Azadi Ka Amrit Mahotsav

Monograph on NATIONAL PENSION SYSTEM

Banking, Financial Services & Insurance Board

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016

Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

Behind every successful business decision, there is always a CMA

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

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CMA P. Raju Iyer

President

The Institute of Cost Accountants of India

PRESIDENT'S MESSAGE

It gives me immense pleasure to announce that the Banking, Financial Services Insurance Board of the Institute in association with Pension Fund Regulatory and Development Authority (PFRDA) is observing January, 2022 as the Pension Month.

I am indeed happy to state that the online conference on the topic of 'Creating Pensioned Society in India- Importance and Challenges' is being hosted on a virtual forum on 28th January, 2022. We are also honoured to have the kind presence of Shri Supratim Bandyopadhyay, Chairperson, PFRDA would be gracing the occasion. We are very much honoured to have the gracious presence of Dr. Bhagwat Kishanrao Karad, Hon'ble Minister of State, Ministry of Finance, Government of India. We are indeed happy to state that representatives of PFRDA, International Tax Expert, Whole time Member, PFRDA and Tax Expert would be the speakers for the occasion.

I congratulate CMA Chittaranjan Chattopadhyay, Chairman of Banking, Financial Services and Insurance Boardand other members of the Board for an excellent initiative for the benefit of stakeholders at large.

We know that PFRDA is trying to create the social security for old age by an assured income flow through their various schemes like National Pension System (NPS) and Atal Pension Yojana (APY). Both the schemes cater not only to the Government Employees but the benefits of scheme can be taken any individual who are working and need a flow of income at their silver age. The benefits of the schemes apart from safety and security are very low cost and tax benefits which no other scheme presently can cater. We believe that retirement planning is very much necessary with advancement of life expectancy which was 40 in 1960 and rose to 70 in 2022.

I express my gratitude to our resource persons for their valuable inputs and contribution in the Monograph published in the NPS month. I also acknowledge the dedicated efforts of the BFSI teamfor their support to the excellent initiative of launching the Monograph.

My best wishes to Banking, Financial Services and Insurance Board for their future endeavours

Warm regards,

CMA P. Raju Iyer

President

VICE PRESIDENT'S MESSAGE

CMA Vijender Sharma

Vice President

The Institute of Cost Accountants of India

Creating Pensioned Society in India - Importance and Challenges

It is indeed a proud feeling to state that that the Banking, Financial Services Insurance Board of the Institute in association with Pension Fund Regulatory and Development Authority (PFRDA) is observing the Pension Month of January, 2022.

In order to celebrate the Pension Month an online conference on the topic of 'Creating Pensioned Society in India-Importance and Challenges' is being organized by BFSI Board on 28th January,2022 from 4-6 pm. We are indeed proud to have the gracious presence of Dr. Bhagwat Kishanrao Karad, Hon'ble Minister of State, Ministry of Finance, Government of India and Shri Supratim Bandyopadhyay, Chairperson, PFRDA. The webinar would have the gracious presence of senior officials of PFRDA, International Tax Expert and eminent consultants.

I congratulate CMA Chittaranjan Chattopadhyay, Chairman of Banking, Financial Services and Insurance Board and other members of the Board for such an effort which encompasses the objectives of the Institute for initiating such an excellent activity.

We know that old age is a reality and all citizens should plan their finances in such a way so that they can sufficiently cover their expenses at their old age. The PFRDA, in order to augment the Government's objective of social security, has launched National Pension System and Atal Pension Yojana. Both the schemes objectives are different and have various benefits and caters to both organized and unorganized work force of the country. The NPS is market linked with exposure to equity based on the risk appetite and age of the individual. We also have seen that NPS is governed by PFRDA with proper transparency and it is technology driven. The subscribers get tax benefits apart from capital appreciation. It invests not only in equities but also in corporate bonds, treasury and also in Alternative Investment Trusts.

I express my heartfelt gratitude to the contributors for the Monograph published in the NPS month. I also acknowledge the dedicated efforts of team BFSI for their support to the excellent initiative of launching the Monograph.

My best wishes to Banking, Financial Services and Insurance Board for their future endeavors.

CMA Vijender Sharma

Vice-President

Dr. Bhagwat Kishanrao Karad

Hon'ble Union Minister of State for Finance

Government of India
New Delhi

HON'BLE MINISTER'S MESSAGE

डॉ. भागवत कराड
Dr. BHAGWAT KARAD
(M.B.B.S., M.S., M.ch., F.C.P.S) Ped. Surgeon

सत्यमेव जयते

आज़ादी का अमृत महोत्सव

वित्त राज्य मंत्री
भारत सरकार
MINISTER OF STATE FOR FINANCE
GOVERNMENT OF INDIA

10 FEB 2022

Message

I congratulate the Institute of Cost Accountants of India for bringing out this publication on National Pension System through the Banking, Financial Services & Insurance Board and also for organizing the joint programme with PFRDA on 28th January, 2022 themed on Creating Pensioned Society in India – Importance and Challenges.

Such publications and programmes are much required for creating awareness about the significance of pension for citizens spread across the economy. India being one of the largest economies of the world needs to be committed towards improving an effective social security net for the citizens. Various Pensions schemes are made available to cater to the financial wellbeing of citizens, especially after having superannuated or retired from active occupational activities.

Apart from government servants, NPS is now offered to all citizens also for subscription and employers are enabled to offer it for its employees to ensure pensionary benefits to them. Government in support of workers in unorganized sector also launched 'Pradhan Mantri Jan-Dhan Yojana and also 'Atal Pension Yojana', which has been an integral part for financial inclusion for all mission. To make citizens aware of the benefit should form an important part of all work.
I again congratulate and compliment the Institute of Cost Accountants of India for bringing out this publication on 'National Pension System' and look forward for more such activities and publications from the Institute towards popularizing various initiatives of the Government.

