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18<sup>th</sup> April 2018

Dear Mr. Simbh,

**Subject: National Pension System (NPS) -**

**A Contributory Pension Scheme promoted by Government of India**

National Pension System (NPS) has been implemented for all Government Employees (except armed forces) joining Central Govt. on or after 01 January 2004. Most of the State/UT Governments have also notified the National Pension System (NPS) for their employees joining services after respective notification date. NPS has been made available to every Indian Citizen from 01<sup>st</sup> May 2009 on a voluntary basis. Further, from 1<sup>st</sup> June 2015, the Atal Pension Yojana, has been launched which has given the much required impetus to the social security schemes. Currently, NPS and APY together have more than 1.83 Crs. subscribers with total Asset Under Management (AUM) of more than Rs.2,16,000 crores.

2. The role of Associations is vital in disseminating information which is for the benefits of their members/ member organizations. NPS can play an important and fruitful role in providing social security through old-age income security. This communiqué is an attempt to create an awareness about the important features and benefits of the NPS and to seek your cooperation in disseminating the same to all your member organizations, so that the member organizations may act for the well-being of their employees and members.

3. NPS is regulated by Pension Fund Regulatory and Development Authority (PFRDA), established by Government of India through an act of parliament (PFRDA Act, 2013) to promote old age income security in the country.

4. The NPS brings about the following unrivaled Advantages for the employers and the employees in the private sector. Details are as under:

**(i) Regulated:**

The funds are managed by Pension Funds appointed, regulated and actively monitored and regulated by PFRDA.

**(ii) Very Low Cost Structure:**

The investment cost is very low as compared to other investment products available in the market.

### **(iii) Flexible Contribution**

One can open NPS account with amount as low as Rs. 500/- and also the minimum contribution amount in a financial year is Rs. 1000/-. The subscriber can contribute as per his savings without any maximum limit.. Moreover, employers are free to decide whether they wish to co-contribute towards their employees' individual pension accounts.

### **(iv) Attractive Returns:**

The investment under NPS is market linked. This has helped in generating a good return since the inception of the schemes. The CAGR since inception has been in double digit under various schemes and across the Pension Fund and should therefore appeal to subscribers.

### **(v) Open to All:**

Open to any Indian citizen, resident or non-resident, salaried or self-employed, between 18-65 years complying with KYC norms.

### **(vi) Flexible Investment Choice:**

The employer has the option to select the investment choice for all its employees or may give the option to the employees. The employees have the option to choose from an assortment of asset classes (Equity, Corporate Debt & Government Securities) and the option to select any Pension Fund registered with PFRDA. Taking into account the limited financial wherewithal of some of the employees to actively manage their investments PFRDA has further provided two modes of fund investment- Active Choice to subscribers to actively manage their investments and Auto Choice- Lifecycle Fund for them to passively manage their investments.

### **(vii) Tax Benefits:**

Tax benefits are available on both employee and employer contributions. The employee can save tax on his own contribution [u/s 80 CCD(1) of IT Act] as well as the contribution made by the employer [u/s 80 CCD(2)].

For the employees, deduction from taxable income is available upto 10 % of salary (Basic + DA) - u/s 80 CCD (1) of IT Act 1961, within overall ceiling of Rs.1.50 Lakh u/s 80 CCE of IT Act 1961. Additionally, if you, as the employer, are also contributing towards pension accounts of your employees, an additional deduction of 10 % of salary (Basic + DA) is further available to the employees u/s 80 CCD (2) without any monetary limit.

Furthermore, the employer can claim these contributions upto 10% of (Basic salary+ DA) for each employee, without any overall monetary limit as a **Business Expense u/s 36(1) iv (a) of the IT Act**.

In addition to the above an additional tax benefit on contribution upto Rs. 50000/- is available under Section 80 CCD(1B), which is exclusively available only under NPS .

### **(viii) Diversified Portfolio:**

As the saying goes, one should not keep all ones eggs in one basket, the NPS portfolio is well diversified across financial securities.

Judicious mix of investment instruments and asset classes like Equity (E), Corporate Bonds (C), Government Securities (G) and /or Alternate Investment Fund (A) ensures optimum returns on investments and have minimal impact on the returns on subscriber's contributions even if there is a market downturn. The individual subscriber has a choice of selecting investment mix (E,C,G, A), as per his/her risk appetite.

**(ix) Portable and Technology Driven:**

On joining the NPS, a subscriber gets a Permanent Retirement Account Number (PRAN) to which all his/her contributions are credited and it is portable across geographies and employments. It being technology driven, subscribers can view their accounts online.

**(x) 24 X 7 X 365 Access:**

Riding on a highly efficient technological platform NPS provides online access to accounts to the subscribers.

5. Keeping in view the flexibility, which may be required by a corporate for providing the facility to their employees, an institutional model known as **NPS Corporate Model** has been designed to provide NPS to the employees of corporate entities. It is worth mentioning that for NPS, the term "Corporate" includes proprietorship concerns, a partnership firms, micro, small & medium enterprises, companies, Trust, societies etc. The NPS-Corporate Model can be introduced along with any other retirement benefit scheme like EPF etc. Moreover, employers are free to decide whether they wish to co-contribute towards their employees' pension accounts.

6. PFRDA is committed to provide any help/ clarification that you may require to facilitate implementation of NPS in the member organizations, including any operational help from any of its regulated intermediaries. Your assistance in disseminating the information to your members would go a long way in widening the coverage under post-work retiral income to the workforce in the private sector which forms the bulk of the Indian workforce.

With Regards,

Yours Sincerely,



(Ananta Gopal Das)

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