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PERFORMANCE ANALYSIS OF NATIONAL PENSION SCHEME FOR RETIREMENT FINANCIAL PLANNING

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ABSTRACT
One of the most significant life experiences that many of us will ever go through is retirement. Realizing a comfortable retirement is an extensive process that requires careful planning and years of perseverance, both from a personal and financial standpoint. National pension scheme (NPS) promotes regular contributions to invest in pension account during the course of employment. National pension scheme aims to help individuals in order to develop the saving habits for their retirement. The National Pension Scheme was developed as a voluntary, defined contribution retirement savings programme to assist individual subscribers in making the best decisions for their future by prudential savings throughout their working lives. It also helps to bring confidence among the pre-retirees by a proper allocation of asset classes in order to earn a regular income in future. There is little public awareness of and interest in the National Pension System. In order to choose which funds to invest in order to make higher income, the performance of the National Pension Scheme funds provided by various companies under Equity scheme is analysed. This research makes an effort to assess the effectiveness of the National Pension Schemes in India.
KEYWORDS: Retirement planning, NPS, Taxation benefits, Performance analysis, Risk -return analysis.

INTRODUCTION
Retirement planning is the planning one does to be prepared for life after paid work ends, not just financially but in all aspects of life. The non-financial aspects include lifestyle decisions like where to live, when to stop working entirely, how to spend time in retirement etc. Many factors affect people's retirement decisions. Retirement funding education is a big factor that affect people's retirement decisions. It is also a big factor that affects the success of an individual's retirement experience. However, it is often possible to accomplish this with fewer headaches and financial pain than you might think; all it takes is some research, an achievable savings and investment plan and a long-term commitment. A comfortable retirement plan will bring confidence among the pre-retirees. So, it is necessary to build up a comfortable retirement plan in order to earn a good amount of return in their post-retirement life.

OBJECTIVES OF THE STUDY
- To study the concept and types of National Pension Scheme
- To identify which pension scheme fund would be the greatest alternative for an investment under Equity - Tier - I NPS
- To study the taxation benefits of National Pension Scheme

RESEARCH METHODOLOGY
This study is an analytical and a descriptive study. Ten years study period has taken for analysis. Ten companies are considered for the study.

TOOLS USED FOR THE STUDY
The major tools applied for the analysis to understand the performance of the selected companies are percentage analysis, mean and standard deviation.

AN OVERVIEW OF NATIONAL PENSION SCHEME

The PFRDA (Pension Fund Regulatory and Development Authority) established by the PFRDA Act of 2013, is in charge of overseeing and administering the National Pension Scheme. It is monitored by central government. NPS is a contributory pension plan with market linked returns. Anyone can open NPS account with the terms and conditions offered by PFRDA. The Central Record keeping Agency (CRA) generates and maintains a specific Permanent Retirement Account Number (PRAN) for each subscriber under the NPS plan.

Concept and Types of NPS Accounts

NPS is a contributory pension scheme. The Pension Fund Regulatory and Development Authority is in charge of overseeing the performance and functioning NPS. It was implemented with the intention of transitioning the country's defined benefit pension scheme to a defined contribution pension scheme. NPS offers two account classifications: Tier-I and Tier-II. Both accounts have distinctive characteristics. Tier-I accounts are required retirement accounts for pension account holders, and withdrawals from these accounts are restricted. A voluntary account called Tier-II provides investment and withdrawal liquidity. However, Tier-II is a voluntary savings account linked to PRAN and is only permitted when a Tier-I account in the name of a specific subscriber is active. Compared to Tier I accounts; Tier II accounts allow for greater withdrawal flexibility because they can be accessed at any time. It is allowed only when there is an active Tier-I account in the name of the subscriber. In both types of accounts, contributions build up over time until retirement and increase in tandem with returns linked to the market. At least 40% of the corpus fund must be used to obtain a lifetime pension upon exit, retirement, or superannuation. The remaining corpus fund must then be paid out as a lump sum.

National Pension Scheme provides various models to accommodate user segments. Individual subscribers can choose among this. It consists of:

(1) For government employees (Central/State):
Under this model, NPS is mandatory for all central government employees hired on or after January 1, 2004, with the exception of the armed forces. Following that, all state governments, with the exception of West Bengal, adopted NPS for their employees. In the case of state government employees, they make a monthly contribution equal to 10% of their salary and dearness allowances, and the government matches their contribution. With effect from April 1, 2019, the employer contribution rate for central government employees has been increased to 14%.

(2) The corporate model:
Companies can use NPS as part of their pension plan for their employees, with contribution rates based on the nature of employment and employment conditions.

(3) The all-citizen model:
It is a voluntarily maintained account. The NPS's all-citizen model allows all Indian citizens aged 18 to 65 to join the NPS on a voluntary basis.

