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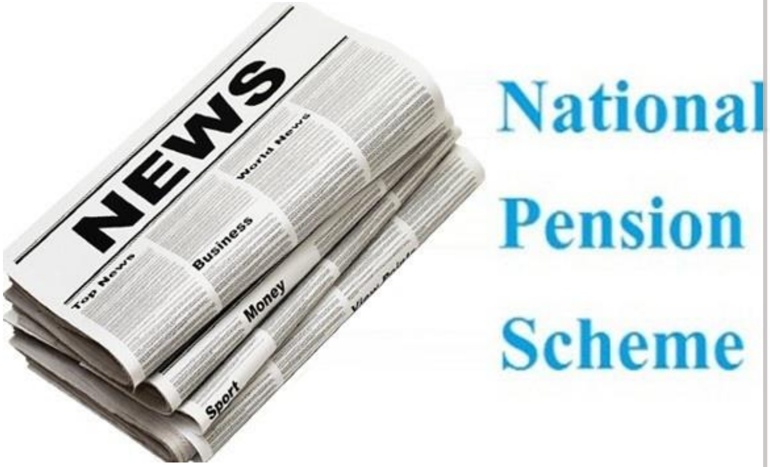

NATIONAL PENSION SCHEME: A CRITICAL ANALYSIS

NATIONAL PENSION SCHEME: A CRITICAL ANALYSIS

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ABSTRACT

National Pension System (NPS) is a govt-sponsored scheme. It was launched in January 2004 for govt. employees. However, in 2009, it was opened to all sectors. The scheme grants subscribers to contribute regularly in a pension account during their working activity. On retirement, subscribers can withdraw a part of the corpus in a lump & use the remaining corpus to buy an annuity to secure a regular income after retirement. This system is managed by PFRDA (Pension Fund Regulatory and Development Authority). NPS is an easily accessible, low cost, tax-efficient, flexible & portable retirement savings account. Under the NPS, the individual contributes to his/her retirement account & also his employer can also co-contribute for the social security/welfare of the individual. NPS is designed on Defined contribution basis wherein the subscriber contributes towards his account, there is no specific benefit that would be feasible at the time of exit from the system & the accumulated wealth depends on the contributions built & the income generated from investment. The greater the value of the contributions contrived, the greater the investments achieved, the longer the term over which the fund accumulates & the lower the charges deducted, the larger would be the eventual benefit of the accumulated pension wealth will be depended.

INTRODUCTION

National Pension System (NPS) is a govt.-sponsored pension scheme. Launched in 2004 for govt employees. However, in 2009, it was opened to all sectors. This scheme allows to contribute regularly in a pension account during their working tenure & at the time of retirement, subscribers can withdraw a part of the corpus in a lump sum & use the remaining corpus to buy an annuity to secure a regular income after retirement. The NPS is GOI focuses to extend pension benefits to all Indian citizens. It is mandatory for central-govt. employees & the employees of some state govt. to invest in the NPS. As per a govt directive, private-sector employees will be given to choose between the Employees&; Provident Fund Organization (EPFO) & the NPS. The employee contribution is generally 10% of the basic salary and DA, with a comparison contribution made by the employer.

FORMULA - Contributions + Investment Growth – Charges = Accumulated Pension Worth PERMANENT RETIREMENT ACCOUNT NUMBER {PRAN} PRAN is a basic paramount for any NPS investor to avail the benefits of NPS.PRAN is identical to PAN card for retirement which contains your PRAN number, name, father's name, photograph and signature/thumb impression. Application for PRAN card can be made online(e-commerce) or offline.

RESEARCH PROBLEM

Whether the schemes implemented by the government based on nation pension scheme is profitable or not towards the government employees?

EXISTING LEGAL SITUATION

What are the current changing implementation based on the retirement benefits provided to the government employees? Govt. help the employees to attain a minimum wage for their standard of living by introducing the scheme even after their retirement.

