



## NPS : Assured Contribution to Assured Return

PRESENTATION BY :

SOUMIT DAS

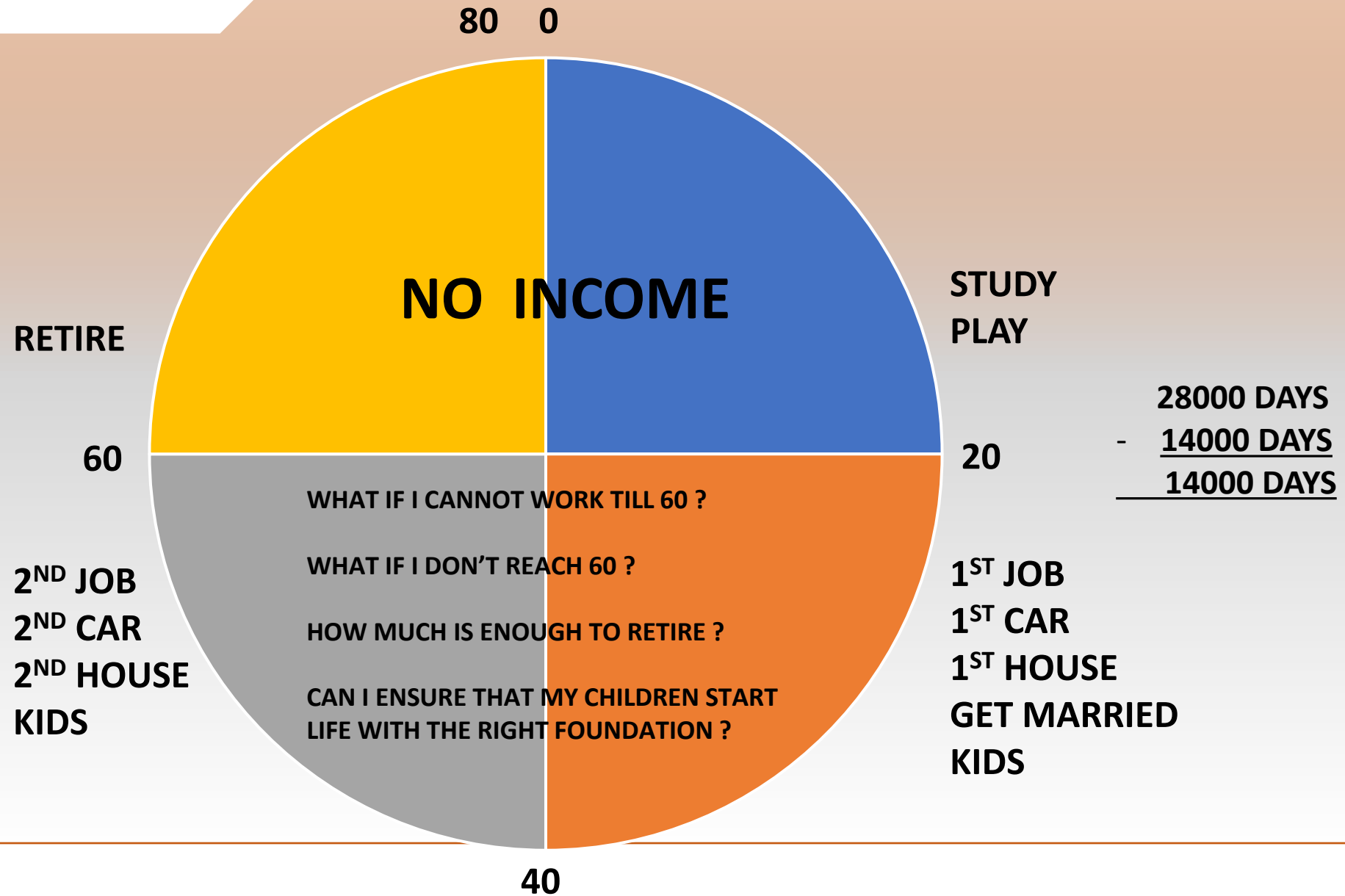


## Financial Goal Achievers

Financial Goal Achievers, is a boutique consulting firm that specializes in Financial Planning, Risk Management, Wealth Creation and Treasury Management Solutions. We are a group of Finance Professionals committed to build a society, wherein every individual would experience Financial Freedom. We help our clients to make smart investment decisions through solid relationships founded on uncompromising integrity, trust and personalized services.



# 28K CIRCLE OF LIFE



## 3 Pillars of Financial Planning

- **Provision for Emergency Fund**
- **Provision for Life Long Earning**
- **Provision to Beat Inflation**

## Retire at what income ?

**"The Question Isn't  
At *What Age* I Want  
To Retire; It's At  
What Income."**

*- George Foreman*



## Plan an Enjoyable 2<sup>nd</sup> Innings





# TOP FINANCIAL MISTAKES

AGE OF 20



**NO  
PLANNING  
FOR  
RETIREMENT**

**AVOIDING  
INVESTMENT**

AGE OF 30



**UN-ORGANIZED  
SAVINGS**

**IMPROPER  
FINANCIAL  
PLANNING**

**BUYING FLASHY  
PRODUCTS**

AGE OF 40



**BURDENED  
BY LOANS**

**NO THOUGHTS  
ABOUT  
WRITING  
A WILL**

AGE OF 50



**DIPPING INTO  
RETIREMENT  
SAVING**

**NOT REALISING  
RETIREMENT  
COSTS**

## **PENSION : Cambridge Dictionary**

**A regular income paid by the Government or a Financial Organization to someone who no longer works, usually because of their age or health**



