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NATIONAL PLANNING SCHEME (NPS): DETAILS, BENEFITS, RULES, ASSET ALLOCATION AND PROGRESS MADE SO FAR

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Abstract

Retirement planning is a crucial aspect of financial planning where in there is a need to save money in pre-retirement period in order to enjoy the desired post-retirement lifestyle.To enable individuals to plan and prepare for post retirement life, the Government of India in conjunction with the Pension Fund Regulatory & Development Authority (PFRDA) launched the New Pension Scheme (NPS) in January 2004. The scheme was first introduced for government recruits and then in May 2009 for the general public. This study has analyzed salient features, various benefits after retirement and investment pattern of pension funds under National Pension Scheme in detail. This study was an attempt to examine the role of Government in producing a low-cost product which can be useful to the masses and will provide a great help to the nation in reducing post-retirement problems. An attempt was made in this study to benefit the investor greatly by showing how the pension portfolios under this scheme can be designed as per the risk appetite of an investor. This paper also discussed the progress made under this Scheme by the Central Government, State Government, Corporate and Unorganised sector so far.

Keywords:New Pension Scheme (NPS);Pension Fund Regulatory & Development Authority (PFRDA);Employee Provident Fund(EPF);Unit Linked Insurance Plan(ULIP);Mutual Fund (MF).

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Introduction

Need for the study

Pension plans are required to provide financial security and stability when a person enters old age because in this age people don't have a regular source of income. Pension plans give a surety that people can live with pride and without compromising on their standard of living even after retirement. Through Pension scheme one can get an opportunity to accumulate savings and on retirement getting lump sum payment or regular income through annuity plan.According to United Nations Population Division World's life expectancy is expected to reach 75 years by 2050 from present level of 65 years. Even in India the life span has increased due to the he better health and sanitation conditions. As a result life expectancy after retirement has increased. Retirement planning has become an essential part of today's life due to rising cost of living, inflation and increased life expectancy. Therefore to provide social security to more citizens Government of India has started the National Pension System. There are a number of financial products that provide security post retirement. Earlier financial planners were not recommending NPS to their clients but now many rules have been framed by PFRDA which promise to revamp and popularise what many say is the only genuine pension product in the country. This study has made an attempt to evaluate if NPS is a better retirement product in terms of access, cost, liquidity and tax benefits.

Objectives of the study:

1. To study salient features, advantages and disadvantages of National Pension Scheme.
2. To compare NPS with other retirement alternatives available in Indian Market.
3. To evaluate the progress made so far under National Pension Scheme.
4. To suggest the suitable asset classes designed by PFRDA approved Fund Managers as per risk profile of investors.

Research Methodology:

To conduct this study secondary data in form of published reports in various journals, newspapers and websites of National Pension trust has been used. To demonstrate the suitability of various pension funds to the risk profile of investors, the investors have been put into three categories and it has been assumed that ultra safe investors would put 40% in corporate bond fund and the balance 60% in the gilt fund, a conservative investor would allocate only 20% in stocks, 30% in corporate bonds and 50% in gilts, a balanced allocation would put 33.3% in each of the three classes of funds and lastly an aggressive investor would design his portfolio with the maximum 50% of his corpus in the equity fund, 30% in the corporate bond fund and 20% in the gilt fund. The investor being rational would put the decided proportion of his portfolio with asset classes of desired time period in those Fund managers which provide maximum return. For example if he decides to allocate 40 % in corporate bond fund for 6 months period he will select SBI Pension Fund with maximum return of 5.12% and his expected gain would be 2.048% i.e.40% of 5.12%.

What is NPS

The **National Pension System** (NPS) is a defined-contribution pension system operated by the Government of India. In 2004, the Government of India decided to move from a defined-benefit pension system to a defined-contribution pension system. Under this scheme a range of investment options are offered to employees. The individuals are given wide choice to make their own decisions about the investment avenues where their pension fund can be invested. Even limited withdrawal prior to retirement are permitted and thereby reducing the total pension liabilities of the Government of India. Under this scheme, contribution is made by individual to his retirement account but there is no defined benefit as in case of Life insurance that would be available at the time of exit from the system. The accumulated wealth in the fund is dependent upon the contributions made by the individual and because contributions are invested further by this fund, the income generated from such investments is also added into the wealth. So if an individual makes greater contributions, the greater investments will be achieved and if the tenure of the fund is long and the charges to be deducted are low, the eventual benefit of the accumulated pension wealth would be large.