(Dr. Bhagwat Karad)

कार्यालय : कमरा नं 165, नॉर्थ ब्लॉक, नई दिल्ली–110001 दूरभाष : 23093889, 23093403, ई–मेल : mosfinance.bk@gov.in
निवास : 302, स्वर्णजयन्ती सदन, डीलक्स, डॉ. बी.डी मार्ग, नई दिल्ली–110001 दूरभाष : 011-23322268

पेंशन निधि विनियामक एवं विकास प्राधिकरण
PENSION FUND REGULATORY AND DEVELOPMENT AUTHORITY

Azadi Ka Amrit Mahotsav

सुप्रतिम बंदोपाध्याय
अध्यक्ष
Supratim Bandyopadhyay
Chairperson

Message

It gives me immense pleasure to convey that the collaborative events undertaken with The Institute of Cost Accountants of Indiawas rewarding for disseminating awareness about pension and retirement planning. The observance of January 2022 as the Pension Month by the Institute and the support extended toPension Fund Regulatory and Development Authority is commendable.

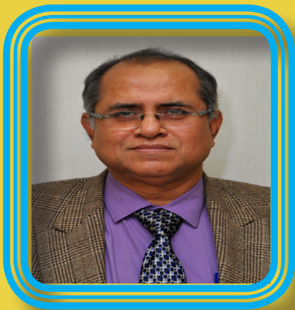
The culmination of Pension Month with an online webinar on *Creating Pensioned Society in India – Importance and Challenges*and publishing of this Souvenir, will enhance the understading of the participants, members and students of ICMAI on issues related to ageing population, retirement planning during working life, pensions and old age income security.

National Pension System (NPS) and Atal Pension Yojana (APY) which are regulated by PFRDAhas over Rs 7 lakh crore of pension assets contributed by 4.90 crore subscribers. A*Brief Summaryon NPS* is included in this souvenir which will facilitate as a ready reckoner for the participants.

I take this opportunity to thank ICMAI for their laudable support and hope that ICAI and its members as ambassadors of NPS/APY will surely bring in profound impact towards creation of a pensioned society.

Supratim Bandyopadhyay

New Delhi
28th January 2022



CMA Chittaranjan Chattopadhyay

Chairman

Banking, Financial Services and Insurance Board

The Institute of Cost Accountants of India

CHAIRMAN'S MESSAGE

It is a proud moment for the Institute and being given the responsibility of the Chairman of Banking, Financial Services and Insurance Board it is indeed a great pleasure to state that the new year's first month i.e. January, 2022 is being observed as the 'Pension Month '.

We are organizing an online webinar to observe the Pension Month in association with Pension Fund Regulatory and Development Authority (PFRDA) on the topic 'Creating Pensioned Society in India-Importance and Challenges'. We are overwhelmed to state that Dr. Bhagwat Kishanrao Karad, Hon'ble Union Minister of State for Finance would grace the event as the Chief Guest and address the participants. We would also have the kind presence of Shri Supratim Bandyopadhyay, Chairperson, PFRDA as the Guest of Honour along with our President, CMA P. Raju Iyer and Vice President, CMA Vijendra Sharma. The speakers for the event would be experts in the relevant field.

We all know that pension is a social security mechanism in which the employee gets an amount which he accumulates through his/her contribution in their service life and which would cover their expenses at the old age. The PFRDA with the objective of creating such social security was formed in the year 2003 for the Government sector. Initially, it covered the employees of both central and the state government who were migrated to the contributory pension system from the old regime of assured pension scheme prevalent prior to the year of 2004. The New Pension Scheme was created in which both the employee and the employer contributed for the retirement corpus of the employee. Thereafter, we saw an exodus of all state governments to join the new system and with the opening up for the corporate sector the scheme changed it's name to National Pension Scheme. It is now expected the corpus of NPS would reach to Rs.7.5 lakh crore by the end of 2022. We also have seen that Atal Pension Yojana (APY) which is a pension product primarily for the unorganized sector which would provide a guaranteed pension and it has now crossed 3.3 crore subscribers for the year 2021-22. The NPS presently provides tax relief u/s 80C and 80 CCD (1b) and gives choice to the investor to pick up their Fund Manager, Debt-Equity Mix, Alternative Investment based on their individual risk appetite.

We know that a majority of India's labor force is in the un-organized sector without having any formal pension arrangements.

Presently, the labor force participation rate (LFPR) is 40.1% and worker population ratio (WPR) is now 38.2% and NPS/APY is the panacea for catering to the need of the population.

The objective of the Government is to provide requisite funds for old age to both the organized and the unorganized sector and as we know that life expectancy of Indians has reached to 70 years in 2022.

We hope that this Monograph would help all members, students and others to understand the mechanism of NPS and it's various features. We also hope that the Regional Councils, Chapters will participate in our objective of financial literacy and organize online programmes to observe the Pension Month and make it a grand success.

CMA Chittaranjan Chattopadhyay

Chairman, BFSIB

Brief Summary on National Pension System (NPS)

National Pension System (NPS) is a defined contribution pension system introduced by the Central Government for its new recruits w.e.f. 1stJanuary 2004 and replaced the erstwhile defined benefit pension. Following the Central Government's decision, most of the State Governments have adopted NPS for its employees. NPS is available for enrollment by any citizens of India w.e.f. 1st May 2009 and institutions/employers/corporates can also adopt NPS for its employees as a retirement benefit scheme w.e.f. 5th December 2011.

Basic features

Eligibility :

Indian Citizen (resident or non-resident) or an Overseas Citizen of India (OCI) aged between 18 - 70 years

Enrollment:

An NPS account can be opened through

- ❖ Points of Presence (PoP) (i.e. All major Banks, NBFCs and Fintech companies) - Online or Physical mode
- ❖ Online platform (eNPS) of NPS Trust – Using Aadhaar or PAN & Bank authentication.

