NATIONAL PENSION SYSTEM

1. INTRODUCTION

- National Pension System (NPS) was initially introduced for the Central Government employees who joined services on or after 01.01.2004.
- NPS was made available to all citizens of India voluntarily from 1st May 2009. Later, in order to facilitate the organized entities including public sector organizations, a customized version of NPS, known as NPS-Corporate Sector Model, was introduced in December 2011.
- NPS-Corporate Model provides a platform for the employers to extend the old age income security to their employees and co-contribute for their pension with the flexibility in the amount of contribution from employee/employer.
- The NPS is a cost effective scheme through specialized entities where the employers need not be actively involved in record keeping, investment, annuity etc. as in the case of self-administration of pension functions.
- The corporates/employers have flexibility to select the POP (Point of Presence), Pension Fund (PF) and investment choice centrally for all its employees or may give the option to the employees. The employees have the option to choose from an assortment of asset classes (Equity, Corporate Debt, Government Securities and Alternate Investment Fund) and have the freedom to chose one of the registered Pension Fund.
- **Online Access- 24 X 7 X 365:** Riding on a highly efficient technological platform NPS provides online access to accounts to the subscribers.
- **Regulated:** The funds are managed by professional Pension Funds regulated and actively monitored by PFRDA, the Regulator set up through an Act of Parliament.
- **Portable:** The NPS account (PRAN) can be operated from anywhere in the country even if one changes the job location or the job itself.
- **Tax Incentives:** Tax benefits are available on both employee and employer contributions. The employee can save tax on his own contribution [u/s 80 CCD (1) of IT Act] as well as the contribution made by employer [u/s 80 CCD (2)].

For employees, deduction from taxable income is available upto 10% of salary (Basic + DA) - u/s 80 CCD (1) of IT Act 1961, within overall ceiling of Rs.1.50 Lakh u/s 80 CCE of IT Act 1961. Additionally, if employer, is also contributing towards pension accounts of the employee, deduction upto 10% of salary (Basic + DA) is available to the employees u/s 80 CCD (2), with no monetary ceiling.

For subscriber who is self-employed tax deduction on contribution to NPS is allowed upto 20% of Gross Income, subject to overall ceiling of Rs. 1.50 lacs.

Furthermore, the employer can claim these contributions upto 10% of salary (Basic + DA) for each employee without any overall limit for all employees as a Business Expense u/s 36(1) iv (a) of the IT Act.

Further, subscriber is allowed tax deduction in addition to the deduction allowed under Sec. 80CCD(1) for additional contribution in his NPS account subject to maximum of Rs. 50,000/- under sec. 80CCD 1(B)

2. BENEFITS OF NPS

The NPS brings about the following advantages for the employers and the employees:

- **Low Cost of operation and investment management:** The investment cost is very low as compared to other investment products available in the market.
- **Flexible:** The employer can have the option to select the investment choice for all its employees or may give the option to the employees. The employees have the option to choose from an assortment of asset classes (Equity, Corporate Debt, Government Securities and Alternate Investment Fund) and have the freedom to chose one of the registered Pension Fund.
3. TYPES OF NPS ACCOUNTS
Under NPS, the following types of accounts are available:

- **Tier-I account**: Employer / Employee can contribute for retirement into this restricted-withdrawal account. Income Tax benefits as per the Income Tax Act, 1961 are available for both employer and employee contributions.

- **Tier-II account**: This is a voluntary savings facility, where the subscriber can avail best features of NPS architecture including fund management facility at very low costs. Subscribers are free to withdraw amount from this account as per their wish. However, the tax benefits are not available on contribution to Tier-II account.

4. CONTRIBUTIONS
The NPS Corporate Model allows all three variations of contributions from employer and employee:

- Equal contributions by employer and employee
- Unequal contributions by the employer and the employee
- Contribution from either the employer or the employee

Minimum Contributions (For Tier-I)
- Minimum amount per contribution – Rs.500
- Minimum contribution per year - Rs 1,000
- Minimum number of contributions – at least one per year

Minimum Contributions (For Tier-II)
- Minimum amount per contribution - Rs 250

There is no upper limit for the maximum contribution either under Tier I or Tier II.

5. CHARGES

### POP Charges

<table>
<thead>
<tr>
<th><strong>Charge Head</strong></th>
<th><strong>Service Charges</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Subscriber Registration and contribution upload</td>
<td>Rs. 200/- plus 0.25% of the contribution amount subject to Minimum of Rs. 20/ and Maximum of Rs. 25000/-</td>
</tr>
</tbody>
</table>

### CENTRAL RECORD KEEPING CHARGES

<table>
<thead>
<tr>
<th><strong>Charge Head</strong></th>
<th><strong>NCRA (NSDL)</strong></th>
<th><strong>KCRA (Karvy)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Opening ChargeS</td>
<td>Rs. 40</td>
<td>Rs. 39.36</td>
</tr>
<tr>
<td>Annual Maintenance charge</td>
<td>Rs. 95</td>
<td>Rs. 57.63</td>
</tr>
<tr>
<td>Charge per transaction</td>
<td>Rs. 3.75</td>
<td>Rs. 3.36</td>
</tr>
</tbody>
</table>

### FUND MANAGEMENT CHARGES
Investment Management Fee is 0.01% of invested amount per annum.

### NPS TRUST CHARGES
NPS Trust charges 0.01% of AUM per annum as reimbursement of expenses.

### CUSTODIAN CHARGES
Asset servicing charges- 0.0032% of invested amount per annum.

### TRUSTEE BANK CHARGES
There are no charges levied by Trustee Bank.

**Note**: Tier-I charges can be borne either by Corporate or Subscriber, at the discretion of Corporate

6. HOW TO JOIN NPS

- Corporates desirous of extending NPS to their employees would need to tie up with any of the approved Points of Presence (POPs) under NPS.
- POP and POP-SP (Point of Presence- Service Provider), will be the interface between the corporate/subscribers and the NPS architecture.
7. SCHEME PREFERENCE/PENSION FUND CHOICE

In NPS- Corporate Model, a Corporate has the flexibility to provide investment scheme preference (PF and Investment choice) either at subscriber level or at the corporate level centrally for all its underlying subscribers.

