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Performance of National Pension Scheme Tier 1 in India

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ABSTRACT - India has one of the world's fastest growing economies. In population India is on 2nd position. India doesn't have any comprehensive old age income security system. There are however some mandatory schemes for employees of Govt. employees and not see employees with a staff of 20 or more. In recent years, insurance and mutual fund companies also have started various pension plan schemes. National Pension Scheme (NPS) is an easily accessible, low cost and flexible retirement savings account for citizens. It was launched in January 2004 for government employees, later on in 2009 it was open to all section. To understand the performance of NPS offered by various fund managers are taken for the study. The empirical analysis focuses on tier-I schemes of NPS based on findings and discussion, researcher provides a well motived recommendation for investors to invent to get more income.

Key words NPS National Pension Scheme, Security system, Fund Managers.

I. INTRODUCTION

NPS is defined contribution pension system. It was launched by the govt. on April 1 2004 and in initial phase covered new entrants to the central government services. However the NPS is now applicable on employees of majority of state governments, central autonomous bodies and some state autonomous bodies. The scheme was extended to all other citizens of India between the ages of 18 to 65 years on voluntary basis from 2009. Private companies are also allowed enroll their employees under the NPS either on mandatory or voluntary basis. NPS trust was established by the Pension Fund Regulatory and Development Authority (PFRDA) for taking care of assets and funds under the NPS in the interest of subscribers. There are in total 8 fund managers engaged by PFRDA.

- It was launched for fulfill following objectives.
- To provide old age income
- Reasonable market based returns over long run.
- Ex tending old age security coverage to all citizens.
- Permanent Retirement Account Number (PRAN) are allotted to each subscriber upon joining NPs

TYPES OF ACCOUNTS:

Every individual subscriber is issued Permanent Retirement Account Number (PRAN) card and 12 digit unique number. Under the NPS account two types of sub accounts are offered- Tier 1 and Tier 2. Tier 1 is a mandatory account and the subscriber has option to opt for tier 2 account opening and operation.

Tier 1 Account

This is a non-withdrawal retirement account which can be withdrawn only along meeting the exit conditions prescribed under NPS. As per the announcement made in the Union Budget 2019 the NPS corpus that can be withdrawn at the time of retirement i.e. 60% of the total accumulated corpus would be tax exempt from F.Y. The move makes NPS at par with other savings schemes such as PPF and EPF in terms of tax. This account carries a tax deduction under section 80 C up to Rs. 1.5 lakh p.a. and additional amount up to Rs 50,000 p.a. under section 80 CCD (1BB)

Tier 2 Account

This is a voluntary savings facility available as in add on to tier 1 account holder. Investors will be free to withdraw their savings from this account whenever they wish. Tier 2 account has no tax benefits, for private sector employs or self-employed person. While presenting Union Budget 2019 the finance minister Ms Nirmala Sitharaman announced that from F,Y. 2020-21 tax benefits can be claimed on Tier 2 accounts contributes but with lock in period with ELSS.

The following table provides the complete information on the minimum contribution requirements.

An investor in NPS has two choices to invest in namely Auto choice and Active Choice. In the Auto choice the allocation amongst assets is done as per a predetermined formula based on the age of investors. The allocation is made in 3 assets classes, namely Equities (E), Corporate Bonds(C) and Government Securities (G). Under active

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choice of allocation lies with investor. There is however a cap of 50% for investment in equity. For government sector the cap on equity is increased to 15%.

The following table provides the complete information on the minimum contribution requirements for NPS

Table 1 Minimum Annual Contribution

For all citizen Model	Tier I	Tier II
Minimum contribution at the time of opening	Rs. 500	Rs. 1000
Minimum amount per contribution	Rs. 500	Rs. 250
Minimum total contribution in the year	Rs 6000	Rs. 2000
Minimum frequency of contribution	1 per year	1 per year

