

Wealth Creation and Expected Pension in National Pension System

Dr. Sanjay Kumar Bansal

Associate Professor,
Department of Commerce,
NREC College,
Khurja, U.P., India

Anupama Rastogi

Associate Professor,
Department of Mathematics,
Acharya Narendra Dev College,
(University of Delhi), Delhi, India

Introduction

In India social security system was available for all government employees by providing pension after retirement. But a large number of populations not being government employee are not covered with social security after the age of 60. There was need to introduce pension reforms in India. There was need to cover each and every citizen under pension scheme. To fulfill the object in 1998, Government of India set up an expert committee. The purpose of this committee to devise new pension system which can be implemented in India for the welfare of citizens as well as Government employees. Committee submitted its report

about setting up new pension scheme in India in year 2000. Accordingly an Individual will save and accumulate money during his or her working life. On retirement he has to buy an annuity from notified annuity service provider for monthly pension. It is market oriented scheme. Hence In 2004, National Pension System was introduced in India by the Government of India. Earlier it was applicable for all employees of Central and State Government. The scheme was applicable who joined with effect from 01.01.2004. But from 01.05.2009, it was also opened for all Indian Citizens. The purpose of the Government is to scrap pension burden of Central and State employees from itself. The Government was also to leave interest burden. Central and State was willing to cut future liability on account of pension.

Purpose of Scheme

Now by introducing national pension system the funds are under the control of Pension Fund Regulatory and Development Authority. This is autonomous body controlling pension system. The Government was planning to provide pension income to every citizen of India through national pension system. Hence they extended this to all citizens with effect from 01.05.2009. The intention of the Government is to provide financial security during old age. It can be done with the help of national pension system. In national pension system the citizen are encourage to save for their old age. Since a person also saves but at 60 years age he left out or used the sum for various other purposes. So he has no money for their livelihood after 60 years. The scheme

purpose is to save for old age time. It is just that after 60 years he should be able to get some money for their livelihood on monthly basis. This monthly sum is known as pension. It is amount which can be used by citizen without depending on others. The aim of national pension system is to secure minimum post retirement income. The purpose is to give comfortable life after retirement. The objective of the scheme is :

1. To provide old age income to citizen.
2. To provide financial security in old age.
3. To provide market based return instead of fixed return.

Objectives of the Study

The purpose of the study is

1. To know about national pension system
2. Examine the expected pension
3. Fund value (Wealth Generated) in the current scenario.
4. To know about Maturity Cash back impact on different monthly subscription at different age of entry.

Limitations of the study

1. Study is limited to the national pension system.
2. Tier 1 is considered for calculation of wealth.
3. Administration expenses are not considered.

Architecture Of The National Pension System

The nodal agency is Pension Fund Regulatory and Development Authority (PFRDA). It is managing with the help of intermediaries. These intermediaries have vast experience in their area. To give an idea about architecture the details are as follows:

Point of Presence (POP)

These are registered with Pension Fund Regulatory and Development Authority (PFRDA). Generally these are banks and non-banking financial companies. The purpose of these Point of Presence is to provide services to subscribers of national pension system. This is the first point of interaction of NPS subscribers. The authorized branches of POP are known as Point of Presence Service Providers. The range of services re provided by these POP-SP to subscriber of NPS offline.

The NPS Trust

It is established by PFRDA. It handles the funds aspect of the transactions. The legal ownership of the trust and funds are with Board of Trustees of National Pension System Trust. There is a Trustee Bank who acts as intermediary and responsible for day to day flow of fund. In addition it works as per guidelines issued by PFRDA. The primary function of this trustee bank is to receive the NPS funds from all nodal offices and transfer the same to Pension fund or Annuity Service Providers. The NPS trustee bank accounts are maintained on the behalf of NPS subscribers.

Pension Fund Managers

Pension Fund Managers Intermediaries appointed to invest the contribution received from various subscribers.

For Government Sector employees, Pension Fund Managers are

1. LIC Pension Fund Limited,
2. SBI Pension fund Pvt. Limited and

-
3. UTI Retirement Solutions Limited.
 4. For Private and Others Pension Fund Managers are
 5. LIC Pension Fund Limited,
 6. SBI Pension fund Pvt. Limited,
 7. UTI Retirement Solutions Limited,
 8. HDFC Pension Management Company Limited,
 9. ICICI Prudential Pension fund Management Limited,
 10. Kotak Mahindra Pension fund Limited
 11. Birla Sun life Pension Management Limited and
 12. Reliance Capital Pension Limited.

The subscriber will select any one or more of them.

Annuity Service Providers

PFRDA has appointed Annuity Service Providers (ASP). The objective of appointment is to provide annuity to subscribers after the age of 60 or as required by the subscriber. ASP has provided various annuity plans. Every ASP has various annuity plan and subscriber can choose according to his or her suitability. The subscriber will select any one of the annuity plan. Each annuity plan has various features and subscriber can select according to his or her will. ASP will provide monthly pension to the subscriber according to selection of scheme.

