National Pension System (NPS)

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AMFI-Registered Mutual Fund Distributor

What is NPS

- It is a defined contribution pension system aimed at providing retirement benefits to the citizens of India.

- Regulated by the Pension Fund Regulatory and Development Authority, it is a market linked voluntary contribution scheme.

- Investments are managed by professional fund managers.

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Eligibility

Any Individual citizen being both resident and non-resident between the age of **18-70** can open an NPS account.

Types of Accounts

A subscriber to NPS can have access to two types of accounts :-

TIER I

Opening a Tier I account is mandatory. It comes with some limitations regarding withdrawals and exit.

TIER II

This is an optional savings account which offers greater flexibility. However, a Tier II account provides no special tax benefits.

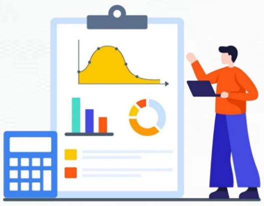
Investment Asset Classes

The funds contributed to NPS are invested in a definite proportion among the following asset classes-

Equity(E)
Invests predominantly in equity market instruments

Corporate Debt(C)
Invests predominantly in fixed income instruments.

Government Securities(G)
Invests only in Government Securities



Alternate Investment Funds(A)
Invests in alternate asset classes like REITs, AIF etc.

Investment Options

Active Choice:

Here, the subscriber can design his/her own portfolio depending on their risk appetite. The investor can choose any proportion to invest in the four categories of asset classes (E,C,G,A) as mentioned before subject to limits:

- Maximum of up to **75% in Equity** and **5% in AIF**
- The maximum limit in Equity will decrease by **2.5% every year** after age 50 **till it reaches 50%.**

Auto Choice:

- NPS provides an option where they will design your portfolio if you don’t want to take the active route.
- Under Auto-choice, the amount is invested in the c asset classes - E, C and G in defined proportions based on your age. Exposure to less risky options increases with the individual’s age.
- Depending upon the risk appetite of subscriber, there are three different options available within

Investment Options

Auto Choice

	Moderate Life Cycle Fund			Aggressive Life Cycle Fund			Conservative Life Cycle Fund		
	Asset class in (%)			Asset class in (%)			Asset class in (%)		
Age	E	C	G	E	C	G	E	C	G
Up to 35 years	50	30	20	75	10	15	25	45	30
40 years	40	25	35	55	15	30	20	35	45
45 years	30	20	50	35	20	45	15	25	60
50 years	20	15	65	20	20	60	10	15	75
55 years	10	10	80	15	10	75	5	5	90

Types of Accounts

Type of Contribution	Tax Benefit
Contribution by Employee	Investment up to **10% of Salary** (Basic + DA) is deductible from taxable income u/s 80CCD (1) subject to **1.5 lakhs limit of section 80C.**
	Investment up to Rs.50,000 is deductible from taxable income u/s 80CCD (1B), over and **above the 1.5 lakhs limit**.
Contribution by Employer	Investment up to **10% of Salary** (Basic + Dearness Allowance) to the extent of **7.5 lakh is deductible from taxable income u/s 80CCD (2).**
	The above contribution by the employer/corporate can be deducted as Business Expense from their P/L statement from the point of view of the employer.

Tax Benefits

NPS provides other tax benefits as well during the time of maturity or withdrawals-

- **Tax benefits on partial withdrawal**: Subscriber can partially withdraw from NPS tier I account **before the age of 60** for specified purposes, out of which an amount withdrawn up to **25 per cent** of Subscriber contribution is exempt from tax.

- **Tax benefit on Annuity purchase**: Amount invested in purchase of Annuity, is fully exempt from tax. However, annuity income that you receive in the subsequent years will be subject to income tax.

- **Tax benefit on lump sum withdrawal**: After Subscriber attain the age of 60, up to **60 percent** of the total corpus withdrawn in lump sum is exempt from tax.

Maturity

Following options are available to NPS Subscribers:

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Continuation of NPS account

Subscriber can continue to contribute to NPS account **beyond the age of 60 years**/superannuation (Up to 75 years). At age 75, they must choose to receive annuity on **at least 40% of the corpus.**

Deferment

Subscriber can defer Withdrawal and stay invested in NPS **up to 75 years of age**. Subscriber can defer only lump sum Withdrawal, defer only Annuity or defer both lump sum as well as Annuity.

.Start pension

If Subscriber does not wish to continue/defer NPS account, he/she can exit from NPS. He/she can initiate exit request online and asper NPS exit guidelines start receiving pension

Exit from NPS

A Subscriber can exit from NPS-

- **Upon Superannuation -** When a subscriber reaches the age of Superannuation/attaining 60 years of age, he or she will have to use **at least 40% of accumulated pension** corpus to purchase an annuity that would provide a regular monthly pension. The remaining funds can be withdrawn as lump sum.
  If the total accumulated pension corpus is less than or equal to Rs.5 lakh, Subscriber can opt for 100% lumpsum withdrawal.

- **Pre-mature Exit -** In case of pre-mature exit from NPS, at least 80% of the accumulated pension corpus of the Subscriber has to be utilized for purchase of an Annuity that would provide a regular monthly pension. The remaining funds can be withdrawn as lump sum. However, you can exit from NPS only after completion of 10 years.
  If the total corpus is less than or equal to Rs.2.5 lakh, Subscriber can opt for 100% lumpsum withdrawal.

- **Upon Death of Subscriber -** The entire accumulated pension corpus (100%) would be paid to the nominee/legal heir of the subscriber.

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Pre-mature Withdrawal

A Subscriber with the NPS can make premature withdrawals under the following conditions:

- Subscriber should be in NPS **at least for 3 years**.
- Withdrawal amount **will not exceed 25%** of the contributions made by the Subscriber.
- Withdrawal can happen maximum of three times during the entire tenure of subscription.
- Withdrawal is allowed only against the specified reasons-
- Higher education of children
- Marriage of children
- For the purchase/construction of residential house (in specified conditions)
- For treatment of Critical illnesses

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Thank You