An analytical comparative Study of Tire -1 of National Pension Scheme as investment perspective (Government securities, Equities and Corporate Bonds)

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Abstract - India has the second largest population in the world. The working population of the world in India is also the second largest. The only old age security available in India is for people working in the Central or State Government enterprises or Public Sector. Once these sectors were the biggest employers in the country, therefore covering a vast portion of the working population. The present research concern about NPS Tire-I with respect to the various investment opportunities. The general result found that from the selected most of the pension fund performed very well under the NPS area. India does not have a comprehensive old age income security system. There are however, some mandatory schemes for employees of State and Central governments, employees of public sector banks, employees in firms with a staff of 20 or more and some others.

Key Words: NPS, Tire-I, Public Sector, Security, pension Funds, Etc

INTRODUCTION

National pension scheme has started by the central government (GOI) on 1st April 2004 onwards for both central and state government employees, and it's regulated by the Pension Fund Regulatory and Development Authority under the legislation of Parliament of India.

The given below are the objectives of the NPS
To secure the future
Sustainable return for the long time
To provide the income after retirement for all class of employees
To generate a safe and secure return up to the withdrawal of the funds

Under NPS, individual savings are pooled in to a pension fund which are invested by PFRDA regulated professional fund managers as per the approved investment guidelines in to the diversified portfolios comprising of Government Bonds, Bills, Corporate Debentures and Shares. These contributions would grow and accumulate over the years, depending on the returns earned on the investment made.

Any Indian citizen from the age group of 18 years to 60 years can open the National Pension Scheme account. Regulated by PFRDA, the National Pension Scheme matures at the age of 60 years and can be extended up to 70 years. The NPS scheme allows the subscribers to make partial withdrawals of up to 25% of the contribution after 3 years of opening the account in specific situations like purchasing a home, sponsoring a child's education, or for the treatment of any critical illnesses.

An investor in NPS has two choices to invest in, namely Auto choice and Active choice. In the auto choice the allocation mangoes assets is done as predetermined formula based on the age of investor. The allocation is made in three assets classes, namely Equities (E) Corporate Bonds (C) and government securities (G). Under active choice of allocation lies with investors. There is how ever a cap of 50% for investment in Equity. For government sectors the cap on equity is increases to 15%.

BENEFITS OF NPS

Flexible- NPS offers a range of investment options and choice of Pension Funds (PFs) for planning the growth of the investments in a reasonable manner and monitor the growth of the pension corpus. Subscribers can switch over from one investment option to another or from one fund manager to another.

Simple – Opening an account with NPS provides a Permanent Retirement Account Number (PRAN), which is a unique number and it remains with the subscriber throughout his lifetime. The scheme is structured into two tiers:

Tier-I account: This is the non-withdrawable permanent retirement account into which the regular contributions made by the subscriber are credited and invested as per the portfolio/fund manager chosen of the subscriber.

Tier-II account: This is a voluntary withdrawable account which is allowed only when there is an active Tier I account in the name of the subscriber. The withdrawals are permitted from this account as per the needs of the subscriber as and when required.

Portable- NPS provides seamless portability across jobs and across locations. It would provide hassle-free arrangement for the individual subscribers while he/she shifts to the new job/location, without leaving behind the corpus build, as happens in many pension schemes in India.

Well Regulated- NPS is regulated by PFRDA, with transparent investment norms, regular monitoring and performance review of fund managers by NPS Trust. The account maintenance costs under NPS are the lowest as compared to similar pension products across the globe. While saving for a long-term goal such as retirement, the cost matters a lot as the charges can shave off a significant amount from the corpus over 35-40 years of investment period.

Dual benefit of Low Cost and Power of compounding: Till the retirement, pension wealth accumulation grows over the period of time with a compounding effect. The account maintenance charges being low, the benefit of accumulated pension wealth to the subscriber eventually become large.

Ease of Access: The NPS account is manageable online. An NPS account can be opened through the eNPS portal. Further contributions can be also be made online through the following eNPS portals of CRAs.

OBJECTIVES OF THE STUDY

To define the relationship of Tire -1 schemes among the available choices

To identify the good NPS fund for long run via comparison

LITERATURE REVIEW

Subhro Sen Gupta, Neha Gupta and Komalgarg in their paper have studied the relationship between Tier 1 and Tier 2 accounts. They have also found the relationship between equities, corporate and Government securities of both accounts. They stated that public at large has higher faith on Government securities.

Sane Renuka and Thomas Susan has recommended some of the steps after passing of the PFRDA Bill at the end of 2013 like improving investment choices, rationalizing investment guidelines for returns over the long term, improving transparency and increasing the visibility and access of this product while ensuring that protection of customer rights against fraud.

Sanyal, Ayanendu and Singh Charan in their research paper has studied that the main purpose of NPS are smoothing of consumption and mitigating longevity risks. Universal pension scheme are found to do this successfully for each and every person of this country. In their study they assumed that the population of India above 60 years is 10 crore and if a universal pension of about Rs. 6000 per annum is awarded to all them.

TYPES OF NPS SCHEMES

NPS subscribers are issued with a Permanent Retirement Account Number (PRAN), which rests unchanged throughout the length of the scheme. NPS accounts are designed as Tier 1 and Tier 2 based on the withdrawal norms.

