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An analysis of NPS (National Pension System) - A pension cum investment plan applicable in India

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Abstract
A regular source of income is very much necessary for senior citizens after their active working life so that they can live confidently without being a burden on others and they can take their decisions independently, enjoying the same living standard that was enjoyed by them before their retirement. These schemes enable the employee family to sustain for long-term in future independently in case of death, retirement, and disability of the earning member. Such pension scheme act as a facilitator by providing insurance for a fully secured future, but its success depends upon the full support of employer. National pension system is a pension scheme which was initiated by government in 2004 for the first time in India for Central Government employees to provide them old age security. This scheme starts with a regular long-term saving and later on provides a steady and attractive market-based return. It helps to plan your retirement effectively. This scheme is controlled by Pension Fund regulatory and Development Authority (PFRDA). National pension system and Atal pension yojana working under PFRDA has pension assets over 10 lakh crore that is contributed by 6.62 crore subscribers, according to latest report from PFRDA. My paper will discuss the objectives and challenges of NPS from supplier as well as subscriber point of view.

Keyword: Social security, market-based return, NPS, retirement, investment

Introduction
National pension system was initiated by Government of India first of all for central Government employees in 2004. After that this scheme was adopted in many states on different dates. Now almost all the states are covered under this scheme except few states of India. In 2009 the scheme was also opened for all other category people also. Now any person can regularly contribute to pension account during his working life.

From the accumulated sum he can withdraw the same amount in lumpsum at the time of retirement and he can arrange for regular monthly income after his retirement from the sum not withdrawn on retirement. Units value in NPS account increases with continuous investment and regular returns those occur on invested sum during the working life of the subscriber.

Who can invest in NPS?
Central Government Employees
Central government has started NPS for its employees who join service after 1st January 2004(except armed forces). It also covers the employees of central autonomous bodies compulsorily who join these on or after above date. Central Government employees give monthly contribution from their salary which is 10% of Basic Pay and DA and government also contribute the same amount which has now been increased to 14% from 2019.

State Government Employees
After Central Government, different state governments also adopted this system and made this system effective in their respective states on different dates. If concerned State Government and Union Territory has adopted NPS and made it applicable in their state then state autonomous body can also adopt the same. State government also contribute the same amount as the employee contribute in their NPS account which is 10% of DA and Basic Pay and some state Government also contribute 14% of (Basic pay +.DA) in employee's NPS account.

Private Sector (Non-Government Sector)
Corporate- NPS here is an adjusted system where corporate sector can adopt NPS for its employees to strengthen their employer employee relationship.
All citizen of India -A person who is not covered under any of the above sector can adopt NPS under all citizen of India Sector from 1st May 2009.
A person cannot open more than one NPS account but a person can open one NPS account and another account under Atal Pension Scheme.

Two types of Accounts are there in NPS
- Tier 1 Account
- Tier 2 Account

Employees are not allowed to make final withdrawal of corpus under Tier-1 before attaining the age of 60 years or retirement but can make partial withdrawals thrice during the entire service period under certain special circumstances with certain restrictions.
Tier 2 account of NPS is like a mutual fund account from which customer can withdraw money anytime as per his requirement. This account can be opened only if you are having Tier 1 account.

NPS offers the following benefits to subscribers
Regulated pension system -This system is regulated by PFRDA, which was founded by an Act of Parliament (2013 PFRDA Act)

Pension for Everyone
Any citizen of India (resident, non-resident, or abroad citizen) can voluntarily subscribe
1. Any citizen of India can participate in the plan (resident or non-resident).
2. Anyone aged 18 to 60 years old can invest in the scheme; the top age limit has now been raised to 65 years old. Following the KYC process, citizens can join this plan in individual and employer-employee groupings.
3. NRIs can participate in the NPS scheme, but their contributions are regulated by the RBI and FEMA. However, OIC (Overseas Indian Citizen) and PIO (Persons of Indian Origin) card holders, as well as HUFs, are not eligible to register for NPS account.

