

## **Comparative study of mutual fund scheme and new pension system**

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### **Abstract**

Mutual fund and NPS both are pension plans which can be subscribed by general public to meet their financial needs and regular income after retirement. Both are similar in that they manage relatively large pools of assets and helps individuals to fund their retirement, serve different clients. This paper describes the comparison between Mutual Funds Pension Scheme and National Pension Scheme along with different factors (liquidity, flexibility, assets class choice available, restriction on choice of pension fund manager, cost, risk and return, tax exemptions, maximum permissible equity exposure, maximum age entry etc.). Data is collected through secondary sources. After a lot of discussion on Mutual Fund Schemes and National Pension Schemes, finding revealed that both are pension plans have little dissimilarity because of above discussed factors. Sometimes mutual fund schemes overcome to NPS because of highly cost effective in terms of cost per account to individual shareholder.

**Keywords:** mutual funds, NPS, return, liquidity

### **Introduction**

India is a developing country, where level of literacy, standard of living and peoples' savings are very low. Due to rise in nuclear families old people are left alone to fend for themselves. Alongwith increase in longevity old age people suffering from various financial problems. To overcome this problem government provides a pension framework in India which includes various types of investment alternatives for getting regular pension after retirement. The voluntary pension schemes like Mutual Fund Pension schemes, Insurance Pension schemes, PPF, National Pension scheme(NPS)-citizen models etc. are available for general public to help them to plan for retirement savings. This paper discussed about two alternatives of pension schemes such as mutual funds and national pension scheme.

### **Mutual Funds**

A mutual fund is an investment company that creates a bridge between individual investors or retail investors & corporate giants. Mutual funds provide an investment options for retail investors or individual investors those who are not aware about stock market still they want to invest their funds in stock market with a small amount of money. A mutual fund is a pure intermediary which performs basic function of buying & selling security on behalf of its investors or unit holders. Mutual funds mobilize saving from a large number investors & invest these funds in share and other securities mutual funds are sine qua non for the development of the capital markets & the creation of the equity culture in an economy. Mutual pension schemes offering voluntary pensions schemes which can be subscribed by the general public to seeking post retirement regular income (Barik 2015). First mutual fund retirement scheme was launched by the UTI in 1994 and followed by several schemes.

### **National Pension Scheme**

The NPS is a new contributory Pension scheme launched by the Government of India with effect from Jan. 1, 2004 and regulated by PFRDA (Pension Fund Regulatory Authority of India). It is the most economical and least known government approved pension scheme for Indian citizen in the 18-60 age group. NPS was first introduced for central Government employees (except armed force) but in 2009 it was opened for all citizens of India on voluntary basis. Under the NPS, investor can regularly invests the money in his /her pension scheme account. On the retirement, investor has the option of taking a part of the corpus as lump sum amount and the balance in the form of a fixed monthly income.

### **Literature Review**

A number of studies on evaluating the performance of Indian Mutual Fund and New Pension Schemes have been conducted in India and foreign countries. Review of some of the studies is presented in the following discussion

#### **Literature pertaining to mutual funds**

Bahal & Rani (2012) <sup>[2]</sup> investigated the performance of 29 open-ended, growth-oriented equity schemes of transition economy. Sharpe, Treynor, and Jensen's models were used for the evaluation of performance of selected schemes. Findings revealed that 14 out of 29 (48.28 percent) sample mutual fund schemes had outperformed the benchmark return and some of the schemes had underperformed, these schemes were facing the diversification problem. Vyas (2012) <sup>[10]</sup> focused attention on number of factors that highlights investors' perception about mutual funds. It was found that mutual funds were not that much known to investors, still investor rely upon bank and post office deposits, most of the investor used to invest in mutual fund for not more than 3 years and maximum number of investors did not analyze risk in their investment and they

were depend upon their broker and agent for this work. Aggarwal & Jain (2013) <sup>[1]</sup> analyze the investor's preference towards investment in mutual funds when other investment avenues are also available in the market. Data was collected through questionnaires from 300 investors. Study consist various investment avenues other than mutual fund such as Banks, LIC, PPF, Bonds, Mutual Funds, Real estate, Commodity Market, Gold, Equity Shares, Futures & Options and instruments of Post Office like NSC, KVP, MIS and others. Findings revealed that main factor of any investment is return and safety; therefore on the basis of return and safety Bank and LIC were the most preferred investment avenues. Prabhavathi & Kishore (2013) <sup>[7]</sup> analyzed the attitude, awareness and preferences of mutual fund investors. Data was collected through personal interviews from 90 respondents. As per the investor preferences, study concluded that about 65 per cent of investors preferred equity funds followed by balanced funds (18.75 per cent) and that indicated that more than sixty percent of the respondents were risk takers interested in investment growth. Prabhu & Vechalekar (2014) <sup>[8]</sup> identify various factors affecting perception of investors regarding investment in Mutual funds. A sample of 150 individual mutual fund investors was surveyed through a pre-tested questionnaire. Findings showed that most of the investors are aware of various schemes of mutual funds. Diversification of portfolio and tax benefit is the main factors of mutual fund that allure the investors.