Accumulated Pension Wealth=Contributions made by both employee as well as employer +Investment Growth–Charges

Social security is a major concern in India and National Pension Scheme is one of the Government social security initiatives the aim of which is to provide post retirement financial security to the individuals. The Government and even Corporate Houses are both promoting this scheme as one of the cheapest and citizen friendly scheme for the welfare of their employees so that employees working in these organisations can benefit from the same. It is a decent retirement plan, and like any other financial product it too has its own shares of pros and limitations.

Table1: Comparison of NPS with other retirement benefit alternatives

	Lock-in	Withdrawal	Equity exposure	Annuity	Tax benefit	Minimum Guarantee	Costs involved
NPS	Till 60 years	Not allowed	Only up to 50%	40% of maturity proceeds	U/s 80C of IT Act	Proposed	0.25%
EPF	Not applicable	Allowed for specific purposes	No equity exposure	Not applicable	u/s 80 C and u/s 10(10D)	implicit government guarantee on returns	Not applicable
ULIP	Till 60 years	Not allowed	No cap on exposure	One-third of the maturity proceeds	u/s 80 C and u/s 10(10D)	Minimum return on premium paid	1.35%
MF	Not applicable	No restriction on withdrawal	No cap on exposure	Not applicable	LTCG on equity funds tax free	Not applicable	1.25%

Source: http://www.moneytoday.in/

- As NPS doesn't allow you the option to invest 100% in equities and for those who are young i.e. in 30s or even early 40s,and have a long-term investment horizon a higher exposure to equities to target long-term goals such as retirement, through diversified equity mutual funds can be recommended.

- Those who draw comfort from guaranteed returns, EPF can cater to need of these customers, as it guarantees returns for the year. Also, the level of financial literacy is poor in India. Given these facts,EPF is a good retirement product. This is one of the safest investment options. Money remains with the government of India and also money is mainly invested in government bonds. EPFO determines Interest rate every year according to its return. One can also get tax deduction under 80C for one’s investment in EPF. Interest paid is also tax free. Redemption amount is also not taxed.
- Unit Linked Insurance Products give both insurance as well investment cover.Some amount of one’s investment is allocated to shares. Investor can decide the proportion of his fund to be invested in shares. Pension plans from life insurance companies also qualify for a tax deduction under the overall section 80C basket of Rs.1.5 lakh. In addition, these plans are guarantee a positive return of premiums on maturity or on death of the policyholder. In order to provide guaranteed return, a considerable part of fund id invested in debt instruments. This means that the unit-linked pension plans (Ulips) are not purely equity funds rather offer a variety of investment funds to choose from.so we can say these are market linked. On maturity, you can keep up to a third of the corpus tax-free in your hands, and the remaining needs to be annuitized or used to buy a single-premium pension plan. However, generally financial planners do not recommend pension plans to NPS as NPS is low-cost and it allows you to keep a larger portion of the maturity corpus as lump sum giving you more liquidity and flexibility. Ulips are similar to mutual funds in a number of ways except for the multitude of charges-allocation charges, policy administration charges, fund management charges and mortality charges. Hence, they are considered more expensive than mutual funds.

- *National Pension System (NPS)* has better fund management fee compared to mutual funds or ULIPS. So from this perspective NPS sounds better. But they may not be able to give as better as mutual funds. However, NPS should be idealchoice for conservative investor.

Features of the scheme:

1. Initially, NPS was introduced for the new government recruits (except armed forces). With effect from 1st May, 2009, NPS has been provided for all citizens of the country including the unorganised sector workers on voluntary basis.

2. **Pension Fund Regulatory and Development Authority (PFRDA)** is an autonomous body set up by the Government of India to develop and regulate the pension market in India.

