

FAQs NPS

1) What is NPS?

National Pension Scheme (NPS) is an investment cum pension plan launched by the Indian Government. This scheme is regulated and administered by the Pension Fund Regulatory and Development Authority (PFRDA). It is specifically launched by the Government of India to offer financial security to Indian senior citizens. NPS scheme provides impressive long-term savings options so that an individual can plan his/her retirement time efficiently by investing in this safe market-based plan.

2) Who is the regulator of NPS?

PFRDA (Pension Fund Regulatory & Development Authority) is the regulator for NPS.

3) Who can join NPS?

Any citizen of India, whether resident or non-resident can join NPS, subject to the following conditions:

- a) Individuals who are aged between 18-70 years as on the date of submission of his/her application to the POP/POP-SP.
- b) The citizens either as individuals or as employee-employer groups corporates subject to submission of all required information and Know your customer (KYC) documentation.

4) Who are PFMs?

At present, there are seven Pension Fund Managers in the country:

- Aditya Birla Sun Life Pension Management Limited.
- HDFC Pension Management Company Limited.
- UTI Retirement Solutions Limited.
- SBI Pension Funds Private Limited.
- ICICI Prudential Pension Funds Management Company Limited.
- Kotak Mahindra Pension Fund Limited.
- LIC Pension Fund.

SBI Pension Fund, LIC Pension Fund, and UTI Retirement Solutions are the only fund managers who manage pension contributions of government employees under NPS.

5) What is a PRAN?

PRAN (Permanent Retirement Account Number) is the unique and portable number provided to each subscriber under NPS and remains the same throughout. On successful registration, a PRAN will be allotted to the subscriber. It is a 12 digit number.

6) Can an NRI client invest in NPS?

Yes, an NRI client can open an NPS account. The contribution made by NRI is subject to regulatory requirements as prescribed by RBI and FEMA from time to time. If the subscriber's citizenship status changes, his/her NPS account would be closed.

7) If the client is having investments in any other Provident Fund, can he/she still invest in NPS?

Yes. Investment in NPS is independent of your contribution to any Provident Fund.

8) If the client has investments in pension funds of non-government / private entities. Can he/she still invest in NPS?

Yes. Investment in NPS is independent of your subscription to any other pension fund.

9) Who is a POP/POP-SP and what is their role?

Points of Presence (POPs) are the first points of interaction of the NPS subscriber with the NPS architecture. The authorized branches of a POP, called Point of Presence Service Providers (POP-SPs), will act as collection points and extend a number of customer services to NPS subscribers including requests for withdrawal from NPS.

10) What are Tier I & Tier II?

Under the NPS account, two sub-accounts – Tier I & II are provided.

Tier I:

This is the basic tier in NPS. It is a mandatory account. The investment amount is locked till 60 years of age. At the age of 60, 60% of the accumulated amount can be withdrawn, and the remaining amount will be paid out as a monthly pension. Only Tier I is eligible for tax exemption. This is a non-withdrawable retirement account that can be withdrawn only upon meeting the exit conditions prescribed under NPS.

Tier-II:

This is a more flexible tier of NPS, it's a voluntary savings facility available as an add-on to any Tier-1 account holder. Subscribers will be free to withdraw their savings from this account whenever they wish. This carries no tax benefit. An investor needs to have a Tier I investment before they can invest in Tier II.

Investors of NPS need to choose one of the above tiers to make their contribution.

| | Tier I | Tier II |
|--|--|---|
| Eligibility | Any Indian citizen between 18 & 65 years of age | Members of Tier I only |
| Lock-in | Till the age of 60 years | Nil. |
| Minimum number of contributions per year | 1 per year | Nil, contribution is optional |
| Minimum contribution for account opening | Rs 500 | Rs 1,000 |
| Minimum amount for subsequent contribution | Rs 500 | Rs 500 |
| Minimum number of annual contributions | 1 per year | Not mandatory |
| Tax benefits on contribution | Upto Rs 1.5 Lakh under Section 80C. Upto Rs 50k under Section 80CCD (1B) | No tax benefit |
| Taxation on withdrawal | At maturity, the entire corpus is tax-exempt | The entire corpus can be withdrawn, which is added to income and taxed as per the tax slab one falls in |

11) What are the different Fund Management Schemes available to the subscriber?

