

NATIONAL PENSION SYSTEM FOR RETIREMENT PLANNING

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Abstract : In India, Retirement planning investment is gaining much importance among the individuals. Nowadays, various tax friendly investment options are available in the market. However, an individual with less financial knowledge makes it difficult to choose the right retirement portfolio for making investment. National Pension System (NPS) is a retirement pension scheme which is offered by the central government of India to every citizens of India. Hence, this paper attempts to identify concept, structure of NPS and to analyse the importance of NPS for retirement planning.

Keywords : Retirement Planning, NPS & PFRDA, IRDAI.

I.INTRODUCTION

Retirement planning is a process of setting retirement income goals and following them with the actions necessary to achieve those same goals. In India, Retirement planning investment is gaining much importance among the individuals. Nowadays, various tax friendly investment options are available in the market. However, an individual with less financial knowledge makes it difficult to choose the right retirement portfolio for making investment. National Pension System (NPS) is a retirement pension scheme which is offered by the central government of India to every citizens of India

1.1 Objectives

- To identify the Concept, Structure of NPS and NPS Architecture.
- To analyse the importance of NPS for retirement planning.

1.2 Research Methodology

The study is purely based on the secondary data which has been collected from various journals, books and websites.

II. LITERATURE REVIEW

Sukhen Kali, Subrata Jana (2017)¹ analysed the retirement benefits of the Government employees under old, traditional pension system vis-à-vis the benefits under the New Pension System (NPS). It discussed the different aspects of pension benefits available under the traditional old pension system (OPS) and under the new pension system (NPS) and also a mechanism, performance of New Pension Scheme.

Shallu Saini and Deepika shimar (2017)² compared the Mutual Funds Pension Scheme with National Pension Scheme. The study revealed that mutual fund pension scheme was more cost-effective in terms of cost per account to the individual shareholder when compared to a new pension scheme.

Bijaya Kumar Barik (2015)³ has made a study on “Analysis of Mutual Fund Pension Schemes & National Pension Scheme (NPS) For Retirement Planning” scrutinized the mutual fund pension schemes with National Pension Scheme – all citizen model. He examined various retirement funds and schemes and evaluated the returns on mutual fund pension schemes & National Pension Scheme.

III. DISCUSSION

3.1 AN OVERVIEW OF NATIONAL PENSION SCHEME

National Pension System (NPS) is a voluntary, defined contribution retirement savings scheme which has been designed to allow the subscribers to make optimal decisions regarding their future through organized savings during their working life. NPS makes the habit of saving for retirement among the citizens of India. It is an attempt made by government for finding a sustainable solution to the problem of providing adequate retirement income to every citizen of India.

The National Pension System (NPS) is regulated and controlled by the Pension Fund Regulatory and Development Authority (PFRDA), created by an Act of the Parliament of India. Initially, National Pension System was introduced only for the new government employees who joined after 2004 (except armed forces) and from 1st May, 2009, it has been opened for all citizens of the country including the unorganized sector employees on voluntary basis.

3.2 Structure of NPS

The scheme is structured into two tiers

- **Tier-I account:** It is a non-withdrawable account in which contributions made by the subscribers are credited and invested in the portfolio/fund manager chosen by the subscriber.
- **Tier-II account:** It is a voluntary withdrawable account in which subscribers are allowed to withdraw as and when required. Tier II account can be opened only when there is an active Tier I account.

3.3 Contributions

3.3.1 Minimum Contributions (For Tier-I) - Minimum contribution at the time of account opening and for all subsequent transactions is Rs 500. Minimum contribution per year is Rs 1,000 excluding charges and taxes.

3.3.2 Minimum Contributions (For Tier-II) - Minimum contribution at the time of account opening is Rs.1000/- and for all subsequent transactions a minimum amount per contribution of Rs.250/-

Investment Choices

Under NPS subscriber can invest their money upon their own choice. It offers number of multiple investment option (Asset Class E, C, G and A) and number of funds where the subscriber can choose under “Active Choice” option. If subscriber does not want to choose any choice, subscribers money will be invested under the “Auto choice” option where money will be invested in the schemes as per subscribers age.