3. Under the NPS, individual savings are pooled in to pension funds which are invested by PFRDA regulated professional fund managers as per the approved investment guidelines in to three separate asset classes. To provide you with maximum benefit on investment, National Pension System NPS Retirement fund is invested in (Parsha, 2016):

1. E – Equity (stocks) -> high-risk and fluctuating returns
2. G – Central and State government bonds or gilt funds -> Low risk but low returns
3. C – Fixed income securities (non-govt) and risk-bearing instruments with fixed income like fixed deposit, corporate bonds and liquid funds -> Medium

Subscribers are able to decide how their NPS pension fund is allocated across the three asset classes. These contributions would grow and accumulate over the years, depending on the returns earned on the investment made.

4. Pension Fund Regulatory and Development Authority (PFRDA) has appointed 8 funds managers to handle contribution-related investments. Three manage government employees' funds while 8 handle funds for other individuals. SBI Pension Plan is default fund manager.LIC Pension Plan, UTI Retirement Solutions and SBI Pension Plan for government employees.UTI Retirement Solutions, SBI Pension Plan, IDFC Pension(merged in 2012 with SBI pension), ICICI Prudential Pension, Reliance Capital Pension and Kotak Mahindra Pension for others.

5. At the time of normal exit from NPS, the subscribers may use the accumulated pension wealth under the scheme to purchase a life annuity from a PFRDA empanelled life insurance company apart from withdrawing a part of the accumulated pension wealth as lump-sum, if they choose so.

6. The subscriber will be allotted a unique Permanent Retirement Account Number (PRAN). This unique account number will remain the same for the rest of subscriber's life. This unique PRAN can be used from any location in India.

7. The scheme is structured in two tiers. A tier-1 account is a basic retirement pension account available to all citizens from 1 May 2009. It does not permit withdrawal of funds before retirement. A tier-2 account is a Prospective payment system (PPS) account that permits some withdrawal of pension prior to retirement under exceptional circumstances, usually related to the provision of health care.

8. As per the guidelines of Pension Fund Regulatory & Development Authority (PFRDA) subscribers can withdraw from NPS on his/ her retirement, resignation or death. On retirement a subscriber would be required to invest minimum 40% of his / her accumulated savings to purchase a life annuity from Pension Fund Regulatory and Development Authority (PFRDA) empanelled and Insurance Regulatory and Development Authority approved Annuity Service Providers (ASPs).Around 80% of amount has to be annuitized and remaining can be withdrawn by the subscriber on resignation. In case of death of the subscriber, entire amount will be handed over to the nominee. (Rao, 2015)

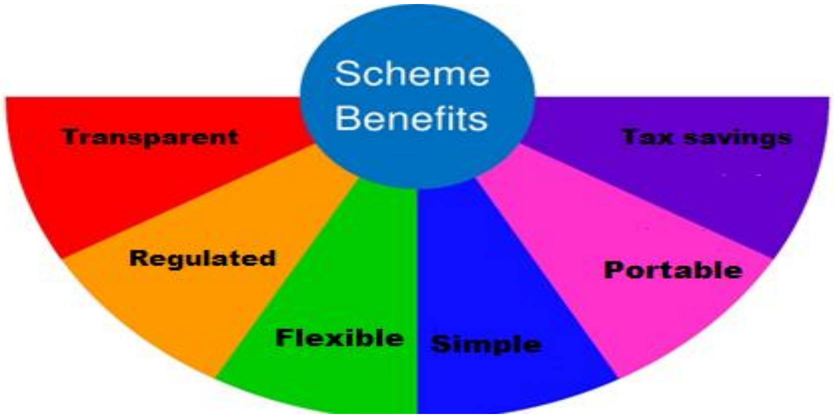
Table 2: Comparison of Tier I with Tier II Account

