

How Much Should You Contribute to NPS? A Simple Guide for Every Early Investor

ICICI Pension | Informational Article

■1,000, ■5,000 or more? The right number depends on the retirement you're planning for.

There is no universal [contribution](#) amount that works for every [NPS](#) subscriber.

A young professional beginning their career, a mid-career investor and someone closer to retirement will naturally have different financial goals and investment horizons.

Instead of looking for one "perfect" number, retirement planning is better approached by considering how much you can contribute, how long you can stay invested and what you want your retirement corpus to achieve.

Start with your retirement goal

Before deciding how much to contribute, consider the lifestyle you may want after retirement.

Travel, healthcare, household expenses, hobbies and other long-term requirements can all form part of your retirement planning.

Inflation also matters. The purchasing power of money changes over time, which means today's expenses may look very different several decades from now.

This is one reason why starting retirement planning early can be useful.

PFRDA describes NPS as a retirement savings framework that provides subscribers with flexibility in contributions and market-linked investment opportunities.

Does starting early make a difference?

Time can be an important factor in long-term investing.

Someone who begins contributing at 25 potentially has a longer investment horizon than someone who begins at 40. That gives the contributions more time to remain invested and potentially benefit from compounding.

This does not mean that a young investor has to begin with a very large contribution.

A more practical approach can be to start with an amount that fits your current financial circumstances and review your contribution as your income and financial responsibilities change.

PFRDA's own material highlights the advantage of long-term contributions and notes that NPS allows subscribers to contribute without an upper limit.

A simple example

Meet Rhea. She's 25 and works as a marketing professional.

She starts investing ■5,000 every month in NPS.

But she doesn't keep her contribution fixed.

As her income grows, she increases her contribution by 10% every year.

Assuming:

Starting age: 25 years

Retirement age: 60 years

Initial monthly contribution: ₹5,000

Annual increase in contribution: 10%

Assumed return during accumulation: 12% XIRR

Assumed annuity rate at retirement: 7%

At age 60, her retirement corpus could potentially be around ₹3.5 crore*.

At an assumed 7% annuity rate, this could translate into an illustrative monthly pension of around ₹45,000*, depending on the amount used for annuity.

That's the important part of the example.

Rhea didn't start with a very large contribution. She started early, stayed consistent and increased her contribution over time.

The illustration from the ICICI reference material similarly uses a ₹5,000 starting monthly contribution, a 10% annual increase, 12% XIRR during accumulation and 7% annuity rate at retirement.

The point isn't that ₹5,000 is the "right" amount.

The point is that time, consistency and gradually increasing your contribution can influence your retirement journey.

How flexible are NPS contributions?

PFRDA's current All Citizen Model states that subscribers can make unlimited contributions to Tier I or Tier II, with no upper limit on the amount contributed. Contributions can be made through registered Points of Presence, online facilities, eNPS and other permitted modes.

This means your retirement contribution doesn't necessarily have to remain fixed forever.

Your financial plan can evolve as your career does.

What about tax benefits?

NPS can also form part of tax planning.

PFRDA states that NPS subscribers are eligible for tax benefits under the Income Tax Act, 1961, subject to the applicable provisions.

For corporate subscribers, PFRDA also explains the tax treatment of eligible employer contributions and employee contributions under the applicable sections of the Income Tax Act.

Because tax provisions can depend on the applicable tax regime and individual circumstances, subscribers should refer to the prevailing Income Tax provisions before making tax-related decisions.

How can you decide your contribution?

This is where numbers can make retirement planning easier to visualise.

PFRDA has introduced NPS PRIDE-DISHA, Pension Fund Returns for Informed Decision & Empowerment, a subscriber awareness and decision-support toolkit. The initiative is designed to provide information that can help subscribers make more informed NPS decisions.

Instead of asking “How much should everyone invest?”, consider a better question:

“How much can I consistently invest towards the retirement I want?”

There may not be one perfect contribution amount.

But there can be a better time to begin.

Start with a plan. Contribute consistently. Give your retirement savings more time to grow.

Investment in NPS is subject to market risks. Returns are market-linked and not guaranteed. Tax benefits are subject to prevailing tax laws and applicable eligibility. Illustration assumes monthly contributions, a 10% annual increase in contribution and a 12% assumed annual return. Actual returns will vary and are not guaranteed. This illustration is for educational purposes only and should not be construed as an assurance of any particular corpus.