



# NPS National Pension System



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# GENESIS of NPS

- ▶ Days under British Crown
- ▶ Pension–Why?
- ▶ Concept of Welfare State
- ▶ Pension bill
- ▶ Non–Plan expenditure
- ▶ Post 1991 Scenario
- ▶ Globalisation effects
- ▶ Market economy
- ▶ Bill of 2003
- ▶ 1<sup>st</sup> January 2004



# Objectives



- ▶ Reduction of Non Plan expenditure
- ▶ Security of subscriber
- ▶ Generate funds
- ▶ Economic development
- ▶ Inculcate saving habits
- ▶ Market growth
- ▶ Economic development
- ▶ Strong social structure

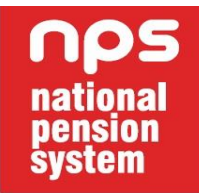
# FEATURES OF NPS

- ▶ In the age group of 18y–60yrs to all citizens and is Voluntary
- ▶ Similar to 401(k) of USA
- ▶ Is tax free and Market linked Annuity product
- ✓ corpus at maturity is tax free
- ✓ Annuity is tax free
- ▶ It is a quasi EEE instrument:
  - ✓ 40% of corpus escapes tax at maturity
  - ✓ 60% of corpus is taxable, of which 40% is exempt if annuity is purchased
  - ✓ Annuity income will be taxed however
  - ✓ Balance 20% will be taxed
- Is one of the best tax saving instruments after ELSS

- ▶ Unlike other financial products, NPS has a bundled architecture to attend to various functions viz; Sales, Operations, Fund management, Service, Depository etc
- ▶ At the age of 60 yrs subscriber has to select Annuity Service Provider (ASP)– There are 8 ASPs presently
- ▶ Investors can't opt for 2 pension fund managers and can't switch one pension fund to another pension fund
- ▶ SBI is largest PFM with assets of Rs 61,000 crores
- ▶ Presently employees have no say in investment in funds and govt. does it in 3 funds viz; SBI,UTI,LIC



## 2. NPS Architecture



Sl. No.	Name of the intermediary	Duty / Responsibility
1	PFRDA	Regulator
2	NPS Trust	Care taker of Assets and Funds, Monitors the operations of intermediaries
3	CRA (NSDL/Karvy)	Record Keeping, Customer Services
4	Points of Presence (PoP) (DDO/STO/PAO)	Collection and distribution points
5	PFMs (SBI,UTI,LIC,HDFC,ICICI,KOTAK, Reliance Cap,Birla Sunlife)	Asset management as per investment guidelines
6	Custodian (SHCIL)	Care taker of assets purchased by PFMs
7	Trustee Bank (Axis Bank)	Fund pooler, Fund Flow manager
8	Annuity Service Provider	Monthly Pension provider
9	Retirement Advisor	To advise the subscribers to purchase





# Types of Accounts



## Tier-I account:

- ✓ Mandatory
- ✓ is Primary Account
- ✓ Restrictions on withdrawals
- ✓ Restrictions on utilization of accumulated corpus
- ✓ Income Tax benefits for both employer and employee contributions
- ✓ Employer contribution @ 14%
- ✓ Employee contribution @10% of BP+DA

## Tier-II account

- Voluntary
- Can deposit and withdraw as per their choice
- Is an investment account
- Tax benefits are not available.
- An active Tier I account will be a pre requisite for opening of a Tier II
- The minimum annual contribution to the NPS is INR 2,000 with the monthly contribution of INR 250, is mandatory for claiming deductions under Tier 2 of the NPS.



# Pension Fund Managers

- ▶ Total of 8 Fund managers are there:
  1. SBI Pension Fund
  2. LIC Pension Fund
  3. UTI Retirement Solutions
  4. HDFC
  5. ICICI
  6. KOTAK
  7. Reliance Capital
  8. Birla Sun life



# Investment Choices and Pattern



- ▶ Under Tier I the following investment pattern is followed
- ▶ w.e.f. 10.06.2015, vide PFRDA Circular No. PFRDA/2015/16/PFM/7, dated 03.06.2015.