The NPS offers two approaches to invest subscriber's money:

a) Active choice – Here the individual would decide on the asset classes in which the contributed funds are to be invested and their percentages

NPS offers 4 funds to subscribers - Equities (E), Corporate Bonds (C) Government Securities(G), and Alternate Investment (A)

1. Equity (E): Scheme invests predominantly in Equity market instruments.
2. Corporate Debt (C): Scheme invests in Bonds issued by Public Sector Undertakings (PSUs), Public Financial Institutions (PFIs), Infrastructure Companies and Money Market Instruments
3. Government Securities (G): Scheme invests in Securities issued by Central Government, State Governments and Money Market Instruments
4. Alternative Investment Funds (A): In this asset class, investments are being made in instruments like CMBS, REITS, AIFs, etc.

NPS restricts investment towards Equities Funds to 75% of contribution amount for both Tiers I and Tier II NPS Accounts. However, subscribers can invest up to 100% in Corporate Bonds or Government Bank Fund.

Further, Investment in Alternate Funds is restricted to 5% of the contribution amount. The alternate Funds option is there for Tier I NPS account only.

b) Auto choice - This is the default option under NPS and wherein the management of investment of funds is done automatically based on the age profile of the subscriber. There are 3 Life Cycle Funds - LC 75, LC 50, and LC 25. These are also known as Aggressive, Moderate, and Conservative Life Cycle Funds respectively.

1. Aggressive - LC75 In this choice, max 75% is given to E (equity) in the beginning and slowly moves to C and G near retirement age.
2. Moderate - LC50 In this choice, max 50% is given to E (equity) in the beginning and slowly moves to C and G near retirement age.
3. Conservative - LC25 In this choice, max 25% is given to E (equity) in the beginning and slowly moves to C and G near retirement age.

Below is the chart for the Moderate Life Cycle Fund.

| Age of the Subscriber | Equity | Corporate Bonds | Government Bank |
|-----------------------|--------|-----------------|-----------------|
| < = 35 Yrs | 50% | 30% | 20% |
| 36 | 48% | 29% | 23% |
| 37 | 46% | 28% | 26% |
| 38 | 44% | 27% | 29% |
| 39 | 42% | 26% | 32% |
| 40 | 40% | 25% | 35% |
| 41 | 38% | 24% | 38% |
| 42 | 36% | 23% | 41% |
| 43 | 34% | 22% | 44% |
| 44 | 32% | 21% | 47% |
| 45 | 30% | 20% | 50% |
| 46 | 28% | 19% | 53% |
| 47 | 26% | 18% | 56% |
| 48 | 24% | 17% | 59% |
| 49 | 22% | 16% | 62% |
| 50 | 20% | 15% | 65% |
| 51 | 18% | 14% | 68% |
| 52 | 16% | 13% | 71% |
| 53 | 14% | 12% | 74% |
| 54 | 12% | 11% | 77% |
| > = 55 Yrs | 10% | 10% | 80% |

In Aggressive and Conservative Life Cycle Fund options equities exposure starts at 75% and 25% respectively.

12) How does the above fund allocation chart work under Auto Choice Investment option?

The first allocation is made as per the age of the subscriber at the time of joining the Scheme as shown in the chart. For example, if the entry age of the subscriber is 42 years, her allocation towards E, C, and G would be 36%, 23%, and 41% respectively in LC 50. On the next date of birth of the subscriber, the portfolio will be re-aligned as per the next level chart i.e. for the age 43. The re-alignment of the portfolio is system-driven.

13) Can subscribers switch the funds?

Yes. Subscribers can exercise this option twice in a financial year.

