"National Pension System- the way forward towards pragmatic approach to sustainable investment system"

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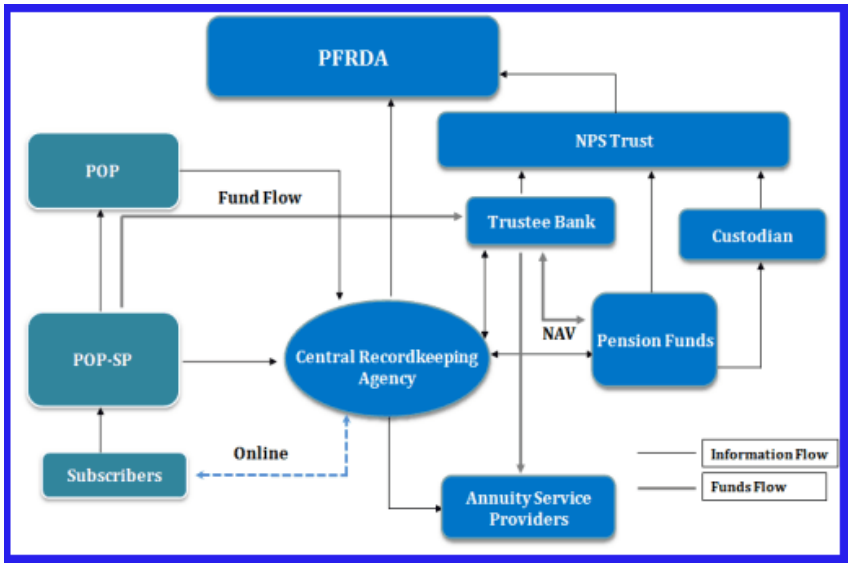
ABSTRACT *NPS was initially meant for government employees, and was later extended to all citizens of India. Recognising the need to provide income security to marginal income earners and to people from economically disadvantaged sections of society, a scheme has been launched exclusively for such sections of society namely APY and NPS-Lite Yojana.NPS is a contributory system under which both the employer and employee will have to contribute certain amount from their salary and employee will be provided regular income from their contribution after retirement. National Pension System is a government of India initiative which has become a widely popular and effective way for the investors to participate in financial markets at low-cost and in an easy way while reducing risk characteristics by spreading the investment across different types of securities, also known as diversification as they play an important role in an individual's investment strategy. This paper provides the detailed analysis of working of NPS in India and further tried to evaluate the performance of NPS in over a period from 2013 to 2017.*

Keywords: *APY, AUM, Contribution, Diversification, Investors, Performance, Recordkeeping.*

1. INTRODUCTION:

PFRDA has been appointed as a nodal agency managed through a set of Intermediaries who have experience in their own areas of operations. Each intermediary, looks after to specific activities such as recordkeeping, fund transfers, fund management and custodial services etc., has been selected through competitive bidding process to bring about the advantages of low-cost and effective checks & balances in the system to the subs Central Recordkeeping Agency- Appointed by PFRDA and entrusted with the record keeping of the data of individual subscribers.

Basic Architecture Of NPS:



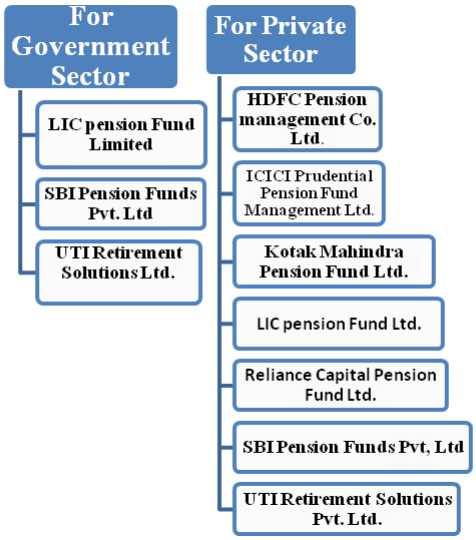
1.1 Points of Presence (POP) and POP-Service Provider (POP-SP)-

These are the banks and non-banking financial companies registered with PFRDA for registration and servicing of subscribers to the NPS.

They include mainly commercial banks who act as the first points of interaction of the NPS subscriber under the NPS architecture. The authorized branches of a POP, called Point of Presence Service Providers (POP-SPs), act as collection points and extend a range of customer services to NPS subscribers.

1.2 NPS Trust & Trustee Bank- the NPS Trust :(established by the PFRDA) handles the funds aspect of the transactions between various entities. Axis Bank Ltd. is the designated bank to facilitate fund transfers across subscribers, fund managers and annuity service providers based on the instructions received from CRA.