The National Pension Scheme (NPS) was launched in 2004 and became available to all citizens in 2009. Investors can contribute a minimum of Rs.500 per contribution and must deposit a minimum of Rs.6000 per financial year. People are quite concerned about saving money for their post-retirement lifestyle. For the majority of people, choosing a suitable retirement portfolio is a challenging undertaking. The government offers a retirement programme called the "national pension scheme" that is accessible to the general people. A regular person may simply evaluate it. Any person between the ages of 18 and 65 is eligible to subscribe to the NPS. You can also manage your NPS account by downloading the NPS mobile application. The primary goal of the NPS's creation was to expand pension coverage to include private sector workers. The programme was initially solely available to government workers, but it was eventually offered to everyone, including those working in the private sector. Because investors have the option to select the necessary annuity providers, the scheme is much more flexible. So, investors have the freedom to choose among the asset classes available under NPS administered by PFRDA.

Public sector and private sector banks have a major role as an intermediary in order to open NPS account. Individuals are required to open an account at the authorized body – (Point of Presence) which is mostly public and private sector banks. They will do all the requirements as per the subscriber's request. In order to function the pension account, the subscriber will get a permanent retirement account number i.e., PRAN and are required to maintain the number for the life time. The minimum amount to be deposited while opening Tier I account is Rs 500 and Rs.1,000 is required for Tier II account. Tier – I account is compulsory for government employees. Subscribers can make contributions as per their capability into both the accounts. Those who already have Tier I account is only eligible to make contributions in Tier II account. Minimum required contribution to these accounts are Rs.6000 and Rs.2000 in Tier I and Tier II respectively. There is no limit for maximum contributions. The funds will be invested in different instruments like Government securities, Corporate Bonds and Equities by the registered pension fund managers under PFRDA. The expected returns may vary according to the market trends in future. So, subscribers cannot ensure a fixed returns in future. There are various pension fund schemes are available and it is administered by pension fund managers under PFRDA. The following are the pension fund/schemes for different sectors.

A. Pension Funds for Government sector
    1. SBI Pension Funds Private Limited
    2. UTI Retirement Solutions Limited
    3. LIC Pension Fund Limited
B. Pension Funds for other than Government sector
    1. SBI Pension Funds Private Limited
    2. UTI Retirement Solutions Limited
    3. Aditya Birla Sunlife Pension Management Limited
    4. LIC Pension Fund Limited
    5. HDFC Pension Management Co. Limited
    6. ICICI Prudential Pension Fund Management Co. Limited
    7. Kotak Mahindra Pension Fund Limited
    8. Tata Pension Management Limited
    9. Axis Pension Fund Management Limited
    10. Max Life Pension Fund Management Limited
C. Schemes managed by Pension Funds under NPS
    1. Central government scheme
    2. State government scheme
    3. Corporate CG scheme
    4. NPS Lite scheme
    5. Atal Pension Yojana
    6. Scheme – E (Tier-I)
    7. Scheme – E (Tier-II)
    8. Scheme – C (Tier-I)
    9. Scheme – C (Tier-II)
    10. Scheme – G (Tier-I)
    11. Scheme – G (Tier-II)
    12. Scheme – A (Tier-I)
    13. NPS – Tax saver scheme (Tier-II)

Active Choice and Auto Choice

Under active choice option individuals have the right to select various asset classes. The various proportion of assets available under NPS are as follows:

- Equity
- Fixed return instruments
- Government Bonds

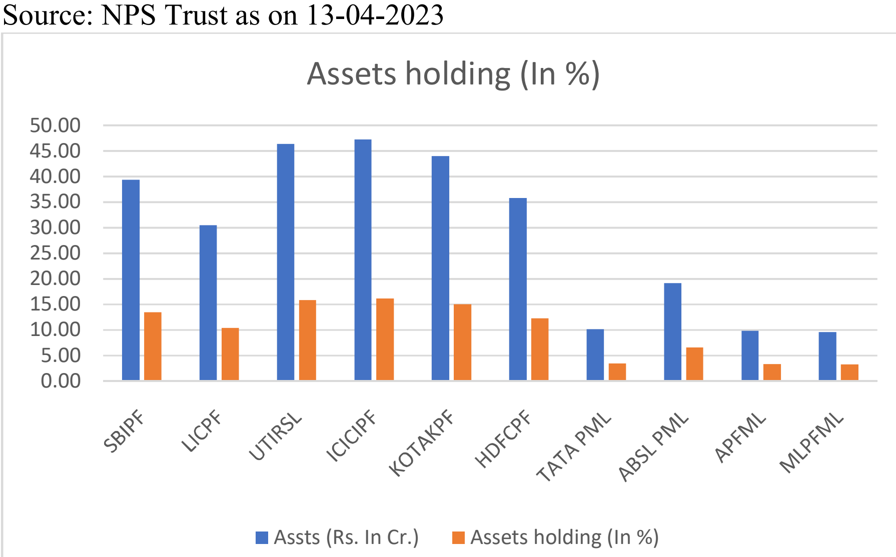
The subscribers can opt whether to active choice or auto choice according to their own interest. NPS subscribers can also able to shift from active choice to auto choice. Under active choice, subscribers can opt the proportion among the various schemes offered by NPS pension funds, whereas auto choice is a default scheme. When compared with auto choice, active choice subscribers have freedom to select proportion of assets according to their income generating capacity, risk, capital appreciation etc. Under auto choice, subscribers cannot make their proportion among the various schemes. It will be automatically apportioned among the various asset classes.