Types of Accounts:

Tier I - The Individual Pension Account, is the default pension account with all the tax incentives.

Tier-II - An optional investment account available to a subscriber having an active Tier-I account

Investment Choices:

(A) Selection of Pension Funds (can change once in a FY):

Subscriber can choose the Pension Funds registered with PFRDA to manage the NPS contributions/investments.

(B) Investment Choice for Asset Allocation (can change 4 times in a FY):

Active Choice: Subscriber actively decides allocation of funds across Equity (upto 75%), Corporate Bonds (upto 100%) and Government Securities (upto 100%)

Auto Choice: The contributions get invested across three asset classes in pre-determined proportion as per the age of subscriber. There are three options under Auto choice i.e. Aggressive / Moderate / Conservative Life cycle funds, which can be chosen by the subscriber based on his/her risk appetite.

NPS Tier-I account – Tax benefits & implications

Sl	Deduction on Contributions	Exemption at exit/ withdrawal
1	Deduction upto 1.5 lakh u/s 80CCD(1) ❖ Employee contribution–10% of salary ❖ Self-employed/professionals–20% gross income	Lumpsum payments upto 60 % of total corpus is exempt u/s 10(12A)
2	Additional deduction of Rs.50,000 u/s 80CCD(1B)	Amount utilised for annuity purchase is exempt u/s 80CCD(5)
3	Employer contribution – Deduction for employee Up to 10% salary u/s 80CCD(2) subject to Rs. 7.5 lakh	Partial withdrawal is exempt u/s 10(12B)
4	Employer contribution – Deduction for employer Up to 10% salary u/s 36(1)(iva)	GST not applicable onannuity purchases through NPS
5	Transfers to NPS from Approved Superannuation Funds and Recognized Provident Funds are tax exempt.	

Withdrawal / Exit

Condition	Premature Exit	Normal exit
When	After 5 years of joining NPS	After attaining superannuation ageor 60 years
Lumpsum Withdrawal	Maximum 20% of the corpus	Maximum 60% of the corpus
Annuity Purchase	Minimum 80% of the corpus	Minimum 40% of the corpus
Complete Withdrawal	Only if total corpus is less than Rs 2.5 lakh	Only if total corpus is less than Rs 5 lakh
Death of Subscriber	Nominee/legal heir can withdraw the entire corpus or purchase annuity.	
Partial Withdrawal	After 3 years, maximum 25% of own contributions can be withdrawn for specific reasons viz critical illness, disability, children'seducation/marriage, purchasing house, starting a venture.	
Defer / Continuation	After attaining superannuation age or 60 years, subscriber can opt to (i) continue NPS account with contributionsor (ii) defer exit without contributions upto 75 years of age (iii) take lumpsum in installments and defer annuity till 75 years of age.	

FCMA Soumit Das

Chief Mentor - Financial Goal Achievers

Circle of Life Cashflow Planning

Let's start with the most important number in the World, which is 28,000. 28,000 is the average number of days a person lives. Which is equal to76.71 years. Let's round it off 80 years. I would like to break this 80 in 4 parts.

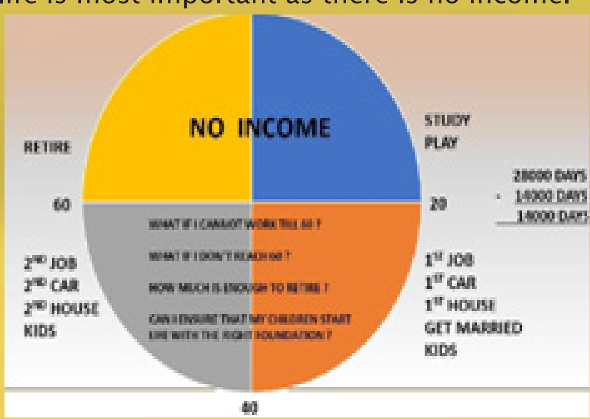
0 to 20 , 20 to 40 , 40 to 60 and 60 to 80

0 to 20 - We study and we play around.

20 to 40 – We get our first job, we buy our first car our first house, we get married, we have kids.

40 to 60 – We might change our job or start a business. So we might take on a second job. We definitely will buy a second car. We might buy a second house as an investment. However, more importantly by now our kids are getting ready to finish their first part of life.

60 to 80 – We hope to retire. Now this part of life is most important as there is no income.



So we started with 28000 days, if we subtract half of it which is 14,000 days, we all have 14,000 days to achieve all our dreams.

As we approach 40, we are gripped by 4 universal fears.

The first fear being, "what if I cannot work to 60?" What if my career gets derailed by either disability or a bad illness?

The second fear is, "what if I do not reach 60?" If I do not reach 60, I may have a problem. One can handle it through Life Insurance, which is an income protection for family in the event of death.

The third fear is, how much is needed to retire? Is it 5 crore rupees, 10 crore rupees, 20 crore rupees? How much is enough to retire? We may all have different answers to this question.

The fourth fear is, "can I ensure that my children start life with the right foundation ? and the best foundation is to have the right education.

All the above four questions can be answered with guaranteed payouts. So people need to plan for it and build a diversified investment portfolio for better risk adjusted returns.

Hence, the importance of Financial Planning and Cashflow Planning in Life. Cashflow

Planning is actually Life Flow Planning, as one needs Cashflow in every Stage of Life , right from Cradle to the Grave. Financial Planning requires a good understanding of the various Asset Classes and Investment Products. One shouldInvest in a Diversified Portfolio of Growth and Income Generating Assets according to their Investment Objective, Risk Appetite and Investment Horizon. Investors need to understand the correlation between Risk vs Return. Higher the Risk, Higher is the probability of Return. Risk is also associated with Uncertainty. However, Risks can be Measured and Managed to a certain extent. Risks associated Life Uncertainties viz. Death, Disease and Disability can be mitigated with Insurance Products, while Risks associated with Market Volatilities can be mitigated with Asset Allocation.

