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Better liquidity helps during emergencies

As far as possible, save your NPS corpus for retirement and avoid using it for other needs

CHIRAG MADIA

The Pension Fund Regulatory and Development Authority (PFRDA) has relaxed the norms for partial withdrawals from the National Pension System (NPS). NPS subscribers who have contributed for three years can now withdraw up to 25 per cent of their contribution, subject to certain conditions. Earlier NPS subscribers were allowed to withdraw from the corpus only after the completion of 10 years.

Withdrawals have been allowed for higher education and marriage of children, including legally adopted children, purchasing or constructing a residential house or flat, and treating specified illnesses like cancer, kidney failure, stroke, and major organ transplant. According to Hemant Contractor, chairman, PFRDA, "Earlier partial withdrawals were allowed only if a person had been a subscriber for 10 years. But there was a lot of demand coming from subscribers, saying that 10 years is too long a period and in the case of any emergency they can't wait for so long. After considering these concerns, we have decided to allow partial withdrawals after three years."

Experts think this is a good move. "It's in the interests of subscribers as it gives them the liquidity to meet certain contingency needs," says Suresh Sadagopan, founder, Ladder7 Financial Advisories. However, in a kind of balancing act, restrictions have been placed on how much money can be accessed through partial withdrawals. Says Deepesh Raghaw, founder, PersonalFinancePlan.in, a Sebi-registered investment advisor (RIA): "Remember that you can only withdraw 25 per cent of your contribution, and not the whole accumulated corpus. In a case of the NPS at the workplace, the employer's contribution is not accessible to you. A maximum of only three partial withdrawals will be permitted during the entire tenure of the NPS. All this limits the amount you can withdraw."

One positive is that these partial withdrawals will not attract any tax liability. "Partial withdrawals are exempt from tax. The government had announced the year before last that partial withdrawals would not be taxed," says Contractor.

The NPS can be an equity-oriented investment instrument. In the active choice option, you can opt for up to 50 per cent allocation in equities, while in the auto choice-life cycle options, equity allocation can go as high as 75 per cent. If you have chosen to invest considerably in equities, avoid partial withdrawals early in the tenure, or else you could withdraw at a loss owing to volatility in equities. Financial planners say investors should use the withdrawal option with caution. "Remember that it is your retirement corpus and dipping into it for various reasons and depleting it is not a very good thing to do," says Sadagopan.

Finally, the NPS is most often compared to the Employees Provident Fund. Improving liquidity in the NPS may not enhance its attractiveness much vis-a-vis the EPF, since the latter is also quite liquid. Withdrawal from the EPF after five years of continuous employment does not attract tax. If you have transferred your money from your previous employers to the current one, that is treated as continuous employment. Partial withdrawals from the EPF can also be made for medical treatment and children's education and marriage. For housing, in fact, the EPFO allows subscribers to withdraw up to 90 per cent of their corpus if they have formed a society with at least 10 members. If you have the option to invest both in the NPS and EPF, do so. "Since the NPS allows investors to participate in equities, it can be a better bet over the long term," says Sadagopan. Taxability at maturity and compulsory annuitisation are two points that go against the NPS. Raghaw suggests that investment in the NPS should be limited to ₹50,000 to take advantage of the extra tax benefit beyond Section 80C. He adds the EPF is a good instrument for the debt portion of your portfolio.

STRONG RETURNS

	Returns- Scheme E, tier I (%)		
	1-year	3-year	5-year
SBIPF	28.01	10.19	14.37
LICPF	27.62	9.37	NA
UTIRSL	31.03	11.3	14.95
ICICI PF	28.95	9.89	14.16
Reliance PF	29.84	9.94	13.9
Kotak PF	34.51	11.28	14.6
HDFC PF	31.69	10.97	NA

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