LITERATURE REVIEW

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3. The Project Old Age Social and Income Security (OASIS)

4. Sanyal, A., Gayithri, K., and Erappa, S. (2011). National Pension Scheme: For Whose Benefit?

5. www.moneyexpo.in

SCOPE AND OBJECTIVE

Objectives:

Three main objectives:

i) To provide income to an individual at golden age.
ii) To provide reasonable market-based returns over remote future.
iii) To extend retirement age security coverage to all member of community.

Benefits:

1. Including an additional tax benefit.

2. Low default risk handled by skilled experts.

3. Higher fees to intermediaries.

METHODOLOGY

The study of National Pension Scheme is primary as well as secondary data. Primary data is the data that is collected for the first time & that is initial in nature. This data has been gathered through questionnaire. Secondary data has been collected from newspapers, magazines, websites, general discussion with pension fund managers & employees of different pension funds organizations & published data of PFRDA & pension fund companies. It is a doctrinal work which focuses on the secondary data being collected from sources like Money.com, www.ppfindia.org etc. The data's collected were converted into Ranks & percentages for a better has a correlation to understand the position of NPS.

TABLE OF ABBREVIATIONS

Financial Year	FY
Dearness Allowance	DA
Under Section	u/s
Years	Yrs.
Government of India	GOI
Pension Fund Regulatory and Development Authority	PFRDA
And	&
Government	Govt.

BACKGROUND

The new rival to the central government service on or after 01.01.2004 are covered under the National Pension System (NPS). The Seventh Pay Commission (7 CPC), during its deliberations, examined certain concerns regarding NPS and made recommendations in the year 2015. The 7 CPC recommended for setting up of a Committee of Secretaries with respect to the scheme. Accordingly, a Committee of Secretaries was constituted by the Govt. to suggest measures for assigning the implementation of NPS in the year 2016. The Committee submitted its report in the year 2018[1]. Accordingly, based on the recommendations of the Committee, draft Cabinet structure was placed before the Cabinet for its approval. Implementation strategy & deadlines goals were laid down. The proposed changes to NPS would be made applicable immediately once time critical decisions are taken in consultation with the other concerned departments.

[1] Yurtoğlu N, "Http://Www.historystudies.net/Dergi//Birinci-Dunya-Savasinda-Bir-Asayis-SorunuSebinkarahisar-Ermeni-isyani20181092a4a8f.Pdf" (2018) 10 History StudiesInternational Journal of History 241

ELIGIBILITY TO JOIN THE NPS

1.Any Indian citizen between 18 and 65 years. the person should comply with know your customer (KYC) norms.

KYC DOCUMENTS

The following documents are required to complete the mandatory KYC process: 1. Self-certified copy of a Proof of Identity (i.e. PAN card, Aadhar card, among others) Proof of address (Aadhar, Passport, among others) Canceled cheque

2. Maximum age limit was increased from 60 years to 65 years in 2017.

3. Contributions can be made to an existing NPS account to the edge of 70 years.

4. Special rules are applicable incase after the age of previous maximum limit of 60 years.

5.NRIs are also eligible to be a part of NPS, bestowed they have an Indian communication address and a bank account in India and if changes are found based on the citizenship then NPS account shall be closed.

PROCEDURE TO JOIN THE NPS

1.One needs to open an account with entities called Point of Presence (POP). Whereas POP charges are:

Initial Subscriber Registration fee– This is a flat fee which is charged by PoPs from the investor once at the time of registration only.

Initial Contribution– It is paid as a percentage at the time of initial contribution.

All Subsequent Contributions (offline)– A recurring charge that is payable to the POPs every time an investment is made in NPS. For an offline, one must visit any of the Points of Presence (PoP) such as banks appointed by the PFRDA.

e-NPS (online)– Paid as a percentage at the time of each contribution for all subsequent contributions made to the NPS. E-NPS platform through which one can also open an online account using his/ her Permanent Account Number (PAN). They should provide details of the bank account, that’s impaneled PFRDA so the authorities undergo for the Know Your Customer (KYC) process.

All Non-Financial Transactions– Agnate the change of address, among each other’s.

Persistency charge– This particular one is a newly introduced charge and is applicable only for NPS. Under this particular charge, the POPs are paid as a fixed fee when the investor remains associated with the POP at least for 6 months.