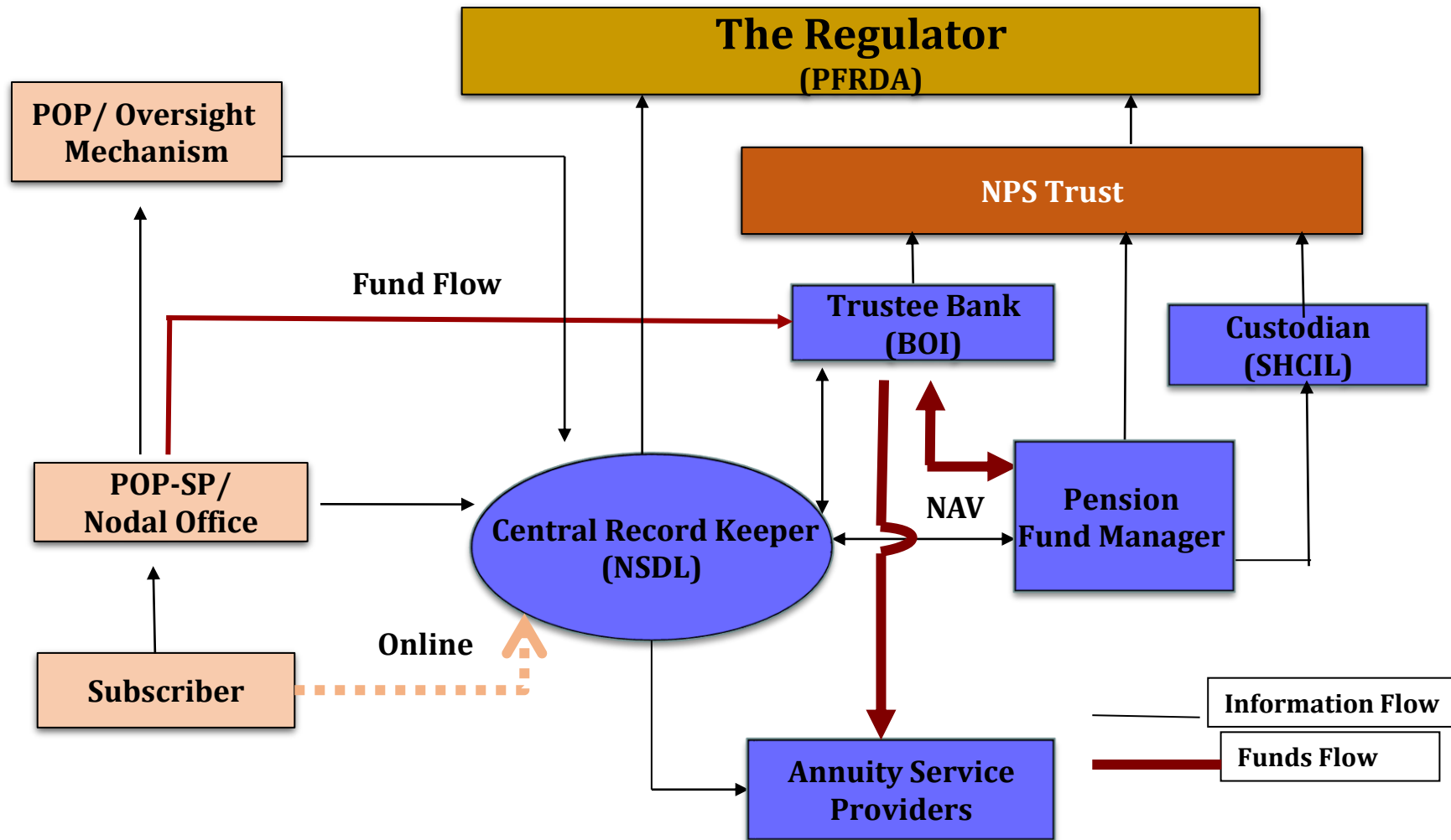
## National Pension System : NPS

- Government of India introduced NPS for Central Government Employees joining services w.e.f 1<sup>st</sup> Jan 2004. On 1<sup>st</sup> May 2009, on voluntary basis NPS was made available for All citizens of India.
- PFRDA was created as regulator for the Pension sector.
- NPS is based on Personal Retirement Accounts (PRAs) created for individual members.
- NPS accretes savings into subscribers PRA while he is working and use the accumulations at retirement to procure a pension for the rest of his life.

