

Growth and Pattern of National Pension System in India

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Abstract

Pension is the financial and social security system after the retirement when the person does not have any regular source of income. National Pension System is the unique pension system of India that provides better quality of life in old age without compromising with the existing structure of expenses. This paper gives a theoretical overview of architecture of National Pension System and an analytical overview of the growth of National Pension System over a period of time. The study uses the overall growth rate and compound annual growth rate measures to measure the growth of National Pension System. It is found that National Pension System is growing fast with an increasing rate and there is a long way forward to the National Pension System. The study suggests that government should focus on the tax concessions, tax free withdrawal amount, enhance the awareness about National Pension System etc. Hence, the paper is an attempt to analyse growth of National Pension System from 2012 to 2017.

Key Words

National Pension System, Growth, Pension Funds, Compound Annual Growth Rate etc.

INTRODUCTION

"On the basis of population and working population, India is the second largest country in the world" (Gupta, Gupta & Garg, 2017). But only 12 per cent of population in India is working in organised sector and comes under any form of pension scheme (Imam, 2011). As per the Population Census Survey, 2011, 104

million elderly persons (aged 60 years or above) are living in India. There is continuous increase in the old age population in India and in 2011, this increment was near about 8.6 per cent against the 5.6 per cent in 1961 (Population Census Survey, 2011). Indian pension system is one of the weakest pension systems of the world (Mahler Funds, 2011). A person has to depend upon family after retirement due to inadequate pension system in the country but dependency on family is not very much adequate due to many reasons like increment in healthcare expenses in old age, migration of children at their native places due to job opportunities etc. (Imam, 2011). Hence, to provide the better healthcare facilities, social, economic and financial security in old age, to reduce the dependency on family after retirement and also to strengthen the pension sector of the country, a new scheme was introduced in 2004, called New Pension Scheme (NPS). Before the National Pension System, government had to bear the huge expenses on the pension disbursement of the central and state government employees (Sane & Thomas, 2014, Asher, 2007) and this old system did not cover the private or unorganised sector of the society. To deal with this problem, Ministry of Social Justice and Empowerment formed a Committee for Old Age Social and Income Security (OASIS Committee) in 1998 (Sane & Thomas, 2014). The OASIS committee presented its report in 2000 and suggested a contributory pension system that can cover each segment of the society. "In 2002, the central government made the decision to place all new recruits from 1 January 2004 onward under National Pension System" (Sane & Thomas, 2014). As from 1st May, 2009 onwards, National Pension System was opened for all the sectors of society (self-employed persons and unorganised sectors that were not covered under any pension scheme) on a voluntary basis (pfrda.org.in) and this new pension scheme was called as National Pension System.

Since its inception, National Pension System showed a tremendous growth in assets under management and number of subscribers. As on 30.11.2017, the total number of subscribers under National Pension System was 11,157,411 (1,892,682, 3,651,346, 660,398, 540,890 and 4,412,095 subscribers from central government, state government, corporate sector, unorganized sector and NPS Swalambhan/ NPS Lite respectively) with a total Assets Under Management of ₹ 212,315.09 crores. Approximately 1,062 new corporates joined the National Pension System in 2016-2017 (npstrust.org.in).

OBJECTIVES OF THE STUDY

1. To have a theoretical overview about architecture of National Pension System.
2. To examine the growth of National Pension System.

RESEARCH METHODOLOGY

The first objective of the study is a theoretical overview of National Pension System which is based on secondary data available from various sources such as Research papers, official site of Pension Fund Regulatory and Development Authority (PFRDA), Working Papers of official authorities, Articles etc. The second objective of the study is to access the growth of National Pension System pertaining to the period of 2012-2017 which is based on secondary data collected from official site of Pension Fund Regulatory and Development Authority (PFRDA). Growth of National Pension System has been analysed on the basis of Number of Subscribers of NPS, growth in assets under management and sector wise growth in Total Contribution of NPS with the help of Overall Growth Rate and Compound Annual Growth Rate.