1.3Pension Funds Managers- intermediaries appointed to invest the contributions received from various subscribers.



1.4 Annuity Service Providers

Are appointed by the PFRDA to provide annuity to the subscribers through their various schemes. It is the will of subscribers to choose any of the Annuity Service Providers for buying an annuity and thus, delivers monthly pension to their subscribers.

1.5 Custodian- handles the security side of the transactions. The PFRDA has appointed the Stock Holding Corporations of India Ltd as the custodian.

2. Historical Background:

Pension Policy in India has traditionally been based on the employment contracts/ service conditions and financed through employer and employee participation. As a result, the coverage has been restricted to the organized sector and a vast majority of the workforce in the unorganized sector has remained outside the formal channels of old age financial support. Around 2.96 crore people are employed in organized sectors, which is around 8 percent of the main workforce of the country. The remaining working population is engaged in the unorganised sector and majority have no access to any formal system of old age economic security. The Indian old age income security system can be classified as follows) Civil Service Schemes ii) Employee's Provident Fund Organization Schemes (EPFO) iii) Occupational Pension Schemes.

iv) Public Provident Fund (PPF) v) Indira Gandhi National Old Age Pension Scheme (IGNOAPS)

In its influential report "Averting the Old Age Crisis," the World Bank (1994) recommended a multi-pillar system for the provision of old-age income security comprising:

- Pillar 1: A mandatory publicly managed tax-financed public pension.
- Pillar 2: Mandatory privately managed fully funded benefits.
- Pillar 3: Voluntary privately managed fully funded personal savings.

Subsequently, Holzmann and Hinz (2005) of the World Bank extended this three-pillar system to the following five-pillar approach:

- Pillar 0: A basic pension from public finances that may be universal or means-tested.
- Pillar 1: A mandated public pension plan that is publicly managed with contributions and, in some cases, financial reserves.
- Pillar 2: Mandated and fully funded occupational or personal pension plans with financial assets.
- Pillar 3: Voluntary and fully funded occupational or personal pension plans with financial assets.
- The fifth pillar is a nonfinancial pillar that includes the broader context of social policy such as family support, access to healthcare and housing, etc.

The key challenge in India is to continue the pension reforms while addressing the needs for Pillar 0 and create a universal security net for the neediest.

3. Significance of the study:

As per the Population Census 2011, the elderly population accounted for around 8.6 per cent of total population in 2011. With increase in per capita income better quality of life and better medical services, life expectancy is gradually increasing and consequently both the share and size of elderly population is increasing over time. In fact the rate of increase of elderly population (60+ years of age is higher than the general rate of increase of population. The elderly population (60+ years of age) has increased at the rate of 35.10 percent between 1991 and 2001 and at the rate of 35.51 percent between 2001 and 2011 against the increase of total population of 21.53 percent between 1991 and 2001 and 17.64 percent between 2001 and 2011. Consequently, the share of elderly population in total population has increased from 6.8 percent in 1991. to 7.4 percent in 2001 and subsequently to 8.6 percent in 2011. As per the report on Ageing in 21st Century jointly brought out by United Nations Population Fund (UNFPA) and Help Age International in 2012, the number of elders, who have attained 60 years of age, will shoot up by 360 per cent between 2000 and 2050. India had around 100 million elderly populations up to 2012 and the number is expected to increase to 323 million, constituting 20 per cent of the total population, by 2050.

India does not have a universal social security system. A large number of India's elderly are not covered by any pension scheme. Pension reforms and a pension system with greater reach will not only ensure citizens' welfare in their golden years but will also help the central and state governments cut their future liabilities. With these broad objectives in mind, the government of India set up an expert committee in 1998 to devise a new pension system for India. Project Oasis, which was chaired by S.A. Dave, submitted its report in 2000. The report recommended setting up a new pension system in India. It recommended creating a pension system based on individual retirement accounts (IRAs). An individual would save and accumulate assets through his entire working life. Upon retirement, the individual would be able to use his pension assets to buy annuities from annuity providers and obtain a monthly pension. The pension amount would be governed by what the employees' pension fund account could earn from market investments. This was a paradigm shift, from the existing defined returns philosophy to a defined contributions philosophy.

The committee suggested creating a professionally managed system with a large base of pension account holders across all sectors of the economy and centralized record-keeping. The proposed system would ensure fair competition among professional fund managers so as to provide a wide range of choices to employers and fair market-linked returns to the account holders. In line with the above recommendations, the government set up its New Pension System (NPS), India's answer to the U.S.'s 401(k) plans.2 The NPS was launched in 2004 for central and state government employees, who had to subscribe mandatorily. In 2009, it was thrown open to all Indian citizens in the 18-60 age groups. Various studies were already done in the area of national pension scheme but the researcher have left the gap with regard to performance of NPS during 2013-2017 keeping in mind the objective of study.

