PERFORMANCE AND INVESTMENT PATTERN OF NPS SCHEME IN INDI

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ABSTRACT

India's pension business has immense potential to grow due to the fact that a large segment of its population has no access to a retirement fund. It has attracted wide attention across the global due to the reforms undertaken by Government of India in 2004 – by shifting from Defined Benefit (DB) to Defined Contribution (DC) scheme except for Defence services. The pension fund management is one of the crucial and complex processes which have a great effect on the financial market of any country. The effective and efficient investment mechanism of pension fund showcases the appropriate return on investment and it can be channelized for the beneficiaries. The present paper is an attempt of understanding the Pre and Post 2004 -Pension fund investment mechanism through detailed investigation of transition process of DB to DC method with empirical evidence on effect of pension fund investment on capital markets and channelization of fund for economic growth in the country.

Key Words: Pension funds, NPS, EPF, DB and DC.

Introduction

Pension system was largely inherited from British legacy. Pension reform is one of the most crucial and utmost complicated economic reforms of India. The pension reforms involves complexities of public finance, division of labor market, income distribution pattern, behaviour psychology, economic reforms and it's impact on the overall society. These are all the reasons for pension reforms. The two major retirement savings schemes like provident fund and pension funds cover workers in the organized sector, constituting only about 12 percent of the aggregate workforce. The Indian pension system can be described as an extremely complicated distortion in labour market. India's present elderly population of 90 million is projected to more than double to 200 million by 2030 and rise from the current 8% of total population to 19.6% by 2050. India is one of the developing countries in the world where males onto females. Pension

Policy in India has traditionally been based on the employer and employee contribution. The coverage of old pension scheme has been restricted to the organized sector and a vast majority of the workforce in the unorganized sector has been denied from old age financial support.

Concept of Pension Scheme and Existing Pension Framework

The pension schemes in operation in India currently can broadly be divided into the following categories:

Pension Scheme Employees Covered

Civil Services Pension Schemes (Pay-as-you-go)

Employees' Provident Fund

Employees' Pension Scheme

Special Provident Funds

New Pension Scheme (NPS)

Employees Provident Fund Organization (EPFO)

The EPF & MP Act, 1952 is administered by an organization titled the Employees Provident Fund Organization (EPFO). At present, EPFO administers the following two pension schemes, which are mandatory for all employees in the organized sector, earning a monthly salary of less than Rs.6,500/-:

(a) The Employees Provident Fund; (EPF)

(b) The Employees Pension Scheme (EPS)

All the functions of EPF and EPS are handled by the EPFO, but the fund management has been outsourced to one nationalised external agency the State Bank of India. Some establishments are allowed to manage their own funds and treated them as exempted funds. These exempted funds are, required to follow the same investment pattern as being mandated & followed by EPFO and are required to match the returns of the EPFO.

The Employees Provident Fund (EPF) Scheme is an individual account defined contribution scheme wherein both the employees and employer contribute to the fund the rate of 12% of the employee's pay. There are number of provisions under the scheme for pre-mature withdrawal of accumulation. This 6pre-mature withdrawal provision is frequently used by the members of the scheme which leads to small balances at the time of their superannuation. Because of low balance in individual account of the members' old age income benefit is negligible. The EPFO scheme enjoys an 'EEE' tax structure which constitutes a major tax based subsidy.

The Employees Pension Scheme (EPS) is a defined benefit scheme, based on a contribution rate of 8.33% from the employee to which government makes an additional contribution of 1.16%. EPS was introduced in 1995, and is applicable to the workers who entered into employment after 1995. In case of death of a member the scheme provides for a pension to the spouse for his/her remaining life. After the New Pension Scheme is introduced the exit is allowed only on superannuation.

PROVIDENT FUND INVESTMENT PATTERN (1975-2017)

Investment categories	S.D.S (A) (%)	G.O.I/ Gilt MF @ (B) (%)	State guaranteed/ Gilt MF @ (C) (%)	PSU bonds /Term/ Deposits/MM, Market MFs (D) (%)	Any of A,B,C & D (%)	PVT Sector (%)	Equity Share (%)	Total (%)
Before 1975		100	-	-	-	-	-	100
1975-85	30	70	-	-	-	-	-	100
1986-92	Not more than 85	Not less than 15	-	-	-	-	-	100
1993-94	70	15	15	-	-	-	-	100
1994-95	55	25	30	-	-	-	-	100
1995-96	30	25	15	30	-	-	-	100
1996-97	20	25	15	40	-	-	-	100
1997-98	-	25	15	40	20	-	-	100
1998	-	25	15	40	20	10	-	100
1999-2002	-	25	15	40	20	10	-	100
2003-04	-	25	15	30	30	10	-	100
2005-08	-	25	15	25	30	10	5	100
2008-15	-	55	15	40	-	-	15	100

(Source: PFRDA Report)

The above table presents the information about Provident Fund Investment in percentage from the year 1975 to 2015.