#### Literature pertaining to new pension scheme

The National Pension System has become friendly in recent years. The NPS, promoted by the government, aims to provide post-retirement income to the country's citizens; all Indian citizens including non-resident Indians between the age of 18 and 60 can join the scheme. But it being market-linked, the risk lies with the investor, not the government. Recent reports suggest that the government plans to increase the maximum entry age into NPS to 65 years from 60 years currently

(Economic Times, 2017, September 12). Government job is the first preference of everyone because of financial security they offered but with the decision of the government to replace old pension scheme with NPS, the future of employees who entered service from 2004 and their families became uncertain. They said govt. did injustice with employees by snatching away pension, which was their basic right (The Hindu, 2017, August 30) <sup>[4]</sup>. Therefore govt. employees began strike for demanding implementation of the 7<sup>th</sup> pay commission and withdrawal of the New Pension Scheme. They said, there will be no PF account. They take house pay of the employee will get reduced, because of the additional amount deduction (10% of DA) (New Indian Express.com). Kalayanaraman (2017) <sup>[5]</sup> recent budget have given big sops for investment in the NPS Tier-1. Budget 2015 provided an extra tax break of Rs. 50,000 in addition to the existing Rs. 1.5 Lakh deduction eligibility u/s 80C. Budget 2016 allowed tax free withdrawal of 40% of corpus on maturity, mitigating a major drawback of the scheme. Budget 2017 exempted partial withdrawals from tax.

#### Objective of the Study

To study the conceptual framework of mutual fund and National pension Scheme.

To analyze return of mutual funds and national pension scheme.

#### Research Methodology

The present study is based on the secondary sources of information, journals, and relevant websites have been consulted in order to make the study effective. Study will try to understand the comparison of return of mutual fund and new pension schemes. In study of mutual funds includes three type of mutual fund that provides the pension and in NPS there were three type of schemes such as equity, corporate and government plans in the state and center level.

**Table 1:** Analysis of Mutual Fund Pension Schemes as on Sep. 2017

Fund	NAV	1 month	3 month	1 yr.	3 yr.	5 yr.	10 yr.
Franklin India Pension Plan (Direct Plan)	122.8	1.62	2.15	8.65	12.0	-	-
Franklin India Pension Plan	119.0	1.55	1.95	7.86	11.23	13.35	9.51
Tata Retirement Saving Fund Conservative Plan- Direct plan	20.0	3.31	4.21	15.24	13.13	-	-
Tata Retirement Saving Fund Conservative Plan- Regular Plan	18.9	3.15	3.77	13.47	11.55	11.76	-
Tata Retirement Saving Fund Moderate Plan- Direct fund	30.6	7.90	8.53	28.32	19.35	-	-
Tata Retirement Saving Fund Moderate Plan- Regular Plan	28.7	7.80	8.25	26.86	17.80	20.54	-
Tata Retirement Saving Fund Progressive Plan- Direct Plan	30.3	10.15	10.75	33.52	20.64	-	-
Tata Retirement Saving Fund progressive Plan- Regular Plan	28.12	10.04	10.42	31.75	18.77	19.94	-
UTI Retirement Benefit pension Fund – Direct Plan	25.92	2.59	3.33	13.83	11.45	-	-
UTI Retirement Benefit pension Plan	25.25	2.53	3.16	13.12	10.78	12.52	9.68

**Table 2:** Analysis of NPS Performance as on Sep. 2017

Fund	NAV	Returns	Returns			Worth of Rs. 5000 monthly contribution in Lakhs		Asset in crore
			6 months	1 yr.	3 yr.	5 yr.	3 yr.	
Central Govt. Plans								
LIC pension Fund	25.34	8.01	9.49	11.67	11.13	2.12	3.98	23,133
SBI Pension Fund	25.99	7.98	9.31	12.16	10.98	2.12	3.98	26,792
UTI Retirement Solutions	25.24	8.26	9.87	11.93	11.12	2.13	3.99	24,938
State Govt. Plans								
LIC pension Fund	22.66	8.08	9.47	11.87	11.30	2.12	3.99	32,300