## Benefits of NPS

- **Simple**
- **Flexible**
- **Portable**
- **Strong Regulations**
- **Tax Savings**
- **Transparent Cost Structure**

# NPS Architecture

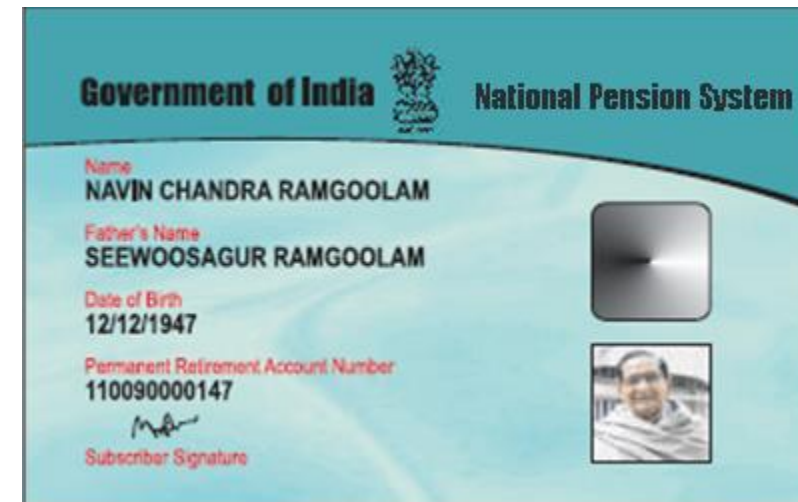


NPS has unbundled Architecture, where each function is performed by different entity

# Key Features of NPS

Every individual subscriber is issued a Permanent Retirement Account Number (PRAN) card

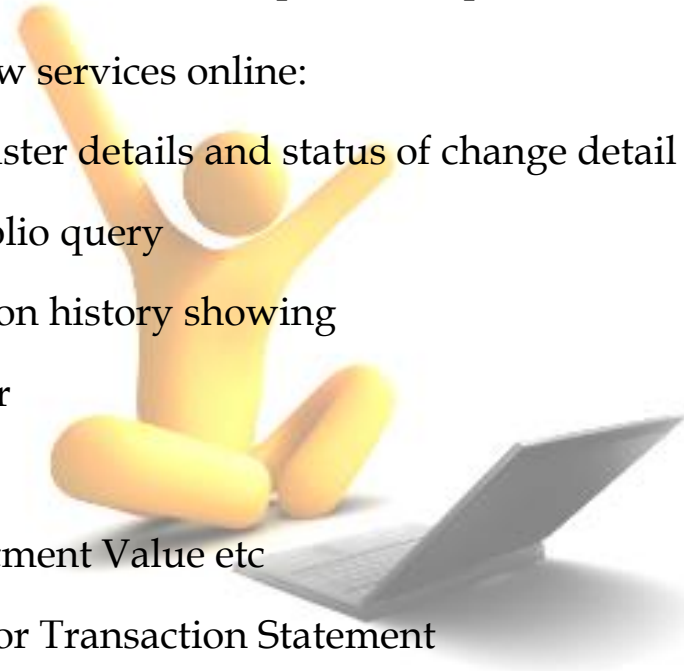
- ❑ 12 digit unique number
- ❑ Issued by Government of India, hence can be used as Identity Proof
- ❑ In case lost/stolen, Provision of reprint of PRAN card on chargeable basis



# Key Features of NPS

NPS is a fully transparent, web enabled, easy to understand system.

- ❑ Secure web based interface provided to subscriber
- ❑ Unique I-Pin allotted to subscriber, with periodical password changing policy
- ❑ Subscriber can avail below services online:
  - ✓ Can view Client master details and status of change detail requests
  - ✓ Can generate Portfolio query
  - ✓ Can view Transaction history showing
    - ❖ Fund Manager
    - ❖ Units Allotted
    - ❖ NAV & Investment Value etc
  - ✓ Request and print for Transaction Statement
  - ✓ Can raise Grievances online against any intermediary



## Tax Benefits of NPS

### **Tax Benefit available to Individual:**

Any individual who is Subscriber of NPS can claim tax benefit under Sec 80 CCD (1) with in the overall ceiling of Rs. 1.5 lac under Sec 80 CCE.

### **Exclusive Tax Benefit to all NPS Subscribers u/s 80CCD (1B)**

An additional deduction for investment up to Rs. 50,000 in NPS (Tier I account) is available exclusively to NPS subscribers under subsection 80CCD (1B). This is over and above the deduction of Rs. 1.5 lakh available under section 80C of Income Tax Act. 1961.

### **Tax Benefits under the Corporate Sector:**

#### **a. Corporate Subscriber:**

Additional Tax Benefit is available to Subscribers under Corporate Sector, u/s 80CCD (2) of Income Tax Act. Employer's NPS contribution (for the benefit of employee) up to 10% of salary (Basic + DA), is deductible from taxable income, up-to 7.5 Lakh.

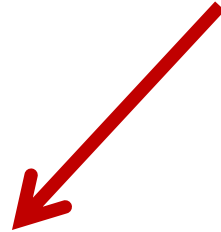
#### **b. Corporates**

Employer's Contribution towards NPS up to 10% of salary (Basic + DA) can be deducted as 'Business Expense' from their Profit & Loss Account



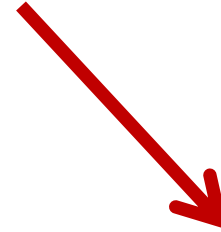
# Type of Accounts

- Under NPS two types of accounts are available



## **Tier-I account:**

Subscriber shall contribute his savings for retirement into Tier-I non-withdrawable account.



## **Tier-II account:**

- Voluntary savings facility.
- Subscriber will be free to withdraw his savings from this account whenever he wishes.