The Covid – 19 Pandemic has taught us the following Financial Lessons :

- Need for Emergency Funds
- Importance of Health Insurance and Life Insurance
- Critical to Diversify Investment Portfolio
- Necessity of Will and completion of Nominations
- Not to take any Loan that we cannot afford

Benjamin Franklin, the Founding Father of the United States of America said, "If You Fail to Plan, You are Planning to Fail".

Absence of Financial Planning can lead to Financial Mistakes, can be seen in the picture below :

The 3 Pillars of Financial Planning are as under :

- Provision for Emergency Funds
- Provision for Life Long Earning
- Provision to Beat Inflation

Emergency Fund – Need for Emergency Funds arises due to unforeseen contingencies, whose occurrence is not certain and whose time is not known. Events like Death, Disease, Disability, Job Loss require Emergency Funds to deal with them. Free Cashflows are required to face Emergency Events as mentioned above, which can be generated with the help of the following Financial Products :

- **Health Insurance** – Medical Emergency can occur anytime in the Family and may require Hospitalization for Treatment. A Health Insurance Policy for the entire Family, with adequate coverage and relevant benefits, is a smart way of making provisions for Emergency Funds, to pay the increasing costs of Advanced Medical Care.

- **Life Insurance** – Our Financial Goals like Child's Education, Child's Marriage and our Retirement are sure events of Life.

We know their time of occurrence and the estimated amount of money required to achieve these Life Goals. However, these Life Goals may be challenged by Market Volatility and Life Uncertainty like Death, Disease or Disability for which the Time is not known. One can secure their Financial Goals with Life Insurance Plans that offer Financial Protection to their Family and also provide Guaranteed and Tax-Free Returns to Enjoy Life.

➢ **Personal Accident Insurance** – Personal Accidents in India is amongst the highest in the World. Accident may lead to hospitalization of the victim , loss of income due to prolonged treatment , disability etc.A Personal Accident Policy, with adequate coverage and relevant benefits, is a smart way of making provisions for Emergency Funds to deal with such situations.

➢ **Critical Illness Insurance** – Human Life Span has increased with advancement in Medical Sciences, but so has the Morbidity Risks of Disease. Critical Illness like Cancer, Heart Attack, Multiple Sclerosis, Stroke, Kidney Failure, Paralysis etc. are growing Worldwide and can occur anytime in the Family, leading to expensive Medical Treatment and Loss of Income. A Critical Illness Insurance comes as a savior in such situations. Apart from buying a Critical Illness Insurance, one can also choose to add a Critical Illness Rider while buying a Life Insurance Policy or a Health Insurance Policy.

➢ **Property Insurance** – Investment Portfolios are often over weight on Real Estate Assets, be it self-occupied House Property or Properties on Rent or for Investment. Most people love to invest in Property, but only the smart ones choose to Protect their precious Property from Fire, Earthquake, Storm, Flood and other Perils. One should cover the most expensive part of their Investment Portfolio with Property Insurance, that has adequate coverage and relevant benefits.

➢ **Bank Deposit**– Bank Deposit is still the most popular Savings and Investment Option. Money in Savings Bank Account earns average interest rate of 3.00% per annum and those in Term / Fixed Deposit Account earns average interest rate of 5.00% per annum. Bank Deposits give stable Returns and easy Liquidity to the Investor, hence popular. However, investors need to understand that the Bank Interest Rates are dependent on the prevailing Repo Rate, which is gradually decreasing in India. Further, Money kept in a Bank Account is protected by Deposit Insurance and Credit Guarantee Corporation (DICGC) upto Rs.5 lakhs only, in case a Bank fails to pay it's depositors.

➢ **Liquid or Low Duration Mutual Fund**– Liquid Mutual Funds invest in a portfolio of Money Market and high quality Debt securities. They are ideal for investment horizon of 90 days and is giving an average return of 3.33% per annum in the current market scenario. Low Duration Mutual Funds also invest in a portfolio of Money Market and high quality Debt securities. They are ideal for investment horizon of up to 1 year and is giving an average return of 4.3% per annum in the current market scenario. Risk and Reward of Mutual Fund Investment is related to the market.

Life Long Earnings - In order to meet the Basic Living and Lifestyle Expenses in every Stage of Life , one needs to make provisions for Life Long Earnings. That is why Investing – the Science of Money making Money, is important in Life. One can enjoy Life Long earning by Investing in a Diversified Portfolio of Income Generating Assets. Free Cashflows are required in every stage of Life, more so post Retirement, which can be generated with the help of the following Financial Products :

➢ **Pension Scheme** - A Pension is a type of Retirement Plan that provides monthly income for whole life, after one retires from their position. The employer is required to contribute to a pool of funds invested on the employee's benefit. As an employee, one may contribute part of their wages to the plan, too. Not all businesses offer these plans. National Pension System (NPS) introduced by the Government of India to facilitate a regular income post retirement and governed by PFRDA (Pension Fund Regulatory and Development Authority), is the most popular Pension Scheme in India. It is available to all Indian citizens 18 to 60 years of age. This well regulated Investment product is one of the lowest in cost investment product in India. It is a voluntary scheme where in the subscriber can contribute any amount at any time. Subscribers have the flexibility to select or change the POP (Point of Presence), Investment Pattern and Fund Manager. This ensures that investors can optimize returns as per their comfort with various Asset Class (Equity, CorporateBonds, Government Securities and Alternate Assets) and Fund Managers. This Scheme comes with easy Portability, as NPS subscribers are allotted unique Permanent Retirement Account Number (PRAN) which remain same irrespective of change in employment, city or state. Investment in NPS qualify for Income Tax deduction under Sec 80CCE , 80CCD (1) and 80CCD (2).