ANALYSIS AND INTERPRETATIONS

Table 1: Asset Holding of each PFM in NPS Equity Scheme (Tier - I)

Particulars	SBI PF	LIC PF	UTIRSL	ICICIPF	KOTAKPF	HDFCPF	TATA PML	ABSL PML	APFML	MLPFML
Assts (Rs. In Cr.)	39.33	30.46	46.39	47.24	43.98	35.82	10.17	19.16	9.85	9.61
Assets holding (In %)	13.47	10.43	15.89	16.18	15.06	12.27	3.48	6.56	3.37	3.29

Source: NPS Trust as on 13-04-2023



The table 1 and figure show that ICICI PF is the major player in the equity segment of NPS tier – I scheme with 16.18 percent asset holding followed by UTIRSL with 15.89 percent asset holding. KOTAKPF and SBI PF are holding assets to the tune of 15.06 percent and 13.47 percent of total assets under management respectively. Similarly, LICPF, HDFCPF, TATA PML, ABSL PML, APFML and MLPFML are holding merely 10.43 percent, 12.27 percent, 3.48 percent, 6.56 percent, 3.37 percent, 3.29 percent assets respectively.

Table 2: Performance Analysis of each PFM in NPS Equity Scheme (Tier - I)

Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns 1 Year	Returns 3 Years	Returns 5 Years	Returns 7 Years	Returns 10 Years	Returns Inception
Aditya Birla Sun Life Pension Management Ltd.	09-May-17	318.51	37,655	19.1646	3.60 %	24.67 %	11.06 %	NA	NA	11.59 %
Axis Pension Fund Management Limited	21-Oct-22	79.74	13,812	9.8520	NA	NA	NA	NA	NA	-1.48%
HDFC Pension Management Co. Ltd.	01-Aug-13	20,520.65	15,78,097	35.8214	3.87 %	26.08 %	11.97 %	13.78 %	NA	14.05 %
ICICI Pru. Pension Fund Mgmt Co. Ltd.	18-May-09	6,670.45	5,98,186	47.2443	3.21 %	26.94 %	11.49 %	12.88 %	13.43 %	11.81 %
Kotak Mahindra Pension Fund Ltd.	15-May-09	1,177.55	91,345	43.9800	4.16 %	26.65 %	11.41 %	13.17 %	13.38 %	11.23 %
LIC Pension Fund Ltd.	23-Jul-13	3,407.33	3,65,513	30.4570	4.51 %	27.95 %	10.91 %	12.41 %	NA	12.13 %
Max Life Pension	12-Sep-22	50.05	2,502	9.6139	NA	NA	NA	NA	NA	-3.86%

Fund Management Limited										
SBI Pension Funds Pvt. Ltd	15-May-09	11,259.03	14,05,028	39.3318	3.70%	24.93%	10.87%	12.62%	13.07%	10.34%
Tata Pension Management Ltd.	19-Aug-22	47.59	10,948	10.1732	NA	NA	NA	NA	NA	1.73%
UTI Retirement Solutions Ltd.	21-May-09	1,527.66	1,16,677	46.3931	4.04%	26.47%	10.97%	12.97%	13.45%	11.67%
Benchmark Return as on 13.04.2023					0.58%	26.68%	11.77%	13.43%	13.30%	

Source: NPS Trust as on 13-04-2023

Table 2 shows that the returns generated from the date of inception of scheme by respective PFM and benchmark returns are also correspondingly calculated. Majority of the NPS – E Tier – I funds gives a positive return greater than the risk-free rate of return for all the year except Axis Pension Fund and Max Life Pension Fund. UTI got the highest return of 13.45% and the least return as 13.07% by SBI for the period of ten years. Since inception, HDFC gives the highest return as 14.05% and the least return by Max Life (-)3.86%.

