

NATIONAL PENSION SYSTEM

The National Pension System (NPS) was launched on 1st January, 2004 with the objective of providing retirement income to all the citizens. NPS aims to institute pension reforms and to inculcate the habit of saving for retirement amongst the citizens.

With effect from 1st May, 2009, NPS has been provided for all citizens of the country including the unorganised sector workers on voluntary basis.

AID to weaker section

Additionally, to encourage people from the unorganised sector to voluntarily save for their retirement the Central Government launched a co-contributory pension scheme, 'Swavalamban Scheme - External website that opens in a new window' in the Union Budget of 2010-11. Under Swavalamban Scheme - External website that opens in a new window, the government will contribute a sum of Rs.1,000 to each eligible NPS subscriber who contributes a minimum of Rs.1,000 and maximum Rs.12,000 per annum. This scheme is presently applicable upto F.Y.2016-17.

NPS offers following important features to help subscriber save for retirement:

The subscriber will be allotted a unique Permanent Retirement Account Number (PRAN). This unique account number will remain the same for the rest of subscriber's life. This unique PRAN can be used from any location in India.

How Investment works?

The scheme offers complete flexibility. The investor decides the percentage of the corpus that goes into equity, corporate bonds and government securities, with the only limitation being the 50% cap on exposure to equity. One of the most outstanding features of the NPS is the 'lifecycle fund'. It is meant for those who are not financially aware or can't manage their asset allocation themselves. It is also the default option for someone who has not indicated the desired allocation for his investments.

Under this option, the investor's age decides the equity exposure. The 50% allocation to equity is reduced every year by 2% after the investor turns 35, till it comes down to 10%. This is in keeping with the strategy to opt for a higher-risk, higher-return portfolio mix earlier in life, when there is ample time to make up for any possible black swan event. Gradually, as the investor approaches retirement, he moves to a more stable fixed-return, lowrisk portfolio. This automatic rejigging of the asset allocation is a unique feature of the NPS.

No other pension plan or asset allocation mutual fund offers such a facility to investors. There are a few funds based on age, but they are one-size-fits-all solutions, not customised to the individual's age.

Tax Savings

Another unique feature of the NPS is the tax benefit it offers under the newly added Section 80 CCD(2).

Under this section, if an employer contributes 10% of the salary (basic salary plus dearness allowance) to the NPS account of the employee, this amount gets tax exemption of up to Rs 1 lakh. This is over and above the Rs 1 lakh tax deduction under Section 80C. It's a win-win situation for both because the employer also gets tax benefit under Section 36 I (IV) A for his contribution. By putting in money in the NPS, the employer can provide an additional tax benefit to the employee by simply reorganising the salary structure without incurring any additional cost to the company (CTC). The NPS allows one to accumulate the corpus from the age of 18 for 40-odd years. There is minimal leakage in the form of withdrawals for competing consumption expenses.

Maximum Investment Tenure

This allows the investor to reap the benefits of compounding till he turns 60. The NPS also offers the flexibility to draw up to 60% of the retirement corpus as a lump sum to meet financial life goals like children's marriages, housing, or draw down the lump sum in a staggered manner till one is 70 years old. The rest can be used to buy an annuity from any of the seven Irda-regulated annuity service providers. So, the NPS is probably the only wholesome, universal, technologydriven retirement planning product in the country today.

Summary