➢ **Annuity Scheme** - An Annuity is a long-term investment agreement between an Insurance Company and an individual, in which the individual makes payments in series or in a lump sum, in exchange for which he gets periodic disbursements or income for whole life, either immediately or in the future. Annuity Plans are generally of two types as under :

Immediate Annuity plans: There is no accumulation phase and the plan starts working right from the vesting phase. It is purchased with a lump sum and the annuity payment starts immediately.

Deferred Annuity: These are the pension plans in which the annuity starts after a certain date. It can be further divided into the following:

➢ **Accumulation phase** - It is the phase when one start investing and accumulating cash and commences from the date when one first time pay premium.

➢ **Vesting phase** - It is the date from which one will start getting the policy benefits in the form of pension.

Annuity helps to secure Fixed Income for whole life at the prevailing Interest Rates. This is of special significance, especially in economies like India , where the Interest Rates are gradually decreasing.

➢ **Life Insurance Plan** – Life Insurance companies in India offer Endowment Plans that offer Guaranteed and Tax Free Earnings for whole life. These are non-linked, participating, individual, whole life assurance plans which offer a combination of Income and Protection toone’s family. These plans providefor annual survival benefits fromthe end of the premium paying term till maturity and a lump sum payment at the time of maturity or on death of the policy holder during the policy term. Investment in these Life Insurance Plans helps to save Income Tax under Sec 80C and all Income and Maturity under such plans are Tax Free under Sec 10(10D) of the Income Tax Act.

➢ **Investment in Bond** - Bonds are fixed income instruments that are issued by Governments or Companies to raise money by borrowing from investors. Bonds are typically issued to raise funds for specific projects. In return, the bond issuer promises to pay back the investment, with interest, over a certain period of time. One advantage of investing in Bonds is that they are a relatively Safe Investment. Bond values do not tend to fluctuate as much as stock prices. Another benefit of Bonds is that they offer a predictable income stream, paying investors a fixed amount of interest periodically.

Sovereign Bonds - In June 2020, Government of India launched "Floating Rate Savings Bond (Taxable) bond for an initial coupon of 7.15%, to be reset half yearly. The coupon rate was pegged with the prevailing National savings certificate (NSC) rate with a spread of 35 basis points over the respective NSC rate. The interest rate still remains at 7.15%. These are the Safest Bonds and Issued by Reserve Bank India on behalf of the Government of India.The Bonds shall be repayable on the expiration of 7 (Seven) years from the date of issue. Premature redemption shall be allowed for specified categories of senior citizens.

Corporate Bonds – There are several options of Corporate Bonds available in India, that are issued by Companies in Government, Public Sector and Private Sector. While investing in Corporate Bonds one needs to be mindful of the Quality / Safety, Tenure, Coupon Rate and Yield of the specific Bond. This will ensure Safety of the Capital and Regular Income.

➢ **Systematic Withdrawal Plan** - Systematic Withdrawal Plan (SWP) allows Investors to withdraw a fixed amount regularly from their investments in a Mutual Fund scheme. When investors opt for a SWP, they systematically receive their own money from the ongoing investment by redeeming some mutual fund units. Investors get a regular Income and Earn better tax efficiency. SWPs attract Income Tax at the rate of 15% for Short Term Capital Gains and 10% for Long Term Capital Gains. Whereas, Dividend Withdrawals from Mutual Fund Schemes are Taxed at 30% + Surcharge + Cess. Further, Dividend more than Rs.5000 per annum also attract TDS at the rate of 10%.

➢ **Rent from Real Estate** – Real Estate whether Residential or Commercial constitutes a major part of an Investor's portfolio. Rental Income from Real Estate can generate Free Cashflow, provided they are not acquired through Mortgage. Rental Yields in India are still lower than the prevailing Mortgage Rates. Rental Yields in India are in the range of 1.5% to 2% per annum for Residential Properties and in the range of 4% to 4.5% per annum for Commercial Properties. Whereas Mortgage Rates in India are presently at 6.5% to 7% per annum, which is much higher than the Rental Yields. Besides Real Estate investments are subject to MaintenanceCosts, Property Tax, TDS on Rent etc. Though Land appreciates in value over a period of time, Building experience depreciation due to wear and tear. Investors Planning Life Long Rental Income from Real Estate, should execute Will for seamless Transfer of Property in their absence / death.

Beat Inflation - Inflation is the rate of increase in prices of goods and services in an economy over a given period of time. Inflation is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country. India's retail price inflation rose to 5.59 percent in December 2021 from 4.91 percent in the previous month of November 2021. As Indian Economy is developing, the Inflation is also gradually decreasing. However, Earnings of Investors should be growing in order to beat Inflation. This can be effectively done by investing in Growth Assets like Equity / Stocks. It is interesting to note that the Sensex has multiplied 560 times since its inception with 1979 as the base year (Base Year:1978-79 =100). By averaging around 15% CAGR during the last 42 years. Sensex has rewarded long-term investors handsomely. Equity Investment can be done through direct Stock picking or through Equity Mutual Funds. Investors can invest in Stocks of Companies in Good Business, run by Efficient Management, with consistent Growth in Earnings , Visibility on Longivity of Earnings and available at attractive Prices. Investors can invest in Stocks of good Companies in Banking Financial Services & Insurance (BFSI) Sector, Information Technology (IT) Sector, Fast Moving Consumer Goods (FMCG) Sector, Automobile Sector etc. with consistent track record of Dividend Payout, Bonus Issue, Rights Issue, Share Buy Back etc. thereby increasing the Shareholders value.