Low Cost: The NPS is one of the world's most affordable pension plans.
- **Flexibility in choosing:** Wide choices are available to subscribers regarding NPS like central record keeping agency, point of presence, asset allocation and pension funds. And these choices can be changed later on if required by subscriber.
- **Portable:** Subscribers can transfer their NPS account across geography, employment and location.
- **Tax efficient:** Income tax Act 1961 provides various tax incentives to the subscribers of NPS.

NPS Contribution is tax deductible under 80CCD (1), Section 80CCD (1B) and Section 80CCD (2) of the Indian Income Tax Act, 1961 under old Income Tax Regime.

Tax relief on contribution to NPS Tier I Account
As per Section 80CCD (1),
- Salaried employee NPS subscriber can claim relief on his/her contribution to NPS up to 10% of the salary (Basic + Dearness Allowance).
- Self-employed NPS subscribers are allowed to claim tax relief up to 20% of the total income or Rs. 1,50,000 whichever is lower.
- NOTE: The above relief is within the permissible limit of tax relief U/S 80C

Section 80CCD (1B)
- NPS subscriber is eligible to avail tax deduction on extra self-contribution up to Rs. 50,000/-
- The above tax deductions under various sections of the IT Act are mutually exclusive.

Under Section 80CCD (2)
- Employer contribution on behalf of NPS subscriber are tax deductible subject to:
- Maximum of 14% of the salary (Basic Salary + Dearness Allowance).
- The aggregate deduction for all contributory made by employer under the head of Provident Fund, Superannuation Fund and NPS cannot surpass Rs. 7.5 lacs.
- The deduction allowable under the section is in addition to the permissible limit of Rs. 1,50,000 under Section 80CCD (1).

Taxability of NPS at the time of Exit
For Early Exit from NPS
NPS subscribers who want to withdraw from NPS prior to scheme maturity can withdraw 20% of the corpus. The withdrawn amount is tax-free.
For lumpsum Contributions to NPS Tier I Account are tax exempt.
- NPS subscribers (salaried individuals) can claim deduction of their NPS contribution up to 10% of their salary (Basic + Dearness Allowance) under Section 80CCD (1).
- Self-employed NPS subscribers can avail a tax deduction of 20% of their gross income or Rs. 1,50,000, whichever is lower.

NOTE: This is subject to the limit under Section 80C of the Income Tax Act.

80CCD Section (1B)
- A self-contribution of Rs. 50,000/- above can be availed as a tax deduction by an NPS subscriber.
- The above tax deductions under different sections of the IT Act are not additive.
- Under Section 80CCD (2), Employer contribution in respect of NPS subscribers is deductible for tax if the following conditions are satisfied:
- Up to a maximum of 10% of the gross remuneration (Basic Salary + Dearness Allowance).
- The aggregate deduction for all employer retrial contributions, such as Provident Fund, Super Annuity Fund, and NPS, cannot exceed Rs. 7.5 lacs.

- The tax deduction under this section is over and above the Section 80CCD ceiling of Rs. 1,50,000. (1).
- Leaving the NPS Prematurely NPS subscribers who wish to withdraw 20% of their funds prior to the scheme's maturity can withdraw it. Tax is not payable on the withdrawn amount. Withdrawal at retirement.
- After the NPS subscriber reach the retirement age (60 years), Subscriber can withdraw 60% of the corpus in lumpsum. The withdrawal amount is exempted from tax.

For Buying Annuity

The money that the subscribers utilize for buying an annuity is completely exempted from tax.

- **Maximum returns:** Investment-linked returns depending upon the investment option chosen by the subscriber.
- **Clear:** Members are able to access their NPS accounts online 24X7 and public disclosure is required.

Architecture of NPS

NPS system architecture is unbundled, with each intermediary doing a specific activity in order to achieve economies of scale and keep operational and intermediation costs low. This innovative architecture reduces the risk of sole reliance on the entities involved and removes the possibility of system failure. The following intermediaries make up the NPS architecture.

