YOUR
MONEY

UPS or NPS?

Younger employees and risk-takers may stick to NPS

BINDISHA SARANG & KARTHIK JEROME

The central government will introduce the Unified Pension Scheme (UPS) from April 1, 2025, as an alternative to the National Pension System (NPS).

Should employees currently with NPS stick to it or switch to UPS?

UPS

UPS merges elements of defined contribution and defined benefit. Employees contribute 10 per cent of their basic salary plus dearness allowance (DA), while the government contributes 18.5 per cent of their basic salary plus DA. The government makes a higher contribution in UPS (18.5 per cent) than in NPS (14 per cent).

Pros: UPS guarantees a pension of 50 per cent of the last drawn salary, based on the average of the last 12 months. "It is an assured pension scheme and does not leave the outcome to the vagaries of market forces," says Jinal Mehta, founder, Beyond Learning Finance. It thus addresses a key concern government employees enrolled in NPS had. Mehta points out that government employees must have completed a minimum of 10 years of service to qualify for UPS.

Cons: In NPS, employees can have a higher equity exposure, creating the potential for higher returns over time. "This could be advantageous for employees comfortable with risk as they could benefit from market upswings," says Vishal Dhawan, founder and chief executive officer (CEO), Plan Ahead Wealth Advisors.

The 10 years of service criterion means that those who retire earlier than this won't qualify.

Currently, central government employees are eligible for UPS. Among states, only Maharashtra has so far agreed to adopt it. "Only a limited number of employees qualify for UPS currently," says Arnav Pandya, founder, Moneyeduschool.

GUARANTEED BENEFITS PROVIDED BY UPS

Assured pension
Employees with 25+ years of service get 50 per cent of their final 12-month average basic pay and DA

Family pension
Spouse receives 60 per cent of the employee's pension upon latter's death

Assured minimum pension
Employees with 10+ years of service get a minimum of ₹10,000 per month

Inflation indexation
Both pensions will be adjusted for inflation

Lump sum payment
Employees receive a lump sum payout at retirement

NPS

Under NPS, employees contribute 10 per cent of their salary while the government contributes 14 per cent. The money is invested in equities, government securities, and corporate bonds. Upon retirement, 40 per cent of the corpus must be annuitised.

Pros: Its biggest advantage is the potential to accumulate a larger corpus through higher equity exposure. "Employees also have the flexibility to choose their allocation to the three asset classes," says Pandya.

Cons: The employee bears the risk. "If the funds invested in perform poorly, the employee bears the consequences," says Pandya. Numerous choices can also be overwhelming for some.

Moreover, 40 per cent of the corpus at retirement must be annuitised, which reduces flexibility.

How you should decide?

Individuals comfortable with higher risks should stay put in NPS. "Younger employees, who tend to have a higher risk appetite, will find NPS advantageous due to the potential gains from equity markets over time," says Krishan Mishra, CEO, FPSB India. Remember that volatility becomes less of a concern in equities for investors once the horizon extends to decades.

"For those who are risk-averse and seek a defined benefit, UPS might be a superior option," says Dhawan.

An employee's choice should also depend on how her other investments are deployed. If her portfolio is largely in safer instruments, NPS's equity exposure could add an element of inflation-beating returns to the portfolio. "Conversely, those already investing in equities outside their retirement corpus might prefer UPS for its more defined outcome," says Dhawan.

Those opting for UPS should not rely solely on it. "Supplement it with additional investments through NPS to enhance retirement security," says Mishra.

Different modes of holding mutual funds

Mutual funds have become a popular choice for people looking for good returns. But do you know about the different modes of holding mutual funds?

SINGLE HOLDING: This is when an individual is the sole owner of the mutual fund units. It is the simplest form and is ideal for those who want complete control over their investments.

JOINT HOLDING: This allows two or more individuals to own the mutual fund units together. Joint holdings are further categorised into two types:

Joint-either or survivor (E/S): Any of the joint holders can operate the account independently. If one holder dies, the surviving holder(s) become the owner(s) of the units.

All or survivor: Here, all joint holders must sign for any transaction. In case of the demise of one holder, the surviving holder(s) becomes the owner(s).

"Selecting the appropriate mode of holding should ideally align with the status of the bank account from which investments will be made. This approach can help minimise potential tax or legal complications in the future. Designating a nominee is crucial as it facilitates smooth transmission and payouts in the unfortunate event of the unit holder's demise," said Shrinivas Khanolkar, Head – Products at Mirae Asset Investment Managers (India).

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