SBI Pension Fund	22.36	8.03	9.24	12.34	11.10	2.12	3.99	33,429
UTI Retirement Solutions	22.49	8.14	9.57	12.00	11.15	2.12	3.99	32,324
<b>NPS Lite (Swalambhan) Plans</b>								
Kotak Pension Plan	18.41	8.26	9.62	11.81	11.18	2.12	3.99	43
LIC pension Fund	20.84	8.01	9.70	11.74	11.23	2.12	3.99	821
SBI Pension Fund	21.11	8.19	9.55	12.24	11.16	2.12	3.99	1208
UTI Retirement Solutions	20.95	8.38	9.84	11.94	11.20	2.12	3.99	809
<b>Corporate CG</b>								
LIC pension Fund	16.72	8.30	9.09	12.06	-	2.12	-	2,157
SBI Pension Fund	16.58	8.07	9.30	12.42	-	2.12	-	10,175
UTI Retirement Solutions	11.15	-	-	-	-	-	-	-
<b>Tier-1 Equity Plan</b>								
Birla Sun Life Pension Scheme	10.91	-	-	-	-	-	-	-
HDFC Pension Fund	19.61	14.89	19.10	10.13	-	2.24	-	620
ICICI Prudential Pension Fund	26.15	10.79	14.45	8.57	14.76	2.16	4.21	664
Kotak Pension Fund	25.00	15.60	16.99	10.22	15.38	2.25	4.37	116
LIC Pension Fund	17.55	12.04	14.37	8.48	-	2.17	-	264
Reliance Capital Pension Fund	24.76	12.97	16.10	8.80	14.55	2.18	4.23	67
SBI Pension Fund	22.44	11.83	14.62	9.03	15.10	2.18	4.24	1,225
UTI Retirement Solutions	26.28	12.45	15.52	9.85	15.42	2.21	4.34	159
<b>Tier-1 Govt. Bond Plans</b>								
Birla Sun Life Pension Scheme	10.56	-	-	-	-	-	-	-
HDFC Pension Fund	15.63	7.82	7.41	12.44	-	2.10	-	491
ICICI Prudential Pension Fund	21.12	8.17	7.54	12.63	10.79	2.11	3.96	506
Kotak Pension Fund	21.05	8.47	7.75	12.72	10.62	2.12	3.97	108
LIC Pension Fund	16.46	8.62	10.04	13.22	-	2.14	-	215
Reliance Capital Pension Fund	20.56	8.27	7.89	12.81	10.64	2.12	3.97	65
SBI Pension Fund	22.75	8.09	8.00	12.85	10.52	2.11	3.96	1,478
UTI Retirement Solutions	20.61	7.73	7.31	12.24	10.35	2.09	3.92	148
<b>Tier-1 Corporate Debt Plans</b>								
Birla Sun Life Pension Scheme	10.68	-	-	-	-	--	-	-
HDFC Pension Fund	15.84	6.80	9.42	12.04	-	2.11	-	367
ICICI Prudential Pension Fund	24.35	6.66	9.55	12.38	11.23	2.12	3.97	2,023
Kotak Pension Fund	24.29	7.17	9.51	12.15	11.02	2.12	3.96	81
LIC Pension Fund	15.86	6.88	8.99	11.90	-	2.10	-	162
Reliance Capital Pension Fund	21.93	6.64	9.37	11.87	10.99	2.11	3.95	44
SBI Pension Fund	24.43	7.08	9.19	11.89	10.78	2.11	3.93	813
UTI Retirement Solutions	22.13	6.81	9.24	11.68	10.73	2.10	3.93	97
<b>Tier-1 Alternative Investment</b>								
Birla Sun Life Pension Scheme	10.21	-	--	-	-	-	-	-
HDFC Pension Fund	10.79	5.29	-	-	-	-	-	0.41
ICICI Prudential Pension Fund	10.84	6.31	-	-	-	-	-	0.51
Kotak Pension Fund	10.52	3.36	-	-	-	-	-	0.10
LIC Pension Fund	10.55	3.33	-	-	-	-	-	0.13
Reliance Capital Pension Fund	10.50	3.40	-	-	-	-	-	0.03
SBI Pension Fund	10.61	3.42	-	-	-	-	-	0.51
UTI Retirement Solutions	10.59	3.40	-	-	-	-	-	-

**Source:** Value Research Online, Returns as on Sep 13, 2017, Assets as on Jul 31, 2017, \* Nav as on Jun 14, 2017

### Comparison of Mutual Funds and National Pension Scheme

Some factors that differentiate the mutual funds and new pension scheme are describes as following.

