

National Pension System (NPS)

1st May 2009, incidentally May Day, heralded a new beginning for the citizens of India with rolling out of National Pension System for citizens of India. The roll out of Pension System for Citizens is the single biggest initiative in pension reforms story as it encompasses a complex Information Technology enabled architecture to extend social security cover to the citizens.

Genesis:

The National Pension System (**NPS**), originally designed way back in 1999 by the Old Age Social & Income Security (**Oasis**) Committee, was rolled out in two phases. 1st phase covering the employees who join the Central Government service (excluding Defence establishments) on or after 01.01.2004 and the 2nd phase with effect from 01.05.2009 aiming at the citizens of India (including Non-resident Indians) within the age group of 18 to 60 years.

NPS for citizens, targets a pension coverage gap that is larger than the population of most countries. It seeks to enable today's youth (India is relatively a youthful country) to achieve a dignified retirement through thrift and self-help. It is a voluntary scheme aimed at providing social security cover and is a good vehicle for accumulating a corpus for retirement.

NPS is administered and regulated by Pension Fund Regulatory and Development Authority (**PFRDA**) and the investment guidelines for the citizen pension system were derived from the Deepak Parekh committee report.

The Scheme:

1. The Scheme provides complete portability to the subscribers. The Regulators have appointed National Securities Depository Limited (**NSDL**) as the Central Record Keeping Agency (CRA) who will maintain the details of individual accounts. The System provides for issue of a unique Permanent Retirement Account Number (**PRAN**) to the subscribers. The subscribers can continue their pension account even when they switch their jobs / places.
2. Any Indian citizen, including Non-resident Indians, within the age group of 18 to 60 years can subscribe to the National Pension System by filling up subscriber registration form and submitting the same along with a copy each of photo ID card and proof of address (for KYC purpose) to Point of Presence Service Provider (**PoP-SP**).

The Regulators have appointed 72 organisations to act as Points of Presence. These Points of Presence have designated some of their branches as PoP Service Providers (Pop-SPs). We are glad that SBI & its 5 Associate Banks are appointed as PoP.

The intending customer should approach the PoP-SP and submit the duly filled Subscriber Registration Form (CSRF-1), which is available under download option at www.npscra.nsdl.co.in

PoP-SP should submit the CSRF-1 along with relevant documents to the Central Record Keeping Agency - (details available on www.npscra.nsdl.co.in)

3. On acceptance of subscriber registration form, **CRA** sends a welcome kit, containing **PRAN** and other details, to the subscriber. The subscriber has to quote PRAN in NPS-Contribution Instruction Slip (**NCIS**).
4. a) The subscriber can choose one Fund Manager out of the seven Pension Fund Managers (PFMs) viz., **SBI Pension Funds Pvt. Ltd.**, UTI Retirement Solutions Ltd., ICICI Prudential Pension Funds Management Co. Ltd., Kotak Mahindra Pension Fund Ltd., Reliance Capital Pension Fund Ltd. HDFC Pension Management Company Limited and LIC Pension Fund Ltd

If a PFM is not selected, please note that it is deemed that you have consented for the default PFM specified by PFRDA. **Currently, SBI Pension Funds Private Limited is the default PFM.**

b) The subscriber can choose one of the following investment options;

 Active Choice - Select Investment Pattern - any or all three available

(E - Equity, C - Corporate Bonds, G - Government Securities)

- However, under E (equity) percentage share cannot exceed 50 %

In case the applicant indicates a % share more than 50% under Equity, or the % allocation total is not equal to 100%, or the asset allocation table is left blank the application form will be rejected.

 Auto choice - Subscriber's contribution will be managed in a pre-determined asset allocation ratio defined by PFRDA,

- Subscriber has no option to indicate asset allocation under Auto choice, and if he indicates the same will be ignored.

In case both the investment option and asset allocation fields are left blank, the application will be treated as Auto Choice and funds invested accordingly. Application will not be rejected for this reason.

5. The scheme requires a minimum contribution of Rs.1,000/- in each year. The contribution can be made in installments of not less than Rs. 500/- each, with a minimum one contribution.
6. The subscriber can exit from the scheme on attaining the age of 60 years, in which case he must use at least 40 percent of his corpus to buy an annuity. Remaining 60 percent can be commuted in lumpsum or withdrawn in phased manner up to the age of 70 years. Withdrawal before 60 years of age is permitted, after a lock in period of 10 years, subject to subscriber investing at least 80 percent of his corpus to buy an annuity.
7. A partial withdrawal of accumulated wealth, not exceeding 25% of the contribution, is allowed, after lock-in period of 10 years, only a maximum of three (3) times with a gap of 5 years during the entire tenure.
8. The subscriber can continue to subscribe to the scheme upto 70 years of age.
9. The subscriber can, once in FY, switch between the investment options as well as Fund Managers.
10. Tax benefits -
 - Tax exemption for the amount invested in NPS within the overall limit of Rs. 1.50 lacs available u/s 80C. (Budget 2015-16 provision)
 - **Employer's contribution to employees NPS account, limited to 10% of Basic + DA, is tax free income in the hands of the employee.** And also, does not include computing the limit of Rs. 1.50 lakh u/s 80C. (Budget 2015-16 provision)
 - Additional contribution of Rs. 50,000 is exempt u/s 80 CCD (1B). (Budget 2015-16 provision). **Exclusive for investment in National Pension System.**
 - Investment in Annuity and **Withdrawals of 40% of Corpus is exempt (Budget 2016-17 provision)**

Opportunity:

The potential market for pensions in India is enormous. It is estimated that 90 percent of India's working population is in the "unorganized sector" without the regular salary and benefits of employees in the organized sector. As per 2001 census, only 40 million out of the 403 million working people in India are covered under old age income plans and the balance lack formal pensions.

According to a report from the Oasis project, an expert committee in India, the number of people aged 60 years and over will be 113 million by 2016. Further, the report says, that

there is a growing concern that more Indians could sink below the poverty line in old age because they have not accumulated enough savings.

FICCI-KPMG paper on Pension Reforms in India, estimates that the size of pension market in India is likely to reach a whopping sum of Rs. 4064 billion (US \$ 95 billion) by 2025 from Rs. 561 billion (in 2002).

Conclusion:

In a nutshell, the NPS gives the subscriber a Portable account, Nation-wide access, Flexible investment pattern, Flexible asset allocation, Flexibility in selection of PFMs and much needed pension coverage.

For detailed information, you may please log on to

www.npscra.nsdl.co.in

www.pfrda.org.in

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