

New Pension Scheme (India)

Regulator

Pension Fund Regulatory and Development Authority (PFRDA) is the prudential regulator for the NPS. PFRDA was established by the Government of India on 23 August 2003 to promote old age income security by establishing, developing and regulating pension funds. PFRDA has set up a Trust under the Indian Trusts Act, 1882 to oversee the functions of the PFMs. The NPS Trust is composed of members representing diverse fields and brings wide range of talent to the regulatory framework.

Coverage & Eligibility

NPS will be available to all citizens of India on voluntary basis and mandatory for employees of central government (except armed forces) appointed on or after 1 January 2004. All Indian citizens between the age of 18 and 55 can join the NPS.

Tier-I is mandatory for all Govt. servants joining Govt. service on or after 1.1.2004. In Tier I, Govt. servants will have to make a contribution of 10% of his Basic Pay, DP and DA which will be deducted from his salary bill every month. The Govt. will make an equal matching contribution. Since 1 April 2008, the pension contributions of Central Government employees covered by the NPS are being invested by professional Pension Fund Managers in line with investment guidelines of Government. However, there will be no contribution from the Government in respect of individuals who are not Government employees. The contributions and returns thereon would be deposited in a non-withdrawable pension account.

In addition to the above pension account, each individual can have a voluntary tier-II withdrawable account at his option. Government will make no contribution into this account. These assets would be managed in the same manner as the pension. The accumulations in this account can be withdrawn anytime without assigning any reason. It's estimated that 8 crore citizens of India are eligible to join the NPS.

Operational Structure

NPS is designed to leverage network of bank branches and post offices to collect contributions and ensure that there is seamless transfer of accumulations in case of change of employment and/or location of the subscriber. It offers a basket of investment choices and Fund managers.

There will be one or more CRA, several PFMs to choose from which will offer different categories of schemes. The participating entities (PFMs, CRA etc.) would give out easily understood information about past performance & regular NAVs, so that the individual would be able to make informed choices about which scheme to choose. PFMs would share this common CRA infrastructure. The PFMs would invest the savings people put into their PRAs, investing them in three asset classes, equity (E), government securities (G) and debt instruments that entail credit risk (C), including corporate bonds and fixed deposits.

Contribution Guidelines

The following contribution guidelines have been set by the PFRDA:

- Minimum amount per contribution: Rs. 500 per month
- Minimum number of contributions: 4 in a year (at least 1 in each quarter)
- Minimum annual contribution: Rs 6,000 in each subscriber account.

If the subscriber is unable to contribute the minimum annual contribution, a default penalty of Rs.100 per year of default would be levied and the account would become dormant. In order to re-activate the account, subscriber will have to pay the minimum contributions, along with penalty due. A dormant account will be closed when the account value falls to zero.

Investment Options

Under the investment guidelines finalized for the NPS, pension fund managers will manage three separate schemes, each investing in a different asset class. The three asset classes are equity, government securities and credit risk-bearing fixed income instruments. The subscriber will have the option to actively decide as to how the NPS pension wealth is to be invested in three asset classes:

1. E Class: Investment would primarily in Equity market instruments. It would invest in Index funds that replicate the portfolio of either BSE Sensitive index or NSE Nifty 50 index.
2. G Class: Investment would be in Government securities like GOI bonds and State Govt. bonds
3. C Class: Investment would be in fixed income securities other than Government Securities

- * Liquid Funds of AMCs regulated by SEBI with filters suggested by the Expert Group
- * Fixed Deposits of scheduled commercial banks with filters
- * Debt securities with maturity of not less than three years tenure issued by bodies Corporate including scheduled commercial banks and public financial institutions
Credit Rated Public Financial Institutions/PSU Bonds
Credit Rated Municipal Bonds/Infrastructure Bonds

In case the subscriber does not exercise any choice as regards asset allocation, the contribution will be invested in accordance with the 'Auto choice' option. In this option the investment will be determined by a predefined portfolio. At the lowest age of entry (18 years) the auto choice will entail investment of 50 % of pension wealth in "E" Class, 30% in "C" Class and 20% in "G" Class. These ratios of investment will remain fixed for all contributions until the participant reaches the age of 36. From age 36 onwards, the weight in "E" and "C" asset class will decrease annually and the weight in "G" class will increase annually till it reaches 10% in "E", 10% in "C" and 80 % in "G" class at age 55.

