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A Study on Comparison of National Pension Scheme 2004 with Other Retirement Pension Plans and Subscriber Views about NPS in Some Selected Enterprises with special reference to Kota district

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Abstract

Government has introduced a new pension scheme called National Pension Scheme w.e.f 01.01.2004. All such employees who are recruited after 2004 into central or state government services will be under this scheme. With respect to Rajasthan, state government has also implemented NPS 2004 for its employees who are recruited after 01.01.2004 by issuing a memorandum on 28.01.2004 and abolished Rajasthan Civil Services Pension rules, 1996. This article explores the implementation and adoption of NPS 2004 by some selected enterprises of Rajasthan especially in and around the Kota city. The researcher has tried to find out how effectively NPS is introduced into these organisations. Employees and Employers reaction towards its rules and policies. Its adoption is beneficial for both or not. Governments mandate decisions are successful or a complete failure. The study also compares the NPS with other pension schemes available in the market. The researcher used exploratory research method and made a survey by interviewing employees and employers regarding NPS into there organisation. The researcher has found that there is a mixed reaction by employees on NPS 2004. But overall employees are satisfied with returns of NPS and its objectives.

Keywords: National Pension Scheme, Rajasthan Government, PFRDA, Employees, Retirement

Introduction

New Pension Scheme have been made in applicable on Government servants appointed in civil services of the state on or after 1.1.2004. The new pension system is based on defined contributions. The system is mandatory for new recruits to the Central Government service (except the armed forces). Government of Rajasthan introduced NPS for State Government employees/ Panchayat Samities/ Zila Parishad/ State autonomous bodies appointed on or after 1.1.2004.

The monthly contribution is 10 percent of the Pay and DA to be paid by the employee and matching contribution by the state Government. The contributions and returns there on would be deposited in a non - withdrawable pension account. The SIPF Department is maintaining the scheme as interim arrangement till transfer of data to PFRDA.

Individuals can normally exit at or after age 60 years from the pension system. At exit, the individual would be required to invest at least 40 percent of pension wealth to purchase an annuity. In case of Government employees, the annuity should provide for pension for the lifetime of the employee and his dependent parents and his spouse at the time of retirement. The individual would receive a lump-sum of the remaining pension wealth, which the subscriber would be free to utilize in any manner. Individuals would have the flexibility to leave the pension system prior to age 60. However, in this case, the mandatory annuitisation would be 80% of the pension wealth.

State Insurance & Provident Department is the State Nodal Agency for execution of New Pension Scheme in Rajasthan. The Department has been maintaining records for the above scheme.

After notification by Government of Rajasthan on 27.12.2010 regarding adoption of NPS Architecture (PFRDA) in to, agreements have been signed by Director SIPF with National Securities Depository Ltd. (NSDL as central record keeping agency) and NPS Trust. Unique & Portable Permanent Retirement Account Number (PRAN) will be issued to all Rajasthan Government servants on whom above scheme is applicable. Pension system is envisaged to be based on two types of sub-accounts created for individual subscribers:

- Tier-I non-withdrawable pension account, and
- Tier-II withdrawable savings account.

(Note: Currently only Tier-I non-withdrawable pension account has been started by PFRDA. Except for All India Service officers)

NSDL (CRA) will serve for record keeping; reconciliation; netting and funds transfer; interconnectivity and access to PFRDA, pension fund managers (PFMs) to choose from which will offer different categories of schemes. At present choice of PFMs has not been provided.

The participating entities (PFMs, CRA etc.) would give out easily understood information about past performance & regular NAVs, so that the individual would able to make informed choices about which scheme to choose.

The Government of India in exercise of their executive powers adopted `National Pension System' (NPS) based on defined contributions in respect of all new entrants to Central Government services, excepting the Armed Forces, with effect from 1st January 2004. Most of the State Governments have since notified a similar pension system for their new entrants. PFRDA has also made NPS available to all citizens of India, with effect from 1st May 2009 on a voluntary basis. In pursuance to PFRDA's commitment to make available an avenue for saving for old age to all sections of society, PFRDA has now launched a separate model to provide NPS to the employees of corporate entities, including PSUs since December 2011. This model is titled "NPS - Corporate Sector Model".