Features	**Tier-I**		**Tier-II**
	Government Fund	**Non-Government Fund**	
Contribution	The contribution from the employee's side is 10% basic salary + dearness allowance with exactly same contribution from the employer.	The investor pays Rs.6000; with a choice of paying at least Rs. 500 per instalment.	The contribution is Rs.1000 at the time of account opening or a minimum contribution of Rs.250 per month can also be chosen. Also, it is necessary to maintain a minimum balance of Rs. 2000 at the end of financial year.
Portfolio	The default investment is made mostly in Corporate	The default investment is in stocks, corporate bonds, government funds, FDs,	The investment is a mix of equity, corporate bonds, government funds,

	and Government bonds.	liquid funds etc.	FDs, liquid funds etc.
Fund managers	Three fund managers: 1. LIC Pension 2. SBI Pension 3. UTI Retirement Solutions	Eight fund managers: 1. SBI Pension Funds Pvt. Ltd. 2. UTI Retirement Solutions Ltd. 3. LIC Pension Fund Ltd. 4. Kotak Mahindra Pension Fund Ltd. 5. Reliance Capital Pension Fund Ltd. 6. ICICI Prudential Pension Funds Management Co. Ltd. 7. HDFC Pension Management Co. Ltd. 8. Pension Fund to be incorporated by BirlaSun life Insurance Co	Eight fund managers: 1. SBI Pension Funds Pvt. Ltd. 2. UTI Retirement Solutions Ltd. 3. LIC Pension Fund Ltd. 4. Kotak Mahindra Pension Fund Ltd. 5. Reliance Capital Pension Fund Ltd. 6. ICICI Prudential Pension Funds Management Co. Ltd. 7. HDFC Pension Management Co. Ltd. 8. Pension Fund to be incorporated by BirlaSun life Insurance Co
Bank Account	Not mandatory	Not Mandatory	Mandatory
Fund management Fee	0.0102%	0.25%	0.0102% for Government 0.25% for Non-Government
Withdrawal	Not allowed before investor turns 60	Not allowed before investor turns 60	No restrictions

Benefits of NPS

Figure 1: NPS Benefits



NPS is simple, low cost, transparent, an easily accessible, tax-efficient, flexible and portable retirement savings account. In this fund employer can also co-contribute for the social security/welfare of the employee. Some of the benefits of investing in the National Pension System (NPS) are:

1. **It is transparent -** NPS is transparent as the employee will be able to know the value of the investment on day to day basis.

2. **It is simple -** The subscriber opens an account with his/her nodal office and gets a Permanent Retirement Account Number (PRAN).

3. **It is portable -** PRAN is portable i.e., it remains the same even if an employee is transferred to any other office.

4. **It is well regulated -** NPS is regulated byPension Fund Regulatory and Development Authority which has made transparent investment norms & which regularly monitors the performance review of fund managers through a NPS Trust.

5. **Tax Benefits:** Contribution upto Rs 50,000/- made towards your NPS account is eligible for Tax Deduction U/S 80 CCD (1B), which is up and over the deduction of Rs 1,50,000/- available U/S 80C. So individuals who are looking for additional tax saving options may also look to invest in Scheme.

Table 4: Tax deductions offered by NPS

What is deductible?	Maximum deduction	Section
Mandatory deduction from salary for retirement savings	Rs. 1.5 lakh	80CCD(1)
Voluntary deduction from salary put in NPS by employer	10% of basic salary	80CCD(2)
Voluntary contribution by individual in NPS	Rs.50,000	80CCD(1b)

Source: (Mukerji, 2016)

As announced during the Budget 2016, up to 40% of the fund withdrawal at the time of retirement is exempted from tax. Earlier, the entire withdrawal amount was taxable. Thus partial tax exemption is not ideal but better than nothing at least. This implies if 60% of the fund is annuitized then no tax will be required to be paid on the balance withdrawals.

6. **Higher Fee to Intermediaries:** Due to fair payment of incentive/commission to the intermediaries, it is getting promoted by them. The Scenario when the scheme was launched was worse, the fund management cost was limited at 0.0009 per cent and points of presence, or PoPs, where investors open the account, were not permitted to charge more than Rs 20 per account, regardless of how big the investment was. Then there was an account opening charge of Rs 50 for the central record-keeping agency, or CRA, in addition to an annual CRA fee of Rs 225.The fund management fee for non-government funds has now increased to 0.25 per cent and for government funds it has increased 0.0102 per cent. The change is promoting **New Pension Scheme** by offering incentives to distributors and fund managers. The fund management fee of 0.25 per cent is nothing when compared to other products. Also, POPs are permitted to charge Rs.100 plus 0.25 percent of the investment. This change will surely act as an encouragement for the agents who will now actively market the product.