NEW PENSION SYSTEM

In India the movement from DB to DC system is relatively a recent phenomenon for government employees. National Pension System is a sophisticated financial instrument in the pension sector launched on 1st January, 2004 or government employees and made effective for all citizens of India from 1st May 2009 under PFRDA. The NPS has made a noticeable progress from the time of its inception. This will be operating through appropriate investment guidelines. The Movement from DB to DC scheme implies the shifting the risk from employer to subscriber and also the returns cannot be guaranteed. If the good real rate of return is expected that's only through the long term investment policy. The PFRDA Act mandates the subscriber an option to invest 100 percent in government Securities (Scheme G). The NPS possess three different asset class as Asset Class- Equity market instrument, Asset Class- Credit risk bearing fixed income instruments and Asset Class- Government securities, where the investments are made pending upon the risk taking capacity of the individuals.

The framework for disclosure about the performance of pension fund depends on generating the transparency in meeting the standards. Only the tax treatment under sub-section (3) of section 80CCD of Income Tax Act is attracted the subscribers to invest in. The three pillars of risk based factors pose a significant evaluation of the performance of the pension funds. Firstly, The Capital Adequacy to mitigate the operational risk, market risk and the credit risk. Secondly, The market discipline and thirdly the supervisory review. The government of India and PFRDA are subjected to review the risks based returns.

Schemes of NPS

1. Government Sector Schemes :	Central Government Scheme
	State Government Scheme
2. Private Sector Schemes :	Scheme E (Tier I and Tier II)
	Scheme C (Tier I and Tier II)
	Scheme G (Tier I and Tier II)
	NPS Lite Corporate –CG Scheme

Tier-1: It is a matching contribution of employer and subscriber and mandatory to invest every month. The 10% o the basic pay and DA is contributed to the individual account. A PRAN (Permanent Retirement Account Number) number is provided to the subscribers for the pension accumulation and same number is carried for other investments too. The investments are made in three public sector pension fund managers such as SBI Pension Funds Private Limited, UTI Retirement Solutions Limited and LIC Pension Fund Limited and each of the PFs invests the funds in the proportion of up to 55% in Government securities, upto 40% in Debt securities, up to 15% in Equity and up to 5% in Money Market instruments.

In the withdrawal process, On the superannuation (60 years) the subscriber can withdraw only 40% of the accumulated pension amount and 20% amount they should purchase the annuities which is utilized as monthly pension to the subscriber and the rest is issued as lump sum. In case the subscriber dies the 100% amount is issued to the nominee or to legal heir apparent. If the subscriber wants to exit from NPS, he has to purchase 80% of annuities in the accumulated pension.

Annuity is a fund payment of pension after the subscriber attains the age of 60. The PFRDA has accompanied & IRDA approved life insurance companies for providing annuities to the subscribers under NPS. The annuity providers are as follows

Life Insurance Corporation of India.

SBI Life Insurance Co. Ltd.

ICICI Prudential Life Insurance Co. Ltd.

Bajaj Allianz Life Insurance Co. Ltd.

Star Union Dai-ichi Life Insurance Co. Ltd.

Reliance Life Insurance Co. Ltd.

HDFC Standard life insurance co ltd .

Tier- II: It's a voluntary savings scheme in which the subscribers have choice to invest in this account andare free to withdraw the savings at your own choice. An active Tier I account with PRAN is a pre requisite for opening of a Tier II.

Exposure to various financial instruments under NPS (February 2017)

Investment Category	Minimum Limit	Maximum Limit (%)	Existing Exposure The (%)	Existing Exposure (%)
Government Securities: G	Not specified	55	49.63	49.83
Fixed Income: C-Debt Corporate Debt	Not specified	40	38.87	35.92
Fixed Income: C-MM Money Market	Not specified	5	4.26	7.29
Fixed Income sTotal: C	Not specified	45	43.13	43.21
Equity: E	Not specified	15	7.24	6.96

(Source: PRDA)

INVESTMENT PATTERN UNDER NPS FOR PRIVATE CITIZENS

The investment guidelines for the NPS private sector allow to invest in three asset class as mentioned in below table. The government employees are mandated for Tier- 1 and for the rest other citizens the two options like Active Choice and Auto choice options are provided to invest. The investment will be made in the lifecycle fund and the fraction of invested funds among three asset classes will be determined by a predefined portfolio. The Tier –II Account is an option in which, when the subscriber operates the account it selects by auto choice based on age factor.