Sl. No.	Investment Choice	Pattern
1	Government Securities and Related Investments	Upto 50%
2	Equities and Related investments	Upto 15%
3	Asset backed, Trust structured and Miscellaneous Investments	Upto 5%



# Subscriber Registration - Nomination

- ▶ **Family means**
- ▶ **In the case of a male subscriber**, his legally wedded wife, his children, whether married or unmarried, his dependent parents and his deceased son's widow and children
- ▶ **In the case of a female subscriber**, her legally wedded husband, her children, whether married or unmarried, her dependent parents, her husband's dependent parents and her deceased son's widow and children:



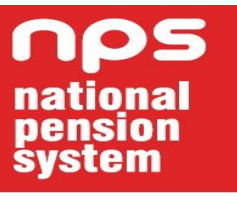
# Subscriber Registration - Nomination



- **If a subscriber has a family** at the time of making a nomination, then any nomination made by such subscriber in favour of a person not belonging to his family shall be invalid.
- A fresh nomination shall be made by the subscriber on his marriage and any nomination made before such marriage shall be deemed to be invalid.
- If at the time of making a nomination **the subscriber has no family**, the nomination may be in favour of any person or persons
- Where the nomination is wholly or partly in favour of a minor, the subscriber may appoint a major person of his family, to be the guardian of the minor nominee in the event of the subscriber predeceasing the nominee and the guardian so appointed.



## 5. Subscriptions – Audit of Claims.



- ▶ **Procedure:**
- ▶ 14% of Pay + DA shall be deducted in regular monthly pay bills and as well as arrear pay bills.
- ▶ In case of Suspension cases, EOL cases – no subscription.  
(*Cir.Memo No.178/42/A2/HRM.V/2017, Fin., Dt.20.04.2017*)



## 6. Transfer of NPS Amounts

- ▶ **Two way approach**
- ▶ **1) Data Transfer**  
Data shall be transferred to CRA NSDL
- ▶ **2) Funds Transfer**  
Funds shall be transferred to Trustee Bank (Axis Bank)



# Tax Benefits



- Section 80CCD of the income tax act deals with deductions offered to individuals contributing to the NPS
- Under Section 80 CCD(1) ( up to 1.50 lacs), and
- Under sec 80 CCD(1B) up to 50K
- the maximum limit of exemption is Rs. 2.00 Lakhs with Section 80CCD(1) Section 80CCD(1B) i.e Rs.50K is eligible for tax deduction only if invested in Tier-I and deductions under Tier-II are NOT eligible for tax exemption
- for employer's contribution under 80 CCD(2) (10% of salary without any monetary limit)
- EEE mode (Exempt-Exempt-Exempt) i.e the amount contributed to NPS, the income generated and the amount of maturity, are all tax-exempt
- Tax benefits received under Section 80CCD cannot be again claimed under Section 80C, and the total tax deduction under Section 80C and Section 80CCD combined together cannot exceed INR 2 lakhs

- ▶ The proceeds from NPS received in the form of monthly pension payments or surrendered accounts will be taxable under the relevant tax slabs as specified under Section 80C of Income Tax Act, 1961.
- ▶ Reinvestment made in an annuity plan with the proceeds of NPS is exempted from tax deductions.
- ▶ In case the assessee dies, and the nominee decides to close the NPS account, then the amount received by nominee is exempt from taxation
- ▶ If partial withdrawals are made from the account, then only 25% of the contribution made is exempt from taxation
- ▶ If the assessee is an employee and decides to close the NPS account or opt out of NPS, then only 40% of the total amount is tax-exempt
- ▶ The assessee can withdraw 60% of the entire amount on reaching the age of 60 years as tax-free income. The remaining 40% is also tax-free if it is used to purchase an annuity plan