4. OBJECTIVE OF THE STUDY:

The main objective of the present study is to know about the National Pension System in detail and further tried to examine the performance of NPS.

5. RESEARCH METHODOLOGY

The study is descriptive cum analytical in nature and is based on secondary data collected from various sources such as PFRDA reports, NPS trust.org and other concerned websites. Percentage has been applied in order to achieve the objectives of the study. The parameters taken to study the performance of NPS are: Asset under Management, No of subscribers enrolled and Total contribution.

6. Time period: for study is from 2013-2017.

7. Data analysis and interpretation:

Table: 1

Sector (at the end of FY 2013-14)	**No. of Subscribers**	**Total Contribution M&B (**Rs in Crs**)**	**AUM (**Rs in Crs**)**	**Total**	**% to total**	**Rank**
Central Government	13,42,267	20,029.45	24,177.05	1386473.5	21	3
State Government	20,06,777	18,363.7	20,095.27	2045235.97	31	2

Sector (at the end of FY 2013-14)	No. of Subscribers	Total Contribution M&B (Rs in Crs)	AUM (Rs in Crs)	Total	% to total	Rank
Corporate Sector	2,62,335	2,495.84	2,627.6	267458.44	4	4
Unorganized Sector	78,774	348.48	365.28	79487.76	1	5
NPS Swavalamban	28,16,027	793.44	839.33	2817659.77	43	1
Total	**65,06,180**	**42,030.92**	**48,104.54**	**6596315.46**	**100**	

Source: NPStrust.org.in

It was observed from the table that NPS Swavalamban constitutes the maximum share among all the NPS scheme and got the highest scorer among all. Also the share of SG was good enough and got the second rank amongst all the schemes.

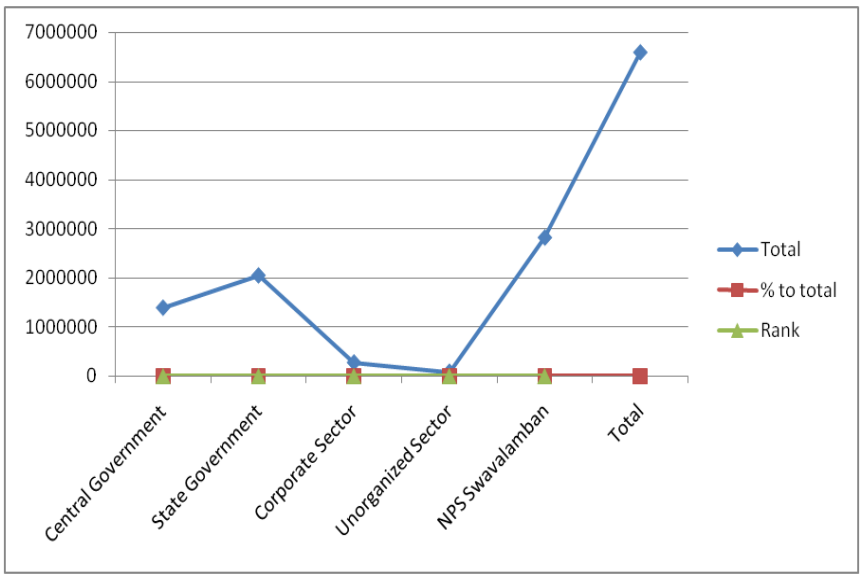


Fig:1

Table:2

Sector (at the end of FY 2014-15)	No. of Subscribers	Total Contribution M&B (Rs in Crs)	AUM (Rs in Crs)	Total	% to total	Rank
Central Government	15,11,528	27,458.07	36,736.80	1575722.87	18	3
State Government	26,30,194	29,702.31	36,243.85	2696140.16	30	2
Corporate Sector	3,73,273	4,800.78	5,674.76	383748.54	4	4
Unorganized Sector	86,774	497.20	593.99	87865.19	1	5
NPS Swavalamban	41,46,880	1,380.00	1,605.72	4149865.72	47	1
Total	**87,48,649**	**63,838.36**	**80,855.12**	**8893342.48**	**100**	

Source: NPStrust.org.in

It was observed that NPS Swavalamban constitutes Rs. 4149865.72 which is 47% of the total no of subscribers, AUM and contribution of the NPS and ranked first among all the schemes. SG scheme was having 4% share amongst all and ranked second. Besides this, Corporate sector have the same percentage growth of 4 if compared from the last financial year and ranked at 4th Position.

