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RESEARCH ARTICLE

FEASIBILITY ANALYSIS OF ATAL PENSION YOJANA.

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Abstract

NPS introduced by Government of India is concerned with protection of unorganized sector workers and to promote voluntarily save for their retirement. Monthly contribution depends on the age at the time of entering into scheme. The objective of the study is feasibility of subscription of Atal Pension Yojana as a retirement planning instruments. Methodology includes secondary data using future value of contribution per month, present value of contribution and present value of pension benefit receivable. For the purpose of study starting age of 18, 25, 30, 35 and 40 has been considered with monthly pension post 60 years of Rs. 1000, Rs. 2000 and Rs.5000. The study compares the present value of pension benefit to present value of contribution to analyze whether subscriber gets benefits out of the scheme.Based on the study it can conclude that as a part of Financial Inclusion, the Government of India's Atal Pension Yojana a defined benefit scheme introduced to protect the unorganized sector workers will not serve the purpose of income security and retirement benefit. As per the analysis the scheme is not giving positive present value to subscriber at 8%, 7.5% interest factor and will provide incentive at 6.5%. To cater the need of unorganized sector workforce government has to co-contribute more amount in the scheme.

Introduction:-

The NPS- New Pension System introduced by Government of India is extremely concerned with protection of unorganized sector workers and to promote voluntarily save for their retirement. As per NSSO survey 2011-12, 88% of total workforces in India are come under the umbrella of unorganized sector who are inadequately covered under pension. The new scheme introduce will be administered by Pension Fund Regulatory and Development Authority (PFRDA), Atal Pension Yojana applicable to age bracket between 18 to 40 years which gives subscribers the fixed pension of Rs. 1000, Rs. 2000, Rs. 3000, Rs. 4000 and Rs. 5000 per month after attainment of age of 60, subjected to contribution and age at the time of entering into pension scheme. APY provides exit option only at the age of attaining 60 years only and in case of death the pension will be available to the spouse. The above benefit needs to be analyzed using the value of money, which gives the subscriber to lead retirement with proper corpus or monthly income which meets the requirements.

The monthly contribution under APY is based on pension needed, the entry age of subscriber and monthly contribution. In case of discontinuation of scheme within 6 months account will be frozen, after 12 months account will be deactivated, after 24 months account will be closed and the scheme may not be flexible to certain group of individuals. The government Co contributes Rs. 1000 per annum or 50% of total contribution amount whichever is lower for the period of 5 years. Before subscription to scheme it require to analyze the adequacy of benefit, as the value of money is not be same over a period of time and need to analyze the feasibility of subscription.

Defined benefit plan identifies the specific benefit, that will be payable to subscribers at retirement. Which generally provides regular payments over specific period beginning at what the plan calls retirement age. The stream of payment is generally known as pension or annuity. Defined contribution plan specifies how much money will go into a retirement plan today. The amount typically either percentage or a specific dollar amount. It is a type of plan in which employer, employee or both make contribution on regular basis. The future benefits fluctuate on the basis of investment earnings. The major difference between defined benefit and contribution is the series of cash flow or future benefits, where in defined benefit will provide annuity and defined contribution will provide uneven benefit which depends on investment earnings.

Objectives of analysis:-

The objective of the analysis is to analyze the feasibility of subscription of Atal Pension Yojana as a retirement planning instrument.

Review of literature:-

Vishnu Prasad (2015) addressed two design limitation of Atal Pension Yojana which includes lack of inflation indexation and conservative investment mix. Because of inflation the corpus may erode over time hence to meet the goal of proposed NPS and 85% of fund will be invested in bonds which will affect the retirement corpus.Debashis Basu (2015) analyzed that the interest rate on APY during accumulation state is 7.94 % per month which is below current bank deposit rate, at the time of withdrawal interest rate is low 7.06%, investment majorly in corporate debt and inflation will affect the benefit of retirement corpus. Also suggested that APY must earn higher interest rate, invest larger point in index stocks and allow withdrawal. Namratha Sharma (2015) suggested that the expected rate of interest reduce in future as the economy grows and the contributors will remain getting 8% interest by enrolling themselves into scheme. Vidyashree D V (2015) concluded that subscribers for these schemes are at increasing pace and still proper implementation of social security system to larger section of society is more important.

Methodology:-

The study has been conducted with secondary data using future value of contribution per month, present value of contribution and present value of pension benefit receivable. For the purpose of study starting age of 18,25,30,35 and40 has been considered with monthly pension post 60 years of Rs. 1000, Rs. 2000 and Rs.5000. The study compares the present value of pension benefit to present value of contribution to analyze whether subscriber gets benefits out of the scheme.