7. **Low cost:** This is one of the Low Cost investment options available to the Subscribers and is one of the key selling points of the scheme. The fund management fee of 0.25 per cent is

nothing when compared to other products. So we can say that account maintenance costs under the NPS are the lowest, compared to similar pension products available in India.

8. **Flexible:** An individual is offered a number of investment options and a choice of Pension Fund Managers (PFMs) to plan the growth of their investments. Individuals are at liberty to switch over from one investment option to another.

9. A safe retirement fund: NPS is introduced by the Government of India and regulated by the Pension Fund Regulatory & Development Authority (PFRDA) created by an Act of Parliament. So it is a safe retirement fund.

10. **Mandatory Investment in Annuity Scheme: A**s it is a social security scheme and aims to provide a pension to the retired so that they can sustain themselves, investing in Annuity Plans is not a bad idea. This rider is in place to make sure the funds are not ill utilized or spent entirely to meet some other purpose. In this regard, this mandatory purchase of annuity is good although the annuity payout is quite low.

11. **Diversification of Funds:** there are three 3 classes of funds into which NPS investments are diversified and these are Equity (E), Fixed Return Instruments (C), Government Bonds (G). Individuals can allocate their funds as per their preference and risk appetite. As investment in equities is restricted to 50% of the contribution, Individuals not only benefit from the equity market but at the same time, allocation to Government and Fixed Return instruments ensure that in case of equity market under performing Subscribers don't lose out heavily on their investment.

12. Professional Management of Funds: Notable Fund Managers manage such fund and they ensure better returns to the subscribers which would not have been possible for Individuals to achieve at their own level.

Negatives of the Scheme:

However, everything is not perfect with the National Pension Scheme and there are few aspects of the funds which one should know and evaluate before investing. **NPS has some limitations such as lack of liquidity and taxable annuities.** Inflexibility, tax-unfriendly features and low annuity rates make it a poor choice. With tax saving driving investment decisions, people are drawn to the additional Rs 50,000 deduction under Sec 80CCD(1b). But there are certain reasons why one should not invest in NPS:

1. **Liquidity**: Lack of liquidity is one of the major drawbacks of any investment. All tax-saving investments have lock in periods, but lock in period of NPS is very long. In the NPS,no withdrawal is permitted until the age of 60.therfore if a person is of the age of 25-30, the lock-in period is 30-35 years.

2. **Taxation on maturity:** The NPS is not really tax-friendly. The entire income stream from the NPS, the lump sum and the pension is fully taxable, except the portion actually used to purchase the annuity. Deferred tax liability is attracted on the funds used to purchase an annuity i.e. the annuity payouts i.e. pension are also fully taxable. If it is compared with investments in equity and equity mutual funds then NPS loses ground as these are exempt from the long-term capital gains tax. Withdrawals on the PPF also do not suffer any tax.

3. **Restriction on Withdrawal:** One of the major drawbacks of NPS is that restrictions are imposed on withdrawal of contribution. The worst clause in NPS is when the money is withdrawn after the age of 60, 40% of the corpus has to be compulsorily used to purchase an annuity from a life insurance company. But, if withdrawal is done before that, then a staggering 80% of the corpus in form of accumulated capital must compulsorily be used to buy a life annuity and the balance of 20% is free to be utilised by the account holder at his own discretion. These annuities, the products of life insurance companies are very expensive and also yield very poor returns, no doubt, excellent for the agents and companies that sell them.

4. **Limited Exposure to Equities:** There is no doubt that over a long period of time the investment in equity market offers better return as compared to other fixed return instruments. But as per investment guidelines the investment in equity to maximum of 50% of your fund corpus. For short term investors this may not be a major concern but for young individuals who are in their 20’s-30’s this means a great loss to accumulate more wealth which they could had the exposure been maximum to Equity Market.

