43

An Empirical Study of National Pension Scheme with respect to Tire 1
(Corporate Bonds, Equities and Government Securities)

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Introduction

NPS is a pension system that was launched by the government of India on 1 April 2004 and was regulated by the Pension Fund Regulatory and Development Authority (PFRDA), created by an Act of the parliament of India. It was launched to fulfill following objectives.

- To provide old age income.
- Reasonable market based returns over long run.
- Extending old age security coverage to all citizens.

The scheme was initially designed for government employees only, it was opened up for all citizens of India between the ages of 18 to 60 in 2009. Permanent Retirement Account Number (PRAN) are allotted to each subscriber upon joining NPS. 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%.

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Objectives of the Study

- To study relationship of corporate bonds, equity and government schemes of Tier 1.
- To study how to select the best NPS fund by comparing returns over five years.

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 Accounts

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 1 Accounts**

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 2 Accounts**

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.
- Seven companies are taken for the study.
- Administration expenses are not counted.
- The study period covers return up to five years only.

Research Methodology

This study is a descriptive and an analytical in nature.

Sample

Seven schemes of tier 1 accounts 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,

SBI Pension Fund	LIC Pension Fund
UTI Retirement Solutions	ICICI Prudential Pension Fund
Reliance Capital Pension Fund	Kotak Mahindra Pension Fund
HDFC Pension Fund	

Sources of the Data: Secondary data being collected from sources like journals and websites such as www.npstrust.org.in, www.moneycontrol.com and Value research online.

Period of the Study

The returns of tier 1 regarding E schemes, C schemes and G schemes are taken up to five years.

Tools Used for the Study

To understand the performance of selected seven schemes, the statistical measures like mean, standard deviation and ANOVA are selected for analysis using SPSS 20 software.

Data Analysis

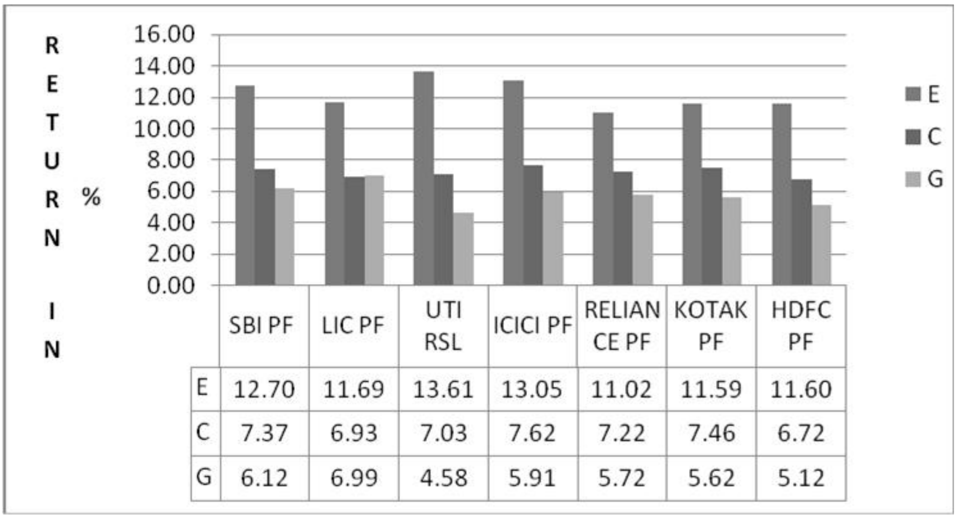
Exhibit 1

Pension Fund	Average Return in % NPS Scheme –Tier-1		
	E	C	G
SBI PF	12.696	7.374	6.124
LIC PF	11.692	6.926	6.986
UTI RSL	13.614	7.026	4.575
ICICI PF	13.046	7.622	5.912
RELIANCE PF	11.018	7.224	5.724
KOTAK PF	11.586	7.462	5.62
HDFC PF	11.6	6.7175	5.12

Source: Returns as on 31-07-2018 and returns have been calculated on the basis of NAV declared for the schemas by pension funds

Chart given below is graphical presentation of the above data.

Chart 1: NPS Scheme –Tier-1 Average Return in %



From the above chart we can notice that average returns of all funds more than 11% due to best performance of equity market. The researchers are eying for five years and since inception returns. In those categories UTI RSL and ICICI PF performed well. Schemes 'C' funds performed well in long run. How ever since inception worst performing funds are Reliance PF and UTI RSL. NPS returns for G scheme, no one can beat LIC fund managers.

Exhibit 2

NPS Scheme –Tier-1 Descriptive Statistics								
Return of Scheme								
	N	**Mean**	**Std. Deviation**	**Std. Error**	**95% Confidence Interval for Mean**		**Minimum**	**Maximum**
					Lower Bound	**Upper Bound**		
SBI PF	3	8.7300	3.49447	2.01753	.0493	17.4107	6.12	12.70
LIC PF	3	8.5367	2.73103	1.57676	1.7524	15.3209	6.93	11.69
UTIRSL	3	9.0467	4.04339	2.33445	-.9977	19.0910	5.91	13.61
ICICI PF	3	8.8567	3.72240	2.14913	-.3903	18.1036	5.91	13.04
RELIANCE PF	3	7.9867	2.73191	1.57727	1.2002	14.7731	5.72	11.02
KOTAK PF	3	8.2233	3.05732	1.76515	.6285	15.8181	5.62	11.59
HDFC PF	3	7.8133	3.37552	1.94886	-.5719	16.1986	5.12	11.60
Total	21	8.4562	2.82838	.61720	7.1687	9.7437	5.12	13.61

Source: Research based: Computed by SPSS-20

To check the homogeneity of variances following hypothesis is formulated,

H_o: Variance of all groups is equal

H_1: Variance of all groups is unequal

Exhibit 3

Test of Homogeneity of Variances			
Return of Scheme			
Levene Statistic	df1	df2	Sig.
.245	6	14	.954

Source: Research Based: Computed by SPSS-20

The F – Value is 0.245 and its associated significance 0.954 is greater than 0.05, we cannot reject the null hypothesis and say that variance are equal for all groups. To clear the true picture of percentage returns in selected NPS schemes, Researcher calculates One Way ANOVA.

Exhibit 4

Anova					
Return of Scheme					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.835	6	.639	.057	.999
Within Groups	156.160	14	11.154		
Total	159.995	20			

Source: Research based: Computed by SPSS-20

H_0: There is no significance difference in mean percentages of return in selected NPS Scheme- Tier-I (i.e. E, C, and G)

H_1: There is significance difference in mean percentages of return in selected NPS Scheme- Tier-I (i.e. E, C, and G)

The F – Value is 0.057 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. E,C,G)

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 12% to 15% 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 2017 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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