NPS offers income tax benefits for the salaried as well as the self-employed

Save for old age, not for tax benefits

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If you are looking to invest in NPS just to save taxes, financial planners advise against it. However, if you want to consider NPS in your investment portfolio, here is what you should know

Mumbai: Are you prepping up for investment proofs to submit at your organisation? Are you getting excited about the □50,000 additional tax benefit through national pension system (NPS)? If you are looking to invest in NPS just to save taxes, financial planners ad Close it. “Create your retirement kitty without considering the tax benefit," said Nisreen Mamaji, chief executive officer (CEO) of Moneyworks Financial Advisors. However, if you want to consider NPS in your investment portfolio, here is what you should know:

What is on offer?

NPS is a government-sponsored pension scheme launched in 2004 for government employees. It was later opened for all in 2009. During your tenure of work-life until retirement, an NPS subscriber can contribute regularly in a pension account, withdraw 60% of the corpus in lump sum tax-free and convert the remaining 40% into an annuity scheme post retirement. “You can claim your NPS contributions for a tax deduction. Once a taxpayer has exhausted the limit of □1.5 lakh available under section 80 (C), an additional □50,000 is allowed under section 80CCD(1B)," said Archit Gupta, CEO of Clear Tax, a tax e-filing platform. “This is one of the major advantages for NPS, as this section is solely available just for NPS contributions," said Vishal Dhawan, founder of Plan Ahead Wealth Advisors. As a subscriber, you ahave to choose a pension fund manager (PFM) and decide where you want your NPS contributions to be invested. The two investment choices available are active choice and auto choice. In active choice, you can decide your contribution and percentage allocation to the different asset classes: equity, corporate bond, government bond and alternative infrastructure funds. Recently the government has allowed its subscribers to allocate 75% of their contribution value to equity schemes, this number earlier was 50%. However, the total allocation across the specified asset classes must be equal to 100%. “If the subscriber should opt for a 75% exposure, depends on the number of years left for retirement. If one has around 25 years to go for retirement, he or she can invest with 75% exposure to equities," said Sadagopan. So for someone who is already 50 years, the risk element has to be moderate, he added. In auto choice, the scheme setup and allocation will be determined by the automatically make changes to your investment according to the risk profile you pick and your age.

Should you consider NPS for retirement savings?

“Public provident fund and equity mutual fund is the best combination," Mamaji said. Mutual funds offer better returns; tax efficiency and flexibility making them better options to plan for retirement, she added. NPS may not be a one-size-fits-all retirement savings instrument. “One of the reasons why a lot of people do not opt for it is because of the lack of liquidity. For a long period of time, one cannot get their capital back," said Dhawan. “If you withdraw the entire sum before age 60 years, 80% is used to buy an annuity which is unviable for many," said Mamaji.

Insurance on SIP worth it?

“If you have few years left to retire, say two to three, then NPS may not turn out to be beneficial," said Lovaii Navlakhi, founder and CEO, International Money Matters Private Ltd.

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