# ANALYSIS OF MUTUAL FUND PENSION SCHEMES & NATIONAL PENSION SCHEME (NPS) FOR RETIREMENT PLANNING

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***Abstract***
*The voluntary retirement schemes like Mutual Fund pension schemes, Insurance Pension schemes, PPF, National Pension Scheme (NPS) etc. are available in India for general public. Mutual fund pension schemes besides providing tax benefit under section 80C of IT Act, also have the potentiality of providing superior market linked returns. However, an additional tax incentive for investing in NPS (upto Rs.50000/-) under section 80CCD(1) in Budget -2015 has evinced much interest among investors for comparing Mutual Fund Pension schemes and NPS. This paper compares and contrasts the features and performance of mutual fund retirement schemes & NPS.*

***Keywords: Mutual Fund, Pension, Returns, NPS, 80CCD .***

## INTRODUCTION

With respect to old age arrangements or social protection, the pension system in India is framed around three pillars: The first pillar implies a state provision, a tax based, non contributory 'social' pension like Indira Gandhi National Old Age Pension Scheme. The second pillar refers to formal labour related savings done by employers and employees, a provision related to the formal sector like pension for govt./PSU employees. From 2009 India has introduced NPS voluntarily to all Indian residents - this refers to a hybrid program, a combination of pillar II and pillar III. The third pillar refers to private savings or voluntary pension schemes.

The voluntary pension schemes like Mutual Fund Pension schemes, Insurance Pension schemes, PPF, National Pension scheme(NPS)-citizen models etc. are available for general public to help them to plan for retirement savings. Choosing one or more such voluntary schemes for retirement is a challenging task. The common mistake people usually make is to defer retirement planning till it's very late. For most, it means just contributing towards their Employee Provident Fund (EPF) or Public Provident Fund (PPF) accounts. Either they do not correctly estimate the amount they will need at retirement or are focused on just short- to medium-term goals. Traditional products such as the Public Provident Fund have failed to capture a significant market. More recent products NPS may fare better but the early signs are not encouraging among general public. Hence, Govt. of India in Budget 2015 has given additional tax benefit under section 80CCD(1) which has created some interest among investors to invest in NPS. As mutual fund retirement schemes are also market linked as NPS this paper compares and contrasts the features and performance of mutual fund pension schemes with that of NPS.

## OBJECTIVES OF THE STUDY

a. To analyze the returns on mutual fund pension schemes & NPS available for voluntary investments by general public.
b. To compare and contrast the mutual fund pension schemes with National Pension Scheme-citizen model.

## MUTUAL FUND PENSION SCHEMES

Mutual Funds offering pension plans are voluntary pension schemes which can be subscribed by general public seeking post retirement regular income. There is no guarantee either on the corpus or return as mutual funds can only provide market related return unless specifically guaranteed by sponsors. Post retirement the investors can withdraw their corpus on a lump sum basis or through systematic withdrawal plan in chosen intervals (e.g. monthly, quarterly, annually etc.) for regular income during retirement. The balance units post withdrawals in either case remain invested and continue to grow.

UTI Retirement Benefit Pension Fund is the first mutual fund retirement scheme launched by UTI in 1994 followed by Templeton. Tata MF launched retirement scheme in 2011, however it does not provide tax benefit under section 80C. More recently in 2015, Reliance Mutual Fund has launched Reliance Retirement Fund. Other mutual funds viz. SBIMF, Birla MF, Axis MF and DSP Blackrock have been waiting for approval from SEBI for launching their retirement products.

**UTI Retirement Benefit Pension Fund (UTI RBPF)- The scheme was launched on December 26, 1994. It is an open end Govt. notified pension fund and tax benefit under section 80C is available. The investment objective** and policies of the scheme are primarily to provide pension in the form of periodical income/ cash flow to the unit holders to the extent of redemption value of their holding after they complete 58 years of age. Considering the objective of the scheme not less than

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sixty percent of the assets will be invested in fixed income securities, like non-convertible debentures, bonds other debt and money market instruments of predominantly low to medium risk profile. Not more than 40% of the funds of the scheme may be invested in equities and equity related instruments like fully/ partly convertible debentures, convertible preference shares etc. The risk profile of equity investments could be high.