# Investment Option in NPS

In NPS the Subscriber has the

## Choice of Ten Pension Funds

SBI Pension Fund / LIC Pension Fund /  
UTI Pension Fund / ICICI Pension Fund /  
Kotak Pension Fund / HDFC Pension Fund /  
Birla Pension Fund / Tata Pension Fund /  
Max Life Pension Fund /  
AXIS Pension Fund

## Choice of Approach

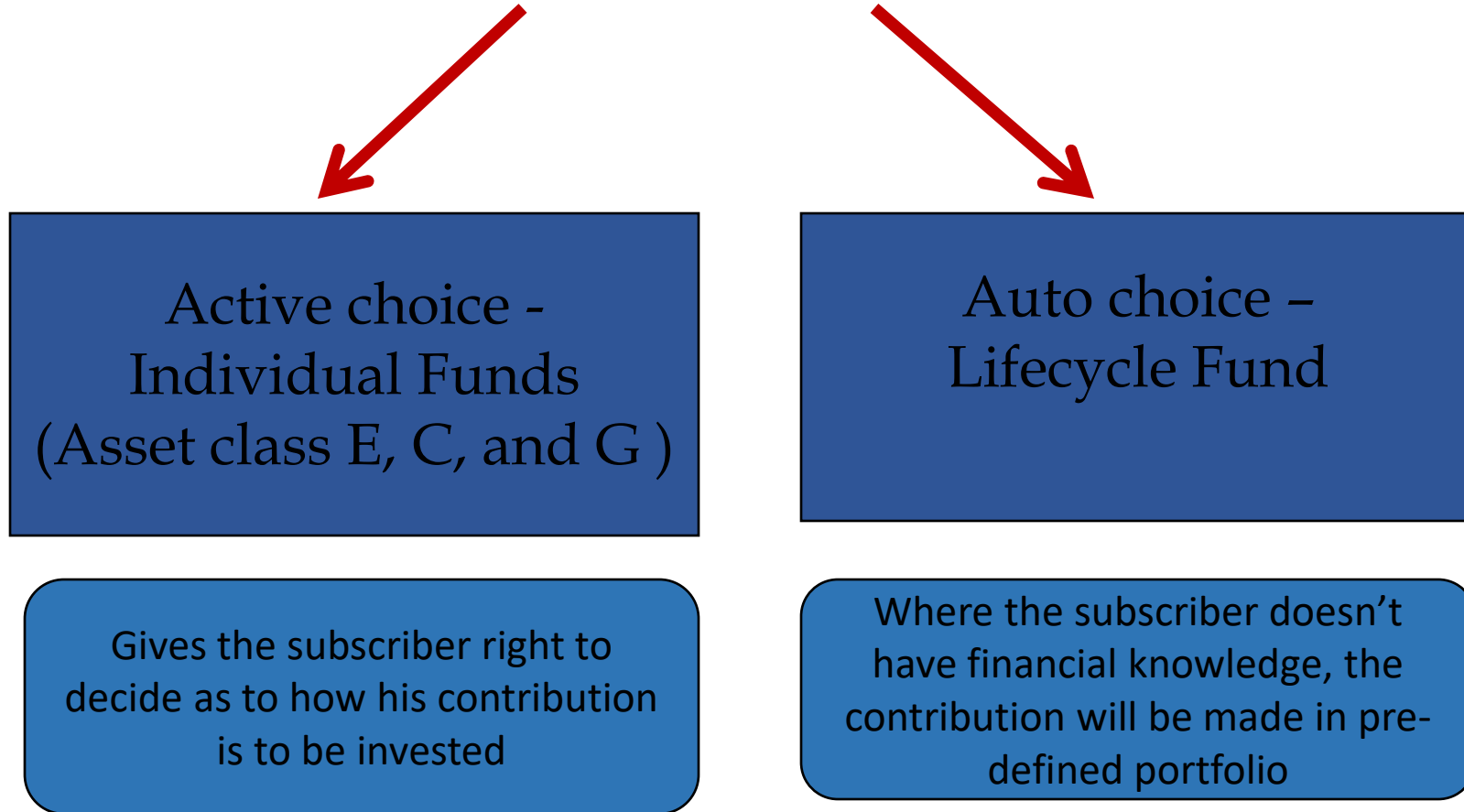
- Active Choice (Active Fund Management by Subscriber)
- Auto Choice (Default scheme with a life cycle fund option)

## Choice of Three Schemes

- Asset Class E: Equity
- Asset Class C: Fixed Income
- Asset Class G: Government Securities

# Schemes / Investment Approach

- NPS offers two approaches to invest subscriber money



# Approach 1: Active Choice

- Subscriber have the option to actively decide as to how his NPS pension contribution is to be invested in the three options i.e.
  - ❑Asset Class E - investments in predominantly equity market instruments
  - ❑Asset Class C - investments in fixed income instruments other than Government securities
  - ❑Asset Class G - investments in Government securities.

# Approach 2: Auto Choice

- ❑ Subscribers who do not have
  - ✓ the financial and investment knowledge
  - ✓ unable/unwilling to exercise any choice of investment,
  - then their contribution can be invested in accordance with the Auto Choice option.
  
- ❑ In this option, the investments will be made in a life-cycle fund.
  