14) Comparison of MFs with NPS

To relate to some of the keywords in NPS, here is a quick correlation between MF and NPS.

| | Mutual Funds | NPS |
|-----------------------|--|---|
| Regulator | SEBI (Securities and Exchange Board of India) | PFRDA (Pension Fund Regulatory & Development Authority) |
| Manufacturer | AMC (Asset Management Company) 40+ AMCs (ICICI, Birla, SBI, etc.) | PFM (Pension Fund Manager) 7 PFMs (SBI, LIC, UTI, HDFC, ICICI, Kotak, Birla) |
| Bookkeeping | RTA (Registrar and Transfer Agent) CAMS and Kfintech | CRA (Central Record Keeping Agency) NSDL and Kfintech |
| Account number | Folio numbers One investor can have multiple folio numbers | PRAN (Permanent Retirement Account Number) Unique and permanent number per investor across all PFMs. |
| Asset Classes | 20+ asset classes (Ultra Short, Aggressive Hybrid, etc) | 4 asset classes E - Equity, C - Corporate Bond, G - Government Bond, A - Alternate |

15) What are the charges for NPS?

1. Account opening charge for first-time PRAN creation - Rs. 400
2. A contribution processing charge of 0.5% or Rs.30 (whichever is higher) per transaction.

16) Can a client switch from one investment scheme to another and/or Pension Fund Manager and if so, how?

Yes, NPS offers its subscribers the option to change the scheme preference. Subscriber has the option to realign his investment in asset classes E, C, A, and G based on age and future income requirement. Also, the subscriber has the option to change the PFM and the investment option (active /auto choice).

17) What income tax reliefs are available to the individuals contributing to NPS?

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 is available under section 80C of the Income Tax Act.

| NPS Account | Tax Benefit on investment | Tax Treatment on exit |
|-------------|--|---|
| Tier I | Investment up to Rs.50,000 is allowed as deduction u/s 80CCD(1B) of Income Tax Act, 1961 | <ul style="list-style-type: none"> ● Amount withdrawn in lump sum is exempt from tax to the extent of 60% of total Corpus ● Amount invested in Annuity is fully exempt from tax. ● Pension received out of investment in Annuity is treated as income and will be taxed appropriately. |
| Tier II | ● No tax benefit | ● Capital gain tax will be applicable. |

18) Can an NPS subscriber defer his lump sum withdrawable amount (up to 60%) under NPS at the time of exit on 60 years?

Yes, one can defer the withdrawal of the eligible lump sum amount payable under NPS till the age of 70 years.

19) What will happen to the withdrawal if the PRAN is in a frozen or inactive state at the time of withdrawal?

The withdrawal will be processed like a normal withdrawal but in addition, there will be a penalty deduction that is applicable for unfreezing such an account without seeking to reactivate the account by the subscriber or payment of amounts necessary to activate the account. In essence, the CRA will unfreeze the account by charging the penalty applicable and process the withdrawal claim.

20) Is partial withdrawal allowed from Tier I NPS Account?

Yes. Subscriber can withdraw up to 25% of contributed in her Tier - I NPS Account after 3 years of Account opening. Additionally, the subscriber is allowed to withdraw from the Tier I NPS account twice after the first withdrawal.

Withdrawal is allowed from Contribution deposited by Subscriber to avail of tax benefit u/s 80CCD (1B).

21) What are the conditions of partial withdrawal?

Withdrawal from Tier - I NPS account would be permitted for specific purposes like Child's marriage, higher education, treatment of critical illnesses, etc.

22) What process does Subscriber need to follow for withdrawal from Tier - II NPS Account?

Subscriber can initiate the request online using login ID and Password provided by CRA to access NPS details.

23) Can OCI / PIO also join the Scheme?

Yes. OCI / PIO are not allowed to join the Scheme.

24) How Retail NPS Scheme works?