## 10. Partial Withdrawals

- ▶ **A) Authority:**
- ▶ PFRDA (Exits and Withdrawals from NPS) Regulations, 2015 (**Regulation 8**) and
- ▶ Circular No. PFRDA/2016/7/Exit/2, dated 21.03.2016 of PFRDA and
- ▶ Circular No. PFRDA/2018/40/Exit, dated 10.01.2018 of PFRDA
- ▶ Circular No. PFRDA/2018/55/Exit/5, dated 06.08.2018 of PFRDA
- ▶ **B) Eligibility and Limit:**
- ▶ **Subscriber to NPS for at least for a period of 3 years**
- ▶ **Not exceeding 25% of accumulations made by the subscriber**
- ▶ **C) Frequency: Maximum of 3 times in entire service**



# 10. Partial Withdrawals (contd.)



## ▶ D) Purpose:

Sl. No.	Reason	Documents to be produced
1	Higher Education	Copy of the admission letter along with fees schedule
2	Marriage	Self declaration
3	Purchase / Construction of House or Flat	Photo copy of title documents of property, approved plan and self declaration (or) Loan sanction letter from bank
4	Treatment of illness	Certificate from doctor
5	Medical expenses due to disability or incapacitation	Disability certificate from a Government surgeon or doctor stating the nature and extent of disability and certificate from doctor
6	For skill development	a) Admission/Sanctions letter from university in India/abroad with fee detail b) For distance learning programs, copy/s of invoice/s which confirm the payment of required fee for desired course c) For other skill development programmes, copy of invoices confirming payment of fee for the desired course d) study leave sanction letter/NOC provided by the organisation/ department/ministry, if required in terms of the employee's service conditions (not applicable where employee-employer relationship does not exist)
7	establishment of own venture	a) Registration Certificate of entity b) Proof of ownership of the entity (it should be in the name of the subscriber) c) Registration number issued by Government Authorities like GST/ Income Tax/Govt.



# 10. Partial Withdrawals (contd.)



## ▶ D) Purpose:

Sl. No.	Reason	In respect of	Remarks
1	Higher Education	Children including legally adopted	
2	Marriage	Children including legally adopted	
3	Purchase / Construction of House or Flat	On own name or jointly	
4	Treatment of illness	Self, Wife, Children and parents	Cancer, Kidney failure, Primary Pulmonary Arterial Hypertension, Multiple Sclerosis, Major organ transplant, Aorta Graft Surgery, Heart Valve Surgery, Stroke, Myocardial Infarction, Coma, Total blindness, Paralysis, Accident of serious threatening nature, any other critical illness specified
5	Medical expenses due to disability or incapacitation	self	
6	For skill development	self	Duration of course should be more than 3 months.
7	establishment of own venture	self	



## 10. Partial Withdrawals (Contd.)

- ▶ **E) Procedure:**
- ▶ Subscriber shall submit in form 601 PW with supporting documents in the PAO/Treasury through DDO concerned.
- ▶ The PAO/Treasury Officer shall verify the documents submitted, signature of the DDO and Bank Account Number of the individual (Copy of Bank Account) and authorise with his login credentials within 3 days.
- ▶ The PAO/Treasury Officer shall record the details in a register and send a copy of partial withdrawal request to CRA NSDL.



## 10. Partial Withdrawals (Contd.)

- ▶ **E) Procedure:**
- ▶ The amount will be credited to the account of subscriber in T+3 days by CRA NSDL.
- ▶ Withdrawal amount received after the execution of the withdrawal request can be different from the requested amount to the extent of difference in NAV of two different days.



# 11. Exits /Withdrawals on Death/Pre-mature and Superannuation



Processing of Exit Request of the Subscriber through ONLINE has been made mandatory from 1<sup>st</sup> April 2016.

