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The National Pension System (NPS)

Mohammad Umar
Research scholar, Andhra University

***Abstract* - The National Pension System (NPS) was introduced as a contributory pension scheme made applicable to the employees of the Central Government which later on opened to the general public as well in 2009. The basic difference between the old and the new scheme is that while the earlier system was defined the new one is totally based on investment returns along with accumulations until retirement age.**

***Index Terms* - Contributory Pension-Deferred Pension Account Scheme-National Pension System, Pension Fund Regulatory Development Authority- Personal Retirement Account (PRA),-Pension Fund Managers (PFM).**

INTRODUCTION

A New Pension Scheme (Contribution based Pension Scheme) later on known as National Pension System (NPS), was initially launched by the Central Government employees in 2003. New Pension Scheme was made mandatory for all new recruits to the Central Government services (except the armed forces) from 1st January, 2004. However, later on in the year 2009, the scheme was opened to the general public as well.

With the introduction of New Pension Scheme w.e.f. 01.01.2004, amendments were made on 30.12.2003 to Central Civil Services (Pension) Rules, 1972, Central Civil Service (Commutation of Pension) Rules, Central Civil Services (Extraordinary Pension) Rules, General Provident Fund Rules and Contributory Provident Fund Rules to the effect that the benefits under these rules would not be applicable to the Government employees appointed on or after 1.1.2004 and covered by New Pension Scheme.

After the enactment of the Pension Fund Regulatory Development Authority Act, (PFRDA) 2013, as per Section 20 of the Act, the new pension scheme notified on 22.12.2003 has become the National Pension System (NPS). NPS is now regulated under PFRDA Act, 2013 and rules framed there under by Department of Financial Services and PFRDA.

CONCEPT OF CONTRIBUTORY PENSION SCHEME

A contributory pension scheme is one wherein the employee has to contribute a fixed part of his salary towards the investment scheme and the employer also contributes an equal amount to build up a corpus. Under the National Pension System, the Government employees who have joined service on or after 1st January 2004 have to mandatorily contribute 10% of their basic pay plus Dearness Allowance towards the National Pension System. The Government also makes an equal contribution to the contributory pension scheme. The contributions of both the employee and the Government, therefore, help in creating a sound retirement corpus.

WORKING OF NATIONAL PENSION SCHEME (NPS)

Each individual who joins this New Pension System will be allotted a unique Personal Retirement Account (PRA) number. This pension system will offer two types of sub- accounts created by individual members:

1. Non-withdraw able and tax deferred pension account (Tier I)
2. Withdraw able savings account with no tax advantages (and subject to certain minimum contributions per year into the Tier-I account)

Tier I Account

Tier I Account is the mandatory investment account into which Government employees have to contribute and the Government also contributes towards Tier I Account. This account does not allow partial withdrawals except in specified circumstances. The account matures when the employee attains 60 years of age. A part of the terminal accumulations in Tier-I account will be annuitized on a mandatory basis.

Tier II Account

Investments in Tier-II Account are not mandatory. An employee can invest in Tier-II Account only if he has invested in Tier I Account. The Government does not make any contributions to the Tier II Account. This account allows free withdrawals and also allows the redemption of the total fund value of this account before reaching 60 years of age.

WITHDRAWAL FROM NPS SCHEME

On Maturity: Government employees who mandatorily contribute towards the contributory pension scheme of NPS can exit from the scheme after they attain 60 years of age. At that age, the scheme matures. On maturity, 60% of the accumulated corpus can be received in a lump sum. This lump sum amount would be tax-free and you can decide how to use the amount. However, the remaining 40% of the corpus is mandatorily used to receive annuities. You can choose any of the authorized ASPs to receive annuity payments from 40% of the corpus that you get. These annuities would, however, be considered as an income and would be taxed at your income tax slab rates.

Before Maturity: If, on the other hand, a Government employee leaves the scheme before attaining 60 years of age, 80% of the accumulated fund value would be paid in annuities and the remaining 20% can be withdrawn in a lump sum. The lump-sum amount of 20% would be tax-free but the annuities received from 80% of the corpus would be taxed at the applicable income tax rates.

on Death or discharge from service: If the Government employee dies or is discharged from Government service, the NPS fund created through the contributory pension scheme can be used to receive benefits either under the NPS scheme or the pension scheme which existed before NPS.

Central Government employees are, therefore, mandatorily covered under the NPS scheme. For them, however, the contributory pension scheme is applicable where they and the Government both contribute a specified portion of the salary towards Tier I Account of the NPS scheme. This account, then, creates a retirement corpus and also promises pension payments after the employee retires from Government service.

MANAGEMENT OF THE CONTRIBUTORY PENSION SCHEME

The contributory pension scheme under NPS is managed by various entities which are as follows:

PFRDA: Pension Fund Regulatory and Development Authority (PFRDA) is the main entity which governs the working of the NPS scheme. The PFRDA will provide members with a sound regulatory framework for maximizing their retirement benefits and an umbrella of safety with respect to prevention of fraud and malpractice.

CRAs: Central Recordkeeping Agencies (CRAs) are the agencies which maintains the records of NPS subscribers, administers the scheme and provides customer care services. The National Securities Depository Limited (NSDL) acts as the CRA of NPS scheme.

PFM: Pension Fund Managers (PFMs): PFMs are companies which manage the investment of the pension funds accumulated under the contributory pension scheme. PFMs must register with PERDA. Since NPS is a market-linked investment avenue, PFMs invest the employees’ money in different types of assets which can be fixed-income instruments or equity investments.