Upon joining the Scheme unique **Permanent Retirement Account Number (PRAN)** is allotted to the subscriber. On superannuation age or exit from the scheme, the Corpus is made available to the subscriber with the mandate that some portion of the Corpus must be invested into Annuity to provide a monthly pension post-retirement or exit from the scheme.

25) Can an Individual open more than one PRAN?

No. In the entire life span, an individual will be allowed to open only one PRAN.

26) Is it mandatory to open a Tier II NPS Account at the time of opening a Tier I NPS Account?

No. Tier II NPS Account is optional. Subscriber can open Tier – II NPS Account later on as well.

27) Can an Individual open only a Tier II NPS Account?

No. Active Tier – I NPS Account is a must criterion for opening Tier – II NPS Account. The individual cannot apply for only a Tier – II NPS Account.

28) When can a Subscriber exit from NPS?

Subscriber can exit from NPS after 10 years of account opening or attainment of superannuation age (retirement age) whichever is earlier.

29) How does the payout happen if a Subscriber exists from NPS?

The primary objective of the Tier – I NPS Account is to create a Corpus which can be used at the time of retirement to buy a pension for the Subscriber / Nominee. Hence, there is a restriction imposed on lump sum amount accessible to Subscriber on exit as mentioned below

| Exit before the age 60 years | Exit at Retirement age |
|---|---|
| <ul style="list-style-type: none"> ● Up to 20% of Corpus can be withdrawn in lump sum ● Balance amount needs to be invested in Annuity ● If the Corpus is less than or equal to Rs.2.5 lakh, there is no need to invest into Annuity. Entire amount can be withdrawn in lump sum | <ul style="list-style-type: none"> ● Up to 60% of Corpus can be withdrawn in lump sum ● Balance amount needs to be invested in Annuity ● If the Corpus is less than or equal to Rs.5 lakh, there is no need to invest into Annuity. Entire amount can be withdrawn in lump sum |

30) Is it mandatory to withdraw the amount immediately at the time of exit from NPS?

In case of exit from NPS on retirement age, the Subscriber can defer the withdrawal option till 10 years depending on the market condition. Subscriber can withdraw this amount either in a lump sum or take the same in 10 installments before attaining the age of 75 years.

However, in the case of premature exit from NPS (before attaining the age of 60 years), the Subscriber does not have the option to defer the option.

31) What happens to the funds if the Subscriber opts to defer the withdrawal (after the retirement age)?

The fund would continue to remain invested. The Pension Fund Manager, Scheme Preference, and Asset Allocation Pattern will remain the same as these were at the time of investing.

32) Can a Subscriber change the annuity service provider?

No, this option is not available. At the time of investing in Annuity, Subscriber gets an option to select any of the Annuity Service Providers registered with PFRDA. Once the choice is made and pension starts coming, there is no option of changing the Annuity Service Provider.

33) Can a Subscriber use 100% of accumulated wealth to buy an annuity plan?

Yes. Subscriber can use 100% of accumulated wealth to buy an annuity plan

34) Can Subscriber defer Annuity investment?

Yes. On exit from NPS at superannuation age, the Subscriber gets an option to defer the investment in Annuity for 3 years. However, the same option is not available in the Subscriber exits from the Scheme before the superannuation age.

35) What happens to the Corpus if the Subscriber defers the investment in Annuity?

The amount remains invested and keeps on growing as per the market conditions.

36) In case of the death of the Subscriber, what happens to the annuity plan bought by her?

It will depend on the kind of annuity plan opted for the Subscriber. For example, if the annuity plan is a joint-life annuity plan, on the death of the Subscriber, the spouse will get the annuity till he/she is alive.

37)**In case the Subscriber exits from Tier - I NPS Account before the age of 60, at what age annuity will start?**

In case of pre-mature exit, the Subscriber needs to invest in Annuity immediately. Depending on the Annuity Plan she has invested in, the annuity would start.

38) In case of death of the Subscriber, who can claim the corpus in Tier I and Tier II NPS Accounts of diseased?