5. **Expensive:** While the fund management cost is very low, there are a number of charges which are levied at multi-level offices of the NPS system, so NPS becomes a very costly option than it appears at first glance.

6. **Low Returns on Annuity Plans:** Under NPS minimum of 40% of the maturity amount is invested in Annuity Plans which leads to provision of monthly pension. These Annuity plans do not offer attractive returns on investment and are not at all tax beneficial. So the whole investment ends up with very poor returns. The annuity market in India offers the yield ranging

from 5% to 7%, less than what a bank deposit offers. However if the money is invested with an insurance company one can earn the highest annuity rate and one can also get a pension for life, without return of principal. Even though investment earns high returns in the accumulation phase, the poor returns on forced annuity will undo most gains.

7. **Better Alternatives Available:** Retirement plans offered by mutual funds are more lucrative investment alternative as they give better returns and promise tax efficiency and flexibility when compared to NPS.

8. **Return on Investment Not Guaranteed:** There is no guarantee of any minimum of fixed return by making investment in this scheme as there is no surety of the return on the investment. The return is subject to fund performance over a period of time i.e. one has to observe the fund performance closely. A close eye has to be kept on market trends which will reflect in the performance of the funds as well.

Results and Analysis

Kind of subscribers	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**FY 2016-17 up to 30/Apr/201601 up to 30/Apr/2016 (cumulative)**
Central Government	9,516.25	14,053.8	20,029.45	27,458.07	36,329.43	37,030.11
State Government	3,276.20	9,735.65	18,363.71	29,702.31	48,006.60	49,563.52
Corporate Sector	121.78	1046.08	2,495.84	4,800.78	8,348.75	8,610.31
Unorganized Sector	129.89	226.55	348.48	497.20	1,218.85	1,341.57
NPS Swavalamban	137.83	407.49	793.44	1,380.00	1,792.48	1,875.30
Total	**13,181.95**	**25,469.57**	**42,030.92**	**63,838.36**	**95,696.11**	**98,421**

Performance:

Table 5: Number of Subscribers registered under national pension Scheme

Source: *www.**npstrust**.org.in*

Table 6: Subscriber wise total contribution under National Pension Scheme (Rs. In Cr)

Source: www.**npstrust**.org.in

Table 7: Subscriber wise Assets under Management under National Pension Scheme (Rs. In Cr)

Kind of subscribers	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**FY 2016-17 up to 30/Apr/201601 up to 30/Apr/2016 (cumulative)**
Central Government	9,34,719	11,26,588	13,42,267	15,11,528	1,657,623	1,669,675
State Government	11,56,305	16,40,519	20,06,777	26,30,194	2,923,882	2,946,569
Corporate Sector	17,093	1,43,248	2,62,335	3,73,273	473,515	479,487
Unorganized Sector	56,963	70,419	78,774	86,774	215,372	225,605
NPS Swavalamban	9,68,755	17,79,944	28,16,027	41,46,880	4,480,014	4,474,146
Total	**31,33,835**	**47,60,718**	**65,06,180**	**87,48,649**	**9,750,406**	**9,795,482**

Kind of	2011-12	2012-13	2013-14	2014-15	2015-16	**FY 2016-17**

subscribers						**up to 30/Apr/20160 1 up to 30/Apr/2016 (cumulative)**
Central Government	11,256.02	17,317.01	24,177.05	36,736.80	48,135.03	49,466.75
State Government	3,505.83	10,748.11	20,095.27	36,243.85	57,498.27	59,797.56
Corporate Sector	128.60	1,119.73	2,627.61	5,674.76	9,290.05	9,676.78
Unorganized Sector	132.33	231.10	365.28	593.99	1,272.88	1,405.07
NPS Swavalamban	140.46	436.08	839.33	1,605.72	2,107.55	2,210.25
Total	**15,163.24**	**29,852.03**	**48,104.54**	**80,855.12**	**118,303.78**	**122,556**