Architecture of National Pension System

As on 23rd August, 2003, an autonomous body has been formed by the Government of India to regulate the National Pension System, is called the Pension Fund Regulatory and Development Authority (PFRDA). PFRDA established the seven intermediaries or service providers that perform their authorised functions accordingly under the National Pension System infrastructure. These intermediaries are :

1. Points of Presence (POPs) perform the functions of registering the subscribers, Know Your Customer (KYC) verification and receive the contribution from the subscribers and transfer the information and funds to the designated National Pension System intermediaries. It is the first point of interaction between subscriber and National Pension System architecture. In India, banks, post-offices and depository participants act as POPs for unorganised sector. But for the organised sector employees, the structure in which the salaries disburses to them, acts as a POP.
2. Trustee Bank is the second authority under National Pension System that manages the banking operations of the National Pension System. Axis Bank performs the functions of trustee bank under National Pension System.
3. Central Recordkeeping Agency (CRA) acts as an operational interface between PFRDA and other National Pension System intermediaries such as Pension Funds, Annuity Service Providers, Trustee Bank etc. (pfrda.org.in). Trustee Bank transmits the

information related to contributions to CRA. National Securities Depository Limited (NSDL) operates as CRA under National Pension System.

4. Pension Fund Managers manage the funds and receive the contribution from Trustee Bank. There are eight funds under National Pension System authorised by the PFRDA. These are:
 - a. LIC Pension Fund Limited.
 - b. SBI Pension Fund Private Limited.
 - c. UTI Retirement Solutions Limited.
 - d. HDFC Pension Management Company Limited.
 - e. ICICI Prudential Pension Fund Management Company Limited.
 - f. Kotak Mahindra Pension Fund Limited.
 - g. Reliance Capital Pension Fund Limited.
 - h. Birla Sun Life Pension Management Limited.
5. Custodian provides services related to safe keeping of securities or assets held under the National Pension System or any other pension scheme.
6. National Pension System Trust performs the functions of taking care of the assets and funds under the National Pension System (NPS) and protects the interests of the subscribers.
7. Annuity Service Providers provide the funds to the subscriber after retirement, according to the PFRDA guidelines, every subscriber has to purchase annuity for the 40 per cent of the total funds and the remaining amount is provided as lump sum if the retirement is done after the age of 60 years. But if any subscriber retires before 60 years then the subscriber has to annuitize the 80 per cent of total fund and the remaining 20 per cent is provided as lump sum.

Investment Pattern Under National Pension System

A variety of investment options and choice of Pension Fund Manager (PFMs) is being offered by the National Pension System. Every citizen has the choice of investment, either he / she is a government employee or any self-employed professional. Under the National Pension System there are three types of models that provide the investment options according to the eligibility of the person. These three models are :

1. Government Sector Model
 - a. Central Government Scheme
 - b. State Government Scheme
2. Corporate Sector Model and All Citizen Model
 - a. NPS Lite Scheme/ Swalambhan Scheme

- b. Corporate CG Scheme (discontinued in 12th Feb. 2013)
- c. Scheme - E (Tier-I & Tier-II) (Investment in maximum 50 per cent in equity)
- d. Scheme - C (Tier-I & Tier-II) (Investment in Corporate Bonds)
- e. Scheme - G (Tier-I & Tier-II) (Investment in Government Securities)
- f. Scheme - A (Investments in Alternate Investment Schemes)

Under National Pension System, a person can open two types of accounts :

Tier I account is mandatory and permanent, funded by 10 per cent of Basic Pay plus DA (Dearness Allowance) from each party i.e. government and employee. An investor can invest his money as per his own option of investment (the maximum 50 per cent in equity and other in corporate bond or government securities), but this option of choice is not available for the government sector employees due to the predefined pattern of their investment by PFRDA (85 per cent in fixed income instruments and 15 per cent in equity and equity-linked mutual fund). Government employees can invest in Tier II account with full option of investment like the all other investors. There is tax concession under this Tier I account under section 80 CCD(1) on employee's own contribution, under section 80 CCC(2) on employer contribution and overall deduction under section 80 C.