Conclusion: In order to achieve Financial Freedom and Live Life at one's own terms, one needs to Invest in a Diversified Portfolio of Income Generating Assets, that over a period of Time is capable of Income Replacement. Power of Compounding is the Eighth Wonder of the World. Investors who start their Savings and Investment journey from early years of Earnings, can benefit from the Power of Compounding and achieve Financial Freedom early. Dream Big. Set Goals. Take Action.

Source and Reference: Dr. Sanjay Tolani, NSDL, IRDAI, AMFI, BSE, NSE.

Disclaimer : Financial Investments are subject to Market Risks. Please consult your Financial Advisor before Investing.

Shri Sudhakar Kulkarni

Certified Financial Planner

National Pension System (NPS)

NPS (**National Pension System**) is one of the best options for Retirement Planning launched by Government of India, which is regulated by Pension Fund Regulatory and Development Authority (PFRDA), it is defined contribution-based Pension Scheme having following objectives,

- To create retirement corpus and provide regular income after retirement from service/business
- Market based returns over long period of time

The NPS was initially launched only for the Central Government Employees joined after 1st January 2004, except armed forces. Later on, it was followed by all most all State Governments for their newly joined employees. With effect from 1st May 2009, PFRDA made option available to all citizens of India to join National Pension System voluntarily. PFRDA has also launched the **NPS-Corporate Sector Model**, to enable the employees working in the private entities to join the scheme and avail similar benefits as the Government Employees.

Salient Features of NPS:

- It is a voluntary scheme open to every citizen of India between the age group of 18-70 year working in the private / unorganized sector
- The scheme gives flexibility to the citizens to continue their account with as low investment as Rs. 500/- at one time and Rs. 1,000/- per annum.
- The scheme gives flexibility to select the fund manager and monitor the performance
- Provides option to park short term surpluses in Tier-II account which can be withdrawn as and when required
- Pan India operations in this account are possible through vast network of POPs (Point of Presence)
- Provides investment options suitable to individual's risk appetite however gradually shifting to fixed income securities with growing age.

Structure of NPS:

National Pension System (NPS) is regulated by Pension Fund Regulatory and Development Authority (PFRDA). PFRDA is a statutory body constituted as per Pension Fund Regulatory and Development Authority Act passed on 19th Sept 2013 and notified on 1st Feb 2014. PFRDA has segregated different duties to separate entities, and has accordingly laid down the rules and regulations for all the entities.

Points of Presence (POPs) are appointed as the first point of contact for all the NPS subscribers. Where NPS services are provided to organised as well as unorganised sector.

Two CRA (Central Record keeping Agency) viz. NSDL e-Governance Infrastructure Limited and Karvy Computer share Private Limited are appointed as the central record keeping agency who are entrusted with Record keeping, Administration and Customer service functions for all subscribers of the NPS.

Following fund managers have been appointed by PFRDA

- LIC Pension Fund Limited
- SBI Pension Funds Private Limited
- HDFC Pension Management Company Limited
- ICICI Pension Fund Management Company Limited
- UTI Retirement Solutions Limited
- Kotak Mahindra Pension Fund Limited
- Reliance Capital Pension Fund Limited
- Birla Sunlife Pension Management Limited

Fund collected from NPS subscribers are managed by these fund managers. NPS account holder has choice to select /change the fund manager.

PFRDA has also appointed Annuity Service Providers (ASP) to take care of monthly disbursement of the Pension to the subscribers at the time of opting for retirement option. Subscriber has choice to select one of the approved Annuity Service Provider.

Trustee Bank as an intermediary is responsible for the day-to-day flow of funds and banking facilities in accordance with the guidelines/ directions issued by the Authority under NPS. Currently Axis Bank is acting as trustee bank as it has been re-appointed as Trustee Bank under NPS by PFRDA w.e.f. 8th January, 2021. The appointment of Trustee Bank is valid for a period of five (5) years from the date of appointment subject to annual review or any other period or at any point of time as may be notified by the authority.

Last but not the least a separate trust named NPS Trust is constituted for taking care of the assets and funds under the National Pension Scheme in the interest of the subscribers.

How to open & operate NPS account:

1. NPS account can be opened both off line and online. Any individual both resident and non-resident Indian can open NPS account who is between the age of 18to 70 and has complied KYC norms. Off line account can be opened with any POP or authorised bank branch. Online e-NPS can be opened with NSDL or Karvy. However, persons with unsound mind can't open NPS account. One cannot open two NPS accounts with different bank or POP or e-NPS.
2. Upon opening the NPS account unique 12-digit account number viz. PRAN (Permanent Retirement Account Number) is given to the respective account holder and card having this number with name and photo and date of birth of the account holder is given along with account opening kit.

There are two types of NPS account a) Tier-I & Tier-II of which Tier-I is mandatory while Tier-II is optional. Tier- I account is made specifically for retirement purpose. However, it does allow partial withdrawals for special occasions in life. More than that, the account offers the best tax-savings for investors. There is no upper limit for investment, although tax benefits will only apply to a limited amount based on your income. Also, contribution to NPS is compulsory for government employees, while private-sector employees have a choice.

However, as a self-employed person you can invest as much as you like out of your income.

The minimum contribution to Tier-I account has to be at least Rs. 500 per transaction and at least Rs. 1,000 per year. Also, you need to invest at least once in a financial year.

Tier -II NPS account is an open-access account with all the investment benefits except tax-saving and lock-in hurdles as Tier -I account. Only limits in the Tier -II NPS account is for a minimum investment in a year, which has to be as given below:

- The account can be started with a minimum contribution of Rs. 1,000
- Minimum one contribution of Rs. 250 per year is required
- Minimum account balance at the end of a financial year should be Rs. 2,000

There is no limit to how much you can save or withdraw from the account or when. However, there are no tax benefits either, however if you want take tax benefit out investment in Tier-II account now it is allowed under section 80C overall limit subject to lock in period of three years.