Source: pfrda.org.in

II. REVIEW OF LITERATURE

- Subhro Sen Gupta, Neha Gupta and Komal garg in their paper have studied the relationship between Tier 1 and Tier 2 accounts. They have also found the relationship between equities, corporate and Government securities of both accounts. They stated that public at large has higher faith on Government securities.
- Sane Renuka and Thomas Susan has recommended some of the steps after passing of the PFRDA Bill at the end of 2013 like improving investment choices, rationalizing investment guidelines for returns over the long term, improving transparency and increasing the visibility and access of this product while ensuring that protection of customer rights against fraud.
- Sanyal, Ayanendu and Singh Charan in their research paper has studied that the main purpose of NPS are smoothing of consumption and mitigating longevity risks. Universal pension scheme are found to do this successfully for each and every person of this country. In their study they assumed that the population of India above 60 years is 10 crore and if a universal pension of about Rs. 6000 per annum is awarded to all them.
- Brijesh Mishra (2016), studied various facts of financial intermediation performed by various pension fund schemes. He also found some unique characteristics of such funds such as being custodians of very long funds which differentiate pension funds from other intermediaries such as banks.
- Dr. Vani Kamnath and Dr. Roopali Patil (2016), studied cost and benefits involved in the National Pension System. They also analyzed differentiated NPS from other Pension Schemes and highlighted the uniqueness of the scheme. They also suggested the best products for the people of different age group as per cost benefit analysis.
- Sapna Singh (2014), in her thesis found the current and prospective investors' perception towards the pension schemes in Uttar Pradesh. She analyzed that the investors who are in age group 40 to 60 gave priority to retirement planning for investment. She also concluded that preference for structure given by respondents (76%) prefer to invest their money in pure pension scheme. They like to invest in high lump sum return schemes followed by tax benefit schemes and then high income schemes.
- Manisha Raj, Tanya Verma, Shruti Bansal and Aashita Jain (2018), analyzed and compared the performance of growth and balanced mutual funds of Private Sector HDFC and Public Sector SBI. They found that rate of return In HDFC mutual fund was more than SBI Balance fund. Collectively there was found that rate of returns of SBI mutual funds of HDFC mutual funds were relatively higher than HDFC mutual funds.

OBJECTIVES OF THE STUDY:

1. To understand the performance of NPAs Tier I schemes offered by different companies over a period of time since its inception.
2. To study relationship of E,C & G schemes of Tier I account.
3. To identify the best pension scheme fund for investment.

LIMITATIONS:

1. The study is limited to NPS Tier I schemes only.
2. Six companies are taken for the study.
3. The results are pertaining to the available data only.
4. Administration expenses are not considered for the study.

STATEMENT OF THE PROBLEM:

NPS will help the citizen of India to provide some money for the post retirement period to meet minimum basic expenses. Different companies are offering various equity Plans, Government Bond Plans and corporate Debt Plans. The income from NPS depends on which fund is selected for the investment. The study makes an effort to evaluate various selected funds' performance from Tier I account from its inception. It will help investors to choose their operator for future post retirement income accordingly.

III. RESEARCH METHODOLOGY

The study is an analytical study. Secondary data is collected from sources like value research.com, ppfindia.org etc. The study period is taken for five years.

Research Design:

Six companies are taken for the study. These companies are as follows:

1. HDFC Pension management Co. Ltd.

2. ICICI Prudential Pension Fund management Co. ltd.

3. Kotak Mahindra Pension Fund Ltd.

4. LIC Pension Fund Ltd.

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5. SBI Pension Fund Pvt. Ltd.

6. UTI Retirement Solution Ltd.

Tools Used for the Study

To understand the performance of selected six schemes, the statistical measures like mean, standard deviation and ANOVA are selected for analysis using SPSS 20 software.

IV. DATA TABULATION AND ANALYSIS

TABLE 2 NPS Scheme (Tier I)

Particulars	HDFC Pension Fund		
NPS Scheme	E	G	C
1st year	-1.86	20.78	15.27
3rd year	8.32	8.13	8.39
5th year	7.84	10.93	10.34

Source: NPS Trust as on Sept. 11 2019 (Assets as on July 31 2019)

TABLE-3 NPS Scheme (Tier I)

Particulars	ICICI Prudential Pension Fund		
NPS Scheme	E	G	C
1st year	-2.92	20.39	15.08
3rd year	6.85	8.14	8.51
5th year	6.88	11.03	10.64

Source: NPS Trust as on Sept. 11 2019 (Assets as on July 31 2019)

TABLE-4 NPS Scheme (Tier I)

Particulars	Kotak Pension Fund		
NPS Scheme	E	G	C
1st year	-1.93	21.27	13.52
3rd year	6.81	8.18	7.6
5th year	7.11	11.06	9.96

Source: NPS Trust as on Sept. 11 2019 (Assets as on July 31 2019)

TABLE-5 NPS Scheme (Tier I)

Particulars	LIC Pension Fund		
NPS Scheme	E	G	C
1st year	-4.73	23.58	15.4
3rd year	5.34	9.95	7.93
5th year	5.87	11.97	10.09

Source: NPS Trust as on Sept. 11 2019 (Assets as on July 31 2019)

