LIVE

FINANCIAL NEWS

UPS or NPS:

Younger employees and risk-takers likely to stick to NPS

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 (UNIFIED PENSION SCHEME)

- **Guaranteed Benefits:** Offers a pension of 50% of the last drawn salary, ensuring stability in retirement.
- **Higher Government Contribution:** 18.5% of the government's contribution was compared to 14% in NPS.
- **Additional Benefits:** Includes inflation indexation, family pension, and lump sum payment at retirement.
- **Eligibility and Flexibility:** Requires 10 years of service; lacks flexibility in asset allocation and potential for higher returns.

NPS (NATIONAL PENSION SYSTEM)

- **Potential for Higher Returns:** Allows greater equity exposure, benefiting younger employees with a long investment horizon.
- **Investment Flexibility:** Employees can choose their allocation among equities, government securities, and bonds.
- **Market Risk:** Returns are market-linked, and employees bear the investment risk.
- **Mandatory Annuitization:** 40% of the corpus must be annuitized, reducing flexibility.

DECISION FACTORS

- **Risk Appetite:** NPS suits those with a higher risk tolerance; UPS is better for the risk-averse.
- **Portfolio Considerations:** NPS can complement safer investments, while UPS provides guaranteed benefits.
- **Supplemental Investments:** Consider additional investments for enhanced retirement security.