COMPARISON BETWEEN THE TWO RETIREMENT INSTRUMENTS

	Employees' Provident Fund	National Pension System
Who needs to have it?	➢ Any establishment with more than 20 employees has to mandatorily offer EPF. Any employee whose basic salary is less than ₹15,000 has to mandatorily become a subscriber of EPF. Most employers offer it to employees with higher salaries as well	➢ It is mandatory for all central government and many state government employees since 2004. After April 2010, mandatory for all public sector bank employees. ➢ For the private sector, NPS is voluntary. Employers can offer it along with EPF. 2,000-odd companies are offering it.
Can you opt out or switch?	➢ Those with higher salaries can opt out of it at the beginning of their careers. But, once you opt for EPF, you cannot opt out of it.	➢ Earlier, it was not allowed. This year's Budget has allowed a one-time portability between a superannuation fund offered by the employer to NPS.
What is the contribution?	➢ The mandatory employee contribution is 12 per cent of the basic salary. The employer contributes the same amount. Of the employer's contribution, 3.7 per cent goes towards an employee's provident fund component and 8.33 per cent goes towards Employee Pension Scheme. The limit for EPS is ₹1,250. ➢ The contribution to EPF is part of the ₹1.5 lakh tax exemption allowed under Section 80C.	➢ The employer contribution is up to 10 per cent of basic salary and is eligible for tax deduction under Section 80CCD. There is no cap on the amount. ➢ The employee's contribution is up to 10 per cent of basic salary. Tax exemption is allowed up to ₹ 1.5 lakh under 80C, (which includes EPF and other instruments). ➢ Budget 2015 allowed an additional ₹50,000 tax exemption for NPS under 80CCD. ➢ The minimum contribution for a Tier-I account ₹6,000. For a Tier-II account, minimum contribution is ₹2,000 per year.
How do I withdraw?	➢ You can withdraw if you are out of work for two months or for a medical emergency, purchase of house or your child's marriage, education, etc. Only employee contribution can be withdrawn. The employer's contribution cannot be touched till the age of 58 years. This change was introduced in February 2016.	➢ Under a Tier-I account, withdrawal options are limited and it can only be done under extreme circumstances, largely health-related. But in Tier-II, you can withdraw anytime.
What are the returns?	➢ It is a defined benefit scheme where the interest rate is set every financial year. For 2015-16 the rate is 8.8 per cent.	➢ Returns are market linked. The funds invest in equities, G-Secs and corporate bonds.
How risky are they?	➢ It largely invests in government securities. Recently, it started investing 5 per cent in exchange-traded funds.	➢ It offers three kinds of funds: Asset Class E invests largely in equity market, Asset Class G invests in G-Secs and Asset Class C invests in non-G-Sec fixed income instruments. The Auto Choice option offers asset allocation based on age.
How is it taxed?	➢ No tax at the time of investment, interest accrual or withdrawal. On retirement, entire corpus can be withdrawan. If it is withdrawn within five years of service, it will be taxed.	➢ No tax on investment and interest accrual, but partly taxed at withdrawal. Forty per cent of the corpus can be withdrawn as a lumpsum, while 40 per cent has to be used to purchase annuity and the other 20 per cent will be taxed on withdrawal or become tax-free if used to purchase annuity.
More options?	➢ Employees can contribute 100 per cent of their basic towards PF, but tax exemption is allowed only up to ₹ 1.5 lakh.	➢ You have to buy annuity from one of the five empanelled providers. These are LIC, SBI Life Insurance,HDFC Life Insurance, ICICI Prudential Life Insurance and Star Union Dai-ichi
How to open and operate an account?	➢ Your employer opens the account. It is possible to operate it online with the Universal Account Number. You can check your account balance and transfer your account while changing jobs.	➢ It is possible to open NPS account through point of presence. There are 64 PoPs, which include banks, NBFCs, banks, brokerages. ➢ There are eight pension funds. It is possible to open and operate an account online.

source: Willis Towers Watson India and Mercer India