1. PFRDA established the NPS Trust to hold pension assets in the benefit of subscribers and supervise operational activities. The PFRDA has appointed a Board of Trustees.
2. Central Record Keeping Agency (CRA) Provides subscribers with record keeping, administration, and customer service. NSDL, now Protean, KFin tech, and CAMS are the three CRAs currently registered with PFRDA.
3. Pension Funds (PFs) - Assumes investment management responsibilities in accordance with PFRDA requirements. PFRDA currently has 07 PFs registered (LICPF, SBIPF, UTIRSL, ICICIPF, HDFCPF, Kotak PF and Aditya Birla PF)
4. Trustee Bank (TB) - Provides banking services such as collection, pooling, remittances, and system reconciliation. The current TB is Axis Bank Ltd.
5. Points of Presence (PoPs) - Handles NPS distribution in the private sector and serves as a link between the Subscriber and the NPS architecture.
6. Custodian - Maintains the NPS Trust's Demat account and provides custodial services to the NPS system. The NPS Custodian of Securities is currently Deutsche Bank
7. Retirement Advisor - Can be an individual or a company that distributes NPS and provides consulting services.
8. Annuity Service Provider - Insurance companies have been appointed by the Authority to offer annuity payments to NPS subscribers upon their leaving NPS.

Challenges of NPS for provider that is PFRDA

Lack of awareness in public about retirement planning

The government plans for its employee’s retirement, but the general public, who are not employed by the government, are unaware of the concept of retirement planning. Some people believe that they continue to have the same level of income in old age, their children will look after them, those who do not believe the above are concerned about how they will manage their livelihood in retirement. People are unaware of the government-instituted social security scheme for retirement planning. They believe that retirement is only planned for government employees.

Lack of financial literacy among public

The general public do not understand how to invest their savings in order to receive social security in old age. They only save and invest to meet their immediate needs. They are unaware of the modern instrument of saving and investment that will generate a large corpus for them when they retire, starting with small savings. Even after 15 years, the general public is unaware of the NPS scheme introduced by the government in 2004 for central government employees and in 2009 for all citizens**.**

Lack of full knowledge among subscriber about NPS

Those who have subscribed to NPS, whether they are government employees, corporate sector employees, or members of the general public, are not fully aware of its structure. How many account options are available to them, how many choices are available to them, what tax benefits are available in the case of NPS, how much money and how many times can be withdrawn before retirement, and what they should do if the market is down at the age of retirement.

Opposition of NPS by government employees from time to time: Government employees Central or State are opposing NPS continuously since its beginning in India in 2004. Now the opposition has become stronger during the passage of time. They have made their NPS Union and protest against the government time to time. Many states government also in the pressure of opposition by employees have included the matter of NPS in their election promise. Most recent example where this promise has come into reality is the Rajasthan government who have implemented OPS for its employees from 1ST April 2022. This put an additional burden on government if a government employee under old pension scheme (pay as you go scheme) in place of contributory pension scheme or NPS.

Lack of proper platform to provide knowledge about this pension scheme: Till now there is no proper platform to create awareness about this scheme among the public. No advertisement is done about the NPS retirement planning for non-Government employees. Government should find out any way so that its knowledge can be sent to every citizen of India either by force or by motivating them in different ways.

Misconception in public about riskiness of market-based investment: The contribution of NPS is invested in market-based security like equity, corporate bonds, government bonds, alternative investment. Market is volatile in nature and some people believe that they will lose their entire saving if the market fails when they will retire. But government diversify the risk of market-based securities by investing contribution in different type of securities and also provide the option to subscribers to extend their NPS account up to 10 more years after retirement with different options. People are not aware about all these plus points of NPS.

Objectives of NPS for provider

1. Provides social security to all in retirement age

The first aim of government is to provide social security to all citizen of India not only to Government employees in the age of retirement. Government is trying to plan a golden retirement period for all by motivating them to save during their working life to plan for their retirement. Increase in old age home is a proof how much children will take care of their parents in old age and why to depend upon children if we ourselves can plan our retired life. We can live a uncompromised life if we save some money from our current income and invest it in NPS for our safe and secure retired life.