2. Finding or reaching out to a POP is for both private & public sector banks who are enrolled as banks, along with certain financial institutions are also listed as POPs.

3. Branches of POP authorized for the purpose are called Point of Presence Service Providers (POP-SPs). They act as the authorized collection points.

4. POP can be accessed through the website of the Pension Fund Regulatory and Development Authority (PFRDA). PFRDA also manages the entire National Pension System.

TYPES OF NPS ACCOUNTS

There are 2 kinds of accounts these are – Tier 1 account & Tier 2 account.

A. Tier 1 account

An account wherein the money in the account cannot be withdrawn till the person reaches the age of 60. Exception, partial withdrawal is allowed (even before 60 years) in certain conditions like critical illness, children's education, wedding expenses, buying or constructing a house. Central government employees: For government employees it is compulsory, under this account, they are required to contribute 10% of their basic monthly salary along with DA and DP. The minimum amount that is required to be invested in this account is ₹ 6000 in a year. An investor who invests in tier 1 account has tax benefits of up to Rs 2 lakh p/a. According to the section 80C of Income Tax ,1961 deducting amount to Rs1.5 lakhs is covered as an overall ceiling and even for an investor is also eligible to get an additional tax deduction of Rs 50,000 u/s 80CCD(1B).

B. Tier II account

It is voluntarily saving option from which a person can withdraw money limitless and there is no restriction over time period. The subscribers can easily access this account when it is obligatory.

The minimum amount to open the account is ₹ 1000 and the minimum balance required at the end of the year is ₹ 2000. There are no tax benefits, be it at the time of contribution or at the time of withdrawal. It works more like normal mutual fund investments except for the costs (expense ratio) which are much lower for NPS (in the range of 0.25%) compared to mutual funds (in the range of 1.5-2%).

NUMBER OF DECEPTION These include low annuity returns, very long lock-in period mandatory annuity, taxation on maturity.

INVESTMENT OPTIONS

NPS provides to its subscribers two investment options for funds allocation: These are –

Auto Choice: This is a default option for life cycle funds where the funds are automatically managed by the authority based on the maturity of the investor. Under this privilege, one is free to choose any allocation between the three asset classes, as allocation remains constant until the NPS corpus matures or the allocation is changed by the investor. However, your equity allocation is capped at 50%.

Active Choice: This privilege helps an investor to choose the percentage of contribution in available asset classes. There are three options available to the investor – conservative, moderate and aggressive. The equity options begin at 25%, 50%, 75% jointly. Equity allocation is progressively reduced & the allocation to corporate bonds & then safer govt. bonds is increased as the investor infancy. It is also allowed to change one's scheme preference & pension fund manager. Further on, it is imperative to understand the various asset classes which are available under NPS investments, those are: E – Investments in stocks. The maximum limit is 50%. C – Corporate debt funds that invest in bonds are iced by the companies. G – Investments in gilt funds in government securities.

NPS LIFECYCLE FUND

NPS Lifecycle funds automatically splits up the pension corpus of an investor into three classes –

1. The Aggressive Lifecycle Fund 75% allocation to equity, 10% to corporate bonds, 15% to government bonds. IT ENDS AT: 15% to equity, 10% to corporate bonds, 75% to government bonds.
2. The Conservative Lifecycle Fund It is similar to mirror image of the Aggressive Fund. It begins at between: 25 –5 Equity, 45-5 Corporate Bonds, 30-90 Government bonds.
3. The Moderate Lifecycle Fund Another name is called as 'default' lifecycle fund. If an investor fails to make any choice or enters the NPS before the Aggressive and Conservative Funds were introduced & picked the 'Auto-choice' option. Possibility for the switch can be twice per year. It begins with a split: 50- equity, 30-corporate bonds, 20-government bonds; Ends at 10-equity, 10-corporate bonds, 80-government bonds.

WITHDRAWAL FROM NPS

Withdrawal from the NPS is generally after retirement. Usually, the age for that is alleged to be 65 years (increased from earlier 60 yrs.).

