

NPS and its benefits



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Retirement and old age is something that we all need to prepare for. Some of us are in this phase now and some will be facing this later. But everybody has to pass through this phase. What is important is that we should be able to live this golden period of our lives with the same dignity as our working years. And to do this we all need to plan for our retirement in advance.

National pension scheme (NPS) was introduced by the Government of India on May 1, 2009, with the objective of encouraging people to voluntarily save for their retirement.

The whole idea is that you contribute regular amount towards NPS in your working years which will earn you some returns and at the end you can get pension at your retirement. It is a defined contribution plan.

The best advantage of NPS is that it lets you to invest into market-linked schemes which can earn higher return over the investment tenure. Any citizen of India can enrol for the NPS between 18 and 60 years of age. Under NPS, all the individual savings are pooled in to a pension fund which is again invested as per the government approved guidelines into diversified portfolios comprising the government bonds, shares, corporate debentures, etc.

NPS subscriber will be allotted a unique Permanent Retirement Account Number (PRAN) which will remain same for one's life and can be used from any location in India. PRAN provides access to two accounts for investment:

*TIER I account: One can withdraw only 20% from this account till 60 years of age and the rest 80% has to be utilised for purchase of annuity. And if the money is not withdrawn before 60 years of age, then at 60 one can withdraw 60% of the accumulated money and the rest 40% has to compulsorily deposited into annuity scheme.

*TIER II account: It is a voluntary savings facility. One can withdraw money from this account at any point of time and this account has no tax benefits attached to it. One has to have TIER I account to open TIER II account.

NPS has several point of presence service providers who act as collection points for the enrolment. Pension Fund Regulatory and Development Authority has authorised 58 institutions to serve as POP's which includes various public and private sector banks, private financial institutions and post offices.

There are many advantages of having NPS. Some of them are:

*Low cost structure: NPS is one of the cheapest pension plans in the world.

*Tax benefits: NPS comes under Exempt Exempt Tax (EET) category. It means that investment in NPS and the interest earned from it is tax exempted. But the pension withdrawal will be taxable in nature. TIER I NPS enjoys a rebate of Rs 1.5 lakh under Section 80(C) and in addition Rs 50,000 contribution towards NPS is tax-exempt. This is over and above the benefit of Rs 1.5 lakh.

*Investment choices: Under NPS, money gets invested as per subscriber's choice. NPS offers number of funds and investment options to choose from. If a subscriber does not want to exercise his own will, the money will be invested as per 'Auto Choice option' where money will get invested as per subscriber's age.

*Active choice: It comprises Individual Funds, Asset Class E – Investment in Equity Market Instruments, Asset Class C – Investment in Fixed Income Instruments other than Government Securities, Asset Class G – Investment in Government Securities
Subscriber can invest into any of the asset class or its mix as per his wish subject to maximum of 50% in Class E.

*Auto choice: Subscribers who don't have any knowledge regarding investments can choose this option. It is an Investment in Lifecycle Fund. There will be pre-defined portfolio as per the age of the subscriber, and the investment will be done as per that portfolio in one or the mix of the asset classes.

*Pension fund managers: You can choose to invest from any of the eight Pension Fund Managers as per their past performance. This takes out any scope of mis-selling. These eight pension fund managers are: HDFC Pension Management, ICICI Prudential Pension Fund Management, Kotak Mahindra Pension Fund, LIC Pension Fund, Reliance Capital Pension Fund, SBI Pension Funds, UTI Retirement Solutions, Birla Sun Life Pension Management.

NPS is a very good initiative by the government and is also very transparent and portable as it has no boundaries attached to it. You can manage it with the unique PRAN which will be allotted to you for your lifetime.

Also, you can invest in NPS as per your risk appetite since it has multiple schemes for you to choose your exposure towards any particular asset class. It could become one of the best pension schemes if the tax structure gets changed from EET to EEE (Exempt, Exempt, Exempt). Let us hope for this to happen!

(The writer is Managing Director at Sinhasi Consultants)

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