- ❑ The fraction of funds invested across three asset classes E, C & G will be determined by a pre-defined portfolio.

# Auto Choice: Lifecycle Fund

- ❑ At the lowest age of entry (18 years), the auto choice will entail investment of 50% of pension wealth in “E” Class, 30% in “C” Class and 20% in “G” Class.
- ❑ The ratios of investment will remain fixed for all contributions until the subscriber reaches the age of 36.
- ❑ From age 36 onwards, the weight in “E” and “C” asset class will decrease annually and the weight in “G” class will increase annually till it reaches 10% in “E”, 10% in “C” and 80% in “G” class at age 55.



# Contribution Amount - Tier I Account

❑ Contribution payment for Tier I account:

Minimum Contribution at the time of account opening	Rs. 500
Minimum amount per contribution	Rs. 500
Minimum total contribution in the year	Rs. 6000
Minimum frequency of contributions	1 per year

# Contribution Amount - Tier II Account

❑ Contribution payment for Tier II account:

Minimum Contribution at the time of account opening	Rs. 1000
Minimum amount per contribution	Rs. 250
Minimum total contribution in the year	Rs. 2000
Minimum frequency of contributions	1 per year

# Charge Structure

Intermediary	Charge head	Service Charges*	Method of Deduction
<b>CRA</b>	PRA Opening charges	Rs. 50	Through cancellation of units
	Annual PRA Maintenance cost per account	Rs. 225	
	Charge per transaction	Rs. 5	
<b>POP (Maximum Permissible Charge for each subscriber)</b>	Initial subscriber registration and contribution upload	Rs. 40	To be collected upfront
	Any subsequent transactions	Rs. 20	
<b>Trustee Bank</b>	Per transaction emanating from a RBI location	Zero	Through NAV deduction
	Per transaction emanating from a non-RBI location	Rs. 15	
<b>Custodian (On asset value in custody)</b>	Asset Servicing charges	0.0075% p.a for Electronic segment & 0.05% p.a. for Physical segment	Through NAV deduction
<b>PFM charges</b>	Investment Management Fee	0.0009% p.a.	Through NAV deduction

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

# Comparison of Charges

Investment Illustration for Annual Contribution of Rs 1,00,000 in Comparable Products

Product	Year	Premium Allocation Charge* (B)	Net Invested Premium (C)	Policy Admin Charges ** (D)	Fund Mngmnt Charge (E)	Total Charges (G=D+E)	Net Premium Value (H=C-G)
NPS	First Year	100	99,900	354.00	0.0009%	391.45	99,508
	Subsequent Year	80	99,920	304.00	0.0009%	328.00	99,584
Unit Linked Pension	First Year	8000	92,000	5519.99			84,897
	Subsequent Year (Max till 5 years)	2000	98,000	5879.99	1%	7566.57	90,433
Mutual Fund	First Year	0	100,000	0.00	2.50%	2757.50	97,242
	Subsequent Year	0	100,000	0.00	2.50%	2757.50	97,242

Lowest charge structure with NPS gets maximum fund invested for investor

## •Premium Allocation Charge (B)

- NPS is Rs 20 initial registration and Rs 20\*4 for minimum four contributions.
- ULPP has 8% allocation charge. This can be 4% till first five years.
- Mutual Fund: No allocation charge.

## •Policy Administration Charge (D)

- NPS: Includes CRA charge of Rs 50 in first year for registration and Rs 280 every year for annual maintenance.
- ULPP: Assumes 0.5% of annual premium per month
- Mutual Fund: None

## •Fund Management Charge (E)

- NPS: It is 0.0009% every year
- ULPP: Varies. Here assumed at 1% every year
- Mutual Fund: Here assumed at 1.5% every year

GST =18% for all charges.

# Annuity in NPS

- ❑ Annuity is the fixed monthly (periodic) income which a subscriber will get against the corpus invested.
- ❑ The larger the corpus size, bigger the annuity.
- ❑ In case of normal retirement, subscriber can annuities a minimum of 40% and maximum of 100 % of his corpus towards buying annuity.
- ❑ NPS provides an option to the subscriber to decide his retirement age which can be anytime before 60. In such case subscriber can annuities a minimum of 80% and maximum of 100 % of his corpus towards buying annuity.
- ❑ At the time of exit the subscriber will have an option to purchase annuity online.

# Annuity Selection

- ❑ Subscriber would be given the following online facilities –
  - ✓ Selection of Annuity Service Provider (ASP).
  - ✓ Selection of annuity scheme.
  - ✓ Option to change ASP & scheme (if already registered) before attaining retirement age.
  - ✓ The entire transfer of amount between NPS System and ASP will take without any manual intervention.
- ❑ ASP to be regulated by IRDA.