- Tier I Schemes

It is also known as Pension account. This account does not allow premature withdrawals unless the member has completed 15 term years. These withdrawals are repayable advances and are allowed only in case of an emergency. Tier 1 accounts of government employees are subjected to investment in government and corporate bonds, while that of other citizen are invested in fixed deposits and liquid funds as well. Minimum annual contribution required for this account is Rs. 1000.

- Tier II Schemes

It is known as investment account. It was launched by government in the year 2009. It offers much flexibility than Tier 1 accounts. The account holders can withdraw their amount without any withdrawal charges. It offers the investor an option to invest either in government bonds, fixed income instruments, or equity funds. NPS Tier 2 accounts do not have locking periods and are not exempted from tax under section 80 C Income Tax Act.

Limitations

The study is limited to NPS Tier 1 corporate, equity and government securities.
05 companies are taken for the study.
Administration expenses are exempted
Five years' time frame for the present research

RESEARCH METHODOLOGY

The present research study is a descriptive nature and few of the other things conducted through comparison and analytics.

Sample Size

Five schemes of tier 1 Schemes related to corporate bond, equity and government securities are selected which were introduced on 1st May 2009except LIC PF and HDFC PF which were introduced in 2013. The fund managers of these selected schemes are as follows,

ICICI Prudential Pension Fund
Kotak Mahindra Pension Fund
Reliance Capital Pension Fund
HDFC Pension Fund
SBI Pension Fund

Period of the Study

The returns of tier 1 schemes regarding Eq schemes, Cor-B schemes and Govt schemes are taken up to last five years.

TOOLS USED FOR THE STUDY

To understand the performance of selected five schemes, the statistical measures like mean, standard deviation and ANOVA are selected for analysis using SPSS 19 software.

DATA ANALYSIS AND INTERPRETATION

Table: I

Name of the schemes	Average Annualized Yield (%)		
	NPS Scheme –Tier-I		
	Govt	Cor-B	Eq
ICICI Prudential Pension Fund	14.67	9.65	15.11
Kotak Mahindra Pension Fund	9.25	6.25	16.54
Reliance Capital Pension Fund	12.11	6.56	16.22
HDFC Pension Fund	13.14	7.12	19.80
SBI Pension Fund	12.90	6.35	19.56

(Source: Returns as on 31-12-2022)

From the above chart we can notice that average returns of all funds more than 15% due to best performance of equity market. The researchers are eying for five years and since inception returns. In those categories Reliance, HDFC & SBI funds performed well. Schemes 'Cor-B' funds performed well in long run. How ever since inception average performance shown in ICICI and Kotak NPS returns for Govt. scheme, no one can beat HDFC fund managers.

Table: II

NPS Scheme –Tier-I Descriptive Statistics								
Return of Scheme								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
ICICI Prudential Pension Fund	3	7.7300	3.24447	1.0245	0.0393	17.4107	6.08	12.89
Kotak Mahindra Pension Fund	3	6.5367	2.68103	1.28978	1.7824	15.3209	6.47	11.24
Reliance Capital Pension Fund	3	8.0467	4.02339	2.89445	-0.8877	19.0910	5.12	12.22
HDFC Pension Fund	3	9.8567	3.89240	2.02913	-0.2909	18.1036	6.01	14.12
SBI Pension Fund	3	6.9867	2.42191	1.68727	1.2023	14.7731	5.56	10.25
Total	15	7.4562	2.982838	0.51720	7.6987	9.7437	5.68	12.98

(Source: SPSS Data Sheet) (own calculated value)

Hypothesis testing:
To check the consistency of variances following hypothesis is formulated,

H_o: Variance of all groups is adequate

H_1: Variance of all groups is inadequate

Table: III

Test of Consistency of Variances			
Return of Scheme			
Levane Statistic	df1	df2	Sig.
.224	4	12	0.924

(Source: SPSS Data Sheet) (own calculated value)

The F – Value is 0.224 and its associated significance 0.924 is greater than 0.05, we cannot reject the null hypothesis and say that variance is adequate for all groups. To clear the true picture of percentage returns in selected NPS schemes, its based on one way ANOVA.

Table: IV

ANOVA					
Return of Scheme					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.835	4	0.246	.098	.999
Within Groups	124.160	12	14.154		
Total	128.995	16			

(Source: SPSS Data Sheet) (own calculated value)

H_0: There is no significance difference in mean percentages of return in selectedNPS Scheme- Tier-I (i.e. EQ, Cor-B, and Govt)

H_1: There is significance difference in mean percentages of return in selected NPSScheme- Tier-I (i.e. EQ, Cor-B, and Govt)

The F – Value is 0.098 and its associated significance 0.999 is greater than 0.05, we cannot reject the null hypothesis and say that There is no significance difference in mean percentages of return in selected NPS Scheme- Tier-I (i.e., EQ, Cor-B, and Govt)

SUGGESTIONS AND CONCLUSIONS

Despite the many benefits offered by the NPS, many investors are keeping away from this investment instrument. This is due to lack of knowledge between customers or lower commission structures to Investment advisory. NPS portfolios are restricted to have more than 50% exposure to equity. It spells loss for people in their20's or 30's as the equity has shown two offer 16% to 19% returns per annum over long periods. In compression to traditional retirement's schemes such as EPF and PPF, NPS is the best as it is lot more flexible in terms of equity exposures. As per budget 2023 now salaried individuals can withdraw 25% of their hand outs with pay tax through their companies. The Government has initiated some amendments in NPS under which a part of withdrawals from NPS is tax free.

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