FAQ on National Pension System (NPS)

Contents

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1) What is NPS?

New Pension System (NPS) is a scheme introduced originally in 2003 by the Government of India to enable individuals to save for their retirement, and was extended in 2009 to cover employees of private sector as well. Effective April 1st, 2011, the Government has exempted from Income tax the contribution
through the employer.

The scheme is administered and controlled by the Pension Fund Regulatory & Development Authority – PFRDA (www.pfrda.org.in)

In NPS, a subscriber contributes every year till retirement and the contribution is invested as per the investment pattern selected by the subscriber. On retirement, part of the investment corpus (Pension Wealth) accumulated is paid in lump sum while the remaining goes in purchasing a life annuity which will ensure stable monthly income to the subscriber till death.

2) Who can invest in NPS?

Any Indian citizen, whether resident or non-resident, can invest in this scheme provided he is between 18 to 60 years of age as on the date of submission of application. The applicant would also be expected to complete the regular KYC formalities before opening the account.

3) What are the benefits of NPS?

- Voluntary - Open to all Indian Citizens
- Simple - Easy to operate
- Flexible - Option for choosing Pension Funds
- Investment Option - Choose between Equity / Fixed Income Instruments / Govt. securities
- Portable - Can be operated from anywhere in the country
- Regulated - Regulated by PFRDA, a statutory authority
- Cost - Lowest fund cost
- Returns - Market driven returns

4) What are the types of account under NPS?

Tier I and tier II are the two types of accounts available for investment in NPS.

- Tier-I account: You shall contribute your savings for retirement into this non-withdrawable account.
- Tier-II account: This is a voluntary savings facility. You will be free to withdraw your savings from this account whenever you wish, subject to certain conditions.

However, a subscriber needs to have Tier I account before opening tier II account.

5) What are the differences between Tier I and Tier II accounts?

	Tier I	Tier II
Contribution	Minimum One Contribution per year.	No such requirements.
	Minimum Contribution - Rs.500 at the time of Account opening.	Minimum Contribution - Rs.1,000 at the time of Account opening.
	Minimum Contribution - Rs.500 per contribution.	Minimum Contribution Rs.250 per contribution.
	Minimum Annual Contribution - Rs.6,000	No such requirements, contribution is purely voluntary.
	Non-withdrawable, balance keeps accumulating at end of each year	Withdrawable, subject to the condition that a minimum balance of Rs.2,000 should be maintained at the end of each Financial Year.
Withdrawal	One time withdrawal of up to 20% before 60 years, balance 80% has to go for Annuity	No limit on Withdrawal
	At 60 years can withdraw 60% and balance 40% needs to go into Annuity.	Transfer to Tier I allowed.
Pension Payout	Customer to choose the Annuity Fund	Flexibility of anytime withdrawal.
	Pension will be paid till the age of 70 years and balance amount to be withdrawn	

6) What are the tax benefits available under NPS?

Amounts allocated under the FBP plan towards NPS would be fully tax exempt.

7) What are the charges under NPS?

NPS offers an extremely low cost option for retirement planning. Because of such low charges, the banks and other intermediaries do not promote the NPS scheme.

A 0.0009%* fee (based on assets under management) for managing your wealth, makes pension funds under NPS perhaps the world's lowest cost money managers.

Following are the summary of charges under NPS:

Intermediary	Charge Head	Service Charge*	Method of Deduction
NSDL (Record keeping Agency)	Account Opening Charges	Rs.50	Through cancellation of units
	Annual maintenance cost per account	Rs.280	
	Charge per transaction	Rs.6	
ICICI Bank (POP)	Initial subscriber registration and contribution upload	Rs.40	To be collected upfront
	Any subsequent transactions	Rs. 20	
Custodian	Asset Servicing charges	0.0075%	Through NAV deduction
Fund Manager	Investment Management Fee	0.0009% p.a	Through NAV deduction

- If the subscriber contributes less than Rs. 6,000 in a year, then

  a. He would have to bear a default penalty of Rs 100 per year of default and the account would become dormant.
  b. In order to reactivate the account, the subscriber would have to pay the minimum contributions, along with penalty, due for the period of dormancy.
  c. A dormant account shall be closed when the account value falls to zero.

- The fee structure may change as may be decided by PFRDA/NPS Trust from time to time.

8) Who manages the amounts contributed to NPS?

PFRDA has appointed six Pension Fund Managers (PFM) to manage the fund, and a subscriber has to choose one with whom he wishes to place his money.

- Pension Fund Manager available are listed below in alphabetical order:

○ ICICI Prudential Pension Funds Management Company Limited
○ IDFC Pension Fund Management Company Limited
○ Kotak Mahindra Pension Fund Limited
○ Reliance Capital Pension Fund Limited
○ SBI Pension Funds Private Limited
○ UTI Retirement Solutions Limited

A subscriber has to compulsorily select one of these fund managers; otherwise the application will be rejected. In case he is not satisfied with the performance of a fund manager, he has the option to switch to another manager. However, this option can be utilized only once in a financial year.