**Franklin India Pension Plan-** The scheme was launched on March 31, 1997. And the investment objective and policies of the scheme are to provide investors regular income under the Dividend Plan and capital appreciation under the Growth Plan. The fund is a government notified pension plan offering tax benefits with an objective to help investors build retirement corpus. The fund can invest up to 40% of its assets into equities mainly to beat inflation while debt allocation (60% to 100%) is aimed at providing stability to the portfolio. The fund is open ended tax saving scheme notified under Sec 80C with a lock-in period of 3 financial years and carries no allocation charges/ up-front charges typically charged by Unit Linked Insurance Plans (ULIPs) with units allotted for 100% of invested amount. The fund is suitable for investors who want to build/enhance the value of retirement corpus whose debt component helps to provide stability, while equity helps to grow wealth over the longer term. On attaining 58 years of age (subject to completion of lock in period of 3 years and minimum target investment of Rs10,000), investors can avail of any of the following options : Pension Option, Lump Sum Option, Combination Option and Flexible Option

**Reliance Retirement Fund- Wealth Creation Scheme & Income Generation Scheme** – The scheme was launched February 5, 2015. The investment objective of the scheme is to provide capital appreciation and consistent income to the investors which will be in line with their retirement goals by investing in a mix of securities comprising of equity/ equity related instruments and fixed income securities. The scheme is eligible for tax benefit under section 80C of IT Act. It is available under two options- Wealth Creation Scheme (WCS) and Income Generation Scheme .Under WCS the equity is 65% to 100% and debt 0-35%. IGS objective is to invest 70% to 95% in Debt and 5% to 30% in equity. Thine scheme is having a lock in period of 5 years. Switch between two options available without restrictions. Exit load of 1% is applicable if redeemed before attaining 60 years of age.

**Tata Retirement Scheme**

The scheme was launched on October 21, 2011.Tata Retirement Savings Fund is a carefully structured suite of plans designed to meet the investment needs of investors planning for retirement. It works as a retirement solution by offering choice of asset allocation to investors based on their life stage and risk preference.

**Asset Allocation**

| Plans | Indicative Allocations | | |
|---|---|---|---|
| | Equity | Debt | Other |
| Progressive | 85-100 | 0-15 | 0-10 |
| Moderate | 65-85 | 15-35 | 0-10 |
| Conservative | 0-30 | 70-100 | 0-10 |

Tata Retirement Savings Fund offers a unique **"Auto Switch"** feature which takes away the hassles of adjusting the equity – debt proportion with increasing age. So if the investor starts an SIP in the "Progressive" plan opting for the Auto Switch Feature, automatically the fund will do the needful as the consumer crosses different age brackets.**Progressive to Moderate** – switch happens once the invest tor attains the Age of 45yrs.**Moderate to Conservative** – switch happens once the investor attains the Age of 60yrs. However the fund also provides the option of staying perpetually invested in a single plan of choice.**Unique Auto-SWP facility:** Once investors retire they need a regular flow of money to fund their expenses. While salary does stop post retirement, annuities and pension form a major part of their regular cash flow. The unique "Auto Systematic Withdrawal Plan" works like an annuity on the investor attaining the age of 60. There are 3 options of Auto SWP facilities:***Monthly** – 0.5% of market value of investment as on date of completion of 60 yrs of age***Quarterly** – 1.5% of market value of investment as on date of completion of 60 yrs of age.**Investors** also have an option to withdraw a flat amount with the minimum amount being Rs.500 and in multiples of Rs.500 on monthly basis.However, the benefits of tax under section 80C are not available in the scheme.

