

# Today's Topic



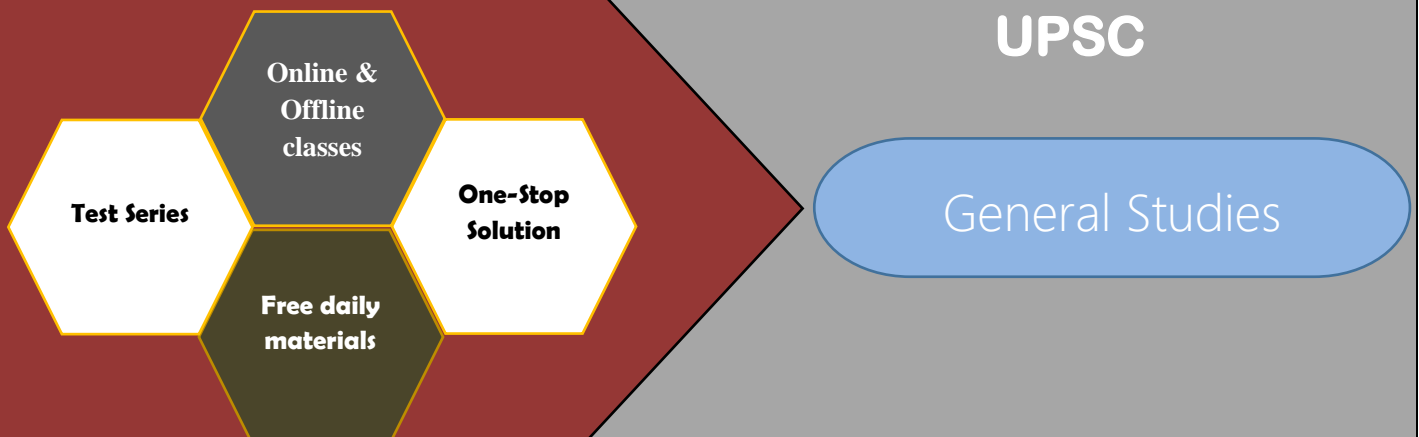
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## National Pension System (NPS)

Notes for civil services preparation



## National Pension System (NPS)

The National Pension System (NPS) is a pension scheme sponsored by the government that was started in 2004 for all government employees. The scheme was made open to all citizens in 2009. It is a voluntary and long-term retirement scheme. It is regulated by the **Pension Fund Regulatory and Development Authority (PFRDA)** and Central Government.

### Who can join NPS?

Any employee from public, private and even the unorganised sectors can opt for this. Personnel from the armed forces are exempted. The scheme is open to all across industries and locations.

The other eligibility criteria for opening an NPS account:

1. Must be an Indian citizen.
2. Must be between the ages of 18 and 65.
3. Must be KYC compliant.
4. Must not have a pre-existing NPS account.

### Can a Non Resident Indian (NRI) join NPS?

Yes, an NRI can join NPS. However, the account will be closed if there is a change in the citizenship status of the NRI.

### NPS Benefits

- NPS offers returns higher than traditional instruments like the PPF (Public Provident Fund).
- It offers many investment options to subscribers who also have a say in where their funds are invested.
- The NPS reduces the retirement liabilities of the government.
- If the subscriber has been investing for at least three years, he/she can withdraw up to 25% for certain purposes before retirement (age 60). This withdrawal can be done up to 3 times with a gap of at least 5 years between each withdrawal. These restrictions are only for tier I and not tier II accounts.
- The entire amount cannot be withdrawn by the account-holder on retirement [Changes to be introduced]. As of April 2021, 60% can be withdrawn which has now been made tax-free. The rest 40% has to be kept aside so that the subscriber can receive a regular pension from an insurance firm.

## **NPS Account Types**

### **NPS Tier 1 Account**

There are tax benefits under this account. But the withdrawals are subject to certain conditions and restrictions as explained above.

### **NPS Tier 2 Account**

Account-holders can invest an additional amount under the tier-II account. Here, they are free to withdraw the whole corpus at any point in time. There are no tax benefits associated with this account type.

