

# NATIONAL PENSION SCHEME (NPS)



Courtesy: The ET Wealth (All Giures as on 5<sup>Th</sup> Sept 2023).

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# NPS

- ▶ National Pension System (NPS) is a retirement benefit Scheme introduced by the Government of India to facilitate a regular income post retirement to all the subscribers. PFRDA (Pension Fund Regulatory and Development Authority) is the governing body for NPS.
- ▶ One of the reasons investors stay away from NPS is that it is very rigid. Money gets locked till you are 60, and then also 60% of the corpus can be withdrawn.
- ▶ This is only partially true because the NPS also offers a lot of flexibility.
- ▶ Investors can choose their asset mix by dividing the corpus among four different types of funds.

# Spread NPS across Three Different Pension Fund Managers

- ▶ From this year onwards, the Pension Fund Development and Regulatory Authority(PFRDA) has allowed investors to spread their investments across different fund managers.
- ▶ You can invest in:-
  - ✓ Equity Fund of the Pension Fund A
  - ✓ The Gilt Fund of the Pension Fund B
  - ✓ The Corporate Bond Fund of the Pension Fund C
  - ✓ Newly Introduced – Alternatives Fund



# Equity Fund - Maximum 75% can be invested

Raising of the limit on equity exposure to 75% has proved to be a boon

PENSION FUND MANAGER	Annualised returns (%)			SIP returns (%)		
	3-YEAR	5-YEAR	10-YEAR	3-YEAR	5-YEAR	10-YEAR
Aditya Birla Sun Life Pension Scheme	20.47	11.71	NA	11.00	12.17	NA
HDFC Pension Fund	21.59	12.50	<b>15.09</b>	10.95	12.52	<b>10.73</b>
ICICI Prudential Pension Fund	22.64	12.45	14.89	11.80	12.92	10.54
Kotak Pension Fund	22.47	<b>12.78</b>	14.96	<b>12.01</b>	<b>12.93</b>	10.64
LIC Pension Fund	<b>22.90</b>	11.91	13.02	11.67	12.73	10.03
SBI Pension Fund	21.07	11.52	14.41	10.96	12.02	10.10
UTI Retirement Solutions	21.97	11.75	14.76	11.10	12.35	10.34
<b>AVERAGE</b>	<b>21.87</b>	<b>12.09</b>	<b>14.52</b>	<b>11.35</b>	<b>12.52</b>	<b>10.40</b>

- Equity funds have given terrific returns to the investors.
- LIC Pension Fund has been the best performer in the past three years, with almost 23% returns.
- All NPS equity funds have nearly 90% allocation to the large-cap segment, but fund manager also invest in mid-cap scrips, where there is a greater potential for growth.
- Young investors should allocate the maximum 75% to equity funds. In the long run, equities can outperform.



# Gilt Fund

PENSION FUND MANAGER	Annualised returns (%)			SIP returns (%)		
	3-YEAR	5-YEAR	10-YEAR	3-YEAR	5-YEAR	10-YEAR
Aditya Birla Sun Life Pension Scheme	<b>4.96</b>	9.21	NA	<b>4.65</b>	5.36	NA
HDFC Pension Fund	4.63	9.27	9.13	4.42	5.25	6.45
ICICI Prudential Pension Fund	4.65	9.00	9.13	4.44	5.16	6.37
Kotak Pension Fund	4.75	9.22	9.18	4.52	5.26	6.45
LIC Pension Fund	4.80	<b>9.76</b>	<b>9.93</b>	4.57	<b>5.38</b>	<b>6.86</b>
SBI Pension Fund	4.65	9.10	9.32	4.50	5.22	6.44
UTI Retirement Solutions	4.61	8.94	8.97	4.59	5.19	6.23
<b>AVERAGE</b>	<b>4.72</b>	<b>9.21</b>	<b>9.28</b>	<b>4.53</b>	<b>5.26</b>	<b>6.47</b>

- Gilts Funds have not done too well in recent years.
- The average 3-year SIP returns are below 5% while 5-year and 10-year SIP returns are not very attractive.
- The gilt fund of LIC pension fund has been the best performance scheme.
- The average yield to maturity of NPS gilt funds has risen to 7.21%, which roughly mirrors the prevailing 10-year government bond yield of 7.19%.
- Keep in mind that the NPS is a long-term investment and funds usually hold bonds till maturity because there is no redemption pressure.

# Corporate Bond Funds

PENSION FUND MANAGER	Annualised returns (%)			SIP returns (%)		
	3-YEAR	5-YEAR	10-YEAR	3-YEAR	5-YEAR	10-YEAR
Aditya Birla Sun Life Pension Scheme	5.54	8.67	NA	4.52	5.54	NA
HDFC Pension Fund	<b>5.95</b>	<b>8.88</b>	<b>9.33</b>	<b>4.64</b>	<b>5.73</b>	<b>6.63</b>
ICICI Prudential Pension Fund	5.68	8.46	9.27	4.53	5.47	6.47
Kotak Pension Fund	5.37	7.69	8.81	4.35	5.11	6.04
LIC Pension Fund	5.39	8.61	9.06	4.39	5.48	6.37
SBI Pension Fund	5.61	8.53	9.15	4.41	5.43	6.41
UTI Retirement Solutions	5.24	8.12	8.84	4.40	5.30	6.17
<b>AVERAGE</b>	<b>5.54</b>	<b>8.42</b>	<b>9.08</b>	<b>4.46</b>	<b>5.44</b>	<b>6.35</b>

- Corporate bond funds have not been as badly hit by the rising rates because they hold bonds of shorter maturities compared to gilt funds.
- Corporate bond funds have lower yields to maturity than gilt funds.
- The NPS funds were allowed to invest in corporate bonds rated AA and above.
- Corporate bond funds are appropriate for investors who are looking for low, but stable returns.
- Corporate bond funds are not for young investors, but those retiring soon can park their corpus in these.

These funds did marginally better than gilt funds due to the shorter average maturity of the portfolio.

## ALTERNATIVE INVESTMENTS

PENSION FUND MANAGER	Annualised returns (%)		SIP returns (%)	
	3-YEAR	5-YEAR	3-YEAR	5-YEAR
Aditya Birla Sun Life Pension Scheme	5.89	5.84	4.26	4.40
HDFC Pension Fund	<b>7.83</b>	8.76	<b>5.46</b>	<b>6.22</b>
ICICI Prudential Pension Fund	6.18	6.96	3.59	4.53
Kotak Pension Fund	4.41	7.19	2.73	4.00
LIC Pension Fund	7.00	7.69	4.79	5.49
SBI Pension Fund	6.33	<b>8.91</b>	3.76	5.76
UTI Retirement Solutions	5.55	5.81	3.94	4.25
<b>AVERAGE</b>	<b>6.17</b>	<b>7.31</b>	<b>4.08</b>	<b>4.95</b>

- Alternative Investment did very poor.
- This is a new category.
- Limit is max 5%.



# Thank You



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