STRUCTURE AND MANAGEMENT OF THE NATIONAL PENSION SCHEME IN INDIA

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Abstract

National Pension Scheme (NPS) is a defined contribution-based pension system established by the government in the year 2004. All the rules and regulations of NPS are from Pension Fund Regulatory and Developments Authority (PFRDA). The government of India established New Pension Scheme by abolishing the old pension scheme. This is to maintain a completely pensioned society and to eliminate old-age financial problems. This paper undertakes to reveal the conceptual framework of NPS, the procedures involved in NPS, and the different fund managers involved in NPS. This paper describes the conceptual framework of NPS along with its mechanism and procedures for fund management based on secondary data.

Key words:- NPS, Portfolio, Fund Managers, PFRDA.

National Pension Scheme is a voluntarily defined Contribution pension system administered and regulated by the Pension Fund Regulatory and Development Authority(PFRDA) created by the act of the Parliament of India. It is a contribution-based market-linked pension scheme. It started with the decision of the Government of India to stop the defined benefit pension for all its employees who joined after 1st January 2004. The first time, it was designed for government employees only. Since 2009

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it was opened to all citizens of India including the unorganized sector workers voluntarily. NPS is an easily available, low-cost, tax-efficient, Flexible, and portable retirement savings account. Under NPS the individual contributes to his retirement account and also his employer can co-contribute to the social security of the individual. It aims to introduce pension reforms and to inculcate the habit of saving for retirement among the citizens.

Objectives of the Study

- To understand the concept of the National Pension Scheme in India.
- To examine the procedure involved in National Pension Scheme.
- To identify the various fund managers involved in National Pension Scheme.

Research Methodology

The study is mainly based on secondary data extracted from the official website of the National Pension Scheme, NPS Trust, PFRDA, etc. The other sources are research reports, articles published in journals and newspapers, and working papers of different official authorities.

Review of Literature

Deepak (2022) in his working paper " Perspectives on the pension scheme in India:" points out that NPS and APYare the flexible means of old age income security not only for permanent employees but also for the general public. Future expansion of NPS is expected to come from the private sector both from the salaried and self-employed. The paper concluded that to maintain financial stability, the pension industry must develop a better regulatory framework to ensure that pension funds are managed properly. Financial literacy must provide to people to gain the benefit from the financial sector and encourage young people to join the Pension scheme that would help the government to create a pensioned society.

Patgiri & Gogi(2021)studied the investment behavior of NPS subscribers under all citizen models has found that the overall vision of the scheme is good in the eyes of subscribers and they have good knowledge about the features of NPS. However, the subscribers have a volatile mode of contribution whose sole purpose is tax planning, not retirement planning. The subscribers are satisfied with the customer service. The study found that the youth were not attracted to subscribe to the scheme. So the study suggested that more attempts are essential to include the youth in this scheme.

Poongothai et al.,(2020) have studied the subscriber's interest on investment in NPS.The study found that the majority of subscribers are interested in NPS because of the tax benefits, and other advantages like the choice of scheme, market-linked, risk diversification, and mainly it is regulated by PFRDA with transparent investment norms and regular monitoring. But a majority of the subscribers choose investment in NPS for mandatory purposes. It is concluded that based on the return on investment, the contribution made by the investors would grow and accumulate.

Hooda & Singh Chhikara (2018) studied the working and performance of NPS in India. They analyzed mainly five sectors during the study period, i.e., Central Government, State govt., the corporate sector, unorganized sector, NPS Swavalmban scheme. They found that out of the five sectors, the maximum number of subscribers is included in NPS swavalamban scheme. They also found that all the schemes performed very well during its initial stage but it showed a slight decreasing trend between 2016 and 2017.

Nwanne (2015) studied the impact of the contributory pension scheme on the economic growth in Nigeria for the period from 2004 to 2012. The study found that the Pension fund hurts economic growth. But pension savings have an attractive influence on economic growth. The study suggested that to widen the investment channels of pension funds and increasing the efforts to mobilize the contribution to save according to regulation.

Rao & Sairam (2013) studied the problems associated with social security. They found out that NPS was formulated by the government as a measure to address social security. They revealed the factors that induce the investors to invest in NPS and also analyzed that the problems of social security can be solved with the introduction of NPS. They recommended that awareness programs relating to NPS have to be undertaken to develop the publicity of NPS.

Imam (2011) studied the pension fund management regulatory issues relating to NPS.The study points out that the government plays a very important role in investment performance in terms of risk and return. The pension funds in India are correctly invested to take advantage of its benefits. The study concluded that investment in the pension fund is highly biased in favour of government securities. However, with the implementation of NPS, the pension exposure to corporate bonds has been rising. The regulatory approach relating to pension fund managers is like a closed approach and allows them to function with freedom.