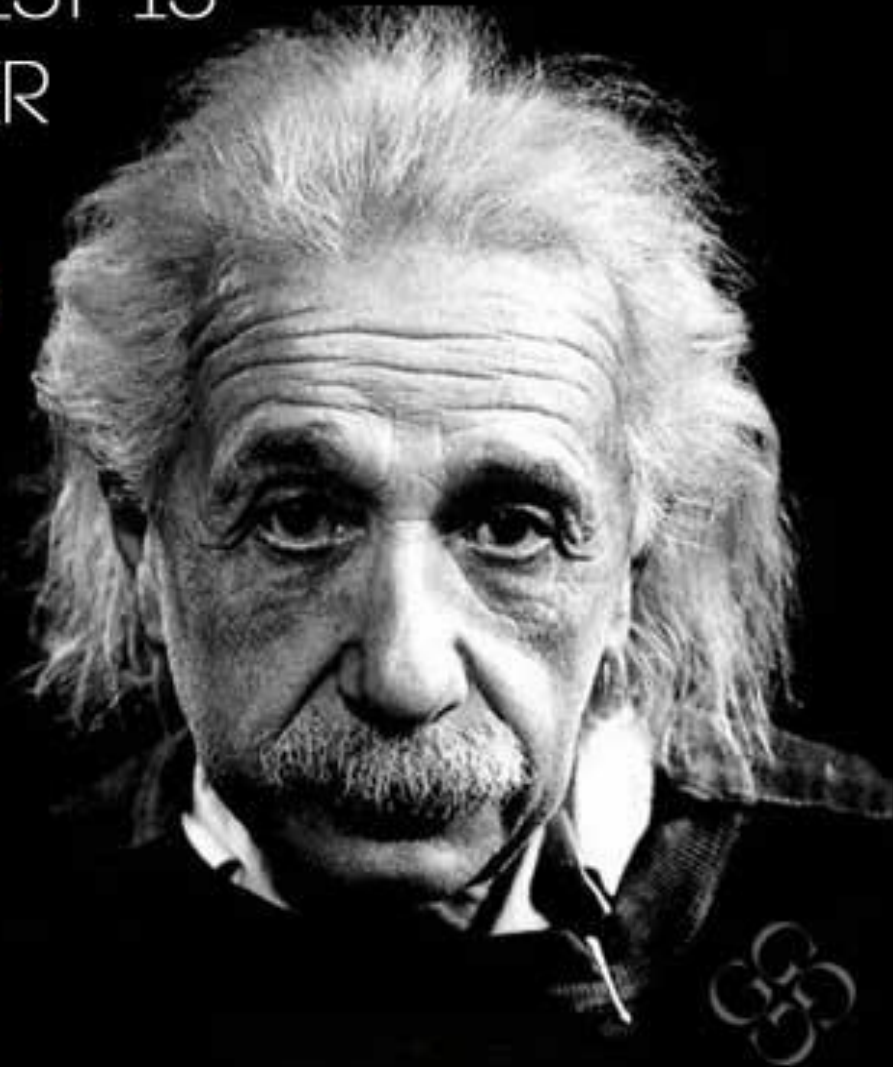


# Deferred Withdrawal

- ❑ On attaining Normal Retirement age of 60 years, subscriber is required to invest minimum 40% of his/her accumulated savings (pension wealth) to purchase a life annuity from any IRDA-regulated life insurance company
- ❑ The remaining pension wealth can be withdrawn as lump sum at any point of time before the age of 70.

“COMPOUND INTEREST IS  
THE EIGHTH WONDER  
OF THE WORLD. HE  
WHO UNDERSTANDS  
IT, EARNS IT ... HE  
WHO DOESN'T ...  
PAYS IT.”

-ALBERT EINSTEIN



# Compound Interest Formula (including Principal)

Amount

Interest Rate (decimal)