**National Pension Scheme**

The Government of India had, in the year 1999, commissioned a national project titled "OASIS" (an acronym for old age social & income security) to examine policy related to old age income security in India. Based on the recommendations of the OASIS report, Government of India introduced a new Defined Contribution Pension System for the new entrants to

Central/State Government service, except to Armed Forces, replacing the existing system of Defined Benefit Pension System. On 23rd August, 2003, Interim Pension Fund Regulatory & Development Authority (PFRDA) was established through a resolution by the Government of India to promote, develop and regulate pension sector in India. The contributory pension system was notified by the Government of India on 22nd December, 2003, now named the National Pension System (NPS) with effect from the 1st January, 2004. The NPS was subsequently extended to all citizens (18 to 60 years of age) of the country w.e.f. 1st May, 2009 including self employed professionals and others in the unorganized sector on a voluntary basis. National Pension System (NPS) is a 'Government of India' initiative with an objective of Development of a sustainable and efficient voluntary defined contribution Pension System in India. It is regulated by Pension Fund Regulatory and Development Authority. NPS provides a platform for savings to create a Retirement Corpus (Pension Wealth) through 3 baskets of investments i.e. Equity (E), Corporate Bonds (C) and Govt. Securities (G) commonly known as E, C & G.

**A comparison of Mutual Fund Retirement Schemes having 80 C Benefit**

| **Items** | **UTI Retirement Benefit Pension Fund** | **Templeton Franklin India Pension Plan** | **Reliance Retirement Fund- Wealth Creation Scheme(WCS)/Income Generation Scheme (IGS)** |
|---|---|---|---|
| **Launch date for investment to public** | 26-Dec-1994 | 31-March-1997 | 5-Feb-2015 |
| **Fund Type** | Open-end debt oriented hybrid fund | Open-end debt oriented hybrid fund | 1. WCS- Open-end equity oriented hybrid fund<br>2. IGS-Open-end debt oriented hybrid fund |
| **Eligibility** | Any adult Indian/NRIs | Any adult Resident/NRI (except USA) up to 60 years/Parents or guardians on behalf of minors | Any adult Resident/NRI /Parents or guardians on behalf of minors. |
| **Minimum amount of investment** | Rs.500/- minimum and Rs.10000/- by 58 years of age to be eligible for pension | Rs.500/- minimum and Rs.10000/- by 60 years of age to be eligible for pension | Rs.5000/- and multiples of Rs.500/- in lump sum or Rs.500/- through SIP |
| **Lock in period** | No lock in period | 3 years from date of investment | 5 years from date f investment |
| **Liquidity** | Any time can be redeemed subject to applicable exit load before 5 years from date of investment. | Anytime can be redeemed after 3 years subject to 3% load before 58 years. | Anytime can be redeemed after 5 years subject to 1% load before 60 years. |
| **Cost/Expense ratio (%)** | 2.22% (31/3/2015) | 2.45% (31/3/2015) | WCS- 2.99% (31/3/2015)<br>IGS-2.36% (31/3/2015) |
| **Mandated Asset allocation** | Debt/Equity:60:40 | Debt/Equity- 60:40 | 1. WCS- Debt/Equity- 35:65<br>2. IGS- Debt/Equity- 70:30 |
| **Benchmark** | Crisil Debt Hybrid | 40% of CNX 500 + 60% of Crisil Composite Bond Fund Index | 1. Wealth creation scheme- S&P BSE 100<br>2. Income Generation scheme- Crisil MIP Blended Index. |
| **Exit Option after attaining 58/60 years** | Lump sum withdrwal/Monthly or quarterly Pension through systematic withdrawal plan after 58 years | Pension option, Lump sum option, combination option, flexible option after attaining 58 years | This optional facility aims to provide a regular inflow of money to investors (monthly/quarterly/annual) by automatic redemption of units on or after 60 years of age. |

| | | | |
|---|---|---|---|
| **Fund Size** | 1580 crores as on 30/9/2015 | 332 crores as on 30/9/2015 | 1. WCS-235 crores as 30/9/15<br>2. IGS-63 crores as on 30/6/15 |
| **Risk-O-Meter type** | Moderately High | Moderately High | 1. WCS- High Risk<br>2. IGS- Moderately High |
| **Tax treatment on investment** | Benefit under section 80C- investment upto Rs.1.5 lakhs eligible for benefit | Benefit under section 80C- investment upto Rs.1.5 lakhs eligible for benefit | Benefit under section 80C- investment upto Rs.1.5 lakhs eligible for benefit |
| **Tax treatment on maturity** | The redemption/systematic withdrawal eligible for long term capital gain tax after 3 years and chargeable at 20% after indexation. | The redemption/systematic withdrawal eligible for long term capital gain tax after 3 years and chargeable at 20% after indexation as per prevailing tax rules. | 1. WCS- after one year tax free.<br>2. IGS- The redemption/systematic withdrawal eligible for long term capital gain tax after 3 years and chargeable at 20% after indexation. |

