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NPS funds outperform in past one year, deliver robust returns

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The Tier-1 scheme of National Pension System (NPS), which predominantly invests in equity market instruments, has yielded over 70% returns in the year to 31 March. The rise is in line with the gain in the Indian stock market in the past year.

NPS, which offers various types of funds as per the risk profile of investors, is one of the most accepted pension products in the country. The scheme normally invests the corpus in three asset classes -- equity (E), corporate bonds (C) and government securities (G).

"Whilst NPS managers have given index like returns over 12 months, there is outperformance in the longer term on the equity side," said Vishal Dhawan, founder and CEO, Plan Ahead Wealth Advisors.

Over the past year, NPS has enormously delivered high returns and there was a drastic difference between February and March return because stock markets crashed in March 2020.

Adhil Shetty, CEO, BankBazaar.com said, “As per reports, BSE Sensex jumped 68% in FY21 – the biggest gain in eleven years. The impact has been seen across equity investments, and all NPS pension funds in this category have given similar returns. The performance during last year is also driving the long-term returns. The benchmark 5-year return of NPS Scheme E stood at close to 15%, while the 10-year return stood at over 10%."

"However, it is important to remember that while the equity scheme of NPS grew in line with the equity markets this year, the market will not give these kinds of returns year after year. So, it is important to invest consistently and for the long term to get a substantial retirement corpus," said Shetty.

Scheme E Tier - I	Inception Date	Returns 3-months	Returns 6-months	Returns 1 year	Returns 3 years	Returns 5 years
Aditya Birla Sun Life Pension Management	09-May-17	4.46%	28.23%	68.64%	12.74%	N.A
HDFC Pension Management	01-Aug-13	5.58%	31.00%	69.78%	13.78%	15.08%
ICICI Pru. Pension Fund Mgmt	18-May-09	5.87%	31.52%	72.49%	12.69%	13.82%
Kotak Mahindra Pension Fund	15-May-09	6.35%	29.95%	70.98%	11.97%	13.94%
LIC Pension Fund	23-Jul-13	6.95%	32.19%	74.34%	11.17%	12.69%
SBI Pension Funds	15-May-09	5.00%	29.89%	66.28%	12.14%	13.64%
UTI Retirement Solutions	21-May-09	5.97%	31.35%	72.82%	12.10%	14.00%
Nifty 50 index				73.48%	13.73%	14.79%

On the other hand, despite NPS being actively managed by fund managers, the product has given returns almost at par with the index. Shetty said, “For a higher return, the NPS fund manager has to take a higher risk, which may also increase the chance of losses to its investors. Therefore, to manage risk and to maintain the tag of being a 'Safe' investment, the NPS return is usually at par with the index."

Thus, NPS, though actively managed, offers returns that match the market index. Archit Gupta, Founder and CEO, ClearTax said, “The pension fund managers don’t invest in mid-cap and small-cap stocks for the portfolio, even though they have the potential to offer returns beyond the market index."

Gupta further said, "Pension Fund Regulatory and Development Authority (Pfrda), the pension fund regulator, has framed guidelines where there is minimal impact on subscriber contribution even during a market downturn. NPS funds are invested mainly in large-cap stocks instead of mid-cap and small-cap stocks as they are a safer investment. You have the fund manager focusing on stable growth rather than massive returns."

NPS capped the maximum investment in equities at 75% under scheme E with the remaining corpus invested in fixed income securities. Under the NPS scheme E, the fund managers invest around 30-40% of the assets in the top five stocks by market capitalisation. These stocks also account for a significant portion of the market index. Hence, you have NPS Scheme E tracking the performance and offering return in line with the BSE Sensex and the Nifty 50.

For Indian savers, NPS is a government-sponsored voluntary retirement scheme launched in January 2004. Later, NPS was opened to all citizens on 1 May, 2009. It brings some powerful advantages. It is low cost, allows exposure in low-risk equity and is reasonably tax efficient.

You can subscribe to the NPS if you are between the age of 18 and 65 years. A subscriber to the NPS may consider two different accounts NPS - Tier I and Tier II. Tier I is a mandatory account, and you cannot withdraw your contributions until the age of 60. However, the Tier II account has no restrictions, and you can withdraw your money at any time.

You may subscribe to the NPS under the active choice or the auto choice. Subscribers can choose the fund manager under the active choice and the ratio in which funds are invested in the asset classes. However, NPS has capped the maximum investment in asset class E (equity) at 75%. You can opt for the auto choice option, where funds are invested in a pre-defined portfolio according to the subscribers’ age.

Dhawan says, "While looking at the NPS performance, considering that NPS investments tend to be very long term due to their retirement goal orientation, short term performance should not get excessive focus. Besides, the low cost of NPS continues to make it a very good option to have as a part of a retirement-focused portfolio."