YOUR MONEY

NPS FUND RETURNS

Equity-debt allocation: Let risk appetite, not past- yr returns, decide

HIMALI PATEL

Funds under the National Pension System (NPS) have delivered strong returns over the past year across all asset classes, exceeding their longer-term averages. Equity (E) schemes generated an average return of 18 per cent, corporate bond (C) schemes offered 9.4 per cent, while government bond (G) schemes provided 10.4 per cent.

"Past year returns have been exceptional where all the asset classes outperformed their 3-, 5-, and 10-year returns by a wide margin," says Abhishek Kumar, Securities and Exchange Board of India (Sebi)-registered investment adviser (RIA) and founder, SahajMoney.com.

Drivers of returns

The equity market showed remarkable strength, with the Sensex delivering 8.7 per cent over the past year, while the midcap and smallcap indices returned 26.7 per cent and 30.6 per cent, respectively. This robust equity performance boosted NPS equity funds. On the debt side, declining interest rates played a critical role. "Returns have been better than usual over the past year due to declining interest rates, both internationally and in India, as inflation started coming under control," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Experts caution against expecting a repeat. "Returns of all asset classes tend to revert to mean sooner or later," says Kumar.

Equity allocation

The active choice option allows investors to change their asset allocation, but decisions should not be based solely on recent performance. "The decision on equity allocation should be based on the investor's risk appetite and ability to handle volatility," says Dhawan. He notes that while equities have delivered strong gains, they may underperform during certain periods. Younger investors can afford higher equity exposure early in their investment journey but should gradually reduce this allocation as they near retirement. Dhawan advises reviewing equity allocation every 5-10 years.

"If recent gains have caused equity allocation to rise disproportionately, rebalancing may be necessary," says Deepesh Raghaw, Sebi RIA.

Debt allocation

Debt allocation requires understanding the nuances of different schemes. "C schemes are more stable because they hold shorter-duration bonds. However, they carry slightly higher credit risk as they are not issued by the government. On the other hand, G schemes have minimal credit risk but are more sensitive to interest rate volatility due to the longer duration of the bonds in the portfolio," says Dhawan.

Dhawan advises basing the choice between C and G schemes on the investor's time horizon. Investors with longer horizons may allocate more to G.

What should new investors do?

New investors entering NPS should be aware of its benefits and limitations. Raghaw highlights its low-cost structure and tax-free rebalancing feature. "Taxes only apply when you exit NPS," he says. He suggests treating NPS as part of a broader portfolio, and using it strategically to rebalance, thereby minimising tax liabilities.

Before joining NPS, however, investors must understand the restrictions on withdrawal.

Only three partial withdrawals can be made, for up to 25 per cent of the investor's own contributions, for specified purposes.

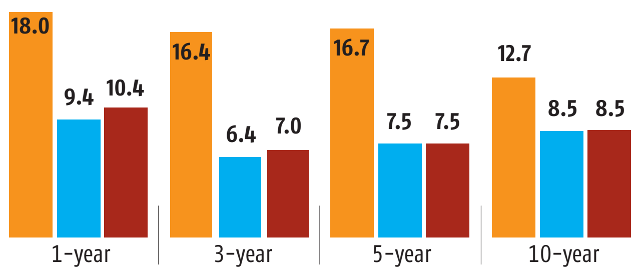
Over the long term, portfolios with higher equity exposure tend to outperform, but this comes with volatility. "Investors who are comfortable with volatility may benefit from allocating more to equity in their portfolios. For those who find managing volatility challenging, opting for the auto choice option may be a better alternative," says Dhawan.

Past returns don't guarantee future outperformance. "Select NPS funds with lower expense ratios and decent AUM sizes," says Kumar.

HIGH RETURNS OVER PAST YEAR ACROSS CATEGORIES

Average returns (in %)

Tier 1 schemes ■ Scheme E ■ Scheme C ■ Scheme G



Source: npstrust.org.in

New rules for EPFO pensioners now in effect

Starting January 1, 2025, pensioners under the Employees' Pension Scheme, 1995, have the flexibility to access their pensions from any bank branch in India, under the Centralised Pension Payment System. Here are the new Employees' PF Organization rules:

ATM withdrawal facility
The EPFO will soon issue ATM cards to members, allowing 24x7 access to their provident fund savings for quicker withdrawals, especially during emergencies.

Higher pension deadline
EPFO announced a final deadline of January 31, 2025, for employers to submit wage details and January 15, to respond to clarifications.

New rule for EPF death claim
The new rule allows temporary acceptance of EPF death claims without Aadhaar seeding, subject to verification.

Change in contribution limit
EPFO is considering the removal of contribution cap, allowing employees to contribute based on their actual salary and helping build a larger retirement corpus.

Link: https://mybs.in/2ejoRrG

COMPILED BY AYUSH MISHRA