

NPS: Frequently asked questions:-

What is National Pension System (NPS)?

National Pension System (NPS) is a government-sponsored pension scheme. It was launched in January 2004 for government employees. However, in 2009, it was opened to all sections. The scheme allows subscribers to contribute regularly in a pension account during their working life. On retirement, subscribers can withdraw a part of the corpus in a lumpsum and use the remaining corpus to buy an annuity to secure a regular income after retirement.

Who can join NPS?

Any Indian citizen between 18 and 60 years can join NPS. The only condition is that the person must comply with know your customer (KYC) norms.

Can a Non Resident Indian (NRI) join NPS?

Yes, an NRI can join NPS. However, the account will be closed if there is a change in the citizenship status of the NRI.

How do I join NPS?

You should open an NPS account with entities known as Point of Presence (POP). Most banks, both private and public sector, are enrolled as POPs. Several financial institutions also act as POPs. The authorized branches of a POP, called point of presence service providers (POP-SPs), act as the collection points.

How can I find POPs near me?

You can access them through the website of Pension Fund Regulatory and Development Authority (PFRDA). <https://www.npskra.nsdl.co.in/pop-sp.php>

What are the documents needed for opening an NPS account?

You should fill the subscriber registration form and submit it along with proof of identity, address, and date of birth to the POP.

What is a Permanent Retirement Account Number (PRAN)?

Every NPS subscriber is issued a card with 12-digit unique number called Permanent Retirement Account Number or PRAN.

What are Tier-I and Tier-II accounts?

NPS offers two accounts: Tier-I and Tier-II accounts. Tier-I is a mandatory account and Tier-II is voluntary. The big difference between the two is on withdrawal of money invested in them. You cannot withdraw the entire money from Tier-I account till your retirement. Even on retirement, there are restrictions on withdrawal on the Tier-I account. The subscriber is free to withdraw the entire money from the Tier-II account.

Can I have more than one NPS account?

No, you cannot open multiple NPS accounts. In fact, there is no need to open a second account as NPS is portable across sectors and locations.

What is the minimum contribution in NPS?

You have to contribute a minimum of Rs 6,000 in your Tier-I account in a financial year.

What will happen if I don't make the minimum contribution?

If you do not contribute the minimum amount, your account will be frozen. You can unfreeze the account by visiting the POP and pay the minimum required amount and a penalty of Rs 100.

Will the government also contribute to my NPS account?

No, the government will not contribute to your NPS account.

Who manages the money invested in NPS?

The money invested in NPS is managed by PFRDA-registered Pension Fund Managers. At the moment, there are eight pension fund managers: ICICI Prudential Pension Fund, LIC Pension Fund, Kotak Mahindra Pension Fund, Reliance Capital Pension Fund, SBI Pension Fund, UTI Retirement Solutions Pension Fund, HDFC Pension Management Company, and DSP BlackRock Pension Fund Managers.

What are the investment choices available in NPS?

The NPS offers two choices:

- 1) **Active Choice:** This option allows the investor to decide how the money should be invested in different assets.
- 2) **Auto choice or lifecycle fund:** This is the default option which invests money automatically in line with the age of the subscriber.

What are the investment options available under Active Choice?

The Active Choice offers three funds or investment options: Asset Class E (invests 50 per cent in stocks); Asset Class C (invests in fixed income instruments other than government securities); Asset Class G (invests only in government securities). An investor can choose one of these funds or opt for a combination of them.

Can I change my investment choices?

Yes, you can change your investment choices once in a financial year for both Tier-I and Tier-II accounts.

Can I change my scheme and pension fund managers?

Yes, you can change your scheme preference and pension fund manager. You can even change your investment option (active and auto choices).

Can I have different pension fund managers and investment option for Tier I and Tier II account?

Yes, you can select different pension fund managers and investment options for your NPS Tier I and Tier II accounts.

What are the tax benefits available for NPS?

