

NATIONAL PENSION SYSTEM (NPS)



NSDL e-Governance Infrastructure Limited Central Recordkeeping Agency

NPS, regulated by PFRDA, is an important milestone in the development of a sustainable and efficient defined contribution pension system in India. It has the following broad objectives:

- *To provide old age income*
- *Safe and reasonable market based returns over the long term*
- *Extending old age security coverage to all citizens*

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NPS for All Citizens of India

NPS offers following important features to help you save for retirement:

- You will be allotted a unique Permanent Retirement Account Number (PRAN). This being unique in nature, you will not be required to change the same or obtain a new one even if you shift your residence or job. Therefore, you will be able to use this account and this unique PRAN till you are associated with NPS.
- PRAN will provide access to two personal accounts:
 - Tier-I pension account: You will contribute your savings for retirement into this non withdrawable account.
 - Tier-II savings account: This is an ad-on account, which is simply a voluntary savings facility. You are free to withdraw your savings from this account whenever you wish.

Under NPS, how your money is invested will depend upon your own choice. NPS offers you a number of fund managers and multiple investment options. In case you do not want to exercise a choice, your money will be invested as per the “Auto Choice” option, where money will get invested in various type of schemes as per your age.

You can open an NPS account with authorized branches of service providers called 'Points of Presence' (POPs), appointed by PFRDA. You have the option to shift from one branch to another branch of a POP at your convenience.

The tax benefits under NPS will be as per the provisions of the Income Tax Act, 1961 as amended from time to time.

To get the most out of the NPS, you need to make several important decisions about your account. This booklet will help you get started.

Key Stakeholders of the National Pension System

- **Pension Fund Regulatory and Development Authority (PFRDA):** An autonomous body set up by the Government of India to develop and regulate the pension market in India.
- **Point of Presence (POP):** POPs are the first point for interaction of the NPS subscriber with the NPS architecture. The authorized branches of a POP, called Point of Presence Service Providers (POP-SPs), will act as collection points and extend a number of customer services to NPS subscribers.
- **Central Recordkeeping Agency (CRA):** The recordkeeping, administration and customer service functions for all subscribers of the NPS are being handled by NSDL e-Governance Infrastructure Limited, which is acting as the Central Recordkeeper for the NPS.

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- **Pension Funds (PFs)/Pension Fund Managers (PFMs):** The Pension Funds (PFs) appointed by PFRDA would manage the retirement savings under the NPS.
- **Trustee Bank:** The Trustee Bank appointed under NPS shall facilitate fund transfers across various entities of the NPS system viz. PFMs, ASPs, Subscribers, etc. Axis Bank has been appointed as the new Trustee Bank with effect from July 1, 2013.
- **Annuity Service Providers (ASPs):** ASPs would be responsible for delivering a regular monthly pension to you after your exit from the NPS.
- **NPS Trust:** The NPS trust has been set up and constituted for taking care of the assets and funds under the NPS in the interest of the beneficiaries (subscribers).

Getting Started

You can enroll in the NPS at any time if you are a citizen of India and at least 18 years of age; no entry is, however, allowed after 60 years of age. You should take advantage of compounding of your wealth by starting right away. The earlier you start, the greater will be opportunity for the growth of your pension wealth.

To enroll in the NPS, submit the Registration Form (UOS-S1) to the POP-SP of your choice. The form is available from POP-SPs or can be downloaded from NSDL website (www.npscra.nsdl.co.in) and PFRDA web site (www.pfrda.org.in). After your account is opened, CRA shall send you a “Welcome Kit” containing your Permanent Retirement Account Number (PRAN) and other details relating to your account. Your PRAN will be the primary means of identifying your account. You shall also separately receive a Telephone Password (TPIN) which you will need to access your account on the NPS toll free telephone number (1-800-222080). You will also be given an Internet Password (IPIN) for accessing your account on the CRA Website (www.cra-nsdl.com). In addition, CRA will send you free SMS as well as email after your account is opened and each time your contribution gets invested.

