National Pension System (NPS) for Corporate employees[1]

I thank the Indian Chamber of Commerce (ICC) for this opportunity to be in the midst of such distinguished gathering. I propose to focus on the National Pension System for the corporate employees.

NPS is for all

In popular perception, pension was a privilege of government employment. It is no longer so with the introduction of the National Pension System (NPS) in 2004, first for the government employees, and then extended to private corporates including the common person, and now to children with the scheme of NPS Vatsalya, which was recently launched by the Government. NPS Vatsalya can be seamlessly ported to workplace pension on the child coming of age and joining the workforce, thereby providing continuity to retirement savings account. Thus, any one from infancy to 70-years old can join NPS. As the vesting period is enlarged, one could harness the power of compounding to accumulate substantial corpus providing adequate pension on one’s retirement.

It is understandable that not all NPS subscribers, for example a child, will have regular income. Similarly, informal workers or workers engaged in seasonal work, for instance agriculture, may have irregular income. Even in these cases, NPS can be considered an appropriate product as only with an annual contribution of Rs. 1000, NPS account remains active.

NPS is a low cost prudently regulated pension scheme. It has made a steady progress with an accumulated corpus of over Rs.13 lakh crore. It provides competitive returns. For instance, the equity component of NPS scheme has given a compound annual growth rate (CAGR) of 14.2 percent return since inception, Corporate bond 9.1 percent and Government securities 8.9 percent. Similarly, the NPS scheme for central government employees, which is a mix of both debt and equity, has given a CAGR of 9.6 percent return since inception. This performance can be attributed to favourable financial market conditions and the skills of fund managers besides regulations to enhance subscriber experience and safeguard their

[1] Keynote address by Dr. Deepak Mohanty, Chairperson, Pension Fund Regulatory and Development Authority (PFRDA) at ICC Conclave on “National Pension System” organised by Indian Chamber of Commerce at Mumbai, September 27, 2024.

investments. The returns that I mentioned are average return across pension funds, and we have 11 of them. The subscriber has the freedom to choose any one or more of them. In that sense the subscriber is in a competitive market place to make informed choice. It is, therefore, important for the fund managers to provide competitive returns commensurate with the market and the benchmark set by the regulator.

Who will provide retirement benefits?

The term "retirement benefit or pension" carries different meanings to the diverse set of workforces. Individuals with a secure financial future post-retirement are more likely to maintain their lifestyle while providing for contingencies. Hence, adequacy of pension, i.e. the replacement rate, becomes an important metric. According to ILO Convention 102, a desirable replacement rate (pension) could be pegged at 40 percent of last pay *(after 30 years of work life).*

In India, there is a significant proportion of workforce engaged in the unorganized and informal sector and they do not have access to occupational pension as in the organized sector. Savings by them for old age is a necessity. Government does provide some social security assistance to underprivileged and low-income individuals. But that may not be adequate without one’s own savings.

The nature of employment is also changing. The rise of the gig economy and digital platforms has transformed the nature of work in India. Freelancing, online marketplaces, and app-based services have provided new avenues for employment, especially for young people and those seeking flexible work arrangements. At the same time, this trend also raises the question about social protection in the digital age.

In a scenario of employer-employee relationship, the boundaries are defined. If an employer has more than 20 employees and pays upto Rs. 15,000 salary, the employer is duty bound under the Employees' Provident Fund Organisation (EPFO) Act, to contribute towards Provident Fund (PF) and Employees’ Pension Scheme (EPS). However, over Rs. 15,000 of salary, the employer has a choice: either to adopt PF & EPS voluntarily or establish a Trust *(recognised by EPFO or approved by the commissioner of income tax)* or adopt National Pension System (NPS) or offer a combination of two or more schemes. It is often seen that employers do not segregate their employees in terms of salary for providing retirement benefit, and apply a common scheme for all their employees.

Globally, largely non-government employers have transited from offering their employees Defined Benefit (DB) to Defined Contributions (DC) pensions. In India, the mandatory Employees' Pension Scheme (EPS) of EPFO offers a hybrid scheme of Defined Contributions with Defined Benefit, subject to monetary ceilings. It is important for the employers to consider the financial wellbeing of its employees once they formally leave the organisation. A survey by Willis Towers Watson indicated that a probable replacement rate of 30 percent may be achieved through PF & EPS and by adding Approved Superannuation Fund it improves to 46 percent and to top it up with NPS the resultant replacement rate may become 63 percent.

In this context, adoption of multiple retirement schemes by an employer can deliver the desired replacement rate to its employees for enabling them to lead a dignified life after superannuation. In the voluntary segment, NPS can be considered an appropriate choice for employers and employees. NPS is portable, transparent and flexible in terms of contributions and investment choices, offers market linked returns and can be accessed anytime digitally. Its low-cost feature amplifies the accumulation of a higher corpus as compared to other competing financial products.

At present, NPS has 1.5 crore subscribers: 94 lakh government and 59 lakh private subscribers. On a voluntary basis, both private citizens and corporates have enrolled with NPS. Private sector NPS assets have also shown a robust growth in the recent years. The corpus from the private sector is about Rs 2.7 lakh crore.

There were 17,633 corporates with over 21 lakh subscribers in NPS. This coverage is small. For example, it is only 2.5 percent of EPFO coverage in terms of number of establishments. Even in the corporate sector most of the subscribers are from public sector banks and other central public sector enterprises. The employees form the private corporate covered under NPS were 12.6 lakh. The take up rate among the private corporates employees remains low. For instance, the take up rate, among top 10 private corporates registered under NPS was only 8 percent implying that many employers were not taken NPS for various reasons despite many advantages of NPS, most important being it provides continuity to one's retirement account. It is both employment natural and residency neutral as Non-Resident Indians (NRIs) and Overseas Citizen of India (OCI) can continue in NPS. Employees with short stints abroad could continue their NPS account.

Contribution to NPS is also tax efficient both for the employer and employee. The Union Budget 2024-25 raised deduction of expenditure by employers (Section 36 of Income Tax Act) towards NPS contribution from 10 percent to 14 percent of the employee salary. Similarly, deduction of this amount upto14 percent of salary from income of employees (under section 80CCD of Income Tax Act) is allowed under the new tax regime. Both the corporate and employees benefit from this provision by subscribing to NPS.

Conclusion

Let me conclude. Only one pension product may not be enough for a sustainable post retired life. Despite, a decent annual rate of growth of corporates joining the NPS, take up rate of their employees joining the Scheme is only around 11percent. This coverage may not improve significantly without a nudge from the employer side. The employers need to increasing their engagement with Points of Presence (PoPs) and conduct more awareness sessions on NPS. Corporates could take initiative to encourage employees to open NPS accounts by contributing a certain minimum amount. This may nudge the employees to contribute themselves when they see the performance of the scheme.

Thank you.

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