Time

$$A = P \left( 1 + \frac{r}{n} \right)^{nt}$$

Principal

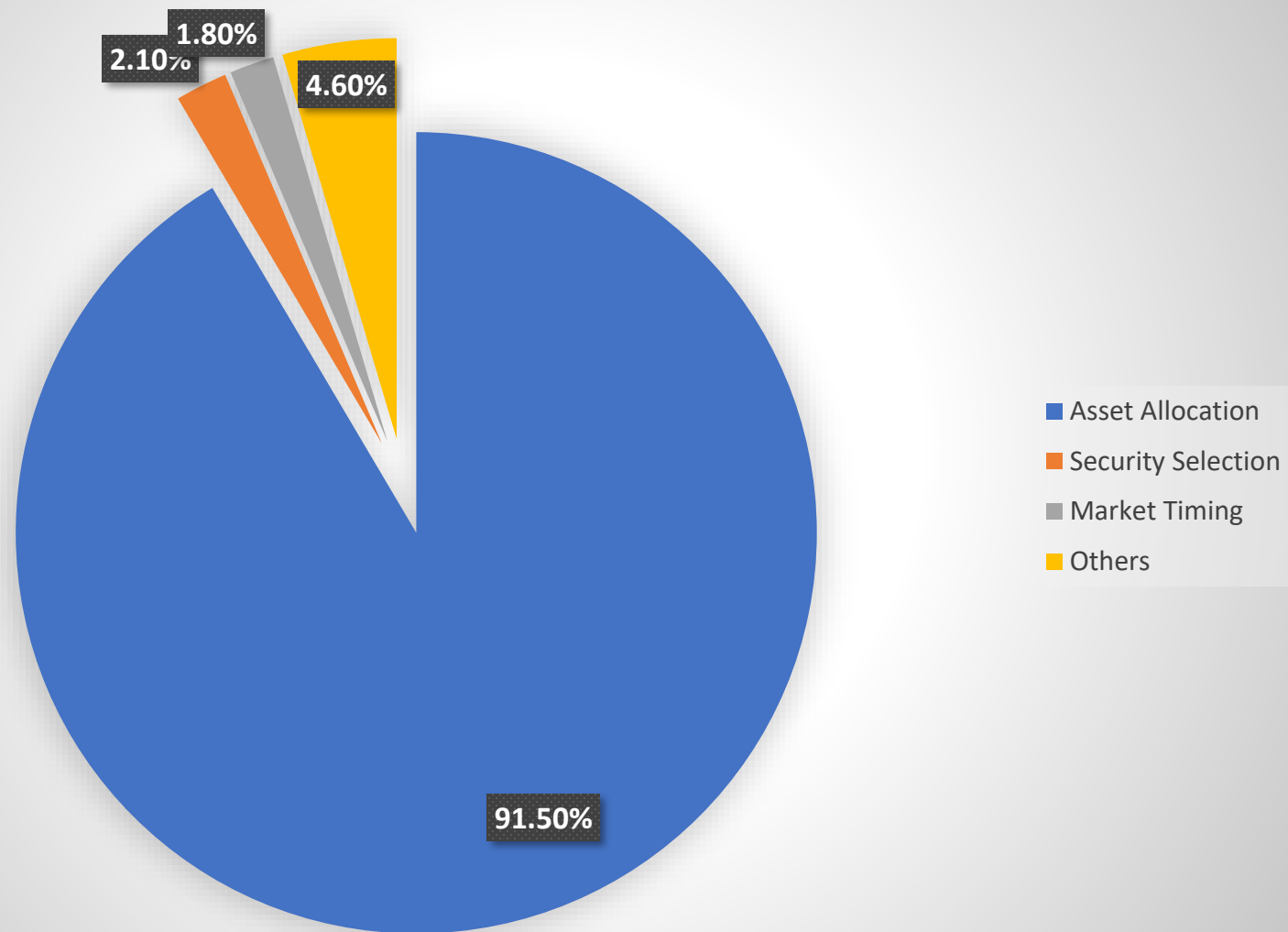
Number of times interest  
is compounded per unit 't'