Years	Asset Class E (%)	Asset Class C (%)	Asset Class G (%)
Up to 35	50	30	20
36	48	29	23
37	46	28	26
38	44	27	29
39	42	26	32
40	40	25	35
41	38	24	38
42	36	23	41
43	34	22	44
44	32	21	47
45	30	20	50
46	28	19	53
47	26	18	56
48	24	17	59
49	22	16	62
50	20	15	65
51	18	14	68
52	16	13	71
53	14	12	74
54	12	11	77
55	10	10	80

(Source: PFRDA Report 2017)

REVIEW OF LITERATURE

Robert Holzmann (2000) The study explores the multi-pillar pension system in India, which touches all the sector and also touches poor, self employed. The ramework provided is not flexible and there is a need for reforming the retirement social security system.

Dave S A (2002) The study examines the NPS scheme of pension which is a defined contribution system involving the several asset class, pension fund managers and annuity providers.The demand for long term investments is crucial part in NPS. A well designed framework iss essential or the growth of pension system.

Sampad Narayan Bhattacharya (2004) The ongoing social structure of pension system that is DB system is almost nonexistence. The government should encourage the people to save their money in different schemes and also should provide a flexibility for the uncertainities and should protect the old age.

Jaiwardhan Vij (2005) The study examines the allocation of pension funds and their investments. The returns in the NPS is not guaranteed. Hence the investment mode has to be still more liberal to get better returns. The returns in equities has shown noticeable growth but a depth analysis is still required.

Mukul Asher (2010) It explains the multi-tired approach balances the risk retirement and other contributions. The security policies has to be reframed for the development in the areas fiscal policies, civil services, financial and capital markets.

Grace et. al. (2010) The planning for the superannuation is examined with reference to individual choice of life course and cumulative advantage perspectives and also studying investors' behavior theories. Retirement planning is dealt with point of both men and women. The behavioral aspect of investor is examined by dealing with perception of retirement.

Renuka Sane and Ajay Shah(2011) The study highlights the role of NPS in India , It's a voluntary based pension scheme run by 7 insurance companies and 3 pension fund managers.

OBJECTIVES AND METHODOLOGY

1. To examine the investment pattern under defined benefit scheme and defined contribution schemes
2. To assess the investment pattern of NPS for private citizens
3. To analyze the annual growth rate of central and state government NPS subscribers from 2011-2017.
4. The study is completely based on secondary data: PFRDA, NPS Reports AMC DATABASE.

CHALLENGES

Is it possible for PFRDA to provide adequate real time retirement income for individual subscribers of NPS. High incidence of administrative cost and low real rate of returns characterize the existing system, which has become unsustainable. Non-sustainability of the existing pension system is accentuated by the sharp increase in financial burden on the government and the other employers on account of pension liabilities. Public sector pension schemes involve policy risk and government may not be able to accommodate the required pension outlays leading delay in pension payments. Contributors may not have clarity among the investment returns. The investment policies and its mechanism for the development of capital market has to be reframed.

Comparison Growth rates (AGR) between Central and State Government NPS Subscriber

Table-01

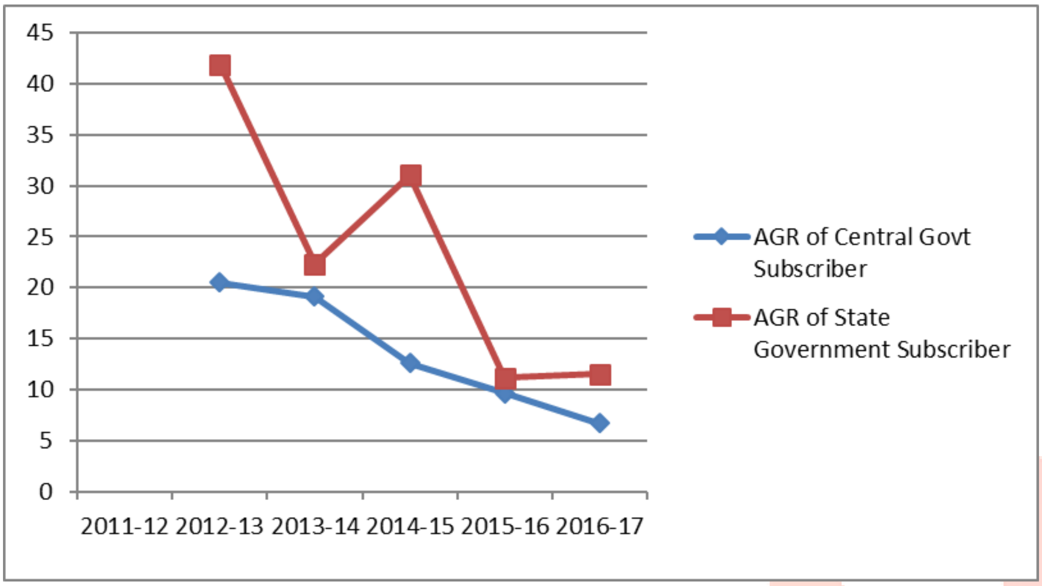
NPS Subscriber of Central and State Government Employees in India