Nomination Facility:

Subscriber can give three nominees and allot percentage to each nominee as per his choice,

About Withdrawals from Tier-I Account:

You can withdraw the funds from Tier-1 NPS account upon retirement, resignation or in the case of death, your family members can withdraw. However, in case of resignation before the age of 60 you can only withdraw up to 20% of the corpus in a lump sum, rest should be invested in an immediate annuity account for a pension.

You can also withdraw partially before maturity or resignation, but only after you have stayed invested for at least 3 years. You can withdraw only up to 25% of the corpus built from your own contributions under the following circumstances:

- Higher education and marriage of your child, including the one, legally adopted
- Purchase of the first house property
- Treatment of any of the specified life-threatening diseases such as cancer, kidney failure, heart surgeries, etc.

Withdrawal at the time at or after the age of 60:

The NPS Tier-I account matures once you reach the age of 60. At maturity, you have two options – withdraw or stay invested. If you want to withdraw any time after 60, you can withdraw only up to 60% of the corpus in a lump sum, free from tax. The remaining must be invested into an immediate annuity plan.

Investment Options:

- **Five Asset Choices:** You can invest your retirement savings in a mix of these assets – Equity, Corporate debt, Government Debt, Alternate Assets like gold and real estate.
- **Limits to the Asset Class:** Your maximum equity allocation cannot exceed 75% of your total portfolio. the maximum allocation to the alternate asset will be limited to 5%.
- **Limits to Choose of Allocation:** You can either choose one of the automatic lifecycle-based portfolios or manually decide the ratios of asset allocation. In case you want to decide the asset allocation, it'll be subject to the conditions above only until the age of 50.

  After 50 your equity allocation starts to decline and by the age of 60, you cannot have more than 50% of your portfolio into an equity fund.

Automatic Portfolio Management:

NPS account offers automated portfolio management based on your age and risk appetite. You have three lifecycle portfolio choices in the declining risk order:

Age in Years	Max. equity allocation
Upto 50	75%
51	72.50%
52	70%
53	67.50%
54	65%
55	62.50%
56	60%
57	57.50%
58	55%
59	52.50%
60 and above	50%

❖ **LC75 – Aggressive Lifecycle Fund:** Maximum equity allocation 75% up to the maximum age of 35

Age	Asset Class E	Asset Class C	Asset Class G
Up to 35 years	75	10	15
36 years	71	11	18
37 years	67	12	21
38 years	63	13	24
39 years	59	14	27
40 years	55	15	30
41 years	51	16	33
42 years	47	17	36
43 years	43	18	39
44 years	39	19	42
45 years	35	20	45
46 years	32	20	48
47 years	29	20	51
48 years	26	20	54
49 years	23	20	57
50 years	20	20	60
51 years	19	18	63
52 years	18	16	66
53 years	17	14	69
54 years	16	12	72
55 years & above	15	10	75

❖ **LC50 – Moderate Lifecycle Fund:** Maximum equity allocation 50% up to the maximum age of 35

Age	Asset Class E	Asset Class C	Asset Class G
Up to 35 years	50	30	20
36 years	48	21	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 & above	10	10	80

❖ LC30 – Conservative Lifecycle Fund: Maximum equity allocation 30% up to the maximum age of 35

Age	Asset Class E	Asset Class C	Asset Class G
Up to 35 years	25	45	30
36 years	24	43	33
37 years	23	41	36
38 years	22	39	39
39 years	21	37	42
40 years	20	35	45
41 years	19	33	48

42 years	18	31	51
43 years	17	29	54
44 years	16	27	57
45 years	15	25	60
46 years	14	23	63.
47 years	13	21	66
48 years	12	19	69
49 years	11	17	72
50 years	10	15	75
51 years	9	13	78
52 years	8	11	81
53 years	7	9	84
54 years	6	7	87
55 years & above	5	5	90

In all these three options after the age of 35, your equity and corporate debt allocation start to decline while allocation to government debt securities grows.

Recently, there were several changes to NPS rules which are as under

1) Entry age increased

The pension fund has revised the guidelines on entry into NPS to 70 years. Earlier the entry age was 65 years. The entry age for NPS has been revised to 18-70 years from 18-65 years. Any Indian citizen and Overseas Citizen of India (OCI) in the age group of 65-70 years can also join NPS and continue up to the age of 75 years, according to a PFRDA circular on the revised guidelines.

2) Exit norms revised

On the exit conditions for subscribers joining NPS beyond the age of 65 years, the circular said "normal exit shall be after 3 years". "The subscriber will be required to utilise at least 40 per cent of the corpus for purchase of annuity and the remaining amount can be withdrawn as a lump sum," it said. However, if the corpus is equal to or less than Rs.5 lakh, the subscriber may opt to withdraw the entire accumulated pension wealth in a lump sum, it said.

3) Asset allocation norms changed

Making the National Pension System (NPS) more attractive for subscribers joining it after 65 years of age, the PFRDA has permitted them to allocate up to 50 per cent of the funds in equity. The maximum equity exposure, however, will be only 15 per cent if subscribers joining NPS beyond the age of 65 years decide to invest under the default 'Auto Choice'.

4) Premature exit

The PFRDA further said exit before the completion of three years will be treated as 'premature exit'. Under premature exit, the "subscriber is required to utilise at least 80 per cent of the corpus for purchase of annuity and the remaining can be withdrawn in alump sum". In the case of premature exit, if the corpus is less than Rs.2.5 lakh, the subscriber may opt to withdraw the entire accumulated amount in one go.

5) Defer NPS account till 75 years

NPS account holders have been permitted to defer their account up to the age of 75 years.