2. Market based product to create awareness about market instruments as investment option in place of old investment options: People in India till date are not aware about the new market-based investment options. They invest their money in traditional investment options like gold land, Bank deposits, PPF etc. This retirement scheme will create awareness about new investment avenues and their power to grow at a higher rate as compared to traditional investment options. They themselves do not have to take decision where to invest. The only thing they have to do is they have to continuously save money according to their capacity and professionally expert people will plan their retirement at a minimum cost which is lowest as compared to their commission on other market based instruments.

3. Reduce the burden on Government of OPS in case of Government employees: The burden of pension is increasing in OPS during the passage of time due to increase in life expectancy and increase in Government employees. Providing pension comes under committed expense category and constitute remarkable proportion of overall salary budget. If revenue expense increases government has to cut down its expenses for other necessary activities required for the betterment of society. By adopting contributory pension scheme government can reduce the burden of pension in revenue expenditure and people will plan their retirement on their own during their active working life.

4. Aware public about the principal of compounding in market instrument if investment is consistently done for a long period of time: NPS Scheme will also create awareness among people about the magic of compounding in security market because it is not so easy to withdraw money from NPS account and people will have to invest in their account regularly. After a long time they will be surprised to see the huge corpus that will be added to their account in later years due to the principle of compounding.

5. Growth of capital market that help in the growth of economy: Contributed money of NPS is invested in capital market instruments which is necessary for the growth of an economy. Investment in traditional investment options are nonproductive in nature but investment that also in huge amount through PFRDA in capital market provide fund to productive industries and Government developmental purposes. This will lead to the development of our country by increasing employment, decreasing poverty, reducing dependence on foreign investment for economic developmental purposes.

6. Develop saving habit among individuals and its channelized investment without any effort of subscriber by professionally expert people

If NPS is subscribed by people they will have to contribute in it regularly without any default. This will inculcate the saving habit among citizens even though of small amount will be generalized in investment avenues by professionally expert that will create a huge corpus for them which they do not have imagine.

Challenges of NPS for subscriber

1. To understand the basic structure of NPS against OPS by Government employees

In case of government employees NPS is a new contributories scheme to provide them pension introduced by government of India in 2004 for the central government employees. Firstly, they till now after the passage of 20 years are not able to fully understand what is this scheme, what are its benefit to them and to government, as compared to old pension scheme (OPS) which was a simple scheme in which everybody was aware how much pension he will get after retirement without any tension and contribution from their side.

2. How to select among different asset class in case of active choice due to lack of financial literacy

Public is not financially literate to decide in which asset class their contribution should be invested by the selected management company if they go for adoption of active choice for their investment, which will be most beneficial for them keeping in mind different factors which will affect their choice of asset selection in active choice.

3. Which is beneficial for them auto choice or active choice: People do not even understand what will be beneficial for them auto choice or active choice for investment of their contribution. In active choice they themselves will take decision for investment and in auto choice expert will decide how much contribution should be invested in different classes according to their age.

4. Lack of proper literacy about NPS

There is lack of literacy about NPS among the general public even in government and corporate sector employees about its existing choices available to them, tax benefits available to them, withdrawal of money in between, minimum contribution what they should do at that age of retirement when they have to take decision about to carry forward lump sum and annuity choice from different providing company under different schemes.

5. Uncertainty about future pension in NPS as compared to OPS in case of Government employees
Government employees always feel that their future is insecure in NPS because money of NPS is invested in market-based instrument without any minimum guarantee by the government about their pension. They time to time demand for OPS in which they were sure about their pension amount after retirement.

6. Consider it to be risky as money is invested in market instruments without any assurance from government about fixed minimum return: NPS is considered to be risky by all subscribers because of its character of market-based product without any backup of any assurance from PFRDA who introduced and involved in its management. The efforts are made to decrease the risk by diversification of investment and option to defer NPS amount at that age of retirement.

7. Corpus of NPS depend upon the length of service and the amount of contribution (especially when he is a government employee): How much Corpus will be accumulated will largely depend upon the length of service and their contribution per month in case of employees. The more the length and the more the contribution chances will be more that it will beat OPS. Amount of contribution has been increased by government from 10% to 14% on demand of employees. For the benefit of employees government can also increase the age of retirement for them because the principal of compounding shows its magic in the last few years.