Year	Central Government NPS Enrollment	AGR	State Government NPS Enrollment	AGR
2011-12	934719		1156305	

2012-13	1126588	20.53	1640519	41.88
2013-14	1342267	19.14	2006777	22.33
2014-15	1511528	12.61	2630194	31.07
2015-16	1657623	9.67	2923882	11.17
2016-17	1769321	6.74	3261755	11.55
Total	**8342046**	**68.69**	**13619432**	**118**

(Sources: NPS Pension System Trust Index)

Comparison Growth rates (AGR) between Central and State Government NPS Subscriber



Comparison Growth rates (AGR) between Central and State Government NPS Subscriber

The above table and graphs present information about New Pension Scheme enrolled in Central and State Government employees in India from the year 2011-12 to 2016-17. It is found that Central and State Government NPS Subscribers have increased significantly over the period of time. The Central Government subscribers have grown at the rate of 68.69 percent and State Government subscribers has grown at the rate of 118 percent. However State government NPS enrollment growth rate is higher than Central Government NPS subscriber’s growth rate. But in out of 06 year total members enrolled in Central government employee is 83,42,046 and 1,36,19,432 members subscriber new pension scheme by State Government employees.

Group Statistics

Independent Samples T test

	N	Mean	Std Devistion	Std Error Mean
Central Government NPS	06	1.39	3.19	1.30
State Government NPS	06	2.26	8.05	3.28

Independent Sample T Test

	Levene's Test for Equality of Variances		t-test for Equality of Means			Mean Differences	Std. Error Differences
	F	Sig.	t	Df	Sig. (2-tailed)		
Equal variances assumed	7.51	.021	-2.48	10	0.03	-8.79	3.53
Equal variances not assumed			-2.48	6.53	0.04	-8.79	3.53

(SPSS OUT PUT)

TESTING THE HYPOTHESES

H0: There is no significance difference between Central and State Government NPS Subscribers;

H1: There is a significance difference between Central and State Government NPS Subscribers;

The independent sample T test results show that the mean value of Central government New Pension Scheme enrollment is 1.39 and mean value of State government New Pension Scheme enrollment is 2.26 with a standard deviation of 3.19 and 8.05 respectively. The T test result also show that at 5% significance level. There is a significance difference between Central and State Government NPS Subscribers.(Difference between the two subscribers is significant) Hence null hypotheses "There is no significance difference between Central and State Government NPS Subscribers" is rejected and alternative hypotheses "There is a significance difference between Central and State Government NPS subscribers" is accepted.

FINDINGS

1. The movement from Defined Benefit to Defined Contribution is a fund transfer of financial risk from employer to employee.
2. The new Defined Contribution Scheme specifies the contribution that will be payable to each subscriber and the benefits payable depends on the accumulated value of subcriber's contribution only.
3. The study shows that the state government employees o NPS enrollment is higher than the Central government employees enrollment from the year 2011- 2017.
4. The findings showed that there is significant diference between the state and central government NPS subscribers i.e P value is less than 0.05.

CONCLUSION

Over recent decades the pension system has lead to many reforms with many innovations throughout the word. The move from DB to DC is a transfer of financial risk from employer to employee. That means it is clear that the government is facing burden over in providing return to employees. The new DC scheme specifies the contribution that will be payable to each subscriber and the benefits payable depends on the accumulated value of subscriber contributions only. The declining interest rates have impacted the pension sector to make shift from DB to DC. The problem of limited coverage, the existing mandatory and voluntary private pension system is characterized by limitations like fragmented regulatory framework, lack of individual choice and portability and lack of uniform standards. The increasing longevity of elderly population is posing for new pension reforms.

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