Mint - Delhi;Thu, 02 Jan-14;Size : 839.52 sq.cm.;Page : 16

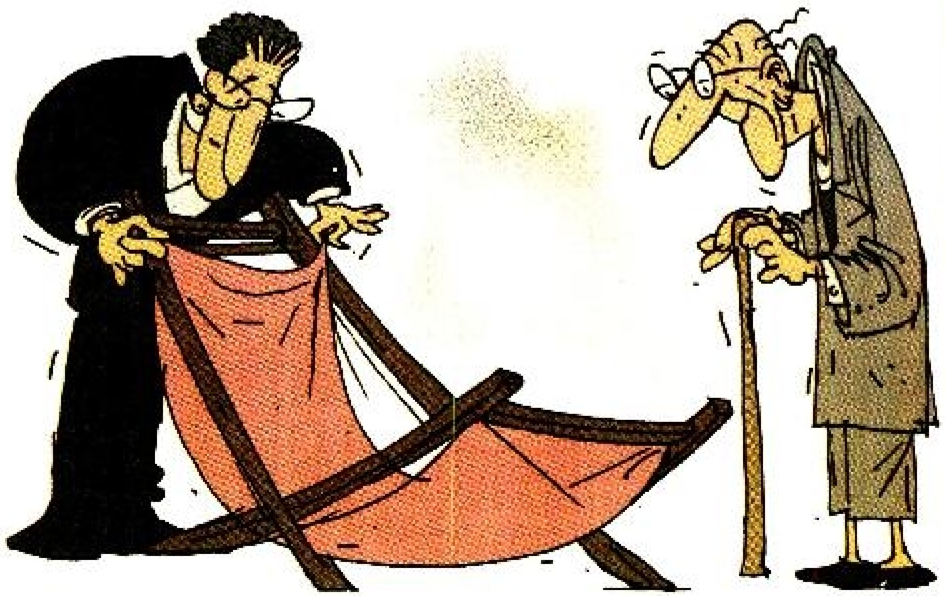
CIRRUS
Listen. Measure. Interpret.

RETIREMENT PLANNING

MORE POINTS TO PENSION THIS YEAR

With nothing less than a Parliament approved Act to back it up, the apex national pension body now has not only the bark but also the bite to keep the industry in line.

By Deepti Bhaskaran
deepti.bh@livemint.com



Year 2013 was a landmark one for the National Pension Scheme (NPS). After 10 long years of struggle, the Pension Fund Regulatory and Development Authority (PFRDA) Bill was finally cleared in Parliament in September 2013. With the passage of the bill, PFRDA, which until recently was working through an executive order of the government, got regulatory powers to run NPS. In other words, PFRDA can now penalize the entities it regulates. How does this help me, you may ask. It helps because the pension regulator can now ensure better compliance and protection for the subscriber (that's you). This, in turn, is expected to boost the popularity of NPS.

"A few years back, NPS wasn't very popular. In fact, if you look at the number of subscribers you would still find it small. But this year (2013), we have seen the popularity surging. People are realizing the need to invest for retirement and are increasingly becoming aware of NPS' benefits. From here on, we should see more people lining up for NPS," says Sundeep Sikka, chief executive officer, Reliance Capital Asset Management Ltd, whose subsidiary is Reliance Capital Pension Fund Ltd, one of the NPS fund managers.

2013 YEAR IN REVIEW

The scheme needs you to invest regularly till 60 years of age. It offers three investment options: equity fund (equity exposure is limited to 50% of the investment); government securities fund and corporate bonds fund.

At 60, you can withdraw up to 60% of the corpus as lump sum. With the remaining 40% you need to buy an annuity, a pension product that pays regular income. The NPS structure is designed in such a way that it discourages premature withdrawals by forcing you to annuitize almost 80% of the funds.

Larger umbrella

The PFRDA Act, 2013, however, brings two key changes to this design. These changes are yet to be incorporated in the offer document.

The first change is that the scheme's users will be allowed partial withdrawals but with limits on the amount and the number of withdrawals. According to the Act, withdrawals up to 25% of the contribution will be allowed. Withdrawals can be done for specific purposes only.

The second big change is the introduction of guaranteed returns option. The PFRDA Act allows pension fund managers to offer funds that provide minimum assured returns. We await further clarity on exactly how these products will look like, but there is a good chance that the burden of long-term guarantees will have an impact on costs and maybe on returns.

In the meanwhile, we can draw a comparison with pension plans offered by insurance companies: the investment portfolio has largely moved to debt after regulations made it mandatory for insurance companies to offer a minimum guaranteed return.

"Partial liquidity is welcome. However, as far as guaranteed returns are concerned, I don't think that will be a big hit and it will certainly put pressure on cost. This is something the regulator shouldn't focus on," says Sumit Shukla, chief executive officer, HDFC Pension Management Co. Ltd.

In the year gone, NPS was made a fully regulated product. But its biggest challenge remains: gaining traction. Now, with PFRDA firmly in place, it is expected that more effort will be made to create awareness about NPS.

What will also help is a favourable tax treatment for the scheme. Currently NPS does not enjoy tax benefits like other long-term products such as Public Provident Fund (PPF) and Employees' Provident Fund (EPF). Though contributions to NPS are tax deductible under the overall section 80C, the 60% corpus that can be withdrawn on maturity is taxable. Ironing out that difference will also give a boost to the scheme's popularity.

For an aggressive investor who wants to target retirement savings largely through equity, NPS may not be the right product since it restricts equity investment to 50%. But for conservative or balanced investors, NPS is a good option. It is better to consider the current avatar of NPS as one of the pension products that you choose to target your retirement corpus.

IT'S BEEN AN ACTIVE YEAR

Some of the other changes that took place in the pension sector

Change: Pension Fund Regulatory and Development Authority (PFRDA) allows pension fund managers of the private sector National Pension Scheme (NPS) to invest directly in stocks instead of through index funds.
What it means for you: This puts the fund manager's risk on the investor, and also puts pressure on costs.

Change: Two new pension fund managers—HDFC Pension Management Co. Ltd and DSP BlackRock Pension Fund Managers Pvt. Ltd—joined the private sector NPS. LIC Pension Fund also becomes a pension fund manager for the private sector.
What it means for you: More choice of fund managers.

Change: Rules about contributions become clear. You need to contribute ₹6,000 every year to your NPS account. If you skip paying, PFRDA will freeze your account. You will not be able to transact until you pay the minimum contribution along with a penalty of ₹100 per year of no contributions.
What it means for you: Sure, the penalty may hurt. But it also encourages you to invest regularly to build a retirement corpus.

"In the year gone by, we saw the National Pension Scheme get established as an investment category. But distribution is still a challenge."

SUMIT SHUKLA
CEO, HDFC Pension Management Co. Ltd

"In a country where 90% of the workforce does not have a formal pension product, NPS has huge scope. And we are beginning to see it gain popularity."

SUNDEEP SIKKA,
CEO, Reliance Capital Asset Management Ltd.