You are required to make your first contribution alongwith the application form for opening the account to any POP - SP. You are required to make contributions subject to the following conditions:

- Minimum amount per contribution - Rs 500
- Minimum contribution per year - Rs 6,000
- Minimum number of contributions - One per year

Over and above the mandated limit of a minimum of one contribution, you may decide on the frequency of the contributions across the year as per your convenience.

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Investing in the NPS

Power of Choice

The NPS offers you two approaches to invest in your account:

- Active choice - Individual Funds {Equity (E), Corporate bonds (C) and Government Securities (G) Asset classes}
- Auto choice - Lifecycle Fund

NPS also allows you to choose from any one of the PFMs appointed by PFRDA to manage your pension Fund. For list of PFMs, please refer to PFRDA website (<http://www.pfrda.org.in>)

Active choice - Individual Funds

You will have the option to actively decide as to how your NPS pension wealth is to be invested in the following three options:

E - "High return, High risk" – investments in predominantly equity market instruments

C - "Medium return, Medium risk" – investments in predominantly fixed income bearing instruments

G - "Low return, Low risk" – investments in purely fixed income instruments.

You can choose to invest your entire pension wealth in C or G asset classes and up to a maximum of 50% in equity (Asset class E). You can also distribute your pension wealth across E, C and G asset classes, subject to such conditions as may be prescribed by PFRDA.

In case you decide to actively exercise your choice about investment options, you shall be required to mandatorily indicate your choice of Pension Fund from among the Pension Funds appointed by PFRDA.

While exercising an Active Choice, remember that your investment allocation is one of the most important factors affecting the growth of your pension wealth. If you prefer this "hands-on" approach, keep the following points in mind:

- Consider both risk and return. The E Asset class has higher potential returns than the G asset class, but it also carries the risk of investment losses. Investing entirely in the G asset class may not give you high returns but is a safer option.
- You can reduce your overall risk by diversifying your account. The three individual asset classes offer a broad range of investment options, its good not to put "all your eggs in one basket."
- The amount of risk you can sustain depends upon your investment time horizon. The more time you have before you need to withdraw from your account, the more is the risk you can take. (This is because early losses can be offset by later gains.)

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- Periodically review your investment choices. Check the distribution of your account balance among the funds to make sure that the mix you chose is still appropriate for your situation. If not, rebalance your account to get the allocation you want.

Net Asset Value (NAV) will be released on a regular basis so that investors may be able to take informed decisions.

Auto choice - Lifecycle Fund

NPS offers an easy option for those participants who do not have the required knowledge to manage their NPS investments. In case you are unable/unwilling to exercise any choice, your funds will be invested in accordance with the Auto Choice option. You will, however, be required to indicate your choice of PFM. In case you do not do so, your form shall not be accepted by the POP-SP.

In this option, the investments will be made in a life-cycle fund. Here, the percentage of funds invested across three asset classes will be determined by a pre-defined portfolio. At the lowest age of entry (18 years), the auto choice will entail investment of 50% of pension wealth in "E" Class, 30% in "C" Class and 20% in "G" Class. These ratios of investment will remain fixed for all contributions until the participant reaches the age of 36. From age 36 onwards, the weight in "E" and "C" asset class will decrease annually and the weight in "G" class will increase annually till it reaches 10% in "E", 10% in "C" and 80% in "G" class at age 55.

Table for Lifecycle Fund

| Age | Asset Class E | Asset Class C | Asset Class G |
|--------------------|---------------|---------------|---------------|
| Up to 35 Years | 50% | 30% | 20% |
| 36 Years | 48% | 29% | 23% |
| 37 Years | 46% | 28% | 26% |
| 38 Years | 44% | 27% | 29% |
| 39 Years | 42% | 26% | 32% |
| 40 Years | 40% | 25% | 35% |
| 41 Years | 38% | 24% | 38% |
| 42 Years | 36% | 23% | 41% |
| 43 Years | 34% | 22% | 44% |
| 44 Years | 32% | 21% | 47% |
| 45 Years | 30% | 20% | 50% |
| 46 Years | 28% | 19% | 53% |
| 47 Years | 26% | 18% | 56% |
| 48 Years | 24% | 17% | 59% |
| 49 Years | 22% | 16% | 62% |
| 50 Years | 20% | 15% | 65% |
| 51 Years | 18% | 14% | 68% |
| 52 Years | 16% | 13% | 71% |
| 53 Years | 14% | 12% | 74% |
| 54 Years | 12% | 11% | 77% |
| 55 Years and above | 10% | 10% | 80% |

Neither the Activel Choice nor the Auto Choice provides assured returns.

