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NATIONAL PENSION SCHEME: A RETIREMENT PLAN

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ABSTRACT

Planning for retirement is gaining much importance among individuals. These days, there are various options available in market which are tax friendly. However, with less financial education it becomes difficult for an individual to opt a perfect retirement portfolio for making investment. The National Pension Scheme is a retirement planning scheme offered by central government which was introduced in 2004.In the beginning when the scheme was introduced it was only available for the government employees but later in the year 2009 government reopened it for all citizens. NPS is an intentional pension framework which is managed and controlled by Pension Fund Regulatory and Development Authority (PFRDA), made by an act of parliament of India. Hence, this paper highlights the functions, importance, concept and structure of NPS for retirement planning.

Key words: National Pension Scheme, Tax benefits, Retirement planning, PFRDA

INTRODUCTION

Retirement is the transition from work to no work, from incomes to low incomes or no incomes. In order to secure certainty of incomes post retirement an individual tries to save in present. People must sacrifice some of their current consumption in order to save money for investments that will increase their future financial stability and help them fulfill their financial goals and future contingencies.

The Provident Fund Regulatory Development Authority of India has come up with a new pension scheme for the citizens of India. It is mainly a retirement plan offered by the Government to the general public. It is an economical form of pension plan offered to the investors. The Scheme offers two options to the investors Tier-1 and Tier-2. In Tier 1, the investor before reaching 60 years can withdraw only 20% of the contribution and the remaining 80% has to be compulsorily invested in annuity from a life insurer. After the retirement age, 60% of the contribution can be withdrawn and the rest 40% has to be invested in annuities. Tier-2 is a voluntary savings preference chosen by the investor wherein there is no limit for withdrawal of money.

The purpose of implementing this program in organizations is to give employees the opportunity to save for their retirement while also taking advantage of the tax benefits offered by the program. Though employees still have apprehensions about the scheme and always compare it with another scheme like provident fund scheme. While provident fund scheme is for lumpsum saving, NPS ensure pension during the post retirement sunset days. Government keeps introducing many amendments in the scheme to attract investors and to make it more reliable scheme for the individuals.

Literature Review

Bijaya Kumar Barik (2015) found that the NPS-citizen model was used to examine mutual fund pension schemes in the paper "Analysis of Mutual Fund Pension Schemes & National Pension Scheme (NPS) For Retirement Planning." He researched several retirement plans and funds and assessed NPS and mutual fund pension plan returns.

Dr. Vani Kamath and Dr. Roopali Patil (2017) in their paper have studied the National Pension System's costs and benefits were examined in a report titled "Cost Benefit Analysis of National Pension Scheme." The article emphasized the National Pension Scheme's distinctiveness and distinguished it from other pension plans. Despite the fact that the product was made available to all citizens in 2009, few are aware of the advantages the program offers. The cost-benefit analysis of the program for various age groups was the primary focus of the study paper.

Anita and Pankaj Kumar (2014) in their study titled "National Pension System- Swavalamban Scheme" examined the key elements of this recently unveiled pension plan. It also highlighted the challenges that the plan is encountering.

Subhro Sen Gupta, Neha Gupta and Komalgarg in their paper have studied the relationship between Tier 1 & Tier 2 accounts. They have also found the relationship between equities, corporate and Government securities of both accounts. They stated that public at large has higher faith on Government securities.

Sane Renuka and Thomas Susan has recommended some of the steps after passing of the PFRDA Bill at the end of 2013 like improving investment choices, rationalizing investment guidelines for returns over the long term, improving transparency and increasing the visibility and access of this product while ensuring that protection of customer rights against fraud.

Sanyal, Ayanendu and Singh Charan in their paper found that, the primary goals of NPS are to smooth consumption and mitigate longevity risks. The universal pension scheme is found to be an effective means of achieving these goals for every individual in this nation. The study made the assumption that there are 10 crore people in India who are over 60, and that each of them would receive a universal pension of roughly Rs. 6000 annually.

