

POP charges on NPS: What impact do the changes have on the subscriber?

Over a month ago, on October 27, 2017, the PFRDA published an update to the Points of Presence (POP) service charges for all the citizens, and corporate NPS models. The changes were effective November 1, 2017 (except for eNPS servicing fee changes which are effective November 15, 2017).

For the uninitiated, POP is an entity through which all the services related to NPS are provided to the contributors.

As the service fees are revised, the question is, what impact do the changes have on the subscriber? There are several charges in NPS at various stages due to the number of stakeholders in the system. Further, we have a few fixed charges; some are based on transactions and others are presented as a percentage of assets under management (AUM). The subscribers see few charges explicitly as much of the fee that is taken either from units of the subscriber or the charges that are built into the net asset value (NAV) conveyed in the public domain.

The main changes in the recent announcement are:

- Upfront one-time account opening fee to the POP was increased from Rs. 125 up to a maximum of Rs 200. Given this is a one-off fee, it will feel like a significant amount on a smaller contribution in percentage terms. However, one has to remember that in the long term, over 15-20 years of contribution and accumulated assets, this difference will be very small indeed.
- POPs will be eligible for a persistency compensation of Rs 50 per annum. This will be taken for a unit cancellation. The amount is only payable if the subscriber has contributed more than the minimum Rs. 1,000 in a financial year

to a Tier I account and has been a subscriber for more than 6 months in that financial year.

- The servicing charges for ongoing transactions used to be 0.05 percent had a subscriber opened an eNPS account tagged to a POP (subject to a minimum of Rs 5 and maximum of Rs 5,000). This has now been doubled to 0.1% subject to a minimum of Rs 10 and maximum of Rs 10,000, effective 15 November 2017. The other POP related fees such as opening charges, annual maintenance cost per account and per transaction charge remain the same.

The NPS still remains a low fee product but one needs to contribute a reasonable amount for a longer period of time to gain the best value out of these low charges. This is illustrated in Table 1 below that shows the total percentage of charges (explicit and implicit) as a proportion of the total accumulated value of corpus. The table assumes:

- No inflation on expenses/charges
- No change in GST rates
- Contributions amount fixed for the entire period of investment
- No withdrawals made during investment period
- Contributions made monthly (i.e. 12 transactions per year)
- Where expenses can vary based on vendor - illustration assumes the highest cost
- Assumes traditional non eNPS model

**Table of Percentage of Total charges /
Accumulated Corpus**

Annual Contribution	8%			10%			15%		
	10	20	30	10	20	30	10	20	30
6,000	2.8%	1.8%	1.2%	2.5%	1.4%	0.8%	1.9%	0.8%	0.4%
10,000	1.7%	1.2%	0.8%	1.5%	0.9%	0.6%	1.2%	0.5%	0.3%
25,000	0.9%	0.6%	0.5%	0.8%	0.5%	0.4%	0.6%	0.3%	0.2%
50,000	0.6%	0.5%	0.4%	0.5%	0.4%	0.3%	0.4%	0.3%	0.2%
100,000	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.2%	0.2%

This shows that a longer tenure or amount of contributions will help in minimising the impact of the charges that are likely to have on the final corpus. Furthermore, if subscribers choose eNPS enrolment and tag a POP for subsequent transactions, then the impact may be a scenario as shown in table 2. In this scenario, the impact is a saving of up to 0.3 percent.

**Table of Percentage of Total charges /
Accumulated Corpus**

Annual Contribution	If use eNPS POP model					
	10%			10%		
Years Contributed	10	20	30	10	20	30
6,000	2.5%	1.4%	0.8%	2.2%	1.3%	0.8%
10,000	1.5%	0.9%	0.6%	1.3%	0.8%	0.6%
25,000	0.8%	0.5%	0.4%	0.6%	0.5%	0.4%
50,000	0.5%	0.4%	0.3%	0.4%	0.3%	0.3%
100,000	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%

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