Evolution of NPS

A pension is a fixed retirement fund that is paid out regularly as a regular income by the employee for several years after retirement. A pension is a fund into which a sum of money is added by the employer, the employee, or both. A pension is a tool for financial savings and a means of old-age income security (Deepak, 2022). The projected population in India is 138 cr. But the labour force was around 56.3 cr out of which 53.5 cr were in employment (economic survey 2021-22). But the employment in formal sector employees has some form of access to social security. Pension is one of the social security measures adopted by the Government or other types of employers for their employees.The pension has been defined as a periodic income or annuity payment made at or after retirement to an employee who has become eligible for benefits through age, earnings, and service (Oxford Advanced Learners Dictionary). Pension is an amount of money paid regularly by the government or a private company to a person who does not work anymore because they are too old or have become

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ill (Cambridge Dictionary). The privilege of receiving a pension appears to be the biggest expression of the employee's victory in his battle with his employer after several years of productive services. (Ezugwu , Alex Abiemi, 2014).

Before 2004, India has a pension scheme known as Pay As You Go (PAYG), or defined benefit pension system that ensures lifelong benefits to the retired. But there are so many concerns relating to OPS such as unfunded pension liability, unsustainability, etc. Two health facilities such as life expectancy and augmented longevity enlarged and this will lead to increased pension liability to the government. The pension liability of the government reached unmanageable levels, to overcome the issues relating to OPS, the Government of India introduced National Pension Scheme in 2004.

The alleviations relating to the old pension scheme can be solved by the introduction of the National Pension Scheme, for that the government of India commissioned a national project known as OASIS (Old Age Social Income Security) in 1998. A High-Level Expert Group (HLEG) and the OASIS project commissioned by the Government were the two early mileposts for the government employees and the unorganized sector respectively. (Imam, 2011) These efforts help in the formation of the Pension Fund Regulatory and Development Authority in 2003. The OASIS project examines the policies and rules relating to old age income security in India. The Committee submits the report in January 2000. Based on the recommendations of the committee, the government of India established a new pension system for all appointments in central or State service except for the army, Navy, and Air force replacing the old pension scheme.

Based on the OASIS report and the budget in 2003 an important step was taken to abolish OPS and all the workers join the New Pension Scheme. The Government of India discontinued the old pension scheme and New Pension Scheme was established in December 2003 and came into effect on 1st January 2004. In 2009 NPS was opened to all citizens irrespective of their employment status. But for the unorganized informal sectors, there was no structured pension till the introduction of the Atal Pension Yojana (APY). Many other institutions such as defence, railway, and coal mines have their separate pension schemes. The private corporate sector selects PF as their pension under EPFO (Goswami, 2002). The NPS was introduced to free the Government from pension liabilities.

Features of NPS

The following are the features of NPS:

- A portion of NPS goes into equities.
- The return offered by NPS is much higher than that of traditional tax-saving investment instruments.
- NPS offered around 9 to 12 per cent return.
- Under the NPS account, two subaccounts- Tier 1 and Tier II are provided. Tier I account is mandatory and the subscriber has the option to opt for Tier II account opening and operation.

- If the individual is not satisfied with the performance of the fund then they have the right to change the fund manager.
- Up to the maximum deduction of 1.5 lakhs can be claimed in NPS under section 80C of the income tax Act.
- Withdrawal of the entire corpus of NPS is restricted after retirement.

NPS is administered through a well-structured architecture that involves different intermediaries appointed by Pension Fund Regulatory and Development Authority (PFRDA). NPS is completely regulated by PFRDA.The intermediaries of PFRDA include NPS Trust, Pension Funds, Custodians, Trustee Banks, Annuity Service Providers, Central Record Keeping Agency(CRA) ,etc.

