexible contributions. This model can coexist with other retirement pension schemes like Employees' Provident Fund (EPF) and Superannuation Fund (SAF).

Under this model, a corporate group/company (employer) has the flexibility to select the point of presence (commercial banks and India Post), pension funds (PFs) as well as investment choice ('active choice' investments in government securities, non- government securities or equity instruments; or 'auto choice' life-cycle funds (predetermined portfolios). The corporate entity can also leave such choices to employees.

The NPS Private Model

Under this model, subscribers can be from both organized and unorganized sectors (including self-employed, traders and business owners). Even an NRI can subscribe to the NPS under this model.

While the operational setup of the account is as good as in the corporate model, the private model also provides some additional facilities:

(i) **Choosing the annuity service provider (ASP):** The subscriber can go to any of the seven existing life insurance companies to purchase the annuity at the time of exiting from the NPS.

(ii) The subscriber can change their existing pension funds (PFs), investment choices (active or auto choice) as well as the allocation ratio (allocation amongst any of the three asset classes) once in a financial year.

Swavalamban for the Unorganized Sector

Swavalamban Yojana was last announced by the Government of India in General Budget 2010–11 with the objective of encouraging individuals from the unorganized sector to voluntarily save for their retirement. Under this model, individuals from economically weaker sections of the society can join the NPS in 'groups' through 'aggregators' (a set of grassroots intermediaries including state government entities, public sector banks, regional rural banks, microfinance institutions, non-banking finance companies and private sector entities as identified by the PFRDA). This model brings the disadvantaged sections into the mainstream of pension wealth.

Under this model, the central government makes a contribution of Rs 1,000 per annum per account/subscriber to all eligible Swavalamban accounts where the subscriber's own contribution is between Rs 1,000 and Rs 12,000 per annum. The annuity pension payable every month is 100 per cent of the accumulated wealth in case the monthly pension payable falls below Rs 1,000 per month.

Several state governments have adopted this scheme to cover building and construction workers, anganwadi workers and helpers, and other workers engaged in identified occupational groups. The idea is to incentivize voluntary participation of workers from the unorganized sector.

Portability through PRAN

For those who change jobs frequently due to career prospects or change of location, the NPS offers seamless portability. You can continue to contribute or arrange for contribution from your new employer and ensure uninterrupted subscription based on a unique identification number called Permanent Retirement Account Number (PRAN). This number is allotted to you by Central Record-Keeping Agency (CRA), who maintains all opening forms, KYC documents, etc.

If investing in NPS, both the employer (u/s 80 CCD [2]) and the employee (u/s 80 CCD [1]) can avail of income tax exemption on their contributions. Corporates can also claim tax relief as NPS contributions are accepted as 'business expenses' u/s 36 (1) of Income Tax Act with effect from 1 April 2012.

Any individual between 18 years and 60 years of age is eligible to open a PRAN account. To open an account, the applicant only has to submit a prescribed 'subscriber registration form' at the PoP service provider (designated bank's branch, NBFC, etc.) of their choice. Alternatively, forms can be uploaded on the website of PFRDA. 'Know Your Customer' (KYC) documents (identity and residence proofs) are mandatory for a PRAN applicant.

The Charges

The following are the charges payable for opening and subscribing to the account.

Nature of Service Charges	Amount Payable (in Rs)*			Payable to
	One Time	Per Year	Per Transaction	
Subscriber registration	100			POP
Contribution			0.25%	POP
PRAN-opening charges	50			CRA
CRA maintenance		190		CRA
Asset servicing		0.05% or 0.0075% (minimum Rs 20 and maximum Rs 25,000)		Stock Holding Corporation of India Limited (SHCIL)
Investment management fee		0.01%		Pension Fund
Penalty for non-deposit of subscription		100		PoP
Penalty for not maintaining minimum balance		100		PoP

**excluding service tax*

Types of Accounts

The NPS offers the following two types of accounts to subscribers:

Tier I Account: This account is mandatory for opening the NPS account. It is generally a non-withdrawal account except when allowed under PFRDA Act. Subscribers contribute their savings in this account and can claim tax exemption on their contributions under Section 80C of Income Tax Act. The minimum contribution is Rs 500 for initial and subsequent contributions. So, the minimum contribution in a year is Rs 6,000.

Tier II Account: This is a voluntary savings facility but not a retirement account. An account under Tier II cannot be opened unless the subscriber is already having a Tier I account. Under this account, facilities for withdrawals are available during the subscription period. However, no tax benefits can be claimed on such contributions. Further, the minimum contribution per year is pegged at Rs 2,000 under this model. There has to be a minimum of one contribution in each year. Initial contribution at the time of opening this account is Rs 1,000 and subsequent contributions have to be a minimum of Rs 250.

Performance of NPS Schemes as on 31 March 2014

Asset Class	Scheme	With Effect from	Returns (CAGR %) (since inception)
Government schemes	Central Government State Government	1 April 2008 25 June 2009	9.10 8.59
Private sector schemes	Equity (I and II) Corp. debt (I and II) Government securities (I and II)	1 May 2009 1 May 2009 1 May 2009	9.20 10.53 7.93

Grievance Redressal Mechanism

The grievance redressal mechanism (GRM) is well-defined and is followed by the various intermediaries of the NPS and other pension schemes. The mechanism also provides for the following:

(i) stipulation of timelines for redressal of grievances;
(ii) appointment of ombudsman;
(iii) appeal by a subscriber to the ombudsman; and
(iv) provision of penalty.

The NPS has a multilayered GRM that is centralized at Central Record-Keeping Agency and is approachable through call centre/interactive voice response system (IVRS), Web-based interface, physical complaints, etc. Grievances can be logged in through Central Grievance Monitoring System (CGMS), which is maintained by CRA. Subscribers can check the status of their grievance (via token number allotted by the system) at the CRA website www.cransdl.co.in or through the call centre at 1800-222-080, or at the following address:

NSDL e-Governance Infrastructure Limited
1st Floor, Times Tower, Kamala Mills Compound
Senapati Bapat Marg, Lower Parel
Mumbai 400013
www.npscra.nsdl.co.in

If the subscriber does not receive any response within 30 days or is not satisfied with the resolution by CRA, they can apply to the Grievance Redressal Cell (GRC) of PFRDA. The grievances are also being entertained directly by PFRDA at their Grievance Cell at:

PFRDA Grievance Redressal Cell
1st Floor, ICADR Building
Institutional Area Phase II, Vasant Kunj
New Delhi 110070
email: grc@pfrda.org.in

To file claim withdrawal, subscribers can submit requests with NPS Claim Processing Cell's Mumbai office:

Claim Processing Cell
Central Record-Keeping Agency
NSDL, 4th Floor, 'A' Wing | Trade World
Kamala Mills Compound, Senapati Bapat Marg
Lower Parel
Mumbai 400013
Phones: 022-24994512/24994862/249904200

Consumer Education and Protection

To increase general public awareness about the National Pension System, PFRDA conducts subscriber awareness programmes through CRA for existing and prospective subscribers across India. At the same time, periodic training modules and workshops are conducted for different functionaries and stakeholders of the NPS about NPS operations.

To protect the interests of subscribers, PFRDA Act provides for setting up of Subscriber Education and Protection Fund (SEPF) out of grants, donations, penalties, etc. The fund is utilized for promotion of awareness amongst subscribers.