6) Extension of the online exit process to the Government sector

PFRDA recently extended the online and paperless process of exit to the subscribers of the Government Sector. Earlier, only non-government sector subscribers enjoyed the end-to-end facility of the online exit process. "The online exit would be integrated with Instant Bank Account Verification as per the existing guidelines as part of enhanced due diligence in the interest of Subscribers. The facility would also be available to the employees of Autonomous Bodies of Central/ State Government who are covered in NPS. "the regulator said in a circular dated 4 October 2021.

7) Change In investment Pattern:

PFRDA has recently allowed subscribers of the National Pension System (NPS) scheme to change investment pattern as many as four times during a financial year as which was earlier only two times.

In short, we can say the NPS is most suitable option for retirement planning.

CA Ajith Sivadas
Practicing Chartered Accountant

Income Tax Deductions and Exemptions – National Pension Scheme

As per the "Restructured Defined Contribution Pension System" applicable to the new entrants of the Government Service, it is mandatory for persons entering the service of the Central Government, on or after 1st January, 2004, to contribute 10% of their salary every month towards their pension account. A matching contribution is required to be made by the Government to the said account too. The benefit of this scheme is also available to individuals employed by any other employer as well as to self-employed individuals. Various deductions and exemptions available under Income Tax provisions regarding NPS are as follows:-

1. Employees / Self Employed Contribution to NPS

Section 80CCD of Income Tax Act, 1961, provides for deduction in respect of contribution made to the pension scheme notified by the Central Government. Accordingly, in exercise of the powers conferred by section 80CCD(1), the Central Government has notified the 'Atal Pension Yojana (APY)' as a pension scheme. Employee's own Contribution towards NPS Tier- I would qualify for deduction under section 80CCD in the hands of the individual falling within the overall ceiling of Rs. 1.50 lakh under section 80 CCE of the Income Tax Act.

From F.Y. 2015-16 the quantum of deduction on amount deposited by an employee in his pension account is subjected to a maximum of 10% of his salary. The deduction in the case of a self- employed individual would be restricted to 20% of his Gross Total Income in the previous year.

2. Additional Deduction u/s 80 CCD (1B)

In addition to the deduction allowed under section 80CCD(1), i.e. beyond 80CCE limit of 1.5 Lakhs, for contribution to NPS Tier I account, an additional deduction subject to a maximum of Rs. 50,000 under section 80CCD (1B) is also available.

3. Employers Contribution to NPS

Employer's contribution towards NPS Tier-I is taxable under the head income from salary u/s 17(1) but is eligible for tax deduction under Section 80CCD (2) of the Income Tax Act 1961 (Eligible deduction amounts to14% of salary for Central Government employees and 10% for others). This rebate is over and above the limit prescribed under Section 80CCE. Employer's Contribution towards NPS up to 10% of salary (Basic + DA) is a deductible 'Business Expense' from the Profit & Loss Account.

4. Deemed Income

The amount standing to the credit of the assessee in the pension account (for which deduction has already been claimed by him under this section) and accretions to such account, shall be taxed as income in the year in which such amounts are received by the assessee or his nominee on -

- closure of the account or
- his/her opting out of the said scheme or
- receipt of pension from the annuity plan purchased or taken on such closure or opting out.

  However, the amount received by the nominee on the death of the assessee under the circumstances referred to in (a) and (b) above, shall not be deemed to be the income of the nominee.

5. Withdrawal / Closure

- Any payment from National Pension Scheme Trust to an assesee on account of closure or his/her opting out is chargeable to tax. Whereas u/s sec 10 (12 A), lump sum withdrawal up to 60% of total pension wealth from NPS Tier-I at the time of superannuation is tax exempt.
- Partial withdrawal made out of this account during the tenure of service by employee subject to conditions specified in Pension fund Regulatory and Development Authority Act, 2013 is exempt from tax up to 25% of amount contributed by the assessee as stated u/s 10(12 B).
- Minimum 40% of the amount utilized for purchasing an annuity from the Annuity Service Provider, registered and regulated by the Insurance Regulatory and Development Authority (IRDA) and empanelled by PFRDA is also exempt from tax.

6. Tier 1 and Tier 2 Schemes – points to be noted.

The major difference between Tier 1 and Tier 2 NPS is that for the first one, it is mandatory to pay at least once every year and there are also restrictions with respect to lock in period and withdrawal. Such rules do not apply to NPS Tier 2 due to its 'no lock-in period' feature. Hence, account holders have the freedom to skip a year in case they are a little short of money. Whereas in respect of the taxation perspective, NPS Tier 1 scheme has the following advantages over NPS Tier 2 scheme which is listed below:-

- **Tax Benefits on Contribution:** Tax deduction of up to Rs. 1.5 lakhs under 80CCD(1) and Rs. 50,000 under 80CCD (1B) is available only for Tier 1. Such deductions are not available in the case of Tier 2 accounts.
- **Taxation on Withdrawal:** During maturity, exemptions are available as mentioned earlier in NPS Tier 1 account. On the other hand, if you opt for a Tier 2 account, the entire corpus gets added to the investor's taxable income and is taxed at the Income Tax slab rate.

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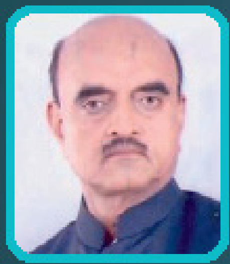

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Vice President, ICAI

Ms. Vandita Kaul
Addl. Secretary, DFS
Ministry of Finance, GoI

Shri S Bandyopadhyay
Chairperson, PFRDA

Speakers

Mr. William Price, Global pension expert – Ex. Official of World Bank, UK Treasury & UK Pension Regulator
Dr. Deepak Mohanty, Whole-Time Member (Economics) PFRDA, Former Executive Director Reserve Bank of India
Ms. Bahroze Kamdin, Tax Consultant, Partner Deloitte Haskins & Sells LLP

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www.icmai.in

Headquarters
CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: +91-33-2252 1031/34/35/1602/1492

Delhi Office
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: +91-11-24666100

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