Types of NPS Accounts

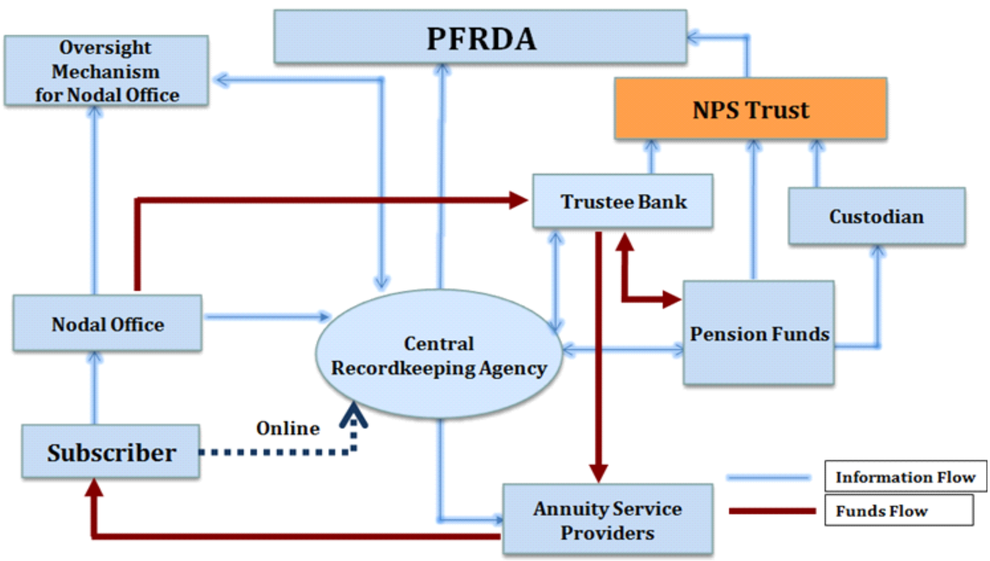
NPS is a pension cum investment scheme launched by the government of India to provide old age security to the citizen of India It is an attractive long-term savings avenue to effectively plan retirement through safe and regulated market-based returns. The scheme is regulated by the PFRDA; Nation Pension System Trust established by PFRDA is the registered owner of all assets under NPS. The different types of NPS accounts are the following:

NPS Tier I Account

This is the non-withdrawable retirement account which can be withdrawn only upon meeting the exit conditions prescribed under NPS.Tier I NPS account is primarily meant for retirement savings where the employer has

Figure 1

NPS Architecture



Source: npstrust.org.in

to make a minimum contribution of Rs 500 while opening the account but the withdrawal from the account is subject to specific restrictions.

NPS Tier II accounts

It is a voluntary savings option from which a person can withdraw money at any time. A Tier II account is an add-on account to a Tier 1 account.

Investment Options

Active Choice

In this type of investment choice, the subscriber has the right to actively decide how their contribution is to be invested based on personal preference. The subscriber has to provide the pension Fund Managers, Asset classes as well as the percentage contribution done in each scheme of Pension Fund Managers. There are four assets classes involved in Active choice;

a. Equity and related instruments (Asset class E)

b. Corporate debts and related instruments (Asset class C)

c. Govt, bonds, and related instruments. (Asset class G)

d. Alternative Investment Funds (Asset class A)

Auto Choice

It is available as a default option for the subscriber as per the system. Fund investments under this option are managed automatically by an appointed authority as per the investors' age profile

Procedure for Investing NPS

Who can join NPS

- Any citizen of India, whether resident or non-resident can join NPS.
- The individual who is aged between 18-60 has eligible to join NPS
- The citizen can join NPS either as an individual or as an employee-employer subject to the submission of all required information and Know Your Customer documentation.
- After the completion of 60 years, the subscriber will not be permitted to make further contributions to the NPS account.

Pension Fund Managers under NPS

The funds contributed by the subscribers are invested by registered Pension Fund Managers (PFM's) as per the investment guideline provided by PFRDA. The investment guidelines are framed in such a manner that there is minimal impact on the subscribers' contribution even if there is a market down by a judicious mix of investment instruments like Government securities, corporate bonds, and equities. At present, seven pension fund managers manage the subscribers' funds at the option of the subscribers. The PFM's are;

1. The pension Fund for the government sector consists of the following.

a. SBI Pension Fund

b. LIC Pension Fund

c. UTI Retirement Solutions Pension Fund

2. Pension fund other than Government Sector consists of the following

a. Kotak Mahindra Pension Fund

b. ICICI Prudential Pension Fund

c. HDFC Pension Fund

d. Birla Sun Life Pension Fund Management Ltd.

Conclusion

A pension is a financial and social security system for retirement without any regular source of income. The government has the task of inclusive progression and continuous development of every individual in the country. For increasing the investment portfolio, the government has introduced different investment avenues. NPS is one of the important investment schemes introduced by the government of India in 2004. It is found that at the initial stage, it is only meant for government employees only and later extends to all citizens of India. NPS is a contribution-based pension scheme, the employer and the employee together contribute to the investment. Any citizen of India whether resident or non-resident, who belongs to the age group of 18-60 can join NPS. At the time of retirement or after the completion of 60 years, the subscriber can stop the remittance and they can get back the 60 per cent of the corpus, and the balance 40 per cent is invested in an annuity plan to receive the pension.

The governing body of NPS is vested in the hands of the Pension Fund Regulatory and Development Authority and it includes different intermediaries to administer the scheme. There are eight Pension Fund Managers to manage the investment of subscribers out of which three PFMs viz SBI Pension Fund, LIC Pension Fund, UTI Retirement Solutions Pension Fund manages the investment of government employees and the rest manages others. The NPS is a good option for people who want to save for their retirement and want to have control over their investments. The scheme is also tax efficient and claims tax deductions to the contribution in the NPS.NPS is a voluntary investment scheme, which offers a range of investment options and is a good way to save for retirement.

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