Purpose: NPS is to create a fund for old age for every individual. Categorized into 3 categories;

1.On Maturity NPS –CORPUS Scheme is to inculcate a savings & investment habit among individuals. This regular savings leads to the creation of a pool of funds which is acknowledged as the NPS corpus. This is accumulated amount which is invested in account over the passage that matures at the age of 60. If the subscriber of the NPS dies, then it shall be paid to the legal nominee of the subscriber. As an imperative provision that a minimum of 40% of the total corpus must be converted to an annuity during the tenure at maturity. This annuity is beneficial in generating a monthly pension.

Illustration: If the accumulated corpus is Rs.1000. Then 40% of this amount (i.e. 40% of Rs1000) ₹40 shall necessarily go towards annuity scheme and the remaining 60% can be withdrawn (after paying tax), although the annuity amount is tax-exempt.

2.Premature Exit as we know, it is possible to withdraw the NPS corpus before the age of maturity. This is known as 'premature exit' and upon such a withdrawal, 80% of one's NPS corpus must compulsorily be used to purchase an annuity.

Explanation: If the accumulated pension amount is less than ₹20 lakhs, then the complete amount in the NPS corpus can be withdrawn tax-free. The remaining 20% can be withdrawn but to a taxable amount. This high proportion of annuity purchase could be against the interest of the investor.

3.Partial Withdrawal 'Partial' withdrawals up to 25% of NPS contributions are allowed after three yrs. of joining the NPS, but partial withdrawals are allowed only on specified grounds, also referred as "defined expenses". Partial withdrawals are made from Tier I account. Any such partial withdrawal is allowed only up to three times during the entire period & must have a minimum 5-year gap between them. Exception not in critical illnesses. These withdrawals are tax-free likely gratuitous.

ANNUITY

The annuity is given to an investor on a habitual income (it could be monthly, quarterly, or annually) at a specified rate for a specified period chosen by the subscriber. This makes sure that a subscriber must use at least 40% of the corpus to buy an annuity. The person can pay the money to an

Annuity Service Provider (ASP) & choose an annuity option to ensure a regular income after retirement. The annuity intended to be added to the regular income of the subscriber & taxable as per the income tax slab rate of the subscriber. Currently, the insurance companies registered as ASPs under PFRDA are: Life Insurance Corporation of India, SBI Life Insurance, ICICI Prudential Life Insurance, Bajaj Allianz Life Insurance, Star Union Dai-ichi Life Insurance, Reliance Life Insurance, HDFC Standard Life Insurance.

TAX BENEFITS TOWARDS THE EMPLOYEE ON NPS

Tax benefits on NPS can be availed through 3 sections being –

Section 80CCD(1), Section 80CCD(2), Section 80CCD(1B) All the tax benefits, annuity restrictions, exit & withdrawal rules are applied to NPS Tier-I account & Tier-II account.

Section 80CCD(1) - Employee's contribution up to 10% of basic salary & DA up to ₹1.5 lakh is eligible for tax deduction. This contribution is without exception of Section 80C has a limit of ₹1.5 Lakh for tax deduction. Self-employed subscribers can also prevail these benefit. Despite, the limit for this is 10% of their annual income up to a maximum of ₹1.5 Lakhs.[2]

Section 80CCD(2) - Employer's contribution up to 10% of basic added with DA is eligible for deduction. Employer's contribution is an additional deduction although it is not part of ₹1.5 lakh allowed u/s 80C. It is also beneficial for the employer where they can affricate tax benefit for its contribution by showing it as a business expense in the profit & loss account. Self-employed subscribers cannot claim this tax benefit. Section 80CCD(1B) Additional privilege up to ₹50,000 in NPS is eligible for tax deduction.

Under this, taxpayers who fall in the highest tax bracket of 30% can save about ₹15,000 by investing ₹50,000 in the NPS. Simultaneously, those who come under 20% tax bracket can save around ₹10,000, while people in the 10% tax bracket can save ₹5,000 / yr.

The additional tax benefit of ₹50,000 is over & above the benefit of ₹1.5 Lakhs which can be claimed as a deduction u/s 80CCE.

Regardless of the type of employment, a govt. employee, a private sector employee,

[2] sec80c, "National Pension System / New Pension System (NPS)" (Section 80CDecember 14,2016) <http://80c.in/pension-plans/national-pension-sy...> accessed April 3, 2019.

self-employed or an ordinary citizen can avail the benefit of ₹50,000 u/s 80CCD(1B).