Source: www.**npstrust**.org.in

- The number of subscribers registered under National Pension System (NPS) has increased more than three times since 2011-2012 from about 31.33 Lakh to 97.95Lakh.Presently NPS subscribers of Central Government are 17% of the total subscribers while that of the State Governments are 30%.
- The Asset under Management has also increased 8 fold from approximately Rs.15,163 crores to Rs.122,556 crores while the contribution has increased from Rs. **13,181** crores to approximately Rs. **98,421**crores.
- The number of NPS subscribers in the Corporate Sector are 479,487 while in Unorganized Sector is 225,605, the total being 705092.
- There has been substantial improvement in performance of State Governments since April 2012.That barring the two States in India (Kereal and Bengal),all the other State Governments, have notified joining NPS. Though it is mandatory to register under National

Pension System (NPS) for the joinees/employees of the Central Government who have joined or are joining it on or after 01-01-2004, yet most of the State Governments have adopted NPS voluntarily for their employees from their respective adoption dates. Currently, NPS has **9,795,482** subscribers with total Asset under Management (AUM) of Rs**. 122,556**crores. Out of this, State Government sector has approx. 2,946,569 subscribers with AUM of Rs. 59,797.56 crores.

- A number of steps need to be taken in this direction by Government in order to encourage contribution to NPS such as:

➢ Communicating more frequently with the subscribers to increase awareness levels about NPS.

➢ PFRDA is working towards notification of various regulations in respect of the efficient management of funds, seamless grievance handling and systems for risk mitigation and containment.

➢ Various issues like expanding coverage, adequately safeguarding the interest of the subscriber and robust risk management system is of paramount important for protecting the interest of subscribers.

➢ Synchronization of information and funds is very important in NPS; hence Nodal offices have to lay emphasis on the same. It should be the collective endeavour of the Regulator and the stakeholders involved i.e. State Governments, State Autonomous Bodies (SAB) and their Nodal offices, that a two way feedback process has to be in place to innovate upon the operational aspects of the NPS. (National Pension System-Implementation by State Governments, 2014)

Asset allocation:

Asset allocation is made as per risk appetite of the investor. More risky investors make high equity allocation whereas less risky move towards fixed income securities. Various options as per risk profile of investors are given below:

1. **Ultra Safe option:** In this option mainly the investment will be done in government securities. Say the ultra-safe investor in this research would not invest in equities; put 40% in corporate bond fund and the balance 60% in the gilt fund.

2. Conservative: In this option most of the exposure would be to govt securities and corporate debt i.e. fixed income securities with some exposure in equity and. It will be moderately risky and rewarding. Say, a conservative investor would follow the allocation of MIP funds, putting only 20% in stocks, 30% in corporate bonds and 50% in gilts.

3. **Balanced option:** A balanced allocation would put 33.3% in each of the three classes of funds and lastly,

Asset / Fund Manager	**Equity**				**Corporate Debt**				**G.SEC**			
	6 months	1 year	3 year	5 year	6 months	1 year	3 year	5 year	6 months	1 year	3 year	5 year
HDFC Pension Fund	7.06	1.60	-	-	5.01	10.09	-	-	5.64	9.51	-	-
ICICI Prudential Pension Fund	7.74	2.30	15.76	11.47	4.74	9.83	9.80	11.55	5.60	9.83	8.16	9.89
Kotak Pension Fund	7.28	2.35	14.86	10.90	4.89	9.99	9.32	11.29	6.05	10.21	7.98	9.63
LIC Pension Fund[#]	7.12	1.90	-	-	5.12	10.60	-	-	5.26	9.38	-	-
Reliance Capital Pension Fund[#]	6.52	1.69	15.03	10.10	4.68	9.86	9.53	11.13	5.81	10.04	7.73	9.75
SBI Pension Fund	8.01	2.77	15.14	11.02	4.69	9.64	9.17	11.19	5.68	9.98	7.84	9.68

UTI Retirement Solutions	7.74	3.42	15.54	10.58	4.96	9.94	9.33	11.01	5.45	9.74	7.89	9.55

4. **Risky option:** It suits an aggressive investor as the higher allocation in this option will be in equity. He would design his portfolio with the maximum 50% of his corpus in the equity fund, 30% in the corporate bond fund and 20% in the gilt fund.To decrease the risk, equity investment is allowed only in index funds which track Sensex or Nifty with the equity exposure is capped at 50 per cent.