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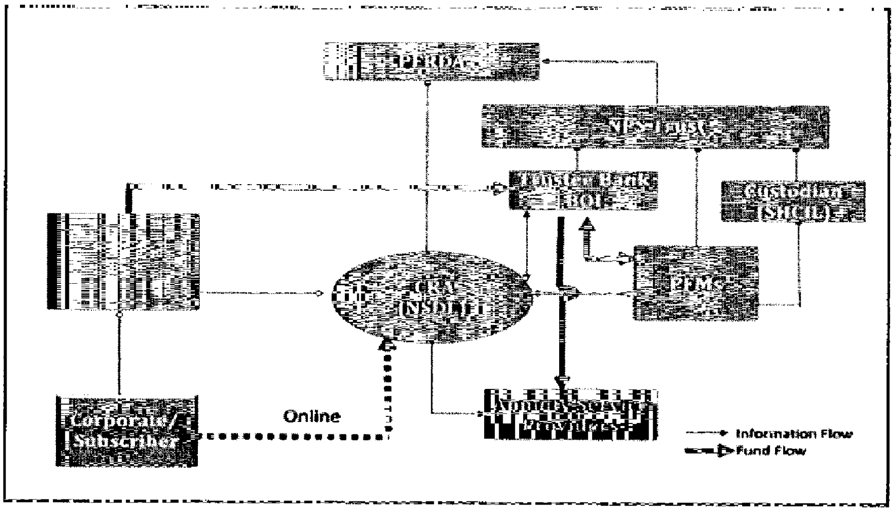
A pictorial depiction of the NPS architecture under corporate sector model is outlined below:



PFRDA is the regulator for the NPS. PFRDA is responsible for appointment of various intermediaries in the system such as Central Record Keeping Agency (CRA), Pension Funds, Custodians, NPS Trustee Bank, etc. PFRDA monitors the performance of the various intermediaries. PFRDA provides regulatory guidance to the PFMs for investment of funds received under NPS. It shall also ensure that all stakeholders comply with the guidelines/regulations issued by PFRDA from time to time.

Objectives of the Research

Keeping all research points in mind the study undertaken was aimed to accomplish the following objectives:

- To portrait the implementation of NPS in Government Organizations.
- To evaluate the difference in performance of Tier I & Tier II Scheme of National Pension Scheme 2004.
- To examine the functioning of NPS across sample organizations.
- To examine the pros and cons of NPS.
- To analyze the progress of NPS in Central as well as State government organization.
- To examine the profile of the sample organizations.
- To examine the behavior of the sample respondents towards NPS.
- To compare the performance of National Pension Scheme 2004 with other professionally managed retirement plans.
- To analyze the differentiating factors of National Pension Scheme and other Employee Provident Fund/ General Provident Fund available for Public Sector Enterprises.
- To analyze the attitude of Government towards National Pension Scheme 2004.
- To offer suggestions to improve into the features of the National Pension Scheme.

Research Tools and Techniques of Research

- Primary and secondary data obtained during the study were considered as the basis of the completion of study through research paradigm and methods in research strategy planned and designed.
- Our research methodology is comprised of survey and questionnaire. Survey helped in getting knowledge for NPS 2004 and accordingly questionnaire was prepared for the employees of all levels and employers.

Benefits to Corporate by Contribution

- Platform to co-contribute for employees' pension
- Saving expenses incurred on self-administration of pension function (viz. record keeping, investment, annuity etc.)
- Corporate may exercise choice of PFM for its employees or leave the option to employees for selecting PFMs for themselves.
- Can claim tax benefits for the amount contributed towards pension of employees. From 1St April 2012 up to 10% of the salary (Basic & DA) of employer's contribution can be deducted as "Business Expense" from their Profit & Loss Account.

Benefits to Subscriber by Contribution

- Cheapest investment product with better growth options through long term market linked saving.
- Provide choice of various funds with a flexible investment pattern.
- Individual Retirement Account for record keeping at individual level ensures portability across geographies and employment.
- Platform to monitor and manage investment to meet subscriber's diverse financial goals.
- Employees 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 up to 10% Basic + DA is allowable deduction under section 80 CCD(1) with in overall limit of Rs. 1Lacs. The employer's contribution to NPS up to 10% Basic + DA is allowed deduction under Section 80 CCD (2) and excluded from the limit of Rs. 1 Lacs.
- Offers Tier II account which is voluntary savings facility with anytime liquidity / withdrawal option.
- Efficient Grievance Management through CRA website, Call Center, e mail or postal mail.
- Routine / quarterly disclosure of the funds helps subscriber to achieve better fund management.

