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# The New Pension System - (NPS)

*The presentation is for education purposes. For complete information, please read the NPS offer document available at [www.pfrda.org.in](http://www.pfrda.org.in)*

## **Plan early for those SUNSET YEARS:**

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- ✓ Pay cheques stop coming in
- ✓ Lack of Universal Social Security System in India
- ✓ Increased cost of living and skyrocketing medical expenses
- ✓ Deteriorating joint family concept
- ✓ Average human life expectancy has gone up
- ✓ You will have time, keep money with you to Pursue your passions and unfulfilled desires

## How do I prepare myself for life after retirement:

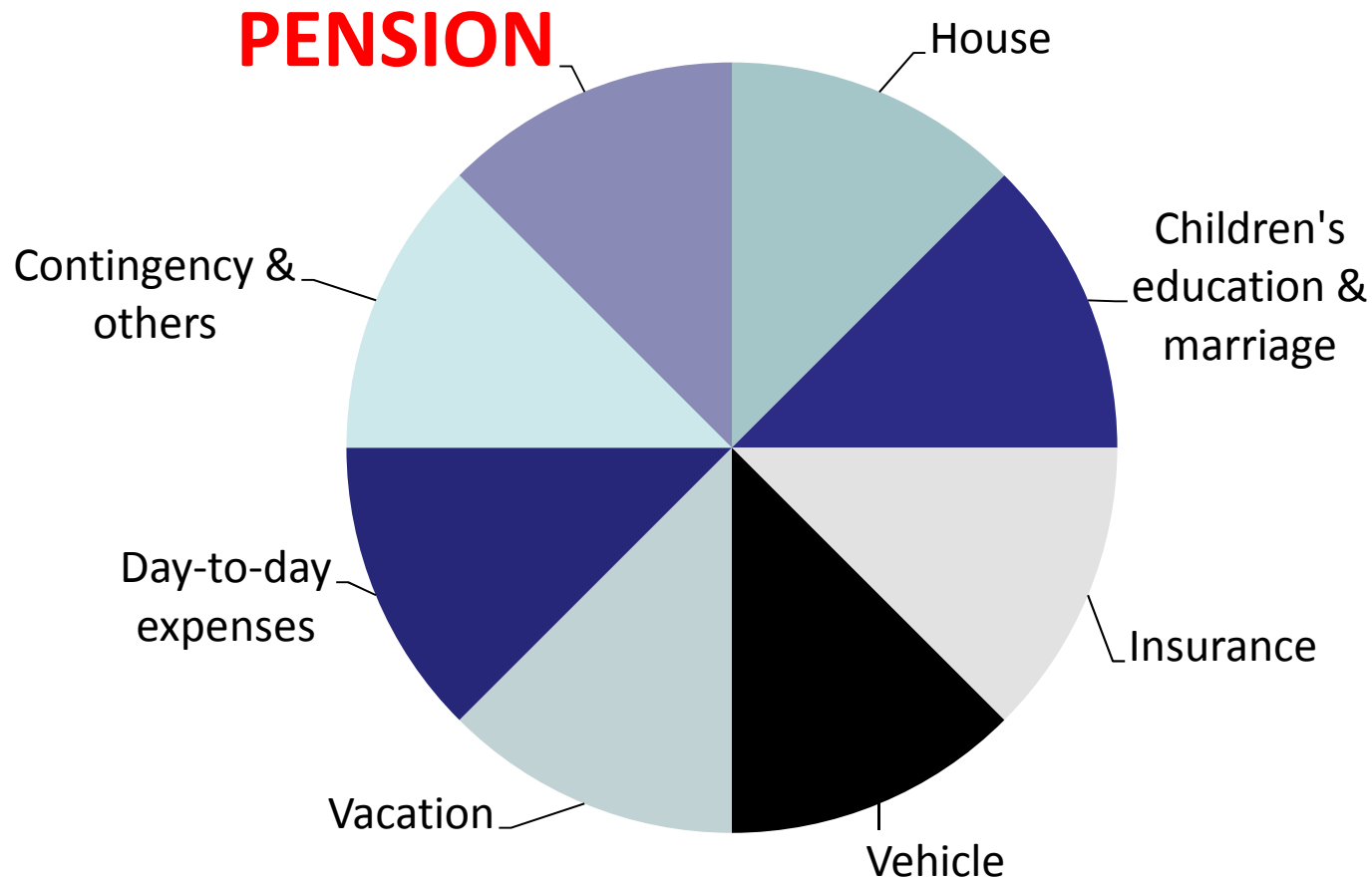
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### **Start saving for retirement early so that:**