**How Mutual Fund Pension Schemes are different from National Pension Scheme & Insurance Pension:**

| Parameters | Mutual Fund Pensions | NPS | Insurance Pension |
|---|---|---|---|
| Tax Rebate | Only under Sec 80 C Limit | Additional Tax Savings on investment upto Rs.50000/-under Sec 80 CCD (1B) which is beyond the Sec 80 C Limit | Only under Sec 80 C Limit |
| Expense Ratio | Ranges between 2.00% to 2.50% | Ranges between 0.10% to 0.21% | Ranges over 2.5% |
| Returns | Market Linked | Market Linked | Market Linked |
| Asset Allocation | Based on Investment Objective of the Scheme. Investors cannot customize it. | Subscribers can customize based on their Risk appetite. Also change once a Year without any exit load | Based on Investment Objective of the Scheme. Investors cannot customize it. |
| Liquidity | Liquidity available subject to exit load | No liquidity before Retirement Age | Liquidity available subject to huge exit load |
| Tax Treatment on maturity | LTCG on Schemes where Equity Component < 65% Tax free where Equity Component >65% | The amount used for purchasing Annuity - TAXFREE The Amount withdrawn as lump sum - TAXABLE | Maturity Amount TAXFREE |
| Fund Management | Cannot be Changed | Can be Changed once a Year without any exit load | Cannot be Changed |
| Choice of investment | Choice not there | Auto option and tailor made option available | Choice not there |
| Ease of investing and monitoring | Easier and takes lesser day for the process. Systematic Plan available for periodic investments. | Take bit longer time around 15 working days for generation of PRAN and 3-5 days for additional purchase. | Easier and takes lesser day for the process. Periodic investment option available. |
| Regulator | SEBI | PFRDA | IRDA |

**Performance Analysis of Mutual Fund Pension Schemes(point to point) :**

| Report as on Oct 20, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | **Compound Annualized % (Point to Point)** | | | | |
| **Scheme Name** | **NAV** | **Launch Date** | **Corpus (in Crs) as on 30-Sep-15** | **Expense Ratio** | **1 Year** | **2 Years** | **3 Years** | **5 Years** | **10 Years** |
| Franklin India Pension Plan - Growth | 100.7356 | 31-Mar-97 | 343.48 | 2.46 (31-Aug-15) | 15.9090 | 20.6325 | 15.4285 | 11.5250 | 11.3073 |
| Tata Retirement Savings Fund - Reg - Conservative Plan | 15.1810 | 01-Nov-11 | 86.92 | 2.25 (16-Oct-15) | 11.9972 | 14.3355 | 11.4844 | N.A. | N.A. |
| UTI RBP Fund | 20.4740 | 26-Dec-94 | 1579.64 | 2.34 (30-Sep-15) | 10.7589 | 15.4704 | 12.0730 | 8.4448 | 10.1438 |
| **Indices** | | | | | | | | | |
| Crisil Debt Hybrid (60:40) | -- | | | | 8.0241 | 12.3172 | 11.1097 | 8.3142 | N.A. |

The performances of Reliance Retirement- Wealth Creation as well as Income Generation is not shown as they were launched in February, 2015 and below 1 year period.