Therefore, the total tax benefits that can be claimed for NPS u/s 80CCD (1) + Section 80CCD(1B) equals to ₹ 2 Lakhs for a FY. If employees have savings ₹ 1,50,000 u/s 80C excluding NPS Deductions, then the employees can show their NPS deductions, u/s 80 CCD(1B), which is over the ₹ 1,50,000 limit. If the Employee has less than ₹ 1.5 Lakh savings u/s 80C & exceeds ₹ 50,000 towards NPS, then the employee can split their NPS amount u/s 80CCD(1) & 80CCD(IB).

CRA AND CHARGES

CRA stands for Central Record keeping Agency (CRA). It is the backbone of NPS architecture. It is responsible for recordkeeping, administration, & customer service functions for all NPS subscribers. Function of the CRA: receiving instructions from subscribers in POP. transmitting such instructions to pension funds. effecting switching instructions received from subscribers. Earlier NSDL e-Governance Infrastructure was the source for NPS subscribers. Currently, PFRDA has delegated Karvy Computershare as the Central Recordkeeping Agency. The subscribers of NPS have an option to choose NSDL or Karvy to open an account. For the existing subscribers can also select the CRA of their choice, once in a yr. There are 3 heads under which the CRA charges a flat fee, these are: CRA account Opening charges– A one-time amount is charged while opening the account. Annual account Maintenance cost– Annual recurring amount. CRA per transaction cost– Flat fee charged for an individual transaction financial or non-financial.

OTHER CHARGES

In surplus to the charges under the NPS, there are three more general charge-heads: Investment management fee: Investor's sum in NPS is being controlled by the pension fund managers foresaid by certain banks. The account is re-known as an Investment Management Fee, is allied to the fund management charge in a mutual fund as it is without exception of all transaction-related charges such as brokerage, transaction cost etc.[3] Custodian fee: The custodian was Stock Holding Corporation of India (SCHIL), is responsible for the custody of underlying

[3] https://economictimes.indiatimes.com <Figure 2f from: Irimia R, Gottschling M (2016) Taxonomic Revision of Rochefortia Sw. (Ehretiaceae, Boraginales). Biodiversity Data Journal 4: e7720. Https://Doi.org/10.3897/BDJ.4.e7720">

assets. NPS trust fee: PFRDA has established the NPS Trust under Indian Trusts Act, 1882 and appointed NPS board of trustees under whom the administration of the scheme vests under Indian Law.

BANKING INSTITUTIONS WHICH ARE PART OF NPS

1. Allahabad Bank
2. Andhra Bank
3. Bank of India
4. Bank of Maharashtra
5. Corporation Bank
6. Dena Bank
7. HDFC Bank Limited
8. IDBI Bank Limited
9. Indian Bank
10. Kotak Mahindra Bank Limited
11. Oriental Bank of Commerce
12. State Bank of Hyderabad
13. State Bank of India
14. State Bank of Patiala
15. Syndicate Bank
16. Tamil Nadu Mercantile Bank Ltd.
17. Karur Vysya Bank
18. The Lakshmi Vilas Bank Limited
19. The South Indian Bank Limited
20. UCO Bank United Bank of India
21. Vijaya Bank

DEFAULT OF MINIMUM CONTRIBUTION

If for any reason, an individual does not contribute the minimum amount to NPS, then his/ her account shall be frozen. Then the unfreeze of the account will be done by visiting the POP & pay the minimum required amount along with a penalty of ₹ 100. Hence, the govt. will not contribute to an individual's NPS account.