Custodian

Custodian is appointed to secure transactions. Stock Holding Corporation of India Limited is appointed as Custodian.

Working of Nps

In national pension system, a subscriber chooses

pension fund manager and the scheme. There are eight pension fund managers and a subscriber has to choose any one or more pension fund manager. After that he has to choose Investment options. Investment options are Active or Auto. In addition he has four choice of Asset Class. These asset classes are Equity, Corporate Debt, and Government Securities. In active choice he can select his choice for his or her contribution to be invested. With single pension fund manager, he has to select asset class. Asset classes are Equity, Corporate Debt, Government Securities and Alternative Assets like Real Estate Investment Trusts and Infrastructure Investment Trust. He can select multiple asset class with different percentage. In active choice he can invest maximum 75% of total assets in Equity. After 50 years, matrix allocation is provided by Pension Fund Regulatory and Development Authority. It is up to age of 60 years. On the same line, at 60 years and above maximum equity allocation will be 50% in Active Choice.

In Auto Choice the allocation of asset is done on predetermined formula. This formula is based on age of subscriber. In Auto Choice (life Cycle Fund) equity contribution is maximum 75%. It depends upon the appetite of risk. In aggressive in equity it is maximum 75% up to age of 35 years. It is 50% for moderate and 25% for conservative. The following table gives an overview about this.

Age Up to	Aggressive			Moderate			Conservative		
	Equity	Corporate Bonds	Government Securities	Equity	Corporate Bonds	Government Securities	Equity	Corporate Bonds	Government Securities
35	75%	10%	15%	25%	45%	30%	50%	30%	20%
40	55%	15%	30%	20%	35%	45%	40%	25%	35%
45	35%	20%	45%	15%	25%	60%	30%	20%	50%
50	20%	20%	60%	10%	15%	75%	20%	15%	65%
55	15%	10%	75%	5%	5%	90%	10%	10%	80%

Return

Actually there is no guaranteed return in NPS. It is market driven return. Actual no interest or dividend or bonus is paid. It is net asset value based system on units allotted to subscriber on account of his or her contribution. Return also depends upon the choice either Active or Auto. The main factor of return also depends upon the investments made in which type of class. Equity gives higher returns. Corporate and Govt. Securities gives less return. High return is possible only in case of taking high risk by investing in equity.

Case Study A – All Citizens – Self Employed Own Contribution Only (Indicative Figures)

Particulars	Case1A	Case 1B	Case 2A	Case 2B	Case 3A	Case 3B	Case 4A	Case 4B
Entry Age	25	25	30	30	35	35	40	40
Retirement Age	60	60	60	60	60	60	60	60
Period (Years)	35	35	30	30	25	25	20	20
Monthly Contribution (Rs.)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Expected Return	9 %	9 %	9 %	9 %	9 %	9 %	9 %	9 %
Principal (Rs.)	16,80,000	16,80,000	14,40,000	14,40,000	12,00,000	12,00,000	9,60,000	9,60,000
Interest Earned (Rs.)	1,01,75,39 2	1,01,75,39 2	59,37,897	59,37,897	33,18,122	33,18,122	17,31,585	17,31,585
Wealth Created (Rs.)	1,18,55,39 2	1,18,55,39 2	73,77,897	73,77,897	45,18,122	45,18,122	26,91,585	26,91,585
Annuity Purchased	100 %	40 %	100 %	40 %	100 %	40 %	100 %	40 %

Annuity Purchased Value (Rs.)	1,18,55,392	47,42,157	73,77,897	29,51,159	45,18,122	18,07,249	26,91,585	10,76,634
Annuity Rate (%)	8 %	8 %	8 %	8 %	8 %	8 %	8 %	8 %
Post Retirement Pension pm (Rs.)	79,036	31,614	49,186	19,674	30,121	12,048	17,944	7,178
Lump sum Withdrawal	0 %	60 %	0 %	60 %	0 %	60 %	0 %	60 %
Lump sum Amount (Rs.)	NIL	71,13,235	NIL	44,26,738	NIL	27,10,873	NIL	16,14,951
Amount to Nominee (Rs.)	1,18,55,392	47,42,157	73,77,897	29,51,159	45,18,122	18,07,249	26,91,585	10,76,634

Source: npstrust.org.in website

It is noted from the above table that if a person is investing in initial age then his wealth will be higher and pension will be higher. It is suitable for those unorganized sector people who are willing to save for their retirement.