You can switch from one option (PFMs & Investment approach) to another, but such change can be made only once in a financial year.

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Tier II Account:

Tier II account is a voluntary saving facility where in the withdrawal is as per subscriber's choice.

- **Key features of Tier-II account:**

1. No additional CRA charges for account opening and annual maintenance in respect of Tier II. A nominal charge will be taken separately for each transaction in Tier II.
2. Unlimited number of withdrawals, only criteria to maintain a minimum balance of Rs. 2000 at the end of Financial Year i.e., as on March 31st.
3. Separate choice of scheme preference, PFMs and nomination in Tier II.
4. You can deposit your contributions to any POP/POP-SP as in case of Tier I account.
5. You need to have an active Tier I account for opening Tier II account.
6. Bank account details along with cancelled cheque are mandatory for opening Tier II account.
7. Submission of PAN Card is mandatory for the opening and operation of a Tier II account. However, no additional KYC documents need to be submitted.

- **How to Open Tier II account:**

As NPS Subscriber, Tier II Activation can be done by submitting UOS-S10 application form to the Point of Presence Service Provider (POP-SP) along with the minimum contribution amount of Rs. 1000/- i.e., Tier II account to be opened with a minimum contribution of Rs. 1000/-

The subscribers of NPS - (All citizens of India) have to submit the form to the POP-SP with whom they have opened Tier I account. Other subscribers (Government/Autonomous Bodies) can submit to any of the POP-SP. The list of POP-SPs and their contact details are available in CRA website 'www.npscra.nsdl.co.in'.

A new subscriber who wants to join NPS shall open Tier I & II account simultaneously. He /she has to submit (UOS-S1) Composite Application Form (CAF).

You can download these forms from our website- (www.npscra.nsdl.co.in)

- **Contributing to Tier II account:**

You have to make a minimum contribution of Rs. 250/- and have to make minimum one contribution in a Financial Year. You can contribute to Tier II account till you have active Tier I account.

The list of the POP-SP is available on our website (www.npscra.nsdl.co.in) & the PFRDA Website (www.pfrda.org.in)

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PRAN Portability

One of the core attribute of National Pension System is portability of PRAN across sectors. A subscriber can shift from one sector to another sector with the same PRAN e.g. UOS to Corporate sector, Central Government to UOS etc. This is referred to as 'Inter Sector Shifting'. Subscriber, who intends to change his / her sector, needs to submit a duly filled ISS-1 form to target PoP-SP. The accumulated units will be redeemed and reinvested as per the scheme preference opted under the target sector. With the help of this feature, a subscriber can continue with the same PRAN irrespective of his geographical location and employment status till he/she exits from NPS.

Freezing of Account

As per the Offer Document issued by PFRDA, a Subscriber is required to contribute a minimum amount of Rs 6,000 in a financial year (FY) in Tier I account. For Tier II, the minimum account balance (value of holdings) at the end of the FY needs to be Rs 2,000. Moreover, a Subscriber is required to make at least one contribution transaction in a FY in both Tiers I and Tier II account. The PRANs not meeting these minimum contribution criteria are required to be frozen. The yearly account freezing process will start on the last working day of the FY. This process will consider only active PRANs registered on or before the previous FY end. For example, for account freezing process of FY 2011-2012, the PRAN generated on or before March 31, 2011 and not meeting the above mentioned contribution criterion during FY 2011-12, were frozen. To unfreeze an account, Subscriber needs to submit duly filled physical request (Annexure-UOSS10A) to the associated POP-SP along with the minimum amount required (including penalty) to unfreeze the account. The information on minimum amount can be obtained from the associated POP-SP only.

