National Pension System (NPS)

A low-cost, market-linked pension, build a corpus, then draw a lifelong pension.

Market-linked (~9–11% long-run) | Employer NPS deductible in both regimes

What is NPS?

The National Pension System is a government-sponsored, market-linked retirement scheme regulated by PFRDA. You contribute during your working years, your money is invested across equity and debt at very low cost, and at exit a non-government subscriber can take up to 80% as a lump sum (60% of the corpus is tax-free) and uses at least 20% to buy an annuity that pays a pension for life. These exit rules were revised by PFRDA in December 2025. In the old regime you also get an extra ₹50,000 deduction (section 124, earlier 80CCD(1B)); the employer's contribution is deductible in both regimes.

In brief

Suits	Long-term retirement saving with a mix of equity and debt you can choose.
You get	Market-linked returns from pension funds regulated by PFRDA; low cost.
Your money	Tier I is for retirement: at exit, up to 80% as a lump sum and at least 20% into an annuity (non-government).
Tax	Employer contribution deductible in both regimes; your own extra ₹50,000 only in the old regime. 60% of the corpus is tax-free at exit.
Watch for	The exit rules changed in December 2025; only 60% of the lump sum is tax-free.

Key facts

Returns	Market-linked (equity + corporate & govt debt)
Entry age	18 to 85 years
Lock-in	Tier I: normal exit at 60, or after 15 years (All Citizen model)
At 60	Non-government: up to 80% lump sum (60% tax-free) + at least 20% annuity
Tax	Section 124 (earlier 80CCD): own ₹50k extra in old regime; employer share in both

What's new

Feb 2026 Budget 2026 did not extend the tax-free lump sum beyond 60% of the corpus, even though PFRDA now allows up to 80% to be withdrawn.

Dec 2025 PFRDA revised the exit rules: non-government subscribers can take up to 80% as a lump sum, entry and exit ages rise to 85, small corpora (up to ₹8 lakh) can be withdrawn fully, and the corpus can back a loan.

Questions and answers

THE BASICS

What is NPS and how does it work?

NPS is a defined-contribution pension scheme: you contribute regularly to your own account (identified by a PRAN), the money is invested in market-linked funds, and it grows into a corpus by age 60. At 60 you withdraw part as a lump sum and convert the rest into an annuity (a monthly pension). What you get depends on how much you put in, how markets do, and the annuity rate at retirement.

What is the difference between Tier I and Tier II?

Tier I is the main pension account, it has the tax benefits and the lock-in until 60. Tier II is an optional, add-on investment account with no lock-in and no tax benefit (except for government employees), which you can only open if you have a Tier I account. Think of Tier I as your pension and Tier II as a flexible savings wallet.

What is a PRAN?

A Permanent Retirement Account Number, a unique 12-digit number that stays with you for life across jobs and cities. It makes NPS fully portable: change employers or move states and your PRAN (and corpus) travels with you.

RETURNS & INVESTMENT

How are my NPS contributions invested?

Across four asset classes: E (equity, capped at 75%), C (corporate debt), G (government securities) and A (alternatives). You can choose "Active" (set your own mix) or "Auto" (a lifecycle fund that de-risks from equity to debt as you age). Costs are among the lowest of any managed product in India.

What returns can I expect?

NPS is market-linked, so returns are NOT guaranteed. Over long periods, balanced NPS accounts have historically delivered roughly 9–11% a year, helped by equity exposure and rock-bottom fees. Our calculator lets you set your own expected return, use a conservative figure for planning.

WHO CAN JOIN

Who is eligible for NPS?

Any Indian citizen aged 18 to 85, including salaried employees, the self-employed, and NRIs/OCIs. You can open an account online (eNPS) with Aadhaar/PAN in a few minutes, or through a bank/Point-of-Presence.

Can NRIs invest in NPS?

Yes, NRIs and OCIs can open an NPS Tier I account and contribute from their NRE/NRO accounts. The corpus and pension follow the usual NPS rules. It's a popular low-cost retirement option for Indians abroad.

CONTRIBUTIONS

What is the minimum and maximum I can contribute?

For Tier I, a minimum of ₹500 per contribution and ₹1,000 per financial year to keep the account active. There is no upper limit on how much you can contribute, the limits are on how much is tax-deductible, not on the contribution itself.

TAX BENEFITS

What tax deductions does NPS give?

Three layers (old regime): (1) 80CCD(1), your contribution within the overall ₹1.5 lakh 80C limit; (2) 80CCD(1B), an EXTRA ₹50,000, exclusive to NPS; and (3) 80CCD(2), your employer's contribution, deductible up to 14% of basic + DA in the new regime (10% in the old regime for private-sector employees), which is over and above the ₹2 lakh above.

Does NPS help under the new tax regime?

Yes, while 80CCD(1) and 80CCD(1B) are old-regime only, the employer-contribution deduction under 80CCD(2) IS available under the new regime too (up to 14% of basic salary). That makes employer-routed NPS one of the few tax breaks left in the new regime.

Is the maturity amount taxed?

At exit, 60% of the corpus can be withdrawn tax-free. Under the December 2025 rules a non-government subscriber may take up to 80% as a lump sum, but the portion above 60% is likely taxed at your slab. The amount used to buy an annuity is not taxed at purchase; the pension it pays is taxed as income.

AT RETIREMENT & EXIT

What happens at age 60?

Since PFRDA's December 2025 amendment, a non-government subscriber can take up to 80% as a lump sum and must use at least 20% for an annuity. Only 60% of the corpus is tax-free; the extra 20% is likely taxed at your slab. If the corpus is ₹8 lakh or less you can withdraw it all; between ₹8 and ₹12 lakh, up to ₹6 lakh as a lump sum. Government employees remain on the 60:40 split.

Can I exit NPS before 60?

Yes. Under the revised rules, a premature exit gives 20% as a lump sum and 80% must buy an annuity; if the corpus is ₹5 lakh or less you can withdraw it all. Under the All Citizen model, normal exit is now allowed after 15 years or at 60, whichever comes first.

Can I make partial withdrawals?

Yes, up to 25% of your own contributions, for specified needs such as children's higher education or marriage, a first house, or critical illness. The revised rules allow up to four partial withdrawals before 60, with a gap of about four years between them; check the current PFRDA limits before applying.

ANNUITY & PENSION

What is an annuity, and who provides it?

An annuity is a product bought from an insurance company (an "Annuity Service Provider") that converts your lump sum into a guaranteed regular pension. NPS lets you choose the provider and the annuity type at exit, e.g. pension for life, pension with return of purchase price, or joint-life with your spouse.

What determines my monthly pension?

Three things: the size of your corpus at 60, the fraction you annuitise (40%–100%), and the annuity rate offered at that time (currently around 6–7%). A larger corpus and a higher annuity rate mean a bigger pension. Because rates change, the exact pension is only known at retirement.

GOOD TO KNOW

NPS vs PPF vs EPF, how do they differ?

PPF is fully guaranteed and tax-free but capped at ₹1.5 lakh a year. EPF is a salaried default at a fixed 8.25%. NPS is market-linked (potentially higher returns via equity), ultra-low-cost, and gives an exclusive extra ₹50k deduction, but part of it must become an annuity, and the pension is taxable. Many people use all three for different roles.

What happens to NPS on the subscriber's death?

Before 60, the entire accumulated corpus is paid to the nominee/legal heir (the nominee may also opt to continue or annuitise). This is set out in the scheme rules, so always keep your nomination updated.

Sources: Nexdigm on NPS lump-sum tax; Business Standard on PFRDA exit amendments.

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