Case Study – All Citizens – Self Employed Own Contribution Only (Indicative Figures):

Particulars	Case5A	Case 5B	Case 6A	Case 6B	Case 7A	Case 7B	Case 8A	Case 8B
Entry Age	25	25	30	30	35	35	40	40
Retirement Age	60	60	60	60	60	60	60	60
Period (Years)	35	35	30	30	25	25	20	20
Monthly Contribution (Rs.)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Expected Return	9 %	9 %	9 %	9 %	9 %	9 %	9 %	9 %
Principal (Rs.)	25,20,000	25,20,000	21,60,000	21,60,000	18,00,000	18,00,000	14,40,000	14,40,000
Interest Earned (Rs.)	1,52,63,088	1,52,63,088	89,06,845	89,06,845	49,77,183	49,77,183	25,97,377	25,97,377
Wealth Created (Rs.)	1,77,83,088	1,77,83,088	1,10,66,845	1,10,66,845	67,77,183	67,77,183	40,37,377	40,37,377
Annuity Purchased	100 %	40 %	100 %	40 %	100 %	40 %	100 %	40 %

Annuity Purchased Value (Rs.)	1,77,83,088	71,13,235	1,10,66,845	44,26,738	67,77,183	27,10,873	40,37,377	16,14,951
Annuity Rate (%)	8 %	8 %	8 %	8 %	8 %	8 %	8 %	8 %
Post Retirement Pension pm (Rs.)	1,18,554	47,422	73,779	29,512	45,181	18,072	26,916	10,766
Lump sum Withdrawal	0 %	60 %	0 %	60 %	0 %	60 %	0 %	60 %
Lump sum Amount (Rs.)	NIL	1,06,69,853	NIL	66,40,107	NIL	40,66,310	NIL	24,22,426
Amount to Nominee (Rs.)	1,77,83,088	71,13,235	1,10,66,845	44,26,738	67,77,183	27,10,873	40,37,377	16,14,951

Source: npstrust.org.in website

It is notice from the above table that if a person is investing slightly higher amount in initial age then his wealth will be higher and pension will be higher. It is also suitable for those people who are self-employed and willing to save for their retirement.

Case Study C – Employees Own Contribution And Employer Both Contributing Equal Amount

(Indicative Figures):

Particulars	Case9A	Case 9B	Case 10A	Case 10B	Case 11A	Case 11B
Entry Age	25	25	30	30	35	35
Retirement Age	60	60	60	60	60	60
Period (Years)	35	35	30	30	25	25
Monthly Employer Contribution (Rs.)	4,000	4,000	4,000	4,000	4,000	4,000
Monthly Employee Contribution (Rs.)	4,000	4,000	4,000	4,000	4,000	4,000
Expected Return	9 %	9 %	9 %	9 %	9 %	9 %
Annual Increment in Contribution	3 %	3 %	3 %	3 %	3 %	3 %

Total Employer Contribution (Rs.)	29,02,179	29,02,179	22,83,619	22,83,619	17,50,044	17,50,044
Total Employee Contribution (Rs.)	29,02,179	29,02,179	22,83,619	22,83,619	17,50,044	17,50,044
Total Both Contribution (Rs.)	58,04,359	58,04,359	45,67,239	45,67,239	35,00,088	35,00,088
Interest Earned (Rs.)	2,37,28,617	2,37,28,617	1,36,22,979	1,36,22,979	74,56,082	74,56,082
Wealth Created (Rs.)	2,95,32,976	2,95,32,976	1,81,90,218	1,81,90,218	1,09,56,170	1,09,56,170
Annuity Purchased	100 %	40 %	100 %	40 %	100 %	40 %
Annuity Purchased Value (Rs.)	2,95,32,976	1,18,13,190	1,81,90,218	72,76,087	1,09,56,170	43,82,468
Annuity Rate (%)	8 %	8 %	8 %	8 %	8 %	8 %

Research Analog**ISBN : 978-81-954010-6-2**

Post Retirement Pension pm (Rs.)	1,96,886	78,754	1,21,268	48,507	73,041	29,216
Lump sum Withdrawal	0 %	60 %	0 %	60 %	0 %	60 %
Lump sum Amount (Rs.)	NIL	1,77,19,786	NIL	48,507	NIL	65,73,701
Amount to Nominee (Rs.)	2,95,32,976	1,18,13,190	1,81,90,218	72,76,087	1,09,56,170	43,82,468

Source: Financial Calculator

It is observed from the above table that if employer and employee both are contributing in NPS then the wealth will be much higher due to accumulation on monthly basis.

Conclusion

Despite the many benefits are available to NPS subscriber. But investors are away from this scheme. The reason is lack of awareness and knowledge. NPS portfolio is improved by increasing in Equity. The Government of India has raised limit of Rs.5,00,000 from Rs.2,00,000. In case of wealth is created for Rs.5,00,000 or less than a subscriber can withdraw the whole amount. There is no need to purchase annuity. In future the limit may be enhanced and subscriber may get more benefits. It is inference from above analysis that at early age of entry in NPS and regular contribution with annual increment will give huge value. The wealth generated will be of high value and high pension is available.

References

1. <https://npscra.nsdl.co.in>
2. <https://www.icidirect.com>
3. <https://etmoney.com>
4. <https://www.livemint.com>
5. <https://www.fiancialexpress.com>
6. <https://m.economicstimes.com>
7. <https://www.goodmoneying.com>
8. <https://www.npstrust.org.in>
9. <https://paytmoney.com>
10. <https://pfrda.org.in>
11. <https://paisabazaar.com>