Getting Your Money Out

| Vesting Criteria | Benefit |
|---|--|
| a) Upon attainment of the age of 60 years | At least 40% of the accumulated pension wealth of the subscriber needs to be utilized for purchase of annuity providing for monthly pension to the subscriber and balance is paid as lump sum payment to the subscriber. However, the subscriber has the option to defer the lump sum withdrawal till the age of 70 years. |
| b) At any time before attaining the age of 60 years | At least 80% of the accumulated pension wealth of the subscriber needs to be utilized for purchase of annuity providing for monthly pension to the subscriber and the balance is paid as a lump sum payment to the subscriber. |
| b) Death of the subscriber. | The entire accumulated pension wealth (100%) would be paid to the nominee/legal heir of the subscriber and there would not be any purchase of annuity/monthly pension. |

*Detailed guidelines on exit from NPS are available on PFRDA/CRA website.

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Avail Benefits At A Low Cost

NPS offers Indian citizens a low cost option for planning their retirement. Following are the charges under NPS:

| Intermediary | Charge Head | Service Charges* | Method of Deduction |
|--|--|--|-----------------------------|
| CRA | PRA Opening Charges | Rs. 50 | Through redemption of units |
| | Annual PRA Maintenance cost per account | Rs. 190 ¹ | |
| | Charge per transaction | Rs. 4 ¹ | |
| POP (Maximum Permissible Charge for each subscriber) | Initial subscriber registration and contribution upload | Rs. 100 plus 0.25% of contribution subject to Min 20 & Max. Rs 25000 | To be collected upfront |
| | Any subsequent transactions ² | For contribution- 0.25 % of contribution subject to min Rs 20 & Max.25000/- Any other transaction-Rs20/- | |
| PFM charges (Maximum Permissible Charge) | Investment Management Fee ³ | upto 0.25% p.a. | Through NAV deduction |
| Trustee Bank | Per transaction emanating from a RBI location | Zero | Through NAV deduction |
| | Per transaction emanating from a non-RBI location ⁴ | Zero | |
| Custodian ⁵ (On asset value in custody) | Asset Servicing charges | 0.0075% p.a. for Electronic segment & 0.05% p.a. for Physical segment | Through NAV deduction |

*Service tax and other levies, as applicable, will be levied as per the existing tax laws.

¹When NPS was operationalised in 2008, the Annual Maintenance Charges (AMC) and Transaction Charges were Rs. 350 per annum and Rs. 10 per transaction respectively. CRA has now reduced the AMC to Rs. 190 per annum and Transaction Charges to Rs.4 per

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transaction for all sectors under NPS Regular with effect from July 1, 2013.

In the last five years, CRA has reduced the charges thrice wherein AMC has been reduced by more than 45% and Transaction Charges by 60 %.

²These include

- o Regular subscriber's contribution.
- o Change in subscriber details.
- o Change of investment scheme/fund manager
- o Processing of withdrawal request
- o Processing of request for subscriber shifting
- o Issuance of printed Account statement,
- o Any other subscriber services as may be prescribed by PFRDA

³The Investment Management Fee is inclusive of all transaction related charges such as brokerage, transaction cost etc. except custodian charges. The Investment Management Fee is calculated on the average monthly assets managed by the pension fund subject to the upper ceiling of 0.25% pa.

⁴Unlike all other charges, Trustee Bank charges are not charged to subscriber directly. Transaction refers to the entire chain of activities starting from receipt of electronic instructions/ receipt of physical instrument to transfer of funds to the designated PFMs. On the outflow side, it would include all activities leading to credit of beneficiary account.

⁵Charges for Demat/Remat, Receipt of shares & SEBI charges are extra.

Grievance Redressal

NPS has a multi layered Grievance Redressal Mechanism which is easily accessible, simple, quick, fair, responsive and effective.

You have the option of registering grievance/complaint through the following alternatives:

- ***Call Centre/Interactive Voice Response System (IVR)***

You can contact the CRA call centre at toll free telephone number **1-800-222080** and register the grievance. You will have to authenticate yourself through the use of T-pin allotted to you at the time of opening a Permanent Retirement Account under the NPS. On successful registration of your grievance, a token number will be allotted by the Customer Care representative for any future reference.