- Auto choice options for those who do not have the required knowledge to manage their investment.
- Release of daily NAV by PFMs to ensure subscriber can take informed decisions.
- An option to remain invested even after your retirement.

Types of NPS accounts

The New Pension Scheme structurally consists of three types of accounts:

Tier I Account - Under this account, subscribers cannot withdraw funds before they retire. It is compulsory for all government employees to invest or direct 10% of their salary into this account. It is the basic NPS account which does not allow premature withdrawals unless the member has completed 15 term years. These withdrawals are repayable advances and are allowed only in case of an emergency. However, Tier 1 account holders are eligible for partial withdrawals on of 25 years. Tier 1 accounts of government employees are subjected to investments in government and corporate bonds, while that of other citizens are invested in fixed deposits and liquid funds as well.

Tier II Account - Under this account, subscribers are free to invest funds as well as withdraw funds as per their convenience. However, a subscriber must possess a Tier I account in order to open a Tier II account. Tier 2 accounts were launched by the government in the year 2009 and it offers greater flexibility than Tier 1 accounts. Here the account holders can withdraw their amount without any withdrawal charges or penalty. Tier 2 offers the investor an option to invest either in government bonds, fixed income instruments, or equity funds. It also allows transfer of money to Tier 1 accounts. Unlike Tier 1 accounts, NPS Tier 2 accounts does not have locking periods and are not exempted from tax under section 80 C of Income Tax Act.

Swavalamban Account - In this account the Indian government contributes a sum of Rs 1,000 every year over the initial four years. The purpose of this account is to provide encouragement for workers of poor economic standing. Swavalamban Yojna was a financial inclusion scheme for the economically backward sections of the society. It was applicable to all employees in the unorganized sector of employment. For Swavalamban accounts, government made contributions of Rs.1000 for the first four years after enrolment. Swavalamban Yojna is replaced by Atal Pension Yojna.

Eligibility Criteria for National Pension Scheme

The NPS is open to all Indian citizens, regardless of whether they are residents or NRIs. However, the following eligibility criteria should be met:

- The subscriber is required to be at least 18 years of age and not more than 60 years of age at the time of submitting his or her application to the POP
- The subscriber should adhere to the KYC rules and conditions laid out in the registration form

The following individuals are not eligible to avail of the NPS

- Individuals who are not of sound mind
- Individuals who already hold accounts with NPS previously
- An un-discharged insolvent

These individuals include any of the following:

- ✓ **Individuals Employed with the Central Government**

Any individual newly employed with the Central Government as well as Central Autonomous Bodies is eligible to join the NPS provided they have commenced service on the 1st of January 2004 or any time after.

- ✓ **Individuals Employed with the State Government**

Individuals employed with State Governments as well as State Autonomous Bodies, but who have commenced service following the notification date set by their respective State Governments, are eligible to join the NPS.

- ✓ **Corporates**

Corporates can opt to subscribe to the NPS and have the option to choose a Pension Fund Manager as per their requirements. This allows for flexible choice of investments and the additional benefit of deciding the amount of funds to be directed to the different asset classes on offer.

Features of National Pension Scheme

The salient features of the National Pension Scheme are:

- The National Pension Scheme offers transparency to the subscriber and is a low cost investment option. Subscribers have the advantage of choosing their own pension fund schemes where they will be aware of how the investment is doing on a routine basis.
- The NPS application process is extremely simple since the subscriber only has to open up an account at the respective nodal office and acquire a PRAN
- Since employees are allocated unique PRANs, they will be identified by the same PRAN all over the country, regardless of which part of India they are in.
- Subscribers can access details pertaining to the NPS online
- The NPS offers its subscribers a wide range of options to choose from, which include Pension Fund Managers, Funds to allocate their money to and Customer services providers among others.
- The NPS also give subscribers the flexibility to switch between fund managers and investment options
- Should the subscriber choose, he or she can change the contribution amount as well as the contribution frequency at will
- The NPS is a low cost investment option with extremely low fund management charges