RECOVERY OF DAMAGES FOR DEFAULT IN PAYMENT

If an employer makes default in the payment of any contribution or in the payment of any charges payable under any other provisions of the Act or the Scheme, the Central Provident Fund Commissioner or such officer as may be authorized by the Central Government, by notification in the Official Gazette[4] , in this behalf, may recover from the employer by way of penalty, damages at the rates given below:

Period of default	Rates of damages (percentage of arrears per annum)
Less than two months	5%

[4] "National Portal of India" (National Portal of IndiaMarch 1, 1970)<https://www.india.gov.in/spotlight> accessed April 3, 2019

Two months and above but less than four months	10%
Four months and above but less than six months	15%
Six months and above	25%

IF ANY GRIEVANCES

Approach Call Centre/Interactive Voice Response System (IVR), along with the executives. Can contact the CRA call center at toll free telephone number 1-800-222080 & register the grievance by using T-PIN. Physical forms direct to CRA Submission of the grievance in a prescribed format to the POP – SP later approval to the CRA Central Grievance Management System (CGMS). Directly send form to concerned authority CRA. Web based interface. Register the grievance at the website www.npscra.nsdl.co.in with the use of the I-pin allotted at the time of opening a Permanent Retirement Account.

LIMITATIONS OF NPS

No guarantee on returns: The NPS is not a defined benefit plan, it is a contribution plan. The returns are linked through market and there is no guarantee of returns. Investors have a choice of working capital of investing 100% of their funds in Govt. securities wherein returns are assured.

Restriction on equity exposure: The exposure to equity investment is restricted at 50%, thereby limiting to the realm of possibility.

Liquidity: There are restrictions on premature withdrawal from Tier I account making the scheme inflexible & illiquid. There is a chance for prematurely withdraw 20% of the amount but it will amount to closure of the account. Even on maturity, only 60% of the fund & the rest used to buy an annuity

Tax on maturity proceeds: NPS currently comes under the EET (exempt, exempt, tax) realm. Currently under the rules it is stated that the funds will be taxed at withdrawal. Returns from annuity insurance plan obtained only after the retirement.

DIFFERENCE – NPS V. APY

National Pension Scheme & Atal Pension Yojana both are govt. schemes intended to be implemented to an individual& an including financial security after retirement. However, there are few differences as stated below:

NPS is targeted for people between the age category of 18 to 65 while APY is targeted to the age category of 18 to 40.

NPS is available for Indian residents and NRI as well, as opposed to APY which is only available for Indian residents.

APY has 5 pension slabs i.e. ₹ 1000- ₹ 5000. While NPS the pension slab is cinched by the performance of the fund manager.

APY has no tax benefits. Whereas NPS, provides to its investors a tax rebate of up to ₹ 2 lakhs.

NPS V. ELSS

Equity-linked Saving Scheme (ELSS) is a category of mutual fund that the govt. creates to encourage long-term investments in equity. In order to improve equity participation, the govt allows investment in equity-based mutual funds to be tax deduction through ELSS schemes. Investors can avail a benefit of up to ₹1,50,000 u/s80C of the Income Tax Act. Moreover, it must be kept in mind that it is high liquidity whereas, ELSS funds also have low liquidity. This happens because an ELSS funds have a term period of 3 yrs. from the start of investment. The gains are made at the end of 3 yrs. are taxed as per the long-term capital gains. Hence, both NPS & ELSS are funds which especially tax benefits to scheme holders.

Comparative analysis between NPS and ELSS as an investment option –

	NPS	ELSS
Lock-in-period	60 years	3 years
Minimum Annual Investment	₹500 as an initial contribution, but an annual investment amounting to a minimum of ₹6000.	₹500 (usually) either as a lump sum investment or SIP.
Tax Benefits	Tax deduction up to ₹150,000 under Section 80-C and an additional ₹50,000 under Section 80CCD (1B) of the Income Tax Act. Total of ₹200,000.	Tax deduction up to ₹150,000 under Section 80C of the Income Tax Act.
Where is the money invested	Equity, government bonds and corporate debentures. A maximum	Equity only

	exposure of 50% to equity. The rest is distributed in government bonds, treasury bills, corporate debentures, etc.	
Premature withdrawals	Allowed, provided certain conditions and restrictions are adhered to	Not allowed

NPS offers tax benefits of up to ₹200,000 annually by ELSS gives only 1,50,000. Hence, ELSS is still the better investment option. The reason is ELSS is more malleable, with a lower duration. It provides more malleability & a higher earning potential for an entire amount.