- ***Web based interface***

You can register the grievance at the website (www.npscra.nsdl.co.in) with the use of the I-pin allotted to you at the time of opening a Permanent Retirement Account. On successful registration, a token number will be displayed on the screen for future reference.

- ***Physical forms***

You can submit the grievance in a prescribed format to the POP – SP who would forward it to CRA Central Grievance Management System (CGMS). You will have to mention your

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PRAN as the means of authentication. Upon submission of form with the POP-SP, you will get an acknowledgement receipt. The token number would be emailed to you (if the email id is mentioned), otherwise the same will be emailed to the concerned POP-SP. You can get the token number from the POP-SP upon presentation of the acknowledgement receipt.

How to check the status of the Grievance?

You can check the status of the grievance at the CRA website (www.npscra.nsdl.co.in) or through the Call Centre by mentioning the token number. You can also raise a reminder through any one of the modes mentioned above by specifying the original token number issued.

If you do not receive any response within 30 days or are not satisfied with the resolution by CRA, you can apply to the Grievance Redressal Cell (GRC) of PFRDA.

Grievances received by the GRC directly from the subscribers only shall be entertained. GRC shall not entertain any complaints written on behalf of the subscribers by advocates, agents or third parties unless formally authorized by the subscriber.

NPS for Corporate Sector

NPS Corporate Sector Model is the customized version of core NPS to suit various organizations and their employees to adopt NPS as an organized entity within purview of their employer–employee relationship. This would facilitate corporate entities and other registered bodies to move their existing and prospective employees to NPS architecture. This is an additional avenue for retirement planning being made available to organized sector and does not dilute their responsibilities under other statutory provisions like Provident Fund etc. Corporate sector has been formally launched from December 2011. Corporate may join NPS through any one of the existing POPs.

Eligibility for corporate to Join NPS

- Entities registered under Companies Act,
- Entities registered under various Co-operative Acts,
- Central Public Sector Enterprises
- State Public Sector Enterprises
- Registered Partnership firm
- Registered Limited Liability Partnership (LLPs)
- Anybody incorporated under any act of Parliament or State legislature or by order of Central / State Government
- Proprietorship Concern
- Trust/Society

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Features under Corporate Sector

The features applicable under All Citizens of India are available under corporate sector. In addition to these features, a corporate / subscribers under corporate sector can opt for the following :

Co-contribution

NPS provides platform for corporate to co-contribute for its subscribers or facilitate them to contribute for their pension. There are three variations of contributions from employer and employee:

- Equal contributions by employer and employee
- Unequal contribution by the employer and the employee
- Contribution from either the employer or the employee

A Corporate subscriber can also voluntarily contribute in their Tier I through their associated POP. However, contribution in Tier II account can be done through any POP.

Scheme setup option

In NPS, a Corporate would have flexibility to decide investment choice either at subscriber level or at the corporate level centrally for all its underlying subscribers. At the subscriber level, the subscribers are empowered to select investment option as per their choice.

Tier II

A corporate subscriber can open both Tier I and Tier II account simultaneously at the time of initial registration or can activate Tier II account subsequently through the associated POP. The investment option for the Tier-II account needs to be exercised by the subscriber, which can be different from Tier-I account.

TAX Benefits

Tax Benefit to Corporate

A Corporate can claim tax benefits for the amount contributed towards pension of employees. From 1st Apr, 2012 upto 10% of the salary (basic and dearness allowance) of employer's contribution can be deducted as 'Business Expense' from their Profit & Loss Account.

Tax benefit to Subscriber

Employee as well as employer's contribution to the account of employee is eligible for tax exemption as per the Income Tax Act, 1961 as amended from time to time. As per finance bill 2011-12, the employee contribution to NPS upto 10% of basic plus DA is allowable deduction under section 80 CCD(1) within overall limit of Rs. 1 lakh. The employer's contribution to NPS upto 10% of basic plus DA is allowed deduction under section 80 CCD(2) and excluded from the limit of Rs.1 lakh. (<http://indiabudget.nic.in>)

Steps to operationalise NPS - Corporate

- Selection of a POP
- Registration of the corporate through the selected POP
- Registration of subscribers through the selected POP
- Commence contribution in Tier I account



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