The study is based on certain assumption:-

- It is assumed that the discounting rate and compounding rate will be fluctuating over a period, hence 3 different rates namely 8%, 7.5% and 6.5% has been considered for the purpose of calculation of future value of contribution, present value of contribution and present value of receivables.
- It is based on assumption Ceteris paribus.
- It is unidimensional study, considered inflation as variable and it is deferred annuity.
- Government Co contribution for the scheme is not considered.
- It is assumed that the subscriber or spouse will get the monthly pension benefit over a period of 20 years from the starting age of 60 years.

Data analysis and result:-

Table 5.1 Table showing the present value of pension benefit, the present value of contributions and differences between pension and contribution for defined pension benefit of Rs. 1000.

Entry Age	At 8%			At 7.5%			At 6.5%		
	PV of Pension	PV of Contribution	Differ ences	PV of Pension	PV of Contribution	Differ ences	PV of Pension	PV of Contribution	Differ ences
18	4199	6079	-1879	5371	6429	-1058	8812	7244	1568
25	7338	10700	-3362	9066	11272	-2206	13873	12580	1293
30	10932	15809	-4877	13175	16590	-3415	19183	18352	831
35	16288	23451	-7163	19147	24493	-5346	26527	26807	-280
40	24266	34790	-10524	27827	36122	-8295	36682	39030	-2348

Sources: authors own calculation.

Table 5.1 provides at 8% and 7.5% interest factor the differences between the present value of pension benefit and the present value of contribution is all negative and it is not feasible to subscribe the Atal Pension Yojana. At 6.5% interest factor the age of 18 to 30 will be getting positive and it is not suggestible to subscribe the scheme after 30 years.

Table 5.2: Table showing the present value of pension benefit, the present value of contributions and differences between pension and contribution for defined pension benefit of Rs. 2000.

Entry Age	At 8%			At 7.5%			At 6.5%		
	PV of Pension	PV of Contributio n	Differe nces	PV of Pension	PV of Contribution	Differe nces	PV of Pension	PV of Contribution	Differe nces
18	8398	12157	-3759	10743	12858	-2115	16311	14489	1822
25	14676	21260	-6584	18132	22396	-4264	25678	24994	684
30	21864	31481	-9617	26351	33037	-6686	35508	36547	-1039
35	32575	46902	-14327	38295	48986	-10691	49101	53613	-4512
40	48532	69581	-21049	55654	72245	-16591	67898	78061	-10163

Sources: authors own calculation.

Table 5.2 provides at 8% and 7.5% interest factor the differences between the present value of pension benefit and the present value of contribution is all negative and it is not feasible to subscribe the Atal Pension Yojana. At 6.5% interest factor the age of 18 to 25 will be getting positive and it is not suggestible to subscribe the scheme after 25 years.

Table 5.3: Table showing the present value of pension benefit, the present value of contributions and differences between pension and contribution for defined pension benefit of Rs. 5000.

Entry Age	At 8%			At 7.5%			At 6.5%		
	PV of Pension	PV of Contributio n	Differe nces	PV of Pension	PV of Contribution	Differ ences	PV of Pension	PV of Contribution	Differe nces
18	20997	30394	-9397	26859	32146	-5287	16311	14489	1822
25	36690	52938	-16248	45329	55766	-10437	25678	24994	684
30	54662	78636	-23974	65877	82521	-16644	35508	36547	-1039
35	81438	116867	-35429	95738	122058	-26320	49101	53613	-4512
40	121331	173831	-52500	139136	180488	-41352	67898	78061	-10163

Sources: authors own calculation.

Table 5.3 provides at 8% and 7.5% interest factor the differences between the present value of pension benefit and the present value of contribution is all negative and it is not feasible to subscribe the Atal Pension Yojana. At 6.5% interest factor the age of 18 to 25 will be getting positive and it is not suggestible to subscribe the scheme after 25 years.

Conclusion: - As a part of Financial Inclusion, the Government of India's Atal Pension Yojana a defined benefit scheme introduced to protect the unorganized sector workers will not serve the purpose of income security and retirement benefit. As per the analysis the scheme is not giving positive present value to subscriber at 8%, 7.5%

interest factor and will provide incentive at 6.5%. To cater the need of unorganized sector workforce government has to co-contribute more amount in the scheme.

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