**NPS Performance as on October 19, 2015**

| 1 | **NAV** | **Returns(%)** | | | | **Worth of R5000 monthly contribution (R lakhs)** | |
|---|---|---|---|---|---|---|---|
| | | **6-Month** | **1-Year** | **3-Year** | **5-Year** | **3-Year** | **5-Year** |
| NPS Lite (Swavalamban) Plans | | | | | | | |
| UTI Retirement Solutions | 17.1 | 3.7 | 13 | 10.53 | 11.32 | 2.14 | 3.99 |
| SBI Pension Fund | 17.25 | 4 | 13.62 | 10.64 | 11.5 | 2.14 | 3.99 |
| LIC Pension Fund # | 17.04 | 3.34 | 12.65 | 10.82 | 11.23 | 2.14 | 4 |
| Kotak Pension Fund | 15.07 | 3.67 | 13.02 | 10.69 | 8.54 | 2.15 | 3.93 |
| Corporate CG | | | | | | | |
| SBI Pension Fund # | 13.56 | 4.16 | 14.1 | - | - | - | - |
| LIC Pension Fund # | 13.66 | 3.63 | 13.39 | - | - | - | - |
| TIER I: Equity Plans | | | | | | | |
| UTI Retirement Solutions | 20.72 | -1.84 | 8.57 | 15.48 | 7.57 | 2.25 | 4.21 |
| SBI Pension Fund | 17.9 | -2.87 | 7.69 | 15.48 | 7.96 | 2.22 | 4.19 |
| Reliance Capital Pension Fund | 19.89 | -2.89 | 7.69 | 14.62 | 7.29 | 2.22 | 4.15 |
| LIC Pension Fund # | 14.15 | -2.77 | 6.22 | - | - | - | - |
| Kotak Pension Fund | 19.35 | -2.75 | 7.91 | 14.57 | 7.99 | 2.22 | 4.16 |
| ICICI Prudential Pension Fund | 21.09 | -3.14 | 7.55 | 15.34 | 8.35 | 2.23 | 4.2 |
| HDFC Pension Fund | 15.2 | -2.88 | 7.84 | - | - | - | - |

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|---|---|---|---|---|---|---|---|
| TIER I: Government Bond Plans | | | | | | | |
| UTI Retirement Solutions | 17.08 | 4.35 | 14.83 | 9.9 | 9.37 | 2.14 | 3.9 |
| SBI Pension Fund | 18.66 | 4.41 | 15.5 | 9.78 | 10.06 | 2.14 | 3.92 |
| Reliance Capital Pension Fund | 16.82 | 4.41 | 15.1 | 9.89 | 9.64 | 2.14 | 3.91 |
| LIC Pension Fund # | 13.31 | 4.29 | 15.15 | - | - | - | - |
| Kotak Pension Fund | 17.16 | 4.44 | 14.5 | 9.77 | 9.61 | 2.13 | 3.9 |
| ICICI Prudential Pension Fund | 17.38 | 4.33 | 15.16 | 10.43 | 9.93 | 2.15 | 3.94 |
| HDFC Pension Fund | 12.88 | 4.13 | 14.79 | - | - | - | - |
| TIER I: Corporate Debt Plans | | | | | | | |
| UTI Retirement Solutions | 18.29 | 5.27 | 12.83 | 10.35 | 10.62 | 2.13 | 3.96 |
| SBI Pension Fund | 20.19 | 5.14 | 13.12 | 10.32 | 11.02 | 2.13 | 3.99 |
| Reliance Capital Pension Fund | 18.1 | 5.36 | 12.99 | 10.69 | 10.49 | 2.14 | 3.99 |
| LIC Pension Fund # | 13.14 | 5.72 | 13.91 | - | - | - | - |
| Kotak Pension Fund | 19.96 | 5.4 | 13.33 | 10.54 | 11.1 | 2.14 | 4 |
| ICICI Prudential Pension Fund | 20.06 | 5.45 | 14.6 | 10.93 | 11.5 | 2.16 | 4.04 |
| HDFC Pension Fund | 13.07 | 5.5 | 13.49 | - | - | - | - |
| *Returns as on Oct 19, 2015, Assets as on Sep 30, 2015, # Assets as on Aug 31, 2015* | | | | | | | |

Source:Value Research online

**Additional tax incentive under section 80CCD(1) of Income Tax Act, 1961 to investors for investment upto Rs.50000/- in NPS in addition to Rs.1.5 lakhs under section 80C :**
An additional benefit of Rs.50000/- is given over and above the benefit of Rs. 1.5 lakhs allowed to be claimed as deduction under section 80C. Therefore now the total deduction under section 80C + 80CCD is Rs. 2lakhs.