- ✓ Savings can be in small monthly installments without need to compromise for immediate needs
- ✓ Disciplined consistent savings will accumulate great wealth
- ✓ Choose savings instruments that suit your outlook and risk appetite
- ✓ Chosen savings instrument should be portable – not tied down to an employer or location or scheme.

# Add Pension to SAVINGS :

**Traditionally Pension is a not a part of the savings – add it now.**



## What is the New Pension System (NPS):

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- ✓ New Pension System (NPS) is a **defined contribution** based pension system launched by Government of India with an aim to provide **old-age security** coverage and pension for **all citizens of India**
- ✓ The scheme provides investors an option to avail reasonable **market based returns over long term**
- ✓ Periodic contributions will get invested through PFRDA appointed Pension Fund Managers (PFMs) in a combination of investment avenues as per the choice of investor

## Why NPS is a Smart Choice:

- ✓ **Creation of Pension Corpus:** NPS is designed as a voluntary saving scheme, with **restricted withdrawal** options. This ensures that the investor can set aside savings during his working life to **create a pension corpus**
- ✓ **Tax Benefit:**
  - **Individual's Contribution:** Investment in NPS made by an individual is eligible for tax exemption under Section **80CCD(1)** read with Section 80CCE of the Income Tax Act, 1961
  - **Employer's Contribution:** **Employer's contributions to** NPS will **NOT** be included in the **Rs1 lakh limit** exemptions that employee avail of **under Section 80C** and thereby allow to **SAVE EXTRA TAX** on this amount under sec 80CCD(2) of the Income Tax Act, 1961
- ✓ **Market based Returns:** NPS offers the investor an option to decide an asset allocation between **Equity** Instruments, **Corporate Bonds** and **Government Securities**, with up to 50% exposure to Equity instruments

## Features of NPS

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- ✓ **All citizens of India (Resident/Non Resident) who** are between 18-60 years of age and have complied with KYC norms as detailed in the Subscriber Registration Form
- ✓ **Low Charges:** All charges levied under NPS are defined and regulated by Pension Fund Regulatory and Development Authority (PFRDA) to ensure reasonability of charges
- ✓ **Promoted & Regulated by the Government of India:** NPS is a Government of India initiative to provide old age security to all citizens of India. The details of the product are defined and regulated by PFRDA
- ✓ **Portability across jobs and locations:** You can operate your account from anywhere in the country even if you change your City, Job or your Pension Fund Manager
- ✓ **Professional record-keeping and fund management**
- ✓ **No entry and exit loads**

# Key stakeholders of the New Pension System:

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- **Pension Fund Regulatory and Development Authority (PFRDA):**
  - ✓ The regulator
- **Points of Presence (PoP):**
  - ✓ Service providers appointed by PFRDA for accepting applications and remittances
- **Central Recordkeeping Agency (CRA):**
  - ✓ NSDL is appointed to act as CRA. The main functions and responsibilities of the CRA include:
    - Issuance of Pension Account number (PRAN), record keeping and customer service.



# Key stakeholders of the New Pension System:

- **Annuity Service Providers (ASP):**

- ✓ ASP would be responsible for delivering a regular monthly pension
- ✓ You will be required to purchase annuity from any of the ASP prescribed by PFRDA on attaining the retirement age

- **Pension Funds (PFs)/Pension Fund Managers (PFMs):**

- ✓ The six PFs appointed by PFRDA would manage the retirement savings under the NPS. These are-

- ✓ **Kotak Mahindra Pension Fund Ltd.**

- ✓ **ICICI Prudential Pension Funds Management Company Ltd.**

- ✓ **UTI Retirement Solutions Ltd.**

- ✓ **Reliance Capital Pension Fund Ltd.**

- ✓ **SBI Pension Funds Private Ltd.**

- ✓ **IDFC Pension Fund Management Company Ltd.**

# How does NPS work- account opening phase

- On opening of account with the help of POP, you will be allotted a unique **Permanent Retirement Account Number (PRAN)**.
- **PRAN will provide access to two personal accounts:**