9) Where do the funds get invested?

After selecting the fund manager, the subscriber needs to select any one of the two approaches available to invest the money.

The asset classes under which the funds are invested are equity (E), fixed-income instruments (C) or government securities (G).

NPS offers the following two approaches:

1. Active choice- subscriber has an option to decide the % in various asset classes.

    - A subscriber can invest up to 50% (max limit) of its pension wealth in equities and the remaining either in fixed-income instruments or government securities or both.
    - Once the option is selected, the pension fund managers will manage your investment in the said proportion.
    - A subscriber has an option to change his allocation pattern for subsequent investments.

2. Auto choice-lifecycle fund

    - In case an individual does not want to choose the allocation pattern or in case he is not aware which allocation pattern is right for him, he can choose auto choice option.
    - If the subscriber does not select any option, by default auto choice will be selected.
    - In this option, the investments are made in a lifecycle fund. The proportion of funds across the above 3 asset classes will be determined by a pre-defined portfolio based on age.
    - When the subscriber is young, major portion of the investment will go to equities. As he grows old, the exposure to equities will reduce and government securities will increase.

10) What are the risks to take note of?

1. There are no guarantees on investment. NPS is a defined contribution plan and the benefits would depend upon the amounts of contributions invested and the investment growth up to point of exit from NPS.
2. You may seek professional advice to assist you in planning your finances. However, this would be your own decision and PFRDA would not be responsible for any consequences.
3. Past performance of the Fund Manager does not guarantee future performance of the investment.
4. The name of the Fund does not in any manner indicate either the quality of the investment scheme or its future prospects and returns.
5. All investments are subject to market risks and there is no assurance or guarantee that the investment objectives shall be achieved.
6. Investment involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal.
7. Value of your investment in the NPS may go up or down depending upon the forces and factor affecting financial markets in general.
8. Tax laws may change, affecting the Return On Investment (ROI).

Please read through the detailed statement of other risks available on the PFRDA website.

11) How do I enroll myself for the NPS?

- As the first step, you need to allocate your NPS contribution amount under the FBP definition. This can be done through MyPay FBP definition, available on https://MyPay.Cognizant.com.
- You have an option of setting up your NPS Contribution by reallocating the amounts that are currently available under the FBP scheme – like Car Running, Medical, Special allowance etc.
- The amount so allocated will be fully tax exempt, subject to a maximum of 10% of your basic salary.
- After the monthly payroll process, Cognizant will deposit the contribution amount to ICICI bank, which has been appointed to serve all our associates. The details of amount deposited will also be made available on the MyPay portal.

12) Is NPS in addition to PF and Superannuation or replaces them?

This is absolutely an additional option of retirement planning, over and above the existing options of Superannuation and Provident Fund.

With this additional benefit being brought in, an associate can now contribute tax-free for retirement under the following schemes made available in the FBP platform:

- Compulsory - Provident Fund – 12 % of basic
- Optional – Super Annuation – 15% of basic subject to a maximum of INR 8,333 p.m.
- Optional – National Pension Scheme – 10% of basic
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13) Who is going to be the Point of contact for NPS?

We have appointed ICICI Bank as the Point of Presence (POP) for supporting Cognizant Associates. Once an associate makes an allocation towards the NPS in the FBP platform, ICICI Bank will reach out to the associate and get the documentation completed.

14) What kind of documentation is required to be completed?

ICICI Bank will work with the associates and take care of getting all the documentation completed – including the KYC formalities.

While completing the documentation, the associate would be required to make the following choices.

- Choose the Pension Fund Manager. Options available are listed below in alphabetical order:
    - ICICI Prudential Pension Funds Management Company Limited
    - IDFC Pension Fund Management Company Limited
    - Kotak Mahindra Pension Fund Limited
    - Reliance Capital Pension Fund Limited

- SBI Pension Funds Private Limited
- UTI Retirement Solutions Limited

- Choose the investment options

  - Active choice - Individual Funds - You will have the option to actively decide as to how your NPS pension wealth is to be invested in the following three options:
    - 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.

  - Auto choice - Lifecycle Fund

    - In this option, the investments will be made in a life-cycle fund. Here, the fraction of funds invested across three asset classes will be determined by a predefined portfolio.
    - For the age band of 18 to 36 years, the auto choice will entail investment of 50% of pension wealth in "E" Class, 30% in "C" Class and 20% in "G" Class.
    - 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.

15) Where can I get more details about the NPS?

Please go through the web site of PF Regulatory & Development Authority, which has comprehensive information on the scheme and all the related components.
Website: http://www.pfrda.org.in/