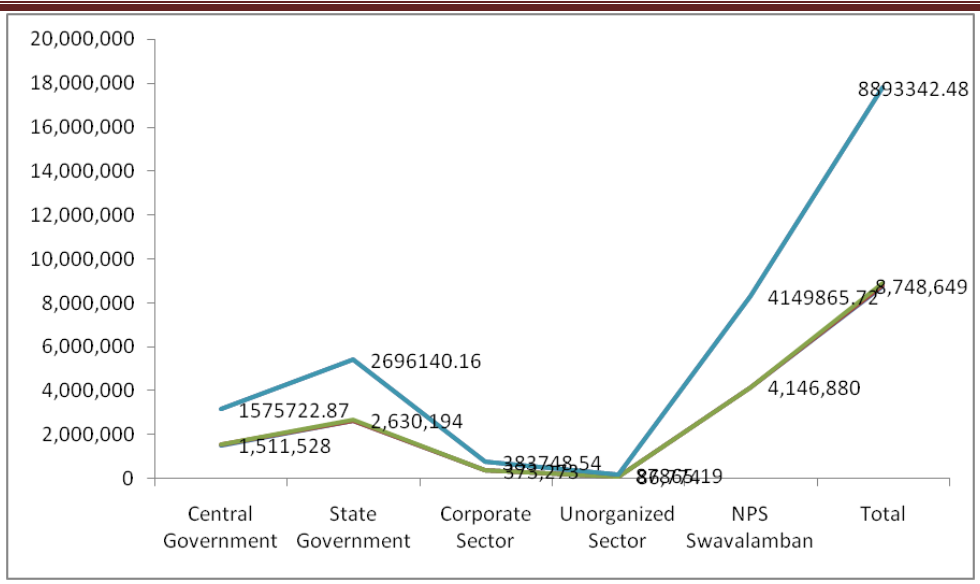


Fig:2

Table:3

Sector (at the end of FY 2015-16)	No. of Subscribers	Total Contribution M&B (Rs in Crs)	AUM (Rs in Crs)	Total	% to total	Rank
Central Government	1,657,623	36,329.43	48,135.03	1742087.46	18	3
State Government	2,923,882	48,006.60	57,498.27	3029386.87	30	2
Corporate Sector	473,515	8,348.75	9,290.05	491153.8	5	4
Unorganized Sector	215,372	1,218.85	1,272.88	217863.73	2	5
NPS Swavalamban	4,480,014	1,792.48	2,107.55	4483914.03	45	1
Total	**9,750,406**	**95,696.11**	**118,303.78**	**9964405.89**	**100**	

Source: NPStrust.org.in

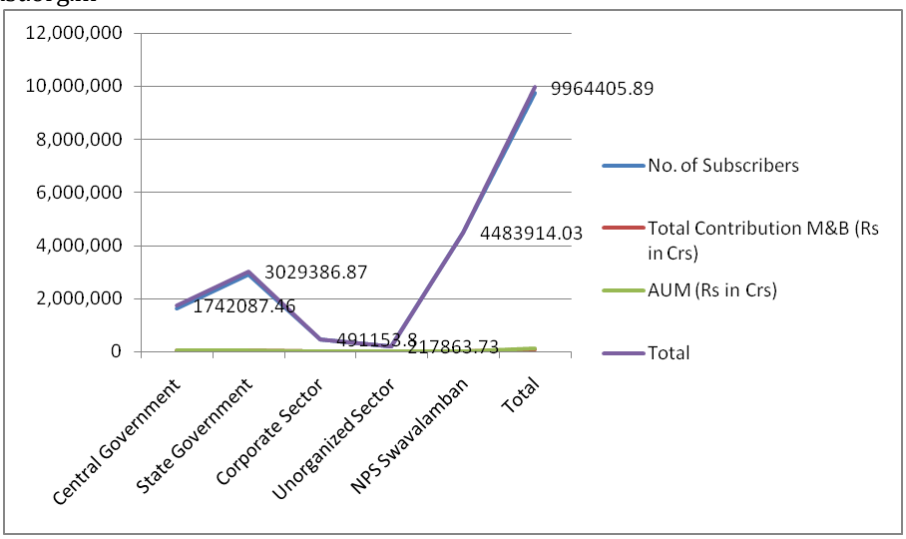


Fig:3

During the F/Y 2015-16, NPS Swavalamban stands first amongst all the schemes and contributes to 45% in NPS. It was further observed that the share of SG again was quite good and further ranked second amongst all the schemes. However the share of Corporate sector and unorganised one still lacked behind.