In case of the death of the Subscriber, the option will be available to the nominee to receive 100% of the NPS pension wealth in a lump sum. In case, the nominee is not their legal heir the Subscriber can claim the corpus.

39) Is the amount received in the hands of the nominee taxable?

No. Death proceeds in the hands of the Nominee will be tax-free.

40) What process does Subscriber need to follow to make a contribution to NPS Account?

Subscriber can contribute towards NPS directly or through the Employer

- Direct contribution can be deposited by using the eNPS portal
- For contribution to be routed through the Employer, please get in touch with the HR / C&B team.

41) Does the subscriber need to deposit any minimum amount at the time of joining NPS?

If the Subscriber opts for only Tier I account **through Corporate**, there is no initial contribution amount to be deposited. However, if the Subscriber opts for a Tier II account as well, she needs to deposit Rs.1000/-plus GST at the time of Tier-II NPS Account opening.

42)

What is the minimum contribution amount for subsequent transactions for Tier I and Tier II NPS Account?

Minimum annual contribution requirements for Tier I and Tier II accounts are as mentioned below:

- i. Tier - I NPS Account: Rs.500
- ii. Tier - II NPS Account: Rs.250

43) Is there any restriction on the frequency of contribution?

There is no restriction in terms of the frequency of contribution. Subscriber has the option to make the contribution in any mode – monthly, quarterly, half-yearly, or yearly.

Also, the Subscriber can make ad – hoc contributions as well.

44) In which account Employer's contribution is deposited?

Employer's contribution is deposited only in Tier I account.

45) Does the criterion of minimum annual contribution requirement for Tier I account include Employer contribution as well?

Yes. All contributions deposited in Tier I account – either by Subscriber or by Employer will be counted in order to arrive at Rs.1000 contribution criteria.

46) Can the Subscriber increase or decrease the contribution amount in subsequent years?

Yes, NPS offers this flexibility. Subscribers are allowed to alter the contribution amount as per suitability. However, this is restricted to the Subscriber's own contribution. For the Employer's contribution, this flexibility depends on the Employer's policy.

47)

Does the Subscriber get any alert on the credit of contribution amount to his / her NPS accounts?

Yes, once the contribution is credited to the Subscriber's NPS account, an email alert, as well as an SMS alert, is sent to the registered email ID and mobile number of the Subscriber.

48)

What happens if the minimum annual contribution of Rs.1000 is not invested in Tier - I NPS Account?

In case the Subscriber fails to contribute a minimum of Rs.1000 in Tier - I NPS Account, the PRAN is frozen. Once the PRAN is frozen, the Subscriber is not allowed to do any transaction (financial/non-financial) in both - Tier - I and Tier - II NPS Accounts.

49) What is the process of unfreezing the PRAN?

Subscribers can unfreeze the NPS Account by paying Rs.500 as the minimum contribution amount and Rs.100 as the penalty. POP charges to be added to it. Subscribers can deposit Contribution using the eNPS platform as well.

50) What is the process of unfreezing the Tier II NPS Account?

Subscriber needs to deposit Rs.250 to the POP in order to unfreeze Tier II NPS Account.

51) Does the Subscriber need to pay POP charges over and above the contribution amount?

No, the POP charges would be deducted from the contribution amount.

52) What is meant by Non - Financial Transaction?

Transactions like a change of address, contact details, etc are called non-financial transactions.

53) How is the Non-Financial Transaction Charge recovered by POP?

Subscriber needs to pay Rs.20 + GST by Cheque at the time of submitting a request to process any Non - Financial transaction.

54) Does the Subscriber need to open a new NPS Account if she is already having one?

No. the Subscriber does not need to open a new NPS account. Subscriber will need to shift the existing account to a Corporate NPS account using the process described above. This is mandatory before initiating the Employer's contribution in the said PRAN.

55) Can a subscriber change/modify data in the NPS system after joining NPS?

Yes. Subscriber needs to submit the request along with the Service Charge of Rs. 20 plus GST for initiating the modification.