**OBSERVATIONS AND CONCLUSIONS**

1. Only three fund houses - UTI, Franklin Templeton and Reliance MF- currently offer retirement plans having 80C benefit in the country. Several mutual fund houses, such as SBI, Axis, DSP BlackRock are getting ready to launch their retirement products whose applications are pending with regulator for approval. More schemes will provide wider options to investors for retirement planning.

2. Some of these schemes do not have a mandatory lock-in period like all other permitted investments under Section 80C, it is entirely up to an investor to stick to his investments. The investors need to have the discipline to continue with their investment plan in adverse market conditions, as these retirement products allow investors to exit them after paying a slightly higher exit load.

3. In contrast, NPS does not provide any exit option even for emergency purpose and clearly to be utilized post retirement. After 60 also, compulsorily 40% of corpus has to be annuitized for pension.

4. For MF Pension schemes there are corporate as well as individual distributors who are reasonably incentivized through brokerage for marketing the schemes. But for NPS, there need to be more an incentive for people to market it in the un-organized sector. Even NPS Pension Fund managers aren't are not interested in marketing the scheme because of lower management fees and remuneration.

5. The biggest drawback for NPS at present is that the corpus at the end of 60 years of age will be fully taxable. This is because the product is classified as EET (exempt on contributions made, exempt on accumulation but taxed on maturity). The NPS will be more attractive if tax exemption status is given. In Mutual Funds the tax rules are more

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favorable for long term investments like- for equity schemes, the entire gain will be tax free after one year and for hybrid funds long term capital gain indexation benefit will be given after 3 years. For a retirement scheme which is usually long term the tax benefit of mutual fund schemes are favorable as compared to NPS. The entire corpus withdrawn is added to your income and taxed in line with your applicable slab rate. This could significantly eat into your returns during retirement, especially if in the highest tax bracket. The NPS need EEE (Exempt-Exempt-Exempt) status to make it really accept wholeheartedly.

6. MF retirement plans give the flexibility to withdraw when required by paying exit load and on maturity also various options to choose to full and/or partial withdraw/investments. If some provision of partial liquidity in NPS for emergency can be made it will be beneficial.

7. In NPS allocation to equity is capped at 50 per cent till the age of 35 and then reduces every year by two per cent, such that by the time you reach 55, only 10 per cent is in equity. "This can be a positive for those who want automated asset allocation. No other product in the country offers this kind of option. Where as

8. Both these products are market-linked and do not offer guaranteed returns. Apart from the auto choice, NPS allows you to opt for active choice. Investors can choose between Scheme E (up to 50 per cent investment in equity), Scheme C (corporate bonds) and Scheme G (government securities). MF pension schemes have limited option for active choice other than switch among aggressive, moderate and conservative options. At present, though, only Reliance MF has an equity-oriented retirement option, which can invest anywhere between 65 per cent and 100 per cent of the corpus into equities. The other two pension schemes, Franklin India Pension Fund and UTI Retirement Benefit Pension Fund, invest up to 40 per cent in equities and the rest in fixed income instruments. However, more fund houses are expected to come up with equity options in the future. In this regards, NPS scores much higher advantage over pension schemes even though equity exposure is limited up to 50%.

9. The returns in MF schemes over 3 to 5 years period are similar to returns in NPS schemes. We have seen MF debt oriented schemes having 60% in debt and 40% in equity have given an average return of approx. 13% in 3 years & 10% in 5 years horizon. If we calculate NPS returns having similar debt/equity exposure will give similar returns.

10. NPS with 80CCD (1) benefit looks more attractive. Providing EEE (exempt-exempt-exempt) status will provide unquestionably a superior status to NPS. As people who are investing now have time for withdrawing from NPS, can hope for EEE in direct tax laws in years to come and should invest in NPS.

It is not MF pension schemes versus NPS, it need to be MF pension scheme and NPS. Young and middle aged investors need to have greater exposure to MF pension schemes under Section 80 C and balance need to be in NPS to avail benefit under section 80CCD of IT Act. Much depends on how PFRDA is taking initiative in marketing NPS through various points of presence.

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