Each PFM in this system will offer a choice of three simple and standard pension schemes with different risk and return profiles. If a member is unable to select a PFM, his savings will be directed to a 'Default' scheme. If he desires, the member will be able to allocate his savings across multiple PFMs and schemes. He will also be able to seamlessly switch his savings between fund managers and products. Each member will receive periodic, consolidated statements of his PRA which will reflect his notional wealth in his PRA across various products and PFMs. This will be the sum total of his contributions at that point in time and the returns that these contributions have earned.

ASPs: Annuity Service Providers (ASPs) are insurance companies from which you can avail annuity payments after the NPS investment matures.

DISTINCTION BETWEEN OLD PENSION SCHEME AND NEW PENSION SCHEME

Under the old Pension Scheme, the eligible employees are getting their post retirement monthly payments through a pension plan, which is equal to fifty percent of last drawn salary. They are also entitled to dearness allowance (based on All India Price Index for Consumers) and also the medical allowance. Those above the age of eighty get an additional pension in the range of twenty and a 100% of basic pensions.

Many of these employees covered under the new contribution-based pension system are receiving as little as Rs. 700-800 as monthly pension while the minimum guaranteed amount in the old defined benefit scheme is Rs. 9,000. They are now required to pay 10% of their monthly wages which is matched by the government and invested in equity shares. Retirement pensions are dependent on the returns on that accumulated investment.

BENEFITS OF NATIONAL PENSION SCHEME (NPS)

Availability of flexible schemes: It is up to the employees to decide which scheme they want to go for ensuring the growth of money. You need to give a monthly contribution that includes ten percent salary and dearness allowance. In the coming times, the government is all set to give an equal contribution, which helps to maximize the profit. Under different available schemes, there is allocation of different percentages. However, the ultimate decision rests with the employee.

Withdrawal account: Another additional benefit of the NPS is that those who want can set up their very own withdrawal account, which is free of government interventions completely. However, in such cases, there are no equal contributions scene and the individual can withdraw their money as and when required without being answerable to the government in any way.

Voluntary withdrawal: Those who complete their total service tenure of sixty years can consider their withdrawal from this new pension scheme any time they want. However, this is possible only after the purchase of forty percent worth of an annuity from their pension wealth during withdrawal.

A BRIEF OF GERERAL CRITICISM AGAINST NPS

1. Pension is not a gratuitous payment;

2. It is a social, moral and legal commitment; it is enjoined that the State should expand the scope of its coverage and not abridge it.

3. That includes protection of the class of people who are already entitled to it, like the government employees who constituted a class by themselves. Any differentiation such as the one sought to be made as between those who were appointed on or after April 1, 2004 and others would be discriminatory on moral and ethical grounds as well.

4. For the government employees, pension was in substitution of the contributory provident fund and it is not as if the government was paying pension from out of taxes.

5. The central theme of providing pension is to ensure certainty of defined and adequate payment when the contingency of old age, disease, disablement or death occurs. The central idea therefore is certainty. The pension reforms as contemplated by the government and as per the change brought about arbitrarily for government employees appointed on or after April 1, 2004, militates against this principle of ‘certainty’ as it would be based on the future value as dictated by the fickle stock market.

6. All along the government did not contribute to the Pension Fund as it would have done in respect of contributory provident fund. As per the new dispensation, it has to physically set apart a matching contribution to the pension fund.

NEW INITIATIVES BY DEPARTMENT OF FINANCIAL SERVICES

Under the NPS, every Government servant is registered and allotted a Permanent Retirement Account Number (PRAN). Before 1.4.2019, a Government employee had to mandatorily contribute 10% of pay and Dearness Allowance (DA) and an equal amount of 10% was contributed by the Government to the employee’s pension fund.

The contribution made by the employees and contribution from the Government were invested by Pension Fund Managers in accordance with the investment pattern prescribed by the PFRDA for Central Government employees. There were three PSU Pension Fund Managers for Government employees. Government employees had no choice for Pension Fund Managers or investment pattern.

On exit from NPS on superannuation, an individual is mandatorily required to invest at least 40% of the accumulated pension corpus in Tier-I to purchase an annuity from an Annuity Service Provider an Insurance Regulatory and Development Authority (IRDA) regulated Insurance Company registered with PFRDA and a maximum of 60% of the accumulated corpus in the Tier –I account is given to the individual in lump sum. If the Government servant exits from NPS before superannuation (i.e. before 60 years of age), he/ she has to invest at least 80% of the accumulated corpus to purchase an annuity and the remaining 20% can be withdrawn as lump sum.

In implementation of the recommendations of the committee constituted for suggesting measures for streamlining implementation of NPS, extended following benefits to Government employees covered under NPS:

1. Employee contribution 10% of the salary and DA with matching contribution @ 14% by the Government.
2. Investment of NPS wealth upto 95% in infrastructure/Debt funds and 5-15% in equity for Government employees.
3. Option for investment choices and Pension Fund made available to Government servan
4. Investment in NPS Tier II has been brought under Section 80 C for tax exemption.

INITIATIVES BY MINISTRY OF HEALTH AND FAMILY WELFARE

Ministry of Health and Family Welfare issues instruction on extending benefit of CGHS to Government employees covered under NPS, subject to conditions that:

1. Minimum years of qualifying service for eligibility of CGHS membership after retirement-10 years.
2. No minimum qualifying years of service for availing CGHS facilities in case of. death/disability.
3. Other conditions such as definition of family, CGHS contributions, conditions of dependency etc will be applicable as per existing rules.

CONCLUDING REMARKS

Under the new pension scheme, those who retire can withdraw 60% of the lump sum together and the rest 40% remaining balance will be used towards the purchase of life insurance annuity scheme. Unlike the old scheme, government employees are now forced to fund half of their pension themselves. This has caused indignation and sparked widespread protests. The NPS has failed to protect the post- retirement welfare of government employees and now employees want to return to the Old Pension Scheme,

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