Objectives

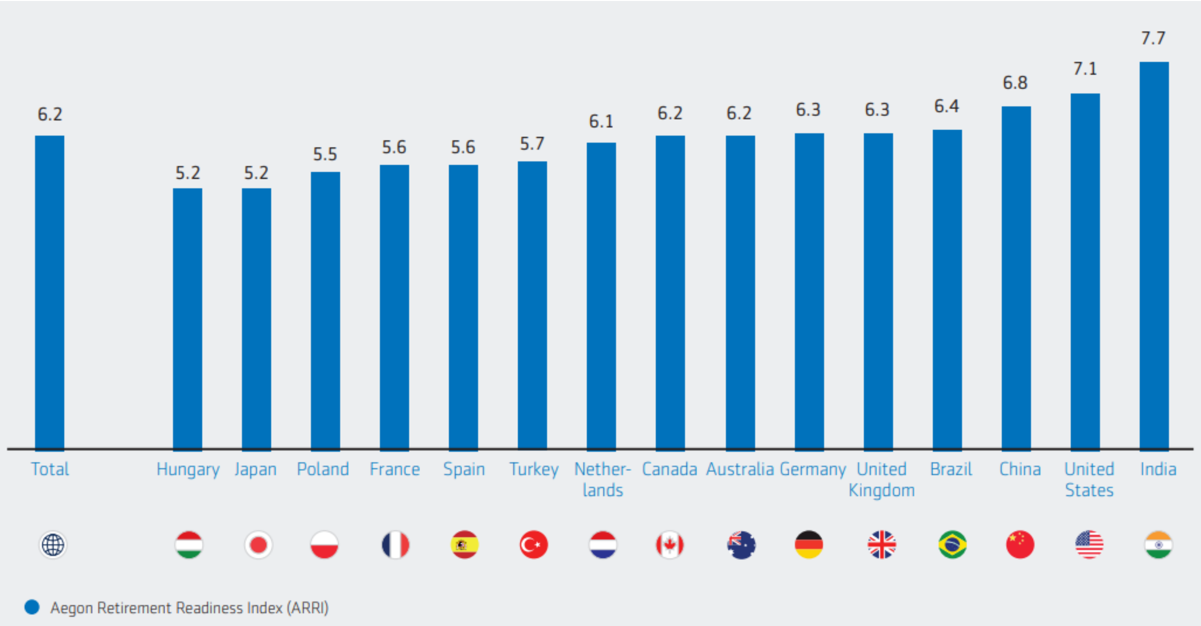
1) To analyze the features, concept and importance of National Pension Scheme for retirement planning.

2) To study the taxation framework of National Pension Scheme.

METHODOLOGY

This study is descriptive in nature and the data is collected from the secondary sources such as government websites, published reports of government, journals, magazines, books, etc.

Table 1: Aegon Retirement Readiness Index performance in 2021 by country



According to the AEGON's Retirement Readiness Survey 2021, India has the highest level of retirement readiness among all the 15 countries surveyed in the year 2020. According to the survey, India received a score of 7.7 out of 10. It is noteworthy that India is the only one of the 15 countries surveyed to have received a score higher than 7.0.

CONCEPT OF NATIONAL PENSION SCHEME :

Contributory retirement plans are what the National Pension Scheme offers. The PFRDA is the scheme's regulatory authority. The goal of NPS's introduction was to replace the nation's defined benefit pension plan with a defined contributing pension plan. The program came into effect in 2004 and became accessible to all citizens in 2009. Investors must deposit a minimum of ₹ 1000 in a financial year, with a minimum commitment of ₹ 500 every contribution. Tier I and Tier II accounts are the two categories. There are no restrictions on withdrawals from Tier II accounts, which are add-on accounts that are voluntary in nature.

FEATURES OF NATIONAL PENSION SCHEME :

TYPES OF ACCOUNT:

TIER- I	TIER-II
Individual Pension Account	Optional Account – It requires an active Tier-I
Withdrawal as per rules/regulations only	Unrestricted withdrawals
Min. Contribution to open Rs.500	Min. Contribution to open Rs.1000
Min. Contribution/year Rs.1000	Min. Contribution Rs.250
Tax benefits are available	No tax benefits on contribution or gains

NOMINATION:

- In NPS, a subscriber is allowed to register up to 3 nominees.
- The share of each nominee needed to be specified by the subscriber.
- In a NPS account, Minor may also serve as a nominee. In such a scenario, the subscriber will supply information regarding the minor's guardian and date of birth.

RATE OF INTEREST:

A NPS does not have a fixed rate of interest, but the returns are based on the market performance of funds as the investments are made in market-linked securities.