! Till the of age 35 years

! At age 55 Years |- | E Class | 50% | 10% |- | C Class | 30% | 10% |- | G Class | 20% | 80%

Investment Charges

NPS levies extremely low Investment management charge of 0.00009% on net AUM (Asset Under Management). This is extremely low as compared to charges levied by mutual funds or other investment products. Initial charge of opening the account would be Rs. 470. From second year

onwards the minimum charge would be Rs. 350 a year. As per the offer document of NPS, annual and transaction charges would be reduced once the number of accounts in CRA reaches 10 lakh.

Withdrawal Norms

If subscriber exits before 60 years of age, he/she has to invest 80% of accumulated saving to purchase a life annuity from IRDA regulate life insurer. The remaining 20% may be withdrawn as lump sum. On exit after age 60 years from the pension system, the subscriber would be required to invest at least 40% of pension wealth to purchase an annuity. In case of Government employees, the annuity should provide for pension for the lifetime of the employee and his dependent parents and his spouse at the time of retirement. If subscriber does not exit the system at or before 70 years, account would be closed with the benefits transferred to subscriber in lump sum. If a subscriber dies, the nominee has the option to receive the entire pension wealth as a lump sum.

Tax Treatment

The offer document of NPS does not specify the tax benefits in elaborate manner. It specifies "Tax benefits would be applicable as per Income Tax Act, 1961 as amended from time to time." As per current provisions, withdrawals under the NPS attract tax under the EET (exempt-exempt-taxable) system, which means that while contributions and returns to the NPS are exempt up to a limit, withdrawals would be taxed as normal income (EET).

As Per Income tax act –Latest Amendments Finance Act 2011.

Section 80CCD of the Income-tax Act provides, inter alia, a deduction in respect of contributions made by an employee as well as an employer to the New Pension System (NPS) account on behalf of the employee. In view of the provisions of section 80CCE, the aggregate deduction under sections 80C, 80CCC and 80CCD cannot exceed one lakh rupees. The allowable deduction under section 80CCD includes both the employee's as well the employer's contribution to the NPS. It is proposed to amend section 80CCE so as to provide that the contribution made by the Central Government or any other employer to a pension scheme under section 80CCD(2) shall be excluded from the limit of one lakh rupees provided under section 80CCE.

In new pension scheme 10% part is contributed by employer and 10 % by employee .Employer share is added in employee income and then it is considered as deduction in 80CCD but as under overall value of 100000 but after this employer's share to NPS(CPF) will be allowed as a deduction subject to 10 % of salary over and above of 100000 deduction .

Benefit to employees'

Currently, the contribution made by an employer towards a recognised provident fund, an approved superannuation fund or an approved gratuity fund is allowable as a deduction from business income under section 36, subject to certain limits.

However, the contribution made by an employer to the NPS is not allowed as a deduction.It is, therefore, proposed to amend section 36 so as to provide that any sum paid by the assessee as an employer by way of contribution towards a pension scheme, as referred to in section 80CCD(2) on account of an employee to the extent it does not exceed ten per cent. of the salary of the employee in the previous year, shall be allowed as deduction in computing the income under the head "Profits and gains of business or profession".

Past Investment returns

The NPS architecture has been managing money since April 2008. Rs.2100 crore is invested as corpus of Central Government employees. In 2008-09, as per unaudited results of the Pension Funds, the average weighted return on the corpus have been over 14.5% with the individual returns of three Pension Funds varying from 12% to 16% on the NPS corpus during the year 2008-09, weighted average return being over 14.5 per cent.