Tier II account is a voluntary account and investor can withdraw his money at anytime. There are no tax concessions under this account.

Growth under National Pension System

Growth of NPS has been measured on the basis of following variables :

- 1. Total Number of Subscribers (Sector-wise).
- 2. Total Assets under Management (Fund-wise).
- 3. Total Assets under Management (Scheme-wise/ Sector-wise).
- 4. Total Contribution under National Pension System (Sector-wise).

Table 1 depicts the increase in total number of subscribers from 31.34 lakhs in 2012 to 105.74 lakhs in 2017 with the overall growth rate 237.39 per cent and 42.47 per cent CAGR. It also shows that there is tremendous growth in corporate sector on the basis of overall growth and CAGR. Although the total number of subscribers in corporate sector was 0.17 lakhs in 2012, but it increased with the increasing rate and reached at the highest to the 5.86 lakhs with 3347.05 per cent overall growth rate and 80.40 per cent CAGR. The second highest growth rate sector is All Citizen sector with the overall growth of 667 per cent and 40.42 per cent CAGR followed by NPS Lite that shows the third highest growth rate. Although the state

Table 1
Sector-wise Growth in Number of Subscribers of NPS

Figures in Lakhs

Sector → Year	Central Govern- ment	State Govern- ment	Corporate Sector	All Citizen (Unorganised Sector)	NPS Lite/ Swalam- bhan	Total
March 2012	9.35	11.56	0.17	0.57	9.69	31.34
Proportionate Share (%)	29.83	36.88	0.54	1.82	30.92	100
March 2013	11.27	16.41	1.43	0.7	17.8	47.61
Proportionate Share (%)	23.67	34.47	3.00	1.47	37.39	100
March 2014	13.42	20.07	2.62	0.79	28.16	65.06
Proportionate Share (%)	20.63	30.85	4.03	1.21	43.28	100
March 2015	15.12	26.3	3.73	0.87	41.47	87.49
Proportionate Share (%)	17.28	30.06	4.26	1.00	47.40	100
March 2016	16.58	29.24	4.74	2.15	44.8	97.51
Proportionate Share (%)	17.00	30.00	4.86	2.20	45.94	100
March 2017	17.89	33.33	5.86	4.37	44.29	105.74
Proportionate Share (%)	16.92	31.52	5.54	4.13	41.89	100
Overall Growth Rate (%)	91.34	188.32	3347.05	667	357.07	237.39
Compound Annual Growth Rate (CAGR)	11.51	19.30	80.40	40.42	28.82	42.47

Source : www.pfrda.org.in

government sector's growth was more in initial years, but it tends to decline and reached fourth position. Central government sector shows the lowest growth rate against all other sectors. Total overall growth in number of subscribers is 237.39 per cent with 42.47 per cent CAGR.



