

National Pension Scheme

(a General Summary of relevant Features)

Background

- Broadly in nature of Retirement Planning
- Underlying objective to replace the Govt. Provident Fund in long term
- Administered by PFRDA (the Govt.), thru **professional agencies** for Govt. Employees
- Also available to **ALL**,
 - private sector employees
 - self employed persons
 - professionals
 - businessmen

General Features :

- Need to open both Tier I and Tier II accounts.
- Simple process
- Age limit : 60 years
- **Not a 'Defined benefit'** investment option (in PF / PPF / NSC, etc., the benefit, i.e. the interest rate is pre-determined).
- All investments managed by **professional fund managers** with '**market related returns**' concept. This also means, there is **no guarantee of principal / returns**, whatsoever.
- **Lowest Costs'**
- **PRAN'** No. ('Permanent Retirement Account Number') is allotted on registration
- **Tier I** A/c – basic a/c –
 - retirement Planning concept
 - can be withdrawn only after 60 years age
 - like superannuation, 1/3 balance can be withdrawn on retirement, without tax; Balance to be converted mandatorily in Annuity
- **Tier II** A/c – Voluntary / Optional
 - Additional – separate A/c
 - Flexible, Any no. of Deposits / withdrawals during the year

Taxation Features

- Basic deduction covered in Sec. 80C, with an overall Limit of Rs. 1.00 Lakh
- As per new provision in Sec. 80CCD, **Additional Exemption** of employer's contribution upto **10%** of eligible salary of an employee – no formal scheme required for the purpose
- Upon withdrawal, it will be taxable. Hence, postponement of tax; but can be utilized for effective use in planning in future
- Deduction for Employer

Investment Options (called 'Asset classes'): Present

- ✓ **Active Choice** : To specify
 - Three Options / asset Classes :
 - E' : Equity - Maximum 50%
 - Investment in Index Fund – NSE NIFTY / BSE SENSEX
 - G' : G. Sec. - Central / State Govt. Securities
 - No Limit
 - C' : Corp. Bonds, etc.
 - Investment in :
 - Liquid Mutual Funds
 - Bank FD
 - Infrastructure Bonds
 - Public Fin. Institution / PSU Bank Bonds

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✓ **Auto Choice** : Follows Life Cycle Approach

- Reducing weightage on Equity with increase in age
- Table specified for the purpose.
- Equity highest – 50% upto 35 years.
- Thereafter every year equity reduces by 2%, it is reduced to 20% at age 50 years
- Class 'C' – Bonds - highest 30% upto 35 years
- Thereafter every year Bonds reduces by 1%, it is reduced to 15% at age 50 years
- Investment in Class 'G' – G. Sec. is 20% upto 35 years.
- Thereafter every year it increases by 3%. At age 50 years, it is 65%
- No Switches / Changes in Investment Options permitted during the year
- Change permitted only at beginning of the year
- New concept. Major changes / flexibilities expected in future

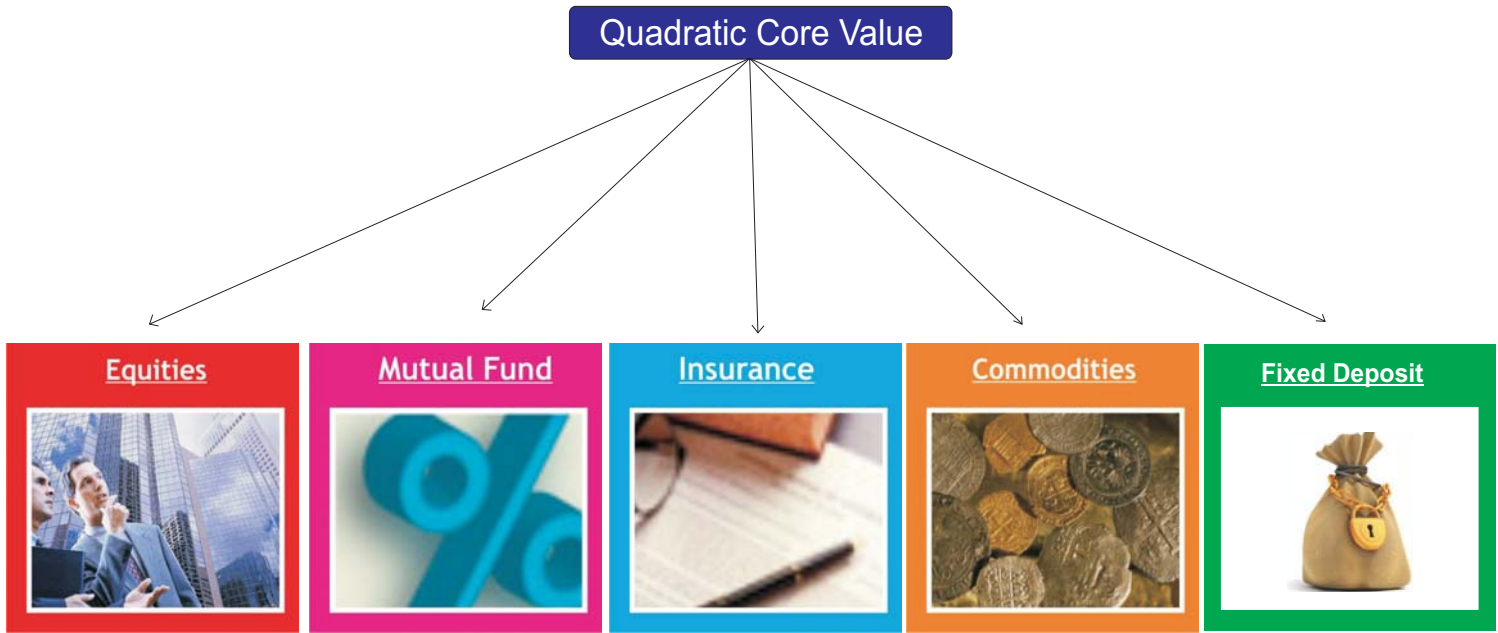
Charges :

- Annual Charge – Rs. 350
- Transaction Charge– Rs. 20 (Irrespective of the Investment Amount)
(Proposed to be modified)
- A/c Opening– Rs. 1,500 (Rs. 1000 credited to the Tier I A/c)

This Note has been prepared on the basis of the information available at present. It is expected that there will be a large variety of changes going forward, based on the experience gained and the recommendations / suggestions.

In case you desire more details, or to have a look at the Terms Issue of the IPO, we request you to
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