Vesting Criteria	Benefit
<p><b>On attaining the Age of superannuation.</b></p> <p>Deferment of lump sum.</p> <p>Deferment of annuity</p> <p>If Corpus &lt;= Rs. 2.00 Lakh</p>	<p>At least 40% of the accumulated pension corpus to be annuitised</p> <p>The Subscriber may choose to purchase an annuity for an amount greater than 40 percent also.</p> <p>The lump sum can be deferred and can be withdrawn in installments or lumpsum at any time between superannuation and 70 years of age.</p> <p>Annuity purchase can also be deferred for a maximum period of 3 years from the age of superannuation</p> <p>Option to withdraw complete/entire pension wealth (Only in superannuation cases)</p>
Vesting Criteria	Benefit
<p><b>Exit before attaining the superannuation age or voluntary retirement</b></p> <p>If Corpus &lt;= Rs. 1.00 Lakh</p>	<p>80% of the accumulated pension wealth shall be mandatorily utilized for purchase of annuity</p> <p>Subscriber shall have the option to withdraw the entire accumulated pension wealth without purchasing any annuity .</p>
Vesting Criteria	Benefit
<p><b>Death due to any cause before superannuation</b></p> <p>If Corpus &lt;= Rs. 2.00 Lakh</p>	<p>At least 80% out of the accumulated pension wealth of the subscriber shall be mandatorily utilized for purchase of annuity</p> <p>If amount in the PRAN of the subscriber at the time of his death is equal to or less than two lakh rupees, the nominee or legal heirs as the case may be, shall have the option to withdraw the entire accumulated pension wealth</p>

## 12. Exits Cases : Annuities – Types & Service Providers

The following are the most common variants that are available:

- i. **Annuity for life** --payment of annuity ceases on death.(no return of purchase price to nominee)
- ii. **Annuity guaranteed for 5, 10, 15 or 20 years and for life thereafter (no return of purchase price)**
- iii. **Annuity for life with return of purchase price on death**
- iv. **Annuity for life increasing at simple rate of 3% p.a. (no return of purchase price to nominee)**
- v. **Annuity for life with a provision for 50% of the annuity to the spouse of the annuitant for life on death of the annuitant-** payment of annuity ceases and 50% of the annuity is paid to the surviving named spouse during his/her life time. If the spouse predeceases the annuitant, payment of annuity will cease after the death of the annuitant. It can be with or without return of purchase.

**VI Annuity for life to the subscriber, after death of subscriber 100% annuity to the spouse and after death of spouse return of the purchase price to the nominee. (Default Scheme)**

At present the following 5 ASPs are providing the Annuity services to NPS subscribers:

1. Life Insurance Corporation of India
2. SBI Life Insurance Co. Ltd.
3. ICICI Prudential Life Insurance Co. Ltd.
4. HDFC Standard Life Insurance Co Ltd
5. Star Union Daichi Life Insurance Co. Ltd

# Default Annuity

▶ **Default Annuity** : It provides for annuity for life of the subscriber

- and his or her spouse (if any)
- upon the demise of such subscriber, the annuity shall be re-issued to the family members in the order as specified below:
  - (a) living dependent mother of the deceased subscriber;
  - (b) living dependent father of the deceased subscriber.
  - After the coverage of all the family members specified above, the purchase price shall be returned to the surviving children of the subscriber and in the absence of children, the legal heirs of the subscriber, as may be applicable.
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# SCHEMES

- ▶ Types of Investment schemes offered by PFM– 4 Types
- ✓ **Scheme E (Equity)**– Allows investment upto 75% in equity
- ✓ **Scheme C ( Current Debt)**– Invest in high Quality Corporate Bonds up to 100 %
- ✓ **Scheme G (Govt./Gilt bonds)**– Up to 100% in govt. bonds
- ✓ **Scheme A ( Alternative Investment)**– Allows up to 5 %  
( newly added asset class for private sector subscribers)