8. How to do retirement planning at the time of retirement: At the age of retirement subscribers are eligible to take lump sum amount from NPS Corpus up to 60% and they have to invest 40% amount of their corpus to purchase annuity from different agencies. Annuity providing companies are many in number and they also provide different schemes under which annuity can be availed by the subscriber.

Objectives of NPS for Subscribers

1. Financial Security in Retirement
NPS ensures that subscribers accumulate a sufficient retirement corpus, allowing them to maintain financial independence and a stable source of income after retirement. It provides a structured and disciplined approach to saving, ensuring that individuals do not face financial hardships in their later years.

2. Affordable and Low-Cost Pension Plan
One of the primary advantage of NPS is its affordability, as it is the most economical pension schemes available. The cost of fund management and administrative expenses are minimal, makes it an attractive scheme for employees, searching for a dependable retirement plan with no high charges.

3. Flexible Investment Choices
NPS offers subscribers the flexibility to choose how their funds are invested. They can opt for an auto-choice investment plan, where asset allocation is managed by experts while in active-choice plan employees can decide the proportion of funds to be allocated in equities, corporate bonds, and government securities.

4. Portability and Accessibility
A key feature of NPS is its portability, allowing investors to maintain their same pension accounts even when they switch their jobs or move to different locations. It ensures that retirement savings remain uninterrupted and accessible from anywhere, providing convenience and security to subscribers.

5. Tax Advantages
NPS provides significant tax advantages under various schemes of the Income Tax Act, making it a tax-efficient retirement planning tool. Contributions made towards NPS are allowed for tax deductions, reducing the overall tax burden and encouraging long-term savings.

6. Disciplined Long-Term Savings
Since NPS requires regular contributions, it in stills a habit of disciplined saving among individuals. The scheme discourages premature withdrawals, ensuring that subscribers accumulate a substantial corpus for their retirement years, thus promoting financial stability.

7. Compounding Growth and Market-Linked Returns
NPS investments benefit from the power of compounding, leading to higher returns over time. Since contributions are invested in market-linked instruments, subscribers have the opportunity to earn better returns compared to traditional savings schemes, enhancing their retirement corpus.

8. Partial Withdrawals for Emergencies
NPS provides flexibility by allowing withdrawal of funds partially under various conditions such as higher education, medical emergencies or purchasing a house. This ensures that subscribers have access to funds in times of need while keeping their long-term retirement goals intact.

9. Annuity Benefits for Regular Income
Upon retirement, subscribers can use a portion of their accumulated corpus to purchase annuities, ensuring a steady and reliable income stream for life. This helps individuals plan their post-retirement expenses and maintain their standard of living.

Conclusion
The National Pension System (NPS) has emerged as a crucial financial instrument designed to provide retirement security to individuals across various sectors in India. By offering a structured and market-linked pension plan, NPS enables individuals to build a sustainable financial future through disciplined savings and investment. The scheme ensures affordability, flexibility, and tax benefits, making it an attractive option for both government and private sector employees, as well as self-employed individuals.
Despite its numerous advantages, the success of NPS depends on widespread awareness, financial literacy, and informed decision-making by subscribers. Challenges such as misconceptions about market risk, lack of guaranteed returns, and complexities in investment choices continue to

hinder its full adoption. Additionally, the opposition from government employees in favour of the old pension scheme (OPS) highlights the need for stronger policy measures and enhanced trust-building initiatives.

For NPS to achieve its full coverage, it is required to focus on these concerns by targeted education, simplified processes, and increased accessibility. The role of the Pension Fund Regulatory and Development Authority (PFRDA) in ensuring translucency, improving investment options, promoting financial literacy will be key in strengthening the system. With continued government support and proactive engagement with stakeholders, NPS has the capacity to become the preferred retirement planning tool for millions of Indians, ensuring financial stability and economic growth in the long run.

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