An employee's own contribution is eligible for a tax deduction --up to 10 per cent of the salary (basic plus DA) – under Section 80CCD(1) of the Income Tax Act within the overall ceiling of Rs 1.5 lakh allowed under Section 80C and Section 80CCE.

The employer's contribution to NPS is exempted under Section 80CCD (2).

Moreover, individuals can claim an additional deduction of up to Rs 50,000 under Section 80CCD (1B), which is in addition to Rs 1.5 lakh permitted under Section 80C.

A self-employed person can also contribute 10 per cent of his gross income under Section 80CCD (1) in NPS.

When can I withdraw money from NPS?

NPS is a pension product. So, you are expected to stay invested until your retirement. At 60, you must use at least 40 per cent of the corpus to buy an annuity income from a PFRDA-listed insurance company. You have the option to withdraw 40 per cent of the corpus tax-free. You can withdraw the remaining 20 per cent of the corpus (it will be taxed as per the income tax slab applicable to you) or use it to buy annuity.

Can I defer withdrawing the lumpsum amount at 60?

Yes, you can defer withdrawing the lumpsum amount in NPS until you are 70 years old.

What if I want to take the money out before I am 60?

If you are getting out of the scheme before you are 60 years old, you can only withdraw 20 per cent of the accumulated corpus in NPS. You must use 80 per cent of the corpus to buy an annuity.

What happens to the money if I discontinue the scheme?

If you discontinue your investment, your account will be frozen. You can reactivate the account only if you make the minimum contribution required along with the penalty.

What happens if the subscriber dies before 60 years?

If the subscriber dies before 60 years, the entire accumulated wealth would be paid to the nominee/legal heir of the subscriber.

How do I withdraw the money from NPS?

You will have to submit the withdrawal application to the POP along with relevant documents. POP would authenticate the documents and forward them to Central Record-keeping Agency (CRA) and NSDL. CRA would register your claim and forward you the application form along with details of documents that need to be submitted. Once you complete the necessary procedure, CRA processes the application and settles the account.

What are the documents to be submitted along with withdrawal forms?

You have to submit the following documents along with the withdrawal forms:

1. PRAN card (original)
2. Attested copy of proof of identity
3. Attested copy of proof of address
4. A cancelled cheque

What is an annuity?

An annuity provides a regular income (it could be monthly, quarterly, annual, etc) at a specified rate for a specified period chosen by the subscriber. In NPS, a subscriber must use at least 40 per cent of the corpus to buy an annuity. It means the person can pay the money to an Annuity Service Provider (ASP) and choose an annuity option to ensure a regular income after retirement.

Who are the Annuity Service Providers?

Currently, these insurance companies are empanelled by PFRDA as ASPs:

1. Life Insurance Corporation of India
2. SBI Life Insurance
3. ICICI Prudential Life Insurance
4. Bajaj Allianz Life Insurance
5. Star Union Dai-ichi Life Insurance
6. Reliance Life Insurance
7. HDFC Standard Life Insurance

What are the different annuity options offered by ASPs?

Here are some generic annuity options offered by ASPs. Remember, some ASPs may offer a slightly different or combination of these options:

1. Pension (annuity) payable for life at a uniform rate to the subscriber
2. Pension (annuity) payable for 5, 10, 20 years certain and thereafter as long as you are alive
3. Pension (annuity) for life with return of purchase price on death of the subscriber
4. Pension (annuity) payable for life increasing at a simple rate of 3 per cent
5. Pension (annuity) for life with a provision of 50 per cent of the annuity payable to spouse during his/her lifetime on death of the subscriber
6. Pension (annuity) for life with a provision of 100 per cent of the annuity payable to spouse during his/her lifetime on death of the subscriber
7. Pension (annuity) for life with a provision of 100 per cent of the annuity payable to spouse

during his/her lifetime on death of the subscriber and with return of purchase price on death of the spouse.

How is the annuity income taxed?

The annuity income will be added to your income and taxed as per the income tax slab applicable to you.

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