National Pension System (NPS)

The National Pension System (NPS) is a defined contribution based pension system launched by Government of India with effect from 1 January 2004 for government employees. Subsequently, from May 2009 the scheme is extended to all Citizens between the age of 18 to 60 years. The Pension Fund Regulatory and Development Authority (PFRDA) is the prudential regulator for the NPS. It is a defined contribution scheme, in which contributions of subscribers are invested in various securities and the return on these investments and corpus is utilized for pension payment to subscribers. On attaining 60 years of age, the subscriber would be required to invest at least 40% of pension wealth to purchase a life annuity from IRDA regulated Life Insurer & remaining 60% will be repaid as a Lump sum by PFRDA. From the investment made to the Annuity manager, the subscriber would get pension every month during his life time. If subscriber does not exit the system at or before 70 years, account would be closed with the benefits transferred to subscriber in a Single-100% Lump sum. If a subscriber dies, the nominee has the option to receive the entire pension wealth as a Lump sum.

National Securities & Depository Ltd (NSDL) is the Central Record Keeping Agency (CRA) for PFRDA. As a CRA, NSDL is maintaining and processing the data for all NPS subscribers.

NPS is a product suited to all citizens because it enables them to save small amounts periodically so as to enjoy pension in their old age. NPS will provide a robust, cost-effective and highly technologically efficient platform to build a corpus for their old age income security whereby, in addition to monthly annuity, they can opt for a lump sum amount upon attaining the age of 60 years. National Pension System (NPS) is an easily accessible, low cost, tax-efficient, flexible and portable retirement savings account.

To enable income security to old-aged Indian living aboard, RBI has also allowed NRIs to subscribe to the NPS as an investment options for NRIs under FEMA, 1999. NRI's may also subscribe to the NPS, provided such subscriptions are made through normal banking channels and the person is eligible to invest as per the provisions of the PFRDA act.

Various Entities involved in NPS are:-

1) **Central Recordkeeping Agency (CRA)** – CRA is appointed by PFRDA and are entrusted with the record keeping of the data of individual subscribers. It also acts as an interface between the different intermediaries in the NPS. At present National Securities and Depository Limited (NSDL) is appointed as CRA for NPS.

2) **Points of Presence (PoP) and POP-Service Provider (PoP-SP)** - Appointed by PFRDA, they include mainly commercial Banks who act as the first point of interaction of the NPS subscriber under the NPS architecture. The authorized branches of a PoP, called Point of Presence Service Providers (POP-SPs), act as collection points and extend a range of customer's services to NPS subscribers.

3) **NPS Trustee & Trustee Bank** - The NPS trust (established by the PFRDA) is responsible for taking care of the funds under the NPS. The trust holds an account with a bank and this bank is designated as 'Trustee Bank'. The trustee Banks remits funds to the entities viz. Pension Funds (PFs), Annuity Service Providers (ASPs) and subscribers on receipt of instructions from CRA. At present Axis Bank is the Trustee Bank.

4) **Pension Funds** – Responsible for investing the Pension Fund contributed by the subscribers in various schemes. NPS subscriber has to select the Pension Fund during registration.

5) **Annuity Service Providers –** They are life insurance companies regulated by IRDA and empanelled with PFRDA for investing subscribers' retirement savings in Annuity scheme and delivering monthly pension to the subscribers.

6) **Custodian** - Stock Holding Corporation of India Limited has been appointed as a Custodian for providing custodial services to the NPS.

Salient features of the NPS schemes

The following are the most prominent features of NPS

1) Every Individual subscriber will be issued a Permanent Retirement Account Number (PRAN) card which has a 12 digit unique number.
2) Under NPS account, two sub-accounts namely Tier-I and Tier-II are provided. Tier-I account is a mandatory and the subscriber has option to opt for Tier-II account also. Following are the salient features of these two sub accounts
    - Tier-I account: This is a non-withdrawal retirement account which can be withdrawn only upon meeting the exit conditions prescribed under NPS.
    - Tier-II account: This is a voluntary savings facility available as an add-on to any Tier-1 account holder. Subscribers are free to withdraw their savings from this account whenever they wish. But any amount can be deposited in Tier-II, Subject to minimum of Rs. 2000/- p.a. only if minimum amount is deposited in Tier-I account.