Table:4

Sector (at the end of FY 2016-17)	No. of Subscribers	Total Contribution M&B (Rs in Crs)	AUM (Rs in Crs)	Total	% to total	Rank
Central Government	1,788,699	48,451.73	67,040.20	1904190.93	18	3
State Government	3,332,526	67,099.32	84,917.29	3484542.61	32	2
Corporate Sector	585,595	12,472.71	14,953.22	613020.93	6	4
Unorganized Sector	437,076	3,022.09	3,123.13	443221.22	3	5
NPS Swavalamban	4,429,342	2,118.54	2,639.21	4434099.75	41	1
Total	**10,573,238**	**133,164.39**	**172,673.05**	**10879075.44**	**100**	

Source: NPStrust.org.in

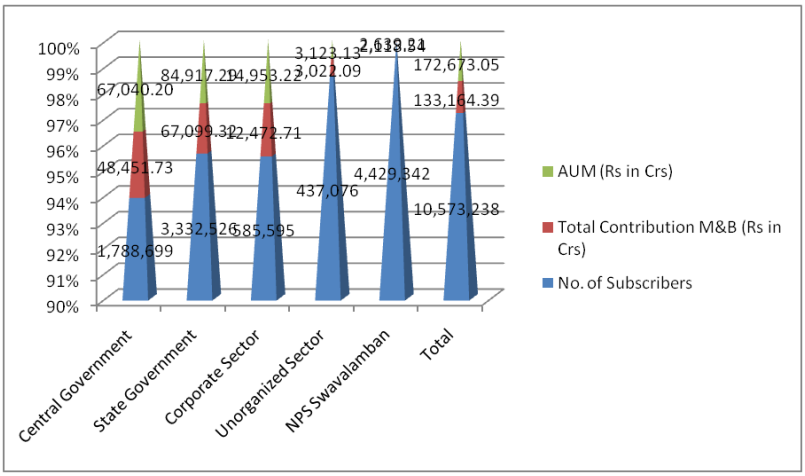


Fig:4

Again NPS Swavalamban ranked first amongst all the schemes with percentage increase of 41 and the sector which comes next amongst ranking wise is state government followed by CG, Corporate, unorganised.

Table:5

Year	Total AUM, no of subscribers and contribution	Absolute change	%
2013-2014	**6596315.46**		
2014-2015	**8893342.48**	2297027.02	25.82
2015-2016	**9964405.89**	1071063.41	10.74
2016-2017	**10879075.44**	914669.55	8.40

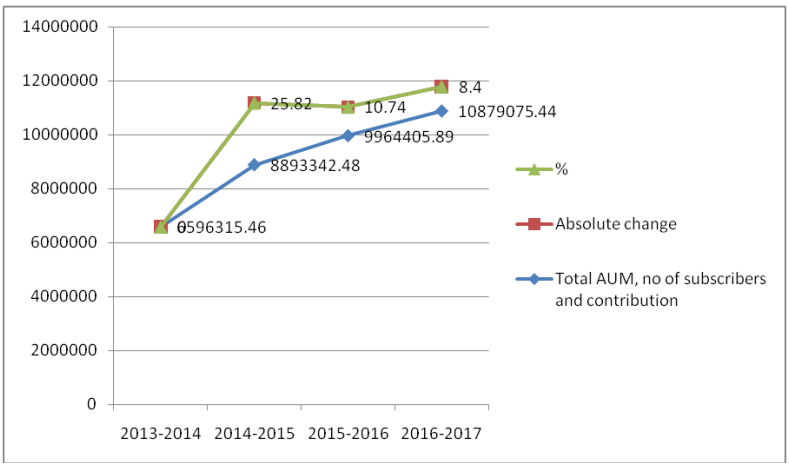


Fig:5

It would be quite clear from the above table that the although the scheme had performed quite well during its initial stage but it showed a slow down and decreasing trend by the end of F/Y 2016-17 as it was at its evolutionary stage when seen from Corporate perspective. Thus, need has arise to spread awareness among people about NPS.

8. conclusion:

The role of NPS in the economy and capital market can be examined in terms of accumulation of institutional capital, development of capital market through creation of demand for financial instruments, support to improve financial market research, risk rating standard, corporate governance etc. which not only gives momentum to growth but also lead towards economic development of the country. It has been observed from the study that Indian debt market showed continued decline in terms of investment purpose which was only 3.2% in 2007, in GDP terms but gained a lead with the introduction in pension reforms i.e. NPS.

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