TABLE-6 NPS Scheme (Tier I)

Particulars	SBI Pension Fund		
NPS Scheme	E	G	C
1st year	-2.96	20.69	14.96
3rd year	6.98	8.35	8.25
5th year	7.15	11.19	10.25

Source: NPS Trust as on Sept. 11 2019 (Assets as on July 31 2019)

TABLE-7 NPS Scheme (Tier I)

Particulars	UTI Retirement Solution		
NPS Scheme	E	G	C
1st year	-3.69	20.27	13.45
3rd year	6.77	7.79	7.45
5th year	7.4	10.61	9.64

Source: NPS Trust as on Sept. 11 2019 (Assets as on July 31 2019)

All the NPS E schemes (tier I) offered by HDFC, ICICI, Kotak, LIC, SBI and UTI gave a negative return for the first year, however the variation in returns between these companies are very close. The highest return was given by HDFC Pension fund with -1.86% and the lowest return was given by LIC pension fund with -4.73%. All G schemes offered by all sic companies gave very high return in 1st year. The LIC pension fund is the best option for those investors who want to invest in government bond plans because of its rich experience in handling debt investments. In corporate debt plan all schemes have positive return for the first year like government bond plan.

For three years period all E schemes give positive return compared to others offers. Again HDFC plan gets high return with 8.32% and the least return is earned by LIC with 5.34%. The return for three years in all G and C schemes fall down compare to first year. Investor with the conservative mind can be misguided because the double digit return earn in first year, shut up in third years.

For five years period returns of all E schemes except HDFC pension fund show upward trend. In G and C schemes returns for five years increase compared to three years.

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TABLE 8 Average Return in %

PENSION FUND	AVERAGE RETURN IN %		
	NPS SCHEME –TIER-1		
	E	C	G
HDFC PF	4.766666667	13.28	11.33333
ICICI PPF	3.603333333	13.18667	11.41
KOTAK PF	3.996666667	13.50333	10.36
LIC PF	2.16	15.16667	11.14
SBI PF	3.723333333	13.41	11.15333
UTIRSL	3.493333333	12.89	10.18
Total	21.74333333	81.43667	65.57667

Source: from the above tables.

Chart given below is graphical presentation of the above data.