Tax Treatment

Employee	Without NPS (Section 80 C)	With NPS 80 CCD (2)
Basic salary	Rs. 10 lakh	Rs. 10 lakh
Special allowance	Rs 2 lakh	Rs 1 lakh
NPS	Nil	Rs. 1 lakh
Total income	Rs. 12 lakh	Rs. 12 lakh
Deduction	Rs. 1 lakh	Rs. 2 lakh
Taxable income		
Tax	Rs. 1.6 lakh	Rs. 1.3 lakh
Tax paid (% Salary)	13.33%	10.8%

Comparison of the New Pension Scheme with other National Pension Schemes

NPS vs. Atal Pension Yojna

National Pension Scheme	Atal Pension Yojna
Minimum age for enrollment: 18 years Maximum age for enrollment: 60 years	Minimum age for enrollment: 18 years Maximum age for enrollment: 40 years
The minimum contribution for tier1 and tier2 NPS accounts are Rs.6000 p.a and Rs.2000 p.a respectively	The amount to be contributed depends purely on the individual's age at the time of opting for the plan
No limit on maximum contribution	The maximum limit is determined based on individuals age
There is no limit on maximum pension amount received	The maximum pension limit of Rs.5000
NPS subscribers can opt out of the scheme by withdrawing 20% of the accumulated amount as a lump sum and the remaining as a series of annual sums	Cannot opt of the scheme before attaining 60 years of age
Contributions up to Rs.1,50,000 are exempted under the Income Tax Act	Contributions are fully exempt under Section 80C and Section 80CCD of the Income Tax Act

NPS vs. PPF

National Pension Scheme	Public Provident Fund
NPS offers tax benefits up to Rs.1.5 lakhs under section 80CCD (1) of the Income Tax Act and up to Rs.50,000 under section 80CCD(1B)	Offers tax benefits up to Rs.1.5 lakhs under section 80C of the Income Tax Act
Employer contributions are eligible for tax benefits	Not applicable to PPF funds
Allows partial withdrawals subject to stringent conditions	Very few restrictions are imposed on partial withdrawals
Does not provide loan facility	You can apply for loans against your accrued PPF balance
Provides you an option to invest in equities and government bonds	Provides only the announced interest rates for the fiscal year
Premature closure of account is possible	Cannot close the account before maturity, i.e. 15 years from the date of enrollment
NRIs can invest in NPS	As per the rules, NRIs cannot enroll for PPF scheme

NPS vs. EPF

National Pension Scheme	Employee Provident Fund
NPS is a voluntary scheme that allows one to contribute any amount above Rs.6000 a year for Tier I and Rs.2000 a year for Tier II	EPF is compulsory for all employees in the organized sector with an income of above Rs.15,000 per month
You can select your fund manager from the organizations listed by PFRDA	All EPF accounts are managed by the EPFO
Voluntary contributions are made by subscribers at any chosen time period	12% of the employee contribution is matched with 12% of the employer contribution
Interest rate depends purely on your choice of fund manager and asset allocation	Interest rates are announced each year by the Finance Ministry in consultation with the EPF trustees

Research Findings

Pension schemes in India are increasing by realizing its need in the society and engaging in various social activities. Pension schemes is expanding rapidly in the Indian economy. A successfully implemented NPS for government corporates as well as for private corporates has clearly exhibit its importance and made a significant difference in the society and improve the quality of life. Employees under NPS scheme feels secured and expecting a good return after their retirement. Many pension schemes other than NPS are available into the market. As per the changing market scenario peoples are opting for more than one pension schemes, so that, they can contribute to make better plant to live in. During our study it is found that NPS is the most trusted and taken treatment among pension plans.

Conclusion

People nowadays are more concerned about their future living. To secure their future they are choosing several pension plans available into the market. Government has also launched National Pension Scheme 2004 for his employees. NPS is applicable in central as well as in state. The employees who were recruited after 01 January 2004 are eligible to avail this scheme. Under this, a fixed percentage of amount is deducted from employee salary and same amount is deposited from employer side into his NPS account. Employees are satisfied with this scheme and expecting good future returns. People are also using Atal pension yojna, SBI life, PPF etc schemes to get tax benefit as well as long term benefits. All other schemes are optional, but NPS is compulsory in government for both central and state level employees. The conclusions are drawn on the basis of the data collection via questionnaire, personal interviewing and hypothesis testing. The researcher at the end suggests further areas of study to be pursued by future researchers.

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