INVESTMENT OPTIONS

ACTIVE CHOICE	AUTO CHOICE
Subscriber actively decides on the allocation of funds across: • Asset class E or Equity upto a maximum of 75%. • Asset Class C or Corporate Bonds upto a maximum of 100%. • Asset Class G or Government Securities upto a maximum of 100% • Asset Class A or Alternate Assets upto a maximum of 5%.	The funds of the subscriber gets invested across three asset classes (Equity, Corporate Bonds & Government Securities) in predetermined proportion as per the age of subscriber. The initial allocation across three asset classes remains constant till 35 years of age and thereafter allocation to equity gradually declines every year.

WITHDRAWAL/EXIT:

Partial withdrawal	Premature withdrawal	Normal Withdrawal
After,completion of 5 (Five) years subscriber can withdraw 25% of his/her own contributions for specific reasons viz illness, disability, education or marriage of children, purchasing property, starting a new venture. A subscriber can partially withdraw upto a maximum of 3 times during his/her entire tenure in NPS.	After completion of 10 years or before completion of 03 years (if subscriber has joined NPS after 60 years of age), subscriber can withdraw maximum 20% of the corpus as lumpsum and minimum 80% of the corpus has to be utilized for purchasing an annuity plan for receiving the pension. If the accumulated corpus is less than Rs 2.5 lakh, the entire corpus is paid as lumpsum to the subscriber.	On completion of 60 years of age (if subscriber has joined NPS before 60 years of age) or after completion of 03 years (if subscriber has joined NPS after 60 years of age), subscriber can withdraw maximum 60% of the corpus as lumpsum and minimum 40% of the corpus has to be utilized for purchasing an annuity plan for receiving the pension. If the accumulated corpus is less than Rs 5 lakhs, the entire corpus is paid as lumpsum to the subscriber.

Subscriber also has the option to:

(a) Continue in NPS till the age of 75 years or exit any time after such continuance before 75 years.

(b) While exiting from NPS, subscriber can;

▪ Defer receiving the lumpsum (60% corpus) till the age of 75 years or withdraw the same in installments till 75 years

▪ Defer Annuity purchase (40% corpus) for a maximum period of 3 years.In case of unfortunate event of death of a subscriber, the nominee/legal heir can withdraw the entire accumulated corpus. The nominee / family members of the deceased subscriber can also purchase annuity, if they so desire.

Withdrawal/Exit from NPS Tier-II Account is unrestricted and will be compulsorily closed upon closure of Tier-I Account.

TAXATION FRAMEWORK

- NPS subscribers are eligible to get tax benefits under Sections 80 CCD (1) and (2), up to a total of Rs.1.5 lakhs under Section 80(CCE).
- NPS subscribers alone are eligible for an extra deduction under subsection 80CCD (1B) for investments up to Rs.50,000 in NPS (Tier I a/c). This is in addition to the Rs.1.5 lakh deduction allowed by Income Tax Act of 1961 Section 80C.
- The employer's NPS contribution (for the benefit of the employee) is fully deducted from taxable income up to 10% of basic + DA compensation.
- Tax benefits can be claimed for investments in account Tier I only.
- Investing in a Tier II NPS Account does not yield a tax benefit.
- Partial withdrawals from NPS tier I account are also eligible for tax benefits. A subscriber may make partial withdrawals from the account before turning 60 for certain reasons. According to the 2017 Budget, up to 25% of the subscriber contribution may be withdrawn without incurring taxes.

- Tax advantage on Annuity Purchase: The entire amount invested in the acquisition of an Annuity is free from taxes. However, income tax will be applied to any annuity income you receive in the upcoming years.
- Tax benefit on lump sum withdrawal: Up to 40% of the entire corpus withdrawn in a lump sum is tax-free for subscribers who reach the age of 60.

Conclusion and Suggestions:

National Pension Scheme is a retirement investment tool which can be accessed by each & every retirement planner. Those who are unaware of the financial system can simply obtain NPS by approaching the approved public or private sector banks. The concept is becoming more intriguing with the abolition of the GST on the annuity value and the 40% tax exemption on the entire fund. By guaranteeing a monthly pension plan after retirement, annuities can be acquired for 100% of the corpus, which helps to secure one's financial future after retirement. Though this scheme is still not clear to many investors on certain grounds such as there is no clear directions about how an individual can withdraw their money from NPS if they quit/discontinue their job, there is no clear guidelines about the rate of returns or funds an individual going to receive on retirement. Government should try to provide clear guidelines on these aspects too.

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