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Who should invest in the NPS?

By Navneet Dubey

The NPS (National Pension System), a market-linked scheme, is considered as one of the paramount retirement planning schemes since its inception. It is a voluntary scheme for citizens of India that can help them create a retirement fund and avail themselves of pension income in their golden years.

The scheme was first introduced by the central government and later on, it was opened to all the citizens of India between the ages of 18 and 65. However, the maximum age limit is likely to increases up to 70 years with no cap on the maximum investment limit.

To start with, you need to open an NPS account and during your employment years, you can invest regularly in the NPS scheme and avail of the benefits at the time of retirement.

When you retire, a certain percentage of your pension corpus can be withdrawn as a lump sum, the remaining amount is paid to you as monthly pension income for certain years. The pension you receive normally depends on the performance of your NPS investments.

One of the important features of NPS is the risk factor associated with it. The risk factor under the NPS scheme is normally balanced as it also allows exposure between equities, government bonds and corporate bonds keeping the maximum equity exposure is limited to 50-75%.

Moreover, for a subscriber who has crossed the age of 50, the equity exposure reduces by 2.5% every subsequent year. “For investors beyond 60 years of age, the cap is fixed at 50% exposure to equities. This reduction to equity exposure ensures the corpus is safe from extreme market volatilities," said Tarun Birani, chief executive officer (CEO), TBNG Capital Advisors.

Besides, it is a low-cost investment tool and is reasonably tax efficient. Raj Khosla, managing director, MyMoneyMantra.com, said that even after a hike in April, it has one of the lowest cost structures in the industry. NPS fund management charges are capped at 0.09%, which is a fraction of what Mutual Funds and unit-linked insurance plans (ULIPs) charge.

In addition, the tax benefits allow a deduction of up to ₹2 lakh for investors to claim, where deduction of up to ₹1.5 lakh is offered under section 80C and ₹50,000 under section 80CCD(1B) of the income tax act.

Who should invest?

“Since the equity exposure is progressively reduced every year as the investor gets older, it is best suited for investors who can’t decide their asset allocation, or don’t have time to actively manage their investments," said Khosla.

Vishal Dhawan, founder and CEO, Plan Ahead Wealth Advisors, said, "We would ideally suggest it for individuals who are looking for cost-efficient solutions to save for their retirement and are comfortable with both longer associated lock-ins as well as higher exposure to equities considering the long-term nature of NPS investments. This enables one to mitigate the short-term volatility associated with equities as an asset class."

Moreover, investors who regularly invest in instruments such as the Public Provident Fund (PPF) or Employee Provident Fund (EPF) are likely to gain more from routing these investments to NPS instead. Amol Joshi, founder, Plan Rupee Investment Services, says investors, especially those who are not salaried employees in the formal sector and hence do not have PF deduction from salary, can consider NPS and other instruments for retirement corpus creation.