Table 2
Scheme/ Sector-wise Growth in Asset under Management

Scheme→ Year	Corporate and All Citizen Sector										Total
	Tier 1					Tier 2					
	CG	SG	Scheme E	Scheme C	Scheme G	Scheme E	Scheme C	Scheme G	NPS Lite		
Mar-12	11256	3555	64	48	78	7	8	7	141	15164	
Proportionate Share (%)	74.23	23.44	0.42	0.32	0.51	0.05	0.05	0.05	0.93	100	
Mar-13	17313	10823	168	129	245	14	16	13	436	29850	
Proportionate Share (%)	58	36.25	0.56	0.43	0.82	0.05	0.05	0.04	1.46	100	
Mar-14	24188	20211	356	247	409	26	44	60	844	48195	
Proportionate Share (%)	50.19	41.93	0.74	0.51	0.85	0.05	0.09	0.12	1.75	100	
Mar-15	36737	36396	655	469	771	44	37	36	1606	80856	
Proportionate Share (%)	45.43	45.01	0.81	0.58	0.95	0.05	0.04	0.04	1.99	100	
Mar-16	48135	57693	1181	888	1325	60	55	54	2108	118304	
Proportionate Share (%)	40.69	48.77	1.00	0.75	1.12	0.05	0.05	0.05	1.78	100	
Mar-17	66393	84105	2518	1672	2476	125	101	112	2631	170802	
Proportionate Share (%)	38.87	49.24	1.47	0.98	1.45	0.07	0.06	0.07	1.54	100	
Overall Growth (%)	489.84	2265.82	3834.38	3383.33	3074.36	1685.71	1162.5	1500	1765.96	1026.37	
CAGR	34.42	69.43	84.42	80.72	77.94	61.67	52.59	58.74	62.86	49.72	

Source : www.pfrda.org.in

Table 2 shows that total assets under management of all sectors are 170802 cr. as on March 2017 against ₹ 15164 crore in 2012 whereas overall growth reaches to 1026.37 per cent, CAGR of total assets under management recorded at 49.72 per cent. Tier 1 schemes (E, C, G) and corporate CG scheme of all citizen and corporate sector recorded the highest CAGR 84.42 per cent for scheme E, 80.72 per cent for scheme C, 77.94 per cent for scheme G and 72.77 per cent respectively against all other sectors. The second highest growth rate sector is state government sector that recorded the overall growth rate is 2265.82 per cent and 69.43 per cent CAGR followed by NPS Lite. The lowest growth rate sector is central government sector that shows only 489.84 per cent overall growth and 34.42 per cent CAGR although it was started with a highest growth rate but continuously declining in growth it reached at the lowest level against all other sectors.

Table 3 depicts that although HDFC Pension Management Company Limited started its operations after 2013, but showed the highest growth in assets under management at the rate 19283.33 per cent whereas 273.13 per cent CAGR followed by LIC Pension Fund that recorded the second highest growth rate 13183.60 per cent and 125.88 per cent CAGR. ICICI is the third highest followed by Kotak Mahindra Pension Fund. The lowest growth rate pension fund in assets under management is UTI Retirement Solutions Ltd. Total overall growth of all funds assets under management is 4179.5 per cent with 87.02 per cent CAGR.

Table 4 shows the total contributed amount under National Pension System of all sectors' total overall growth is 907.61 per cent and CAGR is 46.97 per cent. The highest growth rate sector according to contribution-wise is corporate sector that recorded the continuously high growth rate from the year 2012 to 2017. The overall growth of this sector is 9843.44 per cent and CAGR is 115.24 per cent followed by CAGR of all citizen sector (68.94 per cent), state government sector (65.41 per cent), NPS Lite (57.66 per cent). It is worth mentioning that central government sector shows that there is continuous decline in growth rate in this sector i.e. 409.16 per cent overall growth rate and 31.16 per cent CAGR.