## **Tier I Pension Account:**

- ✓ This is main pension account
- ✓ Offers Tax Exemptions
- ✓ Tier I is non- withdrawable\*

## **Tier II Savings Account:**

- ✓ This is a voluntary savings facility
- ✓ Offers withdrawal facility
- ✓ No Tax benefit on investments

\* Please refer the slide on withdrawal for details

# How does NPS work - Investment phase

## NPS offers two approaches to invest your money:

- **Active choice – Individual Funds :**

- ✓ You will have the option to actively decide as to how your NPS pension wealth is to be invested in three asset classes E (Equity) , C (Corporate debt) and G (Government securities). You may invest in one or more classes.
- ✓ Subscriber can choose to invest entire pension wealth in C or G asset classes and up to a maximum of 50% in asset class E (equity)

### **Asset Class**

### **Investment Objective**

#### **Asset Class E**

“High return, High risk” Investments in predominantly equity market instruments

#### **Asset Class C**

“Medium return, medium risk” Investments in fixed income instruments other than Government securities.

#### **Asset Class G**

“Low return, Low risk” Investments in Government securities

## Investment options under NPS:

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- **Auto choice – Lifecycle Fund:**

- ✓ In case you are unwilling to exercise any choice as regards to asset allocation, your funds will be invested in accordance with the Auto Choice
- ✓ Till 36 years of age, the auto choice will entail investment of 50% of pension wealth in “E” class, 30% in “C” class and 20% in “G” class.
- ✓ 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.

## How much to contribute:

### Tier I:

- ✓ **Minimum amount per contribution:** INR 500
- ✓ **Minimum contribution per year:** INR 6000
- ✓ **Non Maintenance Charges** INR 100 PA

### Tier II:

- ✓ **Minimum amount per contribution:** INR 250 (1<sup>st</sup> contribution: INR 1000)
- ✓ **Minimum balance at the end of Financial Year:** INR 2000
- ✓ **Non Maintenance Charges** INR 100 PA

### Other important points on Tier II account:

- ✓ Customer must have Tier I account to apply for Tier II
- ✓ Bank a/c details and Unsigned Cancelled cheque from the same account are mandatory
- ✓ Tier II account once opened, can not be closed.

# When can the subscriber **WITHDRAW** the amount:

## Vesting Criteria

## Benefit

**On attaining the retirement age**

- ✓ Max 60% of the pension wealth may be withdrawn in lump sum or in a phased manner, between retirement age to next 10 years
- ✓ Min 40% of the pension wealth to be kept invested in life annuity

**At any time before the defined age of retirement**

- ✓ Max 20% of the pension wealth may be withdrawn
- ✓ At least 80% of the pension wealth to be kept invested and annuitized at retirement

**Death due to any cause**

- ✓ Nominee may receive 100% of the NPS pension wealth
- ✓ If nominee wishes to continue, he/she shall have to subscribe to NPS individually

## Probable ANNUITY Options:

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- ✓ Annuity WITH Return of Purchase Price
- ✓ Annuity WITHOUT Return of Purchase Price
- ✓ Life Annuity Guaranteed for 5, 10 and 15 Years and Life Thereafter

## Applicable CHARGES:

Intermediary	Charge Head	Service Charge	Method of Deduction
CRA	PRA Opening Charges	Rs. 50	Through cancellation of units
	Annual PRA Maintenance cost per account	Rs. 280	
	Charge per transaction	Rs. 6	
POP (Maximum permissible charge for each subscriber)	Initial Subscriber registration and contribution upload	Rs. 40	To be collected upfront
	Any subsequent transactions	Rs. 20	
Trustee Bank	Per transaction emanating from RBI location	Zero	Through NAV Deduction
	Per Transaction emanating from a non-RBI location	Rs. 15	
Custodian (on asset value in custody)	Asset Servicing charges	.0075% p.a. for electronic segment and .05% p.a. for Physical segment	
Pension Fund Management charge	Investment Management Fee	.0009% p.a.	



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**THANK YOU...**