MAJOR IMPACT

An eventual accumulated corpus has been increased by of all central govt. Employees covered under NPS.

Large sum of pension payouts rendered later of retirement without any additional burden on the employee.

Freedom of choice on selection of Pension Funds & investment pattern by central government employees.

Augmenting old-age security in a lifespan of rising life expectancy, by making NPS more attractive.

Govt. will be facilitated in attracting, recruiting & retaining the best talent hunt.

Expenditure involved: The impact on the exchequer is estimated to be to the tune of around Rs. 2840 cr. for the FY 2019-20 & that will be a recurring expenditure. The financial implications will be regarding payment of compensation for non-deposit or delayed deposit of NPS contributions during 2004-2012, would be in addition to the amount indicated above.

NUMBER OF BENEFICIARIES: Approximately 18 lakh central govt. Employees covered under NPS would be benefitted from the panel of the National Pension System. Details & progress of scheme if running. Presently, the new rivals to the central govt. service on or after

01.01.2004 are camouflaged under the NPS.

CHANGES APPROVED IN THE NATIONAL PENSION SYSTEM

Mandatory contribution by the Central Govt. enhanced by 4% from the existing 10% to 14% for employees covered under NPS Tier-I. Employees contribution will survive at 10%. The govt will bear an atonal expenditure to the tune of around ₹ 2,840 cr. for the FY 2019-20, & it will be a recurring expenditure.

Central govt. employees will be providing freedom of choice for selection of Pension Funds & pattern of investment.

Payment of compensation for non-deposit or delayed deposit of NPS contributions during 2004-2012[5].

Contribution by Govt. employees under Tier-II of NPS will be covered u/s 80 C for deduction up to Rs 1.50 lakh for the schemes such as General (PF), Contributory PF, Employees PF and Public PF, with long term of 3 yrs.

The entire withdrawal is exempted from income tax because the tax exemption limit for withdrawal on exit is 60%.

There is a chance of progress to benefit 18 lakh central government employees. NPS allows subscribers to contribute regularly in a pension account during their working terms. At the time of retirement, subscribers can withdraw a part of the corpus in a lump sum and use the remaining corpus to buy an annuity.

Withdrawal from NPS on retirement tax-free.

According to the rules, 40% of the total accumulated corpus utilized for purchase of annuity & now the whole 60% on withdrawal.

Investment made in Tier II account of NPS qualifies for Section 80C deduction whereas, the Tier 1 account is non-withdrawable until the subscriber reaches the age of 60.

The Govt. employees will render more choices in respect of NPS with equity & debt components. Overall Cabinet also approved payment of compensation for non-deposit or delayed deposit of NPS contributions during 2004-2012[6].

IMPLICATION

[5] https://7thpaycommissionn//nps-to-ops-cabinet-approved-contribution-09/

[6] https://www.livemint.com/Money/new-NPS-rules-income-tax-benefit-higher-governmentcontribut./89

This helped to benefit around 36 lakh subscribers, including approx. 18 lakh Central government employees covered under NPS which cost the exchequer Rs 2,840 crore in the FY.

CONCLUSION

NPS is a govt. promoted savings vehicle aimed to generate old-age/ retirement corpus by encouraging regular retaining. Although it provides higher tax incentives which amounts to ₹200,000, that is a huge time frame (also one of the longest) hence that amounts to investment illiquid.

As we know the entire amount is not available at retirement which is only 40% of the NPS corpus in an annuity which making the investment even more rigid & inflexible. Nonetheless, the investment has very less expense ratio & has a very low risk.

On the other side, other investment options such as ELSS have higher risks & returns with a lower lock-in term. Investment decision in an NPS functions as of an investor's risk return appetite, investment horizon, investment objective.

An individual, ordinarily resident or NRI, can have only one NPS account. No mindful can have more than one NPS account. NPS accounts are portable across jobs, sectors & locality. If one joins the NPS after the maturity of 60, then the NPS corpus can be withdrawn as maturity amount after a holding period of 3 yrs. Any withdrawal prior to time period will be deemed as a premature exit. Hence one would have to utilize 80% of the corpus to buy an annuity & the remaining sum 20% can be withdrawn after paying of tax.

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