Table 3
Pension Fund-wise Growth in Assets under Management

Fund → Year	Amount in Crores (₹)									
	SBI	LIC	UTI	Kotak Mahindra	Reliance	HDFC	ICICI	Birla Sun Life	Total	
March 2012	6021	3968	5119	12	11	NA	33	NA	15164	
Proportionate Share (%)	39.70	26.17	33.76	0.08	0.07		0.22		100	
March 2013	11788	8462	9483	25	22	NA	72	NA	29852	
Proportionate Share (%)	39.49	28.35	31.77	0.08	0.07		0.24		100	
March 2014	18629	14180	15045	55	44	6	177	NA	48136	
Proportionate Share (%)	38.70	29.46	31.25	0.11	0.09	0.01	0.37		100	
March 2015	31407	24010	24831	108	77	53	369	NA	80855	
Proportionate share (%)	38.84	29.70	30.71	0.13	0.09	0.07	0.46		100	
March 2016	46018	35511	35918	173	111	376	701	NA	118808	
Proportionate share (%)	38.73	29.89	30.23	0.15	0.09	0.32	0.59		100	
March 2017	66723	527093	52043	312	169	1163	1441	NA	648944	
Proportionate share (%)	10.28	81.22	8.02	0.05	0.03	0.18	0.22		100	
Overall growth (%)	1008.17	13183.60	916.7	2500	1436.36	19283.33	4266.67	NA	4179.5	
Compound Annual Growth Rate (CAGR)	49.31	125.88	47.18	72.12	57.67	273.13	87.65	NA	87.02	

Source : www.pfrda.org.in

Table 4**Sector-wise Growth in Total Contribution under NPS**

Amount in crores ()

Scheme→ Year	CG	SG	Corporate Sector	All Citizen	NPS Lite	Total
Mar-12	9516	3276	122	130	138	13182
Proportionate Share (%)	72.19	24.85	0.93	0.99	1.04	100
Mar-13	14054	9736	1383	227	407	25807
Proportionate Share (%)	54.46	37.73	5.36	0.87	1.58	100
Mar-14	20029	18364	2790	348	793	42324
Proportionate Share (%)	47.32	43.39	6.59	0.82	1.87	100
Mar-15	27458	29702	4801	497	1380	63838
Proportionate Share (%)	43.01	46.53	7.52	0.78	2.16	100
Mar-16	36329	48007	8010	1219	1792	95357
Proportionate Share (%)	38.09	50.34	8.40	1.28	1.88	100
Mar-17	48452	67099	12131	3022	2119	132823
Proportionate Share (%)	36.48	50.52	9.13	2.26	1.60	100
Overall Growth (%)	409.16	1948.20	9843.44	2224.62	1435.51	907.61
CAGR	31.16	65.41	115.24	68.94	57.66	46.97

Source : www.pfrda.org.in**FINDINGS AND CONCLUSION**

1. The study found that corporate sector and all citizen sector are growing fast as compared to all other sectors. These sectors are leading in all areas whether it is number of subscribers, assets under management or the total contribution-wise.
2. State government sector is growing with an increasing rate of growth. It recorded the second highest position in all areas like number of subscribers, assets under management and total contributed amount.
3. Although the NPS Lite is growing, but its growth rate is moderate as compared to all sectors.
4. Central government sector's growth is declining over a period of time

and becomes the lowest growth rate sector.

5. It is found that HDFC Pension Management Company Limited recorded the tremendous growth rate pension fund. Although it commenced its operations after all other funds, but it does not affect its performance and becomes the highest growing pension fund over a period of four years after its commencement. UTI Retirement Solution Limited becomes the lowest growing pension fund due to its continuously declining in growth rate over a period of time.

SUGGESTIONS

It is worth mentioning that National Pension System is a unique pension system and provides various investment options to the investors. Government should provide more facilities to central government employees such as flexible withdrawal, tax concessions for investment in NPS Tier II account and make system more transparent etc., so that investment in NPS can be increased through Tier II account. PFRDA should check the investment pattern and performance of all pension funds regularly so that all pension funds can grow equally and give maximum and equal returns to subscribers. The withdrawal amount should be tax free. It will also play a helpful role for more enrolment under National Pension System. On the basis of findings of study, it was found that NPS Lite scheme is not performing very well. Due to less awareness in backward areas, this sector suffers from moderate growth rate. So, the study suggests that government should conduct the NPS awareness programs in backward areas to increase the growth of NPS Lite sector. Now-a-days, National Pension System is at its initial stage and people are not much aware about National Pension System, but if the government takes the steps to increase the awareness of population about National Pension System, then it definitely will grow very fast.

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