Table 3 : Mean and Standard Deviation of NPS – Scheme E (TIER – I)

Pension fund	Mean	Standard Deviation	Co-efficient of Variation
Aditya Birla Sun Life Pension Management Ltd.	13.11%	0.106830413	81.5044684
Axis Pension Fund Management Limited	NA	NA	NA
HDFC Pension Management Co. Ltd.	13.92%	0.091776419	65.9170251
ICICI Pru. Pension Fund Mgmt Co. Ltd.	13.59%	0.085296499	62.7607081
Kotak Mahindra Pension Fund Ltd.	13.75%	0.081263407	59.0819097
LIC Pension Fund Ltd.	13.95%	0.09942636	71.2984164
Max Life Pension Fund Management Limited	NA	NA	NA
SBI Pension Funds Pvt. Ltd	13.04%	0.0764012	58.5921045
Tata Pension Management Ltd.	NA	NA	NA
UTI Retirement Solutions Ltd.	13.58%	0.081291732	59.8649246

LIC has the higher mean return of 13.95% and the lower mean return by SBI as 13.04%. The lowest variation from the mean is 0.0764 by SBI and the highest variation from the mean is 0.1068 by Aditya Birla.

TAX BENEFITS AVAILED UNDER NPS

(a) According to section 80 CCD (1) of the Income Tax Act 1961, subscriber's contributions to NPS Tier-I are tax free up to a maximum of Rs. 1.50 lakh that is coming under 80 C of the Income Tax Act. Apart from this, the subscriber is entitled to a tax deduction for contributions to NPS Tier-I accounts, subject to a maximum deduction of Rs. 50,000 under section 80CCD 1(B) from the financial year 2015-16 onwards. It will help to reduce the tax burden among the NPS subscribers.

(b) Employer's contribution towards NPS Tier-I is eligible for tax deduction under Section 80CCD (2) of the Income Tax Act. So, subscribers can get additional rebate over and above the limit prescribed under Section 80C.

(c) With regards to Tier – I scheme under NPS, partial withdrawal made by the contributor is tax exempted. But it is limited only upto 25%.

(d) From 1.4.2019, lump sum withdrawals from NPS Tier-I of up to 60% of total pension wealth are tax free. But it is availed only at the time of superannuation.

(e) The minimum amount contributed for annuity scheme empaneled by PFRDA is also tax exempt.

NPS and GST

If the NPS subscriber is planning their online NPS contribution by debit card, the applicable gateway charges are 0.80% of the transaction amount (excluding GST). For online contributions using Credit Card, the transaction charges are 0.90% of the transaction amount (excluding GST). Another important reason for subscribing NPS is that GST is not charged on annuities purchased by the subscriber. NPS subscribers are eligible to exempt from Goods and Service Tax.

FINDINGS

The Axis Pension Fund Management Limited, Max Life Pension Fund Management Limited and Tata Pension Management Ltd are the newly emerged pension schemes under Tier – I equity since 2022. Majority of the NPS – E Tier – I funds gives a positive return greater than the risk-free rate of return for all the year except Axis Pension Fund and Max Life Pension Fund. UTI got the highest return of 13.45% and the least return as 13.07% by SBI for the period of ten years. Since inception, HDFC gives the highest return as 14.05% and the least return by Max Life (-)3.86%.

SUGGESTIONS

Lowering the fees and increasing investor knowledge and education about NPS are needed to draw in more investors. In addition, the government should guarantee investors' pension amounts in order to attract additional investors. Investors should try to invest systematically and long-term investments are more comfortable for this investment.

CONCLUSIONS

The Pension Fund Regulatory and Development Authority (PFRDA), which was established by the PFRDA Act of 2013, oversees and administers the functioning and performances of the National Pension System. Depending on the returns on the investment, NPS subscribers' contributions would increase and accrue over time. Even though NPS is an ordinary scheme the recent amendments made by the government is making it more popular among the investors. Each and every retirement planner can make use of National Pension Scheme for the purpose of saving for retirement. Individuals who lack knowledge about financial market can easily access NPS by approaching the designated private or public sector banks. On employee and employer contributions to the National Pension System, a tax exemption of Rs. 1.5 lakh can be claimed towards NPS. Sections 80 CCD(1), 80 CCD(2), and 80 CCD(1B) of the Income Tax Act allow for the claim of tax benefits. Furthermore, under Section 80 CCD(2) of the Act, employer's contribution to NPS is only eligible for a tax deduction of up to 10% of the salary (basic plus DA). For salaried individuals who have already claimed the tax exemption of Rs 1.5 lakh under Section 80C, NPS offers additional tax savings. The removal of GST on the annuity value and 40 % tax exemption on the total fund is making the scheme more interesting. Annuities can be purchased for 100 % of the corpus which helps in financially securing the post retirement life by ensuring a monthly pension scheme after retirement. National Pension Scheme provides different categories of investment options from a list of various schemes, among these subscribers can choose the choice of scheme for planning the growth of the investments in a reasonable manner and monitor the growth of the pension corpus. Subscribers can switch over from one investment option to another or from one fund manager to another.

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