There are only seven NPS fund managers at present and the table below compares their returns.

Table 8: Fund managers' returns across asset classes (in %)

The numbers that are shaded in colour indicate the highest returns for that specified period. And it is assumed that the investor will invest money with that fund manager that gives maximum return keeping in mind the tenure of investment and risk appetite.

Source: *www.**npstrust**.org.in*

Table 9: Suitability of Pension funds to the time and risk level of investors:

Type of Investors	**Portfolio Design (%)**			**Expected Returns**			
	Govt Bonds	**Corporate Bonds**	**Equity**	**6m**	**1 year**	**3 year**	**5 year**
Ultra safe investors	60	40	0	8.174	10.366	8.816	10.554
Conservative investors	50	30	20	6.163	8.969	10.172	10.7
Balanced investors	33.3	33.3	33.3	6.436	8.073	11.23	10.96
Aggressive investors	20	30	50	6.751	6.932	12.45	11.19

- **Ultra safe investors:** In the short term, ultra safe investors have gained maximum among NPS investors.For six months period the risk-averse individuals have earned the highest returns i.e. 8.17% and for 1 year period they have earned 10.37%.These are investors who stayed away from stocks and divided their NPS corpus between G class gilt funds and C class corporate debt funds. Even for longer period of 5 years they have not performed too badly, yielding a return of 10.55% on an average. However the average return of corporate debt funds for five year tenure is higher at 11.55% against government securities which is 9.89%. Therefore Ultra-safe investors should consider a higher allocation to these funds.
- **Conservative investors:** Investors who allocated a small portion of their corpus to equity funds i.e. just 20% have also earned good returns. Admittedly, the short-term picture is not very attractive, with insipid returns in the past 6-12 months. The medium and long term returns are also not as attractive as that of aggressive and balanced investors. Including just 20% equity in their retirement portfolio is a not a very sound strategy because investors would be better off by investing more than 30% in equity in their portfolio. However the best performing fund ICICI Prudential Pension Fund over three and five years has given them double-digit returns in the longer period.
- **Balanced investors:** Investors who spread their money across all three types of funds have not done too badly either. Here again, the short-term picture is rather bleak due to the poor returns by both corporate debts and government securities in six months period and the equity funds over the period of one year. The best performer in the equity over past one year, UTI retirement solutions has given 3.42% return only. But the medium- and long-term returns are reasonably attractive. ICICI Prudential Pension Fund is again the best performing fund for this allocation, with returns of 11.47% in equity, 11.55% in corporate bonds and 9.89% in government securities in the past five years. The balanced approach, which puts 33.3% in each of the three classes of funds, will suit most investors. It has the potential to give reasonably good returns in the long term without taking too much risk. Please note that the 5-year returns of the balanced portfolio of all equity and corporate bond oriented pension funds is above 10% and in case of government securities it is very close to 10%.

5. **Aggressive investors:** Equity funds of the NPS have not done too well in short term period i.e. up till 1 year. They have lost money and delivered lower returns than corporate debt and gilt funds in the short term. This has dragged down the returns of aggressive investors who

allocated 50% to equity funds as Maximum return in equity over a period of 1 year is just 3.42 whereas for the same period corporate debts and government securities have yielded above 10%.But in the medium and short term they have outperformed and have shown double digit returns. These investors earned maximum in both medium and long term. Therefore this should not make young investors, especially with a longer commitment to ban this critical asset class from their portfolios. (Zaidi, 2016)

Conclusion:

As the life expectancy in India has increased due to better health conditions, the retirement planning has become a crucial aspect of financial planning. To provide social security to Indians in post-retirement period, Government of India has rightly initiated National pension Scheme. This study clearly showed impressive response of this scheme from a large number of subscribers under Central Government, State Government ,Corporate as well as unorganised sector. This study has also created social awareness about healthy retirement among Indians by demonstrating a comparison between various pension products available in the market. However there are certain negative points of this scheme and Government of India should take adequate steps to make this scheme an attractive post retirement option. In the end, the investor would be benefitted greatly from this study, as pension portfolio would be so designed that would cater to the risk appetite of investor.

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