(A) Selection of PF:
The employment or subscriber (employee) can select any Pension Fund (PF). The following entities are presently appointed as PF:
- SBI Pension Funds Pvt. Limited
- LIC Pension Fund Limited
- UTI Retirement Solutions Limited
- ICICI Prudential Pension Fund Management Company Limited
- Kotak Mahindra Pension Fund Limited
- Reliance Capital Pension Fund Limited
- HDFC Pension Management Company Ltd
- Birla Sunlife Pension Management Ltd.

(B) Investment Choice for Asset Allocation:
The investment is in asset classes E,C,G & A:
- Asset Class E - Investment in equity market instrument.
- Asset Class C - Investment in fixed income instruments other than Government Securities
- Asset Class G - Investment in Government Securities
- Asset class “A” - Investment in Alternate Investment fund (applicable only for Tier I account)

The Corporate as well as the Subscriber can have any of the following two choices for their asset allocation:

**Active Choice:** Corporate/Subscriber, as the case may be, will have the option to actively decide as to how the NPS pension wealth is to be invested across Asset class E (upto 50%), Asset Class C, and Asset Class G. In Asset Class ‘A’ the limit is 5%.

**Or**

**Auto Choice:** In this option, the investments will be made in a life-cycle fund. Here, the proportion of funds invested across three asset classes will be determined by a pre-defined portfolio (which would change as per age of subscriber), with the
investment in E decreasing and in C & G increasing with the age of the subscriber.

Two more New Life Cycle Funds- Aggressive and Conservative Funds have been introduced. In Aggressive Life Cycle Fund- Equity Exposure starts with 75% and in Conservative Fund- Equity Exposure starts with 25%. As the age of the subscriber increases, the asset allocation to equity reduces and correspondingly allocation to debt securities increases.

8. EXIT & WITHDRAWAL FROM NPS
The present guidelines on Exit from NPS for a subscriber who joined NPS between 18-60 years are as under

<table>
<thead>
<tr>
<th>Vesting Criteria</th>
<th>Benefit</th>
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<tbody>
<tr>
<td>At any point of time before age of superannuation or 60 years (allowed to subscriber who have been in NPS for at least 10 years)</td>
<td>Compulsory Annuitisation-minimum 80%</td>
</tr>
<tr>
<td></td>
<td>Lump sum withdrawal-maximum 20%</td>
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<td></td>
<td>If Corpus&lt; Rs. 1.00 Lac, complete withdrawal may be opted.</td>
</tr>
</tbody>
</table>

| On attaining the age of superannuation as prescribed in service rules or 60 years and upto 70 years of age | Annuitisation- minimum 40%; Lump sum withdrawal-maximum 60% |
| | If Corpus< Rs. 2.00 Lac, complete withdrawal may be opted |
| | Subscriber can stay invested in the NPS upto the age of 70 years. Fresh contributions are allowed during such a period of deferment. |
| | Can defer the withdrawal of eligible lump sum amount till the age of 70 years with the option to withdraw in maximum 10 instalments. |
| | Annuity purchase can also be deferred for maximum period of 3 years at the time of exit. |

In case of death due to any cause
In such an unfortunate event, option will be available to the nominee to receive 100% of the NPS pension wealth in lump sum.

For subscribers who join after the age of 60 and upto the age of 65 years, the exit after completion of 3 years in NPS will be treated as normal exit.

Partial Withdrawal
Subscriber has the option to withdraw up to 25% of his own contribution in certain circumstances. Partial withdrawal can be made 3 times during stay in NPS.

Partial withdrawal made is not taxable.

9. ANNUITY
The subscriber can purchase an annuity from any one of the PFRDA empanelled annuity service providers as per his choice or selection of the annuity type. Annuity Service Providers are life insurance companies regulated by IRDA and empanelled with PFRDA for investing subscriber retirement savings in Annuity scheme and delivering monthly pension to the subscriber.

Following are the ASPs under NPS-
- Life Insurance Corporation of India;
- SBI Life Insurance Co. Ltd.;
- ICICI Prudential Life Insurance Co. Ltd.;
- HDFC Life Insurance Co Ltd;
- Star Union Dai-ichi Life Insurance Co. Ltd.

Contact List

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<thead>
<tr>
<th>PFRDA Website</th>
<th><a href="http://www.pfrda.org.in">www.pfrda.org.in</a></th>
</tr>
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<tbody>
<tr>
<td>NPS Trust Website</td>
<td><a href="http://www.npstrust.org.in">www.npstrust.org.in</a></td>
</tr>
<tr>
<td>Address</td>
<td>Pension Fund Regulatory and Development Authority, B/14-A, Chatrapati Shivaji Bhawan, Qutub Institutional Area, Katwaria Sarai, New Delhi – 110016; Tel: +91-11-26517507,</td>
</tr>
<tr>
<td>Officers &amp; Email Ids</td>
<td>- Shri Akhilesh Kumar, DGM (<a href="mailto:akhilesh.kumar@pfrda.org.in">akhilesh.kumar@pfrda.org.in</a>)</td>
</tr>
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<td></td>
<td>- Shri M Ismail Salam, Mgr (<a href="mailto:ismail.salam@pfrda.org.in">ismail.salam@pfrda.org.in</a>)</td>
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