3) NPS account is portable. The following are the portability features associated with NPS
    - NPS account can be operated from anywhere in the country irrespective of individual employment and location/geography.
    - Subscribers can shift from one sector to another like Private to Government or vice versa or Private to Corporate and vice versa. Also subscriber can shift within sector like from one POP (Point of Presence) to another POP and from one POP-SP (Point of Presence Service Provider) to another POP-SP. Likewise, an employee who leaves the employment to become a self-employed, can continue with his individual contributions. If he enters re-employment he may continue to contribute and his employer may also contribute and so on.
    - The subscriber can contribute to NPS from any of the POP despite not being registered with them and from anywhere in India.

4) Multiple NPS accounts for a single individual are not allowed and there is no necessity also as the NPS is fully portable across sectors and locations.

5) Any citizen of India, whether resident or non-resident between the age of 18-60 years, as on the date of submission of his/her application and complying with the extant KYC norms can open an NPS account.

6) At present operation in NPS for NRIs with Power of Attorney (POA) is not available.

7) NPS account for NRI can be opened through any authorized branch of the Bank, preferable where the subscriber has an NRI account. The subscriber can send the NPS application form to the Bank for opening of the NPS account.

8) Joint account is not allowed.

9) Subscriber can check the status of the PRAN application form using 17 digit receipt number provided by the branch at the time of submission of application form. Once the PRAN is generated, an email alert as well as SMS alert will be sent to the registered email ID and mobile number of the subscriber by CRA.

10) The subscriber should submit the application form along with
- Proof of Identity
- Proof of Address
- Copy of Passport For NRI Subscribers
- Proof of Address, if the local address is different from the address in passport for NRI subscribers

11) 3 Nomination is allowed in the scheme at the time of opening of account. However the subscriber should specify the percentage of share, which should not be decimals, to be allocated to each nominee. The share percentage across all nominee should collectively aggregate to 100%. The subscriber can also give the nomination details after allotment of PRAN to the branch in the specific format. There is no charge for making nomination at the time of opening of account. However and amount of Rs.20/- plus applicable service tax is applicable for making / updating nomination at the later stage.

12) Charges applicable under the scheme is as under:-

Intermediary	Charge Head	Service Charge	Method of Deduction
POP	Initial Subscriber Registration	Rs. 100/-	To be Collected Upfront
	Initial Contribution	0.25% Min: Rs. 20 & Max : Rs.25,000	
	All Subsequent Contribution		
	All Non-Financial Transaction	Rs. 20	
CRA	PRA Opening (One Time)	Rs. 50	Through NAV cancellation/ deduction
	PRA Maintenance (Per Annum)	Rs. 190	
	Per Transaction (Financial/Non-Financial)	Rs. 4	
Custodian	Asset Serving (Per Annum)	0.0075%	Through NAV cancellation/ deduction
PFM	Investment Management (Per Annum)	0.01%	

13) Minimum Contribution, Investment and Asset Classes.

For All citizens model	Tier I	Tier II
Minimum Contribution at the time of account opening	Rs. 500	Rs. 1000
Minimum amount per contribution	Rs. 500	Rs. 250
Minimum total contribution in the year	Rs. 6000	Rs. 2000
Minimum frequency of contributions	1 per year	1 per year

An active Tier I account will be a pre-requisite for activation of a Tier II account. In case of Composite Application for Tier I and Tier II both, Minimum contribution at the time of account opening is Rs.1500/-.

14) Funds contributed by the subscriber under the scheme are invested by Pension Fund Managers (PFMs) appointed by PFRDA. At present there are 8 PFMs
- ICICI Prudential Pension Funds Management Company Limited
- LIC Pension Fund Ltd.
- Kotak Mahindra Pension Fund Ltd.
- Reliance Capital Pension Fund Ltd.
- SBI Pension Fund Pension Fund Ltd.

- UTI Retirement Solution Ltd.
- HDFC Pension Management Company
- Pension fund to be incorporated by Birla Sun Life Insurance company Ltd.

15) Subscriber can select the PFMs of their choice. The investment is usually in Equity (E), Corporate Bond (C) and/or Government Securities (G). The individual subscriber has a choice of selecting investment mix (E,C,G) as per his/her risk appetite.

16) The investment by NRIs can be from either from NRE / NRO / Local sources.

17) NPS offers two approach to invest subscriber contribution
    - Active Choice – Here individual can decide on the asset classes in which the contribution funds are to be invested and their respective proportions
    - Auto Choice – Lifecycle Fund- Under this choice the investment of funds is done automatically based on the age profile of the subscribers.