CHART -1 NPS SCHEME –TIER-1 AVERAGE RETURN IN %

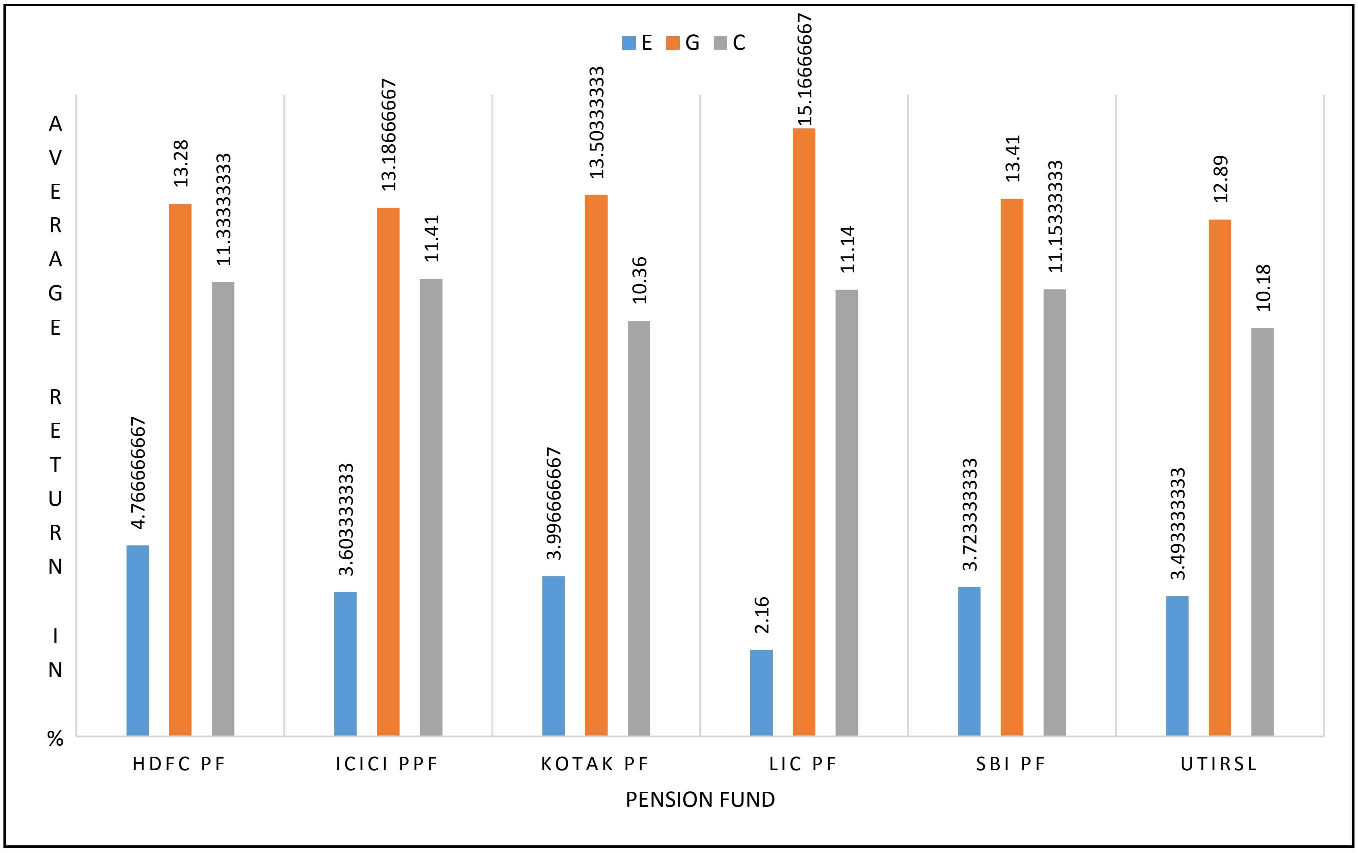

TABLE 9

NPS **SCHEME –TIER-1** Descriptive Statistics								
RETURNOFSCHEME								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
HDFC PF	3	9.7933	4.46071	2.57539	-1.2877	20.8743	4.77	13.28
ICICI PPF	3	9.4000	5.09805	2.94336	-3.2643	22.0643	3.60	13.19
KOTAK PF	3	9.2867	4.84337	2.79632	-2.7449	21.3183	4.00	13.50
LIC PF	3	9.4889	6.65868	3.84439	-7.0522	26.0300	2.16	15.17
SBI PF	3	9.4289	5.06835	2.92621	-3.1616	22.0194	3.72	13.41

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UTIRSL	3	8.8544	4.83654	2.79238	-3.1602	20.8691	3.49	12.89
Total	18	9.3754	4.38540	1.03365	7.1946	11.5562	2.16	15.17

Source: Research based: Computed by SPSS-20

To check the homogeneity of variances following hypothesis is formulated,

Ho: Variance of all groups is equal

H1: Variance of all groups is unequal

TABLE 10 Test of Homogeneity Variances

Test of Homogeneity of Variances			
RETURNOFSCHEME			
Levene Statistic	df1	df2	Sig.
.192	5	12	.960

SOURCE: Research based: Computed by SPSS-20

The F – Value is 0.192 and its associated significance 0.960 is greater than 0.05, we cannot reject the null hypothesis and say that variance are equal for all groups.

To clear the true picture of percentage returns in selected NPS schemes, Researcher calculates One Way ANOVA.

Table 11 Anova

ANOVA					
RETURN OF SCHEME					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.411	5	.282	.010	1.000
Within Groups	325.529	12	27.127		
Total	326.940	17			

SOURCE: Research based: Computed by SPSS-20

H0: There is no significance difference in mean percentages of return in selected NPS Scheme- Tier-I (i.e. E, C, and G)

H1: There is significance difference in mean percentages of return in selected NPS Scheme- Tier-I (i.e. E, C, and G)

The F – Value is 0.010 and its associated significance 1.000 is greater than 0.05,we cannot reject the null hypothesis and say that There is no significance difference in mean percentages of return in selected NPS Scheme- Tier-I (i.e. E,C,G)

V. CONCLUSION AND SUGGESTION

From the study researcher examines the blended returns of three different combination of equity, corporate bonds and government bonds for the study period. Aggressive investors could invest maximum 50% in equity fund, 30% in corporate bonds and 20% in gilt funds. Ultra safe investors always invest 60% in Govt. bonds 40% in corporate bonds and nothing in equity. Now a days investors can also invest 5% in the new 'A' class alternatives investment funds which researcher ignored in the analysis. It is advisable for investors not only choose the fund options but also the Pension fund manager (PFMs). The PFMs are required to invent the funds as per PFRDA's guidelines. NPS being a long term retirement schemes focused, the choice of right schemes will go a long way in determining the final corpus.

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