thecalculatorsite.com

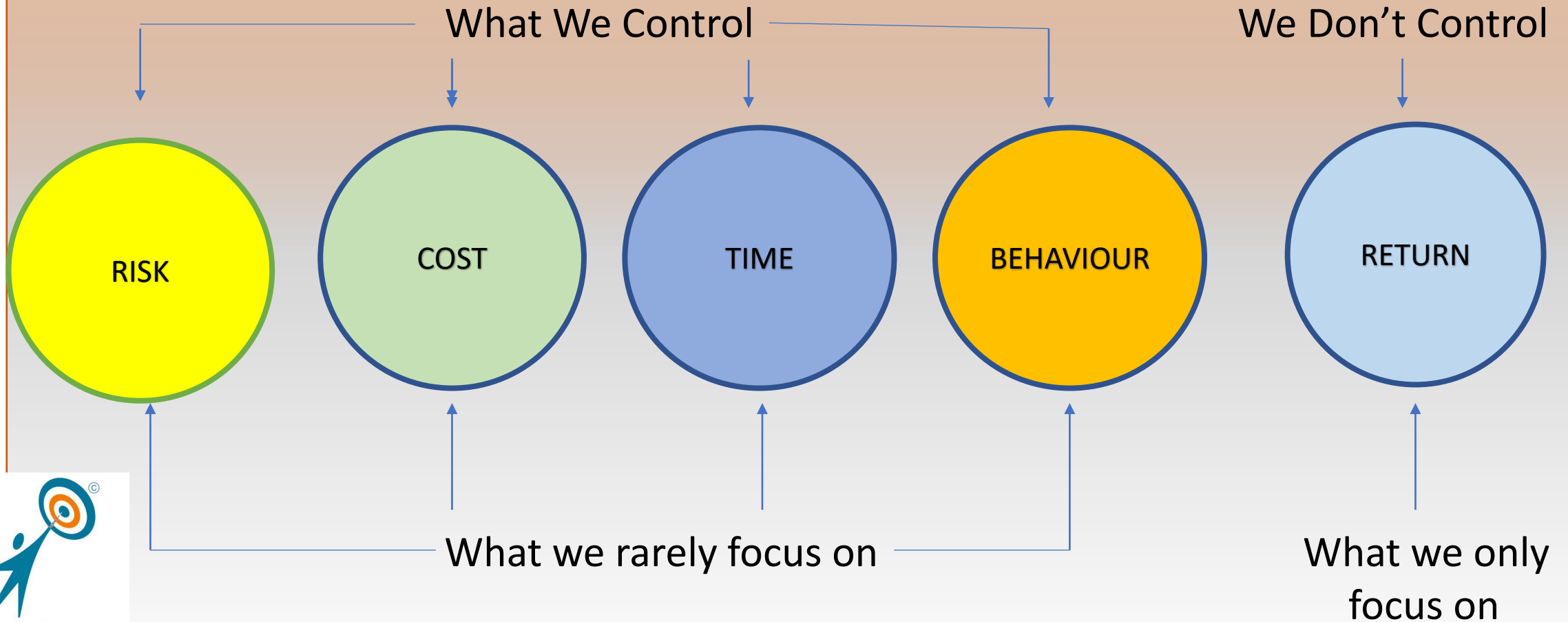
# Magic of Compounding

Tenure ( Years )	SIP per month Rs.	Rate of Return	Expected Corpus (Rs.)	Amount Invested (Rs.)	Wealth Created	% Gain
1	5000	15%	65,110	60,000	5,110	9%
2	5000	15%	141,000	120,000	21,000	18%
3	5000	15%	228,000	180,000	48,000	27%
4	5000	15%	330,000	240,000	90,000	38%
5	5000	15%	448,000	300,000	148,000	49%
6	5000	15%	586,000	360,000	226,000	63%
7	5000	15%	745,000	420,000	325,000	77%
8	5000	15%	930,000	480,000	450,000	94%
9	5000	15%	1,144,000	540,000	604,000	112%
10	5000	15%	1,393,000	600,000	793,000	132%
11	5000	15%	1,682,000	660,000	1,022,000	155%
12	5000	15%	2,018,000	720,000	1,298,000	180%
13	5000	15%	2,407,000	780,000	1,627,000	209%
14	5000	15%	2,860,000	840,000	2,020,000	240%
15	5000	15%	3,384,000	900,000	2,484,000	276%

## Aspects of Portfolio Returns



# Controllable vs Uncontrollable





## NPS Scheme Returns

PFM	Date of Inception	Returns since Inception		
		E	C	G
<b>SBIPF</b>	15 May 2009	10.66%	9.75%	9.04%
<b>LICPF</b>	23 July 2013	12.64%	9.21%	9.90%
<b>UTIRSL</b>	21 May 2009	12.01%	8.77%	8.16%
<b>ICICI PF</b>	18 May 2009	12.13%	9.71%	8.44%
<b>KOTAK PF</b>	15 May 2009	11.56%	9.39%	8.42%
<b>HDFC PF</b>	1 August 2013	14.63%	9.45%	9.03%
<b>BIRLA PF</b>	9 May 2017	12.36%	8.39%	7.59%
<b>TATA PF</b>	19 August 2022	3.28%	1.19%	2.18%
<b>MAX LIFE PF</b>	12 September 2022	-2.96%	1.32%	2.33%
<b>AXIS PF</b>	21 August 2022	-0.13%	1.02%	1.48%

## NPS Return Illustration

Asset Class	E	C	G	Invested Amount	Expected Amount	Wealth Gain	Returns
SBI Pension Fund Returns	11%	10%	9%				
Annual Contribution	1,00,000	60,000	40,000	2,00,000			
10 Years	18,56,143	10,51,870	6,62,412	20,00,00	35,70,425	15,70,425	79%
20 Years	71,26,514	37,80,150	22,30,581	40,00,000	131,37,245	91,37,245	228%
30 Years	220,91,317	108,56,605	59,43,009	60,00,000	388,90,931	328,90,931	548%

## NPS : Annuity Service Provider

- Aditya Birla Sunlife Insurance Company Ltd
- Bajaj Allianz Life Insurance Company Ltd
- Canara HSBC Life Insurance Company Ltd
- Edelweiss Tokio Life Insurance Company Ltd
- HDFC Life Insurance Company Ltd
- ICICI Prudential Life Insurance Company Ltd
- IndiaFirst Life Insurance Company Ltd
- Kotak Mahindra Life Insurance Company Ltd
- Life Insurance Company of India
- Max Life Insurance Co. Ltd
- PNB Metlife Insurance Company Ltd
- Star Union Dai-ichi Life Insurance Company Ltd
- SBI Life Insurance Company Ltd
- Tata AIA Life Insurance Company Ltd

## NPS : Annuity Income Illustration

NPS Corpus utilized for Annuity ₹ 1,00,00,000		
Annuity Service Provider	Monthly Annuity with RoP	Monthly Annuity without RoP
SBI Life Insurance Co. Ltd	₹ 59,452 (7.13%)	₹ 70,917.0 (8.51%)
Bajaj Allianz Life Insurance Co. Ltd	₹ 59,417.69 (7.13%)	₹ 68,127.71 (8.18%)
TATA AIA Insurance Co. Ltd	₹ 58,776 (7.05%)	₹ 64,866 (7.78%)
HDFC Life Insurance Co. Ltd	₹ 57,120 (6.85%)	₹ 72,160 (8.66%)
ICICI Prudential Life Insurance Co. Ltd	₹ 55,725 (6.69%)	₹ 61,868 (7.42%)
Kotak Mahindra Life Insurance Co. Ltd	₹ 57,186 (6.86%)	₹ 72,100 (8.65%)

## Holistic Investing

- **Invest in Yourself**
- **Invest in Your Relationships**
- **Invest in Spiritualism**

GOD, GRANT ME THE  
SERENITY  
TO ACCEPT  
THE THINGS I  
CANNOT CHANGE.....  
COURAGE  
TO CHANGE  
.....THE THINGS I CAN  
WISDOM  
TO KNOW  
THE DIFFERENCE.....

## QUESTIONS & ANSWERS

**Feel free to ask Any Question**



Financial Goal<sup>TM</sup>  
Achievers

Mobile : +91-7506648757

Email : [soumit@4fga.net](mailto:soumit@4fga.net)

220, Shiv Centre, Plot 72, Sector 17,  
Vashi, Navi Mumbai,  
Maharashtra – 400703

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THANK YOU

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