18) The subscriber can change the scheme preference. The subscriber has an option to realign his investment in asset class E, C and G based on age and future income requirement. Also the subscriber has option to change the PFM and the investment option (Active/Auto choice) once a year, free of charge.

19) Subscriber can select different PFMs and Investment Choice for both Tier-I and Tier-II accounts.

20) For NRI Subscribers the pension/annuity to be paid under the scheme shall be in local currency only (i.e. INR). However there is no restriction on repatriation of pension, whether paid as annuity or in lump sum. Provision of Income Tax Act,1961 subject to amendments from time to time, would be applicable.

21) Individual contributing to NPS are eligible for tax deduction up to 10% of gross income earned from Indian sources under Sec 80 CCD (1) with in the overall ceiling of rs.1.50 lac under Sec 80 CCE of IT Act, 1961.

    From FY 2015-16, subscriber are allowed extra tax deduction in addition to the deduction allowed under Sec CCD(1) for additional contribution in his NPS account subject to maximum of Rs. 50,000/- under sec.80CCD 1(B) of IT Act, 1961.

22) Exit and Withdrawal rules are same for both Resident and NRIs. Exit is allowed under
    - Upon attaining the age of 60 years
    - Exist from NPS before the age of 60 Years
    - Upon Death of the subscriber.

23) 40 % of the pension wealth accumulated of the subscriber will be utilized for purchase of annuity providing for the monthly pension of the subscriber and the balance is paid as lump sum to the subscriber. In case the accumulated pension wealth is equal to or less than a sum of 2 Lakh rupees, the subscriber have the option to withdraw the entire accumulated pension wealth without purchasing any annuity.

24) Premature exit from the scheme is allowed only if the subscriber has been with NPS for at least 10 years. In such case, at least 80% of the accumulated pension wealth of the subscriber needs to be mandatorily utilized for purchase of an annuity providing for the monthly pension or the subscriber and the balance is paid as a lump sum payment to the subscriber.

25) In event of death of the subscriber the entire accumulated pension wealth of the subscriber shall be paid to the nominee or nominees or legal heirs, as the case may be, of such subscribers. Also the nominee or family members of the deceased subscriber shall have the option to purchase any of the annuities being offered upon exit, if they so desire.

26) The subscriber wishing to exit from NPS has to submit a withdrawal application form to the concerned POP along with the document specified for withdrawal of the benefits. The POP in turn would authenticate the documents and forward them to CRA. CRA in turn would register the claim of the subscriber. Once the documents are received, CRA in consultation with NPS trust will process the application and will settle the account.

27) Following Documents are required to be submitted along with withdrawal form
    - PRAN card in original
    - Attested copy of Proof of Identity (e.g. Passport, Aadhar card, PAN card, Valid driving License, Voter ID card etc.)
    - Attested copy of Proof of Address (e.g. Passport, Aadhar card, PAN card, Valid driving License, Voter ID card etc.)
    - Cancelled cheque (containing Subscriber Name, Bank Account Number and IFS code) or Bank Certificate Containing Name, Bank Account Number and IFS code, for direct credit or electronic transfer.

28) Subscriber can also defer the withdrawal of the eligible lump sum amount payable under NPS till the age of 70 years.

29) The subscriber can continue to NPS scheme beyond the age of 60 years, the age, not exceeding 70 years, until which the subscriber would like continue to his individual pension account.

30) The subscriber on attaining the age of 60 years can also purchase annuity up to 100% of his accumulated pension wealth.

31) The subscriber can also defer the purchase of his annuity at the time to exit on 60 years for a maximum period of 3 years.

32) If the subscriber PRAN is in frozen or inactive state at the time of withdrawal the CRA will unfreeze the account by charging the penalty applicable and will process the withdrawal claim without payment of any extra amounts by the subscribers.

33) Partial withdrawals of accumulated pension wealth under NPS is allowed, not exceeding 25% of the contribution made by the subscriber provided, that the subscriber shall have been in the NPS scheme at least for a period of 10 years from the date of his/her joining the scheme.

34) Partials withdrawals are allowed under NPS for
    - Purpose of higher education of subscriber children.
    - Marriage of subscriber Children
    - Purchase or contribution of residential house or flat
    - Treatment of specified illnesses

35) Withdrawal is allowed only a maximum of 3 times during the entire tenure of subscriptions and not less than a period of 5 years shall have elapsed from the last date of each of such withdrawal.