# LIFE CYCLE FUNDS

- ▶ Aggressive Life Cycle fund(LC-75)– allows subscribers to have equity exposure up to 75% till 35 yrs of age ( for 20 yrs group)
- ▶ Conservative LifeCycle Fund:up to 25% in equity market
- ✓ For older investors

# INSTRUMENTS of INVESTMENT

- ▶ Govt. Securities–
- ▶ Bank Deposits
- ▶ Mutual Funds
- ▶ Equities

# Government Securities

## ▶ Treasury bills–

- ✓ Are short term debt instruments
- ✓ Of 3 tenors viz; 91 days, 182 days and 364 days (of less than one year)
- ✓ Is tradable instrument
- ✓ Are zero coupon securities
- ✓ Pay NO interest
- ✓ Issued at Discount and redeemed at Face value

## ▶ Cash Management Bills:

- ✓ Similar to Treasury Bills but for period of less than 91 days
- ✓ Primarily to meet cash mismatches

- **Dated G–Secs /Govt. Bonds–**
  - ✓ Long term , for periods of 5 years to 40 years
  - ✓ Carry floating interest on face value on half yearly basis
  - ✓ are long term
  - ✓ Carry little risk
  - ✓ More secure
- **Bonds–**
  - ✓ Is a debt instrument
  - ✓ Issued by Companies, Municipalities, States and Sovereign Governments
  - ✓ To finance projects and activities
- **State Development Loans–** Similar to date securities

# MUTUAL FUNDS

- ▶ Equity Fund– invest in equity market
- ▶ Debt Funds–
- ▶ Money Market Funds
- ▶ Index Funds
- ▶ Balanced Funds
- ▶ Income Funds
- ▶ Fund of Funds
- ▶ Thematic or Speciality Funds

- **Equity Fund**

- ✓ In equity market

- ✓ More returns

- ✓ More risks

- **Debt Fund–**

- ✓ Invest in Treasury Bills, Bonds

- ✓ Has a fixed interest rate

- ✓ Has a maturity rate

- ✓ Has regular but small gain

- ✓ For those looking for regular periodical income

- **Money Market funds**

- ✓ Also called as capital markets or cash markets

- ✓ Govt, banks or corporations run it

- ✓ They issue money market securities like TB, Dt Sec,

- ✓ Issues regular dividends

## ▶ Hybrid Funds

- ✓ Is a combination of Debt and Equity Fund
- ✓ For those looking for quick and steady returns

## ▪ Growth Funds

- ✓ In growing sectors
- ✓ People with idle or surplus money
- ✓ Riskier

## ▪ Income Funds

- ✓ Is a debt fund
- ✓ In Bonds, CoDs, TBs
- ✓ Suitable for risk averse individuals
- ✓ Better returns than FDs



## ▶ Liquid Funds

- ✓ Debt funds
- ✓ Invest in debt instruments
- ✓ Maximum sum allowed is Rs 10.00 Lakhs
- ✓ NAV is calculated for all of 365 days unlike others
- ELSS–
  - ✓ For Income Tax purposes
  - ✓ Lock in period is 3 years
  - ✓ Suitable for long term or salaried class
  - ✓ Returns around 14%

- **Thematic Funds or Sector Funds**
  - ✓ Invests only in sectors
  - ✓ High risks
  - ✓ High returns
- **Index Funds**
  - ✓ Invest only in index
  - ✓ Suitable for passive investors
- **Fund of Funds**
  - ✓ Invest in diverse category of funds

# STOCKS

- ▶ **Fundamental Analysis**
- ▶ Sector study
- ▶ Company study
- ▶ Management
- ▶ Promoter holding
- ▶ FII/DII/MF stake
- ▶ Issued capital
- ▶ Market capitalisation
- ▶ Profits
- ▶ Return on Equity
- ▶ Return on Capital
- ▶ Dividend History

# Technical Analysis

## ▶ Indicators

- ✓ Simple moving averages– 10 days, 20 days, 50 days, 100 days
- ✓ Volume
- ✓ MACD
- ✓ Relative Strength Index