New norms make exit flexible for NPS investors

Individuals can now contribute till the age of 70, enabling them to take additional tax benefit

The Pension Fund Regulatory and Development Authority (PFRDA) has notified its guidelines for exits and withdrawals under the National Pension System (NPS). The guidelines are meant to allow a certain degree of flexibility to existing investors at the time of making an exit.

"The new guidelines make NPS a lot more flexible. They have brought in a few incremental changes which will make the NPS product better than what it was earlier," says Sumit Shukla, CEO, HDFC Pension Management.

Here are some of the major changes that have been effected:

Partial withdrawal

NPS will now allow investors to make partial withdrawals up to 25 per cent of the contributions made. The withdrawals are permitted for higher education and marriage of children (including legally adopted child), for purchase or construction of a residential house or flat and for treatment of 13 specified illnesses such as cancer, kidney failure, etc of self, spouse, children and dependent parents.

EXIT OPTIONS
NPS investors can make partial withdrawals up to 25% of the contributions made
The 25% contribution excludes contributions made by the employer
Withdrawals permitted for higher education, children's marriage, purchase/ construction of house and treatment of critical illness
Investors can defer annuitisation by a maximum of 3 years
100% withdrawal allowed if accumulated corpus on reaching 60 years is equal to or less than Rs 2 lakh

The 25 per cent withdrawal excludes contributions made by the employer as well as the gains made on the investment. So, if a person contributes Rs 5,000 a month, he can withdraw up to Rs 3 lakh from his total contribution of Rs 12 lakh in 20 years. Experts feel the withdrawal limit might be a bit on the lower side. "Twenty years from now, will the amount be sufficient for treating critical illness or higher education or marriage?" asks Manoj Nagpal, CEO, Outlook Asia

Capital. However, Shukla believes the limit is beneficial as it will ensure a significant part of the corpus stays for retirement.

Withdrawals are permitted only after the completion of 10 years in the scheme and for a maximum of three times during the entire tenure of subscription with a five-year interval. Also, no withdrawal will be permitted in case the subscriber already owns - either individually or in the joint name - a residential house or flat other than ancestral property.

Investment after retirement

Earlier, the retirement age for corporate NPS investors was considered to be 60. According to the new norms, corporate NPS investors can exit at an age designated for retirement by their employers. This change is useful as several corporates have 58 as their retirement age.

Earlier, the NPS account automatically went into a deferred mode at the age of 60 if the lump-sum amount was not withdrawn. Under the new norms, the account is deferred only if the subscriber intimates his or her intention to do so in writing in the specified form at least 15 days before retirement. The big positive now is that in addition to the deferment, NPS investors will be able to make fresh contributions till the age of 70. Earlier, even if you deferred the account, you could not make further contributions. "Now that contributions are allowed till the age of 70, those working beyond 60 years can continue to avail of the tax benefit," says Shukla. Currently, an investment of Rs 1.5 lakh in NPS qualifies for tax deduction under section 80C. The 2015-16 Budget has also allowed an additional tax exemption of Rs 50,000 under Section 80CCD.

According to earlier norms, a minimum of 40 per cent of the corpus at age 60 had to be annuitised. The new exit norms now allow investors to defer the annuitisation by a maximum of three years. This flexibility will prove especially useful for those who have a sizeable portion of their corpus in equities. If the markets are going through a turbulent phase during the time of withdrawal, these investors can choose to postpone their annuitisation decision. This becomes even more significant in the light of the Bajpai committee recommendations, which advocate that the cap on equity investment be raised to 100 per cent from 50 per cent.

Earlier, individuals could withdraw the 60 per cent amount in lump sum or in a phased manner. While the new guidelines allow withdrawals to be deferred till 70, they do not specify whether they will be allowed in a phased manner or not. According to experts, the PFRDA will issue clarifications on the issue in the coming months.

The way ahead

Besides the exit and withdrawal notification, NPS has been undergoing changes in a few other areas as well. Recently, the account opening forms for NPS have been simplified, with the number of pages brought down to two from six. Investors opening an account through a bank need not go through a separate KYC (know your customer) if their KYC has already been done by the bank. PFRDA is also working on setting up an online platform for NPS transactions. At present, all NPS transactions are done offline and investors can only view their account online.

The investment pattern itself may undergo a sea change if the recent recommendations of the Bajpai committee are accepted. The committee wants an increase in exposure to equity investment in the next six years in different phases. In the first phase, it wants the equity limit to go up to 50 per cent from the current 15 per cent in government plans and life cycle funds with equity cap at 75 per cent to be floated. Life cycle funds invest across asset classes depending on the age of the investor. The committee also wants the investment universe to be expanded to NSE 100 from the existing Nifty 50. In phase two, the equity ceiling in both government and private sector plans would be raised to 75 per cent. In phase three, it wants no ceiling on asset classes. The committee also moots investment in alternate asset classes such as real estate, commodities and infrastructure.

Exemption from annuitisation

The new guidelines allow investors to withdraw the entire accumulated amount without purchasing annuity if the corpus in the tier-I account on the date of reaching 60 years is equal to or less than Rs 2 lakh. For withdrawals before the completion of 60 years, subscribers are not required to purchase annuity provided the accumulated corpus does not exceed Rs 1 lakh. This is a positive for those with a low accumulated corpus. According to earlier norms, the subscriber had to set aside a minimum of 80 per cent of the accumulated corpus for buying annuity if the money was withdrawn before turning 60.

Once an annuity is purchased, the option of cancellation and reinvestment with another annuity service provider or in another annuity scheme shall not be allowed unless the same is done within the free-look period specified by the service provider, say the new guidelines.

(Business Standard)