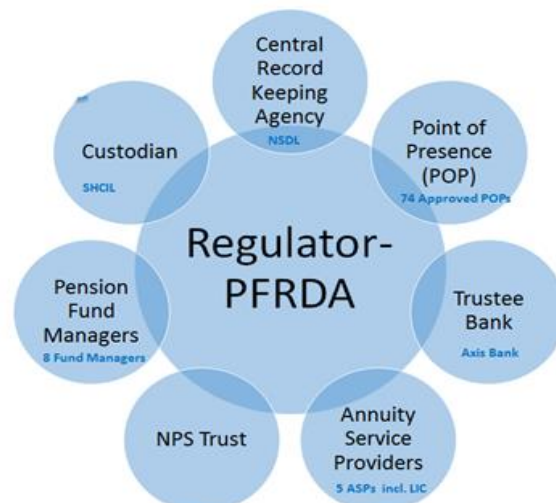
3.4 Pension Fund Managers

- HDFC Pension Management Co. Ltd.
- ICICI Prudential Pension Fund Management Co. Ltd.
- Kotak Mahindra Pension Fund Ltd.
- LIC Pension Fund Ltd.
- Reliance Capital Pension Fund Ltd.
- SBI Pension Funds Pvt. Ltd.
- UTI Retirement Solutions Ltd.
- Birla Sunlife Pension Management Ltd

3.5 NPS Architecture

NPS architecture consists of different entities which are prominent in its area to achieve the maximum operational efficiency at a low cost. They are

- NPS Trust which is entrusted with safeguarding interests of the subscribers.
- Central Recordkeeping Agency (CRA) which maintains the data and records of the NPS.
- Point of Presence (POP) and aggregators as acting as a collection and distribution arms for NPS.
- Pension fund managers are those for generating and maximizing returns on investments of subscribers.
- Custodian to take care of the assets purchased by the Pension Fund managers.
- Trustee bank to manage the banking operations of NPS.
- Annuity Service Providers are for fulfilling the annuity requirements of the NPS subscribers which are regulated under IRDAI are empanelled by PFRDA.



3.6 Benefits of NPS

- **Flexible** - Under NPS, the subscribers has the choice to change their investment option from one to another investment option and from one pension fund manager to another pension fund manager.
- **Simple** – Opening of NPS account is made simple and it provides a unique Permanent Retirement Account Number (PRAN) to every subscriber which remains with them throughout their lifetime.
- **Portable** – NPS provides seamless portability across jobs and across locations. The subscribers can shift to new jobs/ new locations without leaving their pension corpus which happens in many other pension schemes.
- **Well Regulated** –NPS is regulated and controlled by PFRDA, with transparent investment norms, regular monitoring and performance review of fund managers by NPS Trust.
- **Power of compounding and Low Cost Benefit** – Pension fund wealth accumulation grows over the period of time with the compounding effect till the retirement of subscribers and the account maintenance charges are being low.

3.7 Tax Deduction and Tax Benefit

To employee: Individuals who are employed and contributing to NPS would enjoy tax benefits on their own contributions as well as their employer's contribution as under: -

- Employee's own contribution** - Eligible for tax deduction up to 10% of Salary (Basic + DA) under Section 80 CCD(1) within the overall limit of Rs. 1.50 lakhs under Sec 80 CCE.
- Employer's contribution** – The employee is eligible for tax deduction up to 10% of Salary (Basic + DA) contributed by employer under Sec 80 CCD(2) over and above the limit of Rs. 1.50 lakhs provided under Sec 80 CCE.

For self-employed: Eligible for tax deduction up to 10 % of gross income under Sec 80 CCD (1) with in the overall ceiling of Rs. 1.50 lacs under Sec 80 CCE.

Subscriber are allowed for additional deduction for the additional contribution in their NPS account subject to maximum investment limit of **Rs. 50,000/-** under sec. 80CCD 1(B)

IV. CONCLUSION

Retirement pension plan ensures that people to live with pride and without compromising on their standard of living during their retirement life. The rising cost of living, inflation and life expectancy of people make retirement planning essential part of today's life. India like most other developing countries does not have a social security system to take care of the elderly for the reason that of inadequate disposable income, rate of poverty, unemployment, high fiscal burden and unawareness about pension. To tackle all those issues and to provide social security to every citizen the government of India has introduced the National Pension System. Therefore, every individual retirement planners can make use of the NPS for making their retirement investment.

V. REFERENCES

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