#### Liquidity

A financial security is a liquid investment, if it can be buy or sell quickly with little effect on its price. Mutual funds also continuously offer new shares to investor. This feature makes mutual funds a highly liquid investment which can be redeemed in the case of any contingency. On the other hand NPS can be liquid investment but less in compare to mutual funds. Withdrawals from the tier -1 account are restricted for

at least ten years from the date of initial investment. Afterwards, although the withdrawals are allowed in installments, it is only for special situations.

#### Flexibility

The NPS restricts your investment freedom not only at the accumulation phase but also at the distribution phase of your retirement journey. When investment from NPS is redeemed, beneficiaries don't get the entire corpus. NPS restricts your flexibility not only at the time of entering the scheme but also at the time of exiting the scheme via compulsory annuitize of corpus. There are various rigidities for changing the fund allocation pattern, minimum contribution amount and

frequency of contributions. On the other hand, mutual funds don't impose mandates to purchase annuities. Beneficiary can enter and exit from a mutual fund scheme as per your discretion and freely rebalance the MF portfolio as per the movement of the market.

### **Choice of Assets Class**

In NPS, investor gets limited asset classes to choose from i.e. equity, government securities and other fixed income securities. In the case of mutual funds, a vast array of asset classes is available like equity, debt, gold, real estate, etc. you can invest in an mutual fund scheme which is according to your investment preferences and risk appetite and which provides you with a higher reward for every unit of risk assumed.

### **Maximum Permissible Equity Exposure**

NPS tends to be more suitable for conservative investors who don't prefer taking more than average risks. Especially, in the auto-choice option, the asset allocation is calibrated such that as you get older, automatically the equity exposure keeps falling and stays at 10% once you reach 55 years. An aggressive investor, under the active choice, would be at a significant disadvantage because the maximum equity exposure is capped at 5%. It means that you can't ask your NPS account to have equity exposure beyond 50% at any point of time. In contrast, the mutual fund is a better bet for a high-risk taker as he can explore varied equity investment options wherein even 100% of the investment can be parked in equity funds.

### **Restriction on Choice of Pension Fund Manager**

PFRDA has appointed six entities which would manage the retirement corpus of individuals under NPS. Beneficiary should choose one pension fund manager at the time of registration from the following:

HDFC Pension Management Company Limited, ICICI Prudential Pension Funds Management Company Limited, Kotak Mahindra Pension Fund Limited, Reliance Capital Pension Fund Limited, SBI Pension Funds Private Limited, UTI Retirement Solutions Limited, LIC Pension Fund Limited. There are about 44 mutual funds houses in India offering over 2185 MF schemes. Instead of sticking to NPS, you may go for a mutual fund house of your choice based on fund factors like the pedigree of the fund house, risk-return analysis, expense ratio and frequency of turnover.

### **Cost Factor**

On the operational cost front, NPS is a cost-effective alternative as compared to mutual funds. It is so because the government has capped the expenses ratio at 0.25% per annum. As opposed to that, the expenses ratio limits of mutual funds range from 1.5% to 2.5%. The expense ratio of some fund houses could be even above the ceiling. So, investing in NPS can be considered if only operational cost is taken as a criterion for comparison.

Apart from the factors mentioned above, the tax implications of NPS are discussed under section 80C and section 80CCD. Under section 80C, your periodic contributions to NPS are allowed as tax deduction up to the prescribed limit of Rs. 1.5

lakh. Despite additional tax exemption of Rs. 50000 that you are getting on NPS which makes you perceive NPS as a better option to ELSS, the taxability of the 60% corpus on redemption offsets the initial tax benefit. Thus, NPS is inferior to ELSS because the long term proceeds of ELSS are completely tax exempt.

### **Conclusion**

An ideal Pension product should allow investors to take equity exposure based upon their risk appetite and investment needs rather than just their age. Age can be just one factor to deciding the risk appetite. Considering market volatility and the possibility of inflation remaining at high levels; it should also allow investors to go for higher equity exposure even after retirement. Pension plan of Mutual fund come closest to meeting most of the parameters. While they may not give high return like the risky equity-oriented funds, they are ideal for investing over long horizons. While debt protects capital when equity markets are falling, the equity exposure ensures that the returns are higher than debt instrument when stocks are doing well. NPS follows close behind but suffers due to inflexibility as it forces people to invest 40% of the fund at maturity to buy annuity, a product that few people understand. Also, its auto assets-allocation plan does not take into account the risk appetite of an individual but uses a fixed methodology. Also, the rules are still evolving.

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