NEW PENSION SCHEME

INTRODUCTION

1. The Government of India (GoI), being a model employer has all along provided various welfare schemes to its employees. These schemes have provided a reasonably comfortable and financially independent life to the Govt employees while in service and after retirement and also to their dependent family members even after the death of the Govt. employer.

2. The Pension Scheme as existed prior to 01 Jan 2004 has been a system of **'Defined Benefit Pension Scheme'**, which provides a monthly amount as pension and a lumpsum amount as Gratuity to the employee. A portion of the pension could be commuted and drawn as a lumpsum amount at the time of retirement. In the case of death of the employee, family pension would be available to the spouse for life and after the death of the spouse to the children, subject to certain conditions.

BURDEN OF PENSION SCHEME

3. In the Defined Pension Benefit Scheme, the employee does not make any regular contribution from his salary during the service to earn the pensionary benefits after retirement. Such a scheme is bound to become a great financial burden to the exchequer which could not be financially sustained for long.

4. It is a fact that people are currently living much longer than previous generations. The average 60 year old is living ten years longer now than their counterparts did in the 1970s. The impact of this increased longevity on pensions is that they are constantly costing more and more.

5. Therefore, introduction of a self-sustaining pension scheme was the need of the hour. Such a scheme would require the employee to contribute a regular amount during his service and the Govt also to contribute regularly, forming a corpus to provide regular monthly pension income to the employee after retirement depending the contribution accumulated by the employee during his service period.

Rules/Regulations to Govern NPS

6. Important Rule/Regulation to govern the NPS framework are as follows:-

(a) Pension Fund Regulatory and Development Authority (Exits and Withdrawals Under the National Pension System) Regulations 2015, No. PFRDA/12/RGL/139/8 dated 11th May, 2015;

(b) CCS (Implementation of National Pension System) Rules, 2021 dt 30 Mar 2021

(c) CCS (Pension) Rules, 1972 (Referred as Old Scheme in the text hereinunder)

(d) CCS (Extraordinary Pension) Rules, 1939

Pension Fund Regulatory and Development Authority (PFRDA)

7. PFRDA was established by Govt of India on 23rd Aug 2003. The Govt has through an executive order dated 10th Oct 2003, mandated PFRDA to act as a regulator for the pension sector. The mandate of PFRDA is development and regulation of pension sector in India.

Expansion of NPS

8. NPS, which was made mandatory to Govt employees wef 01 Apr 2004, has been made available to every citizen from 1st April 2009 on a voluntary basis. Those who were earlier in old pension scheme but later on joined under NPS, through proper channel they remained in the old scheme.

9. Further, employees whose selection for appointment was finalised before 1-1-2004 but who joined service on or after 1-1-2004, would also remain in old pension scheme.

10. **Features of NPS**

(a) **Portable** – Each employee is identified by a unique number and has a separate Permanent Retirement Account which is portable i.e., will remain same even if an employee gets transferred to any other office.

(b) **Transparent** – NPS is transparent and cost effective system wherein the pension contributions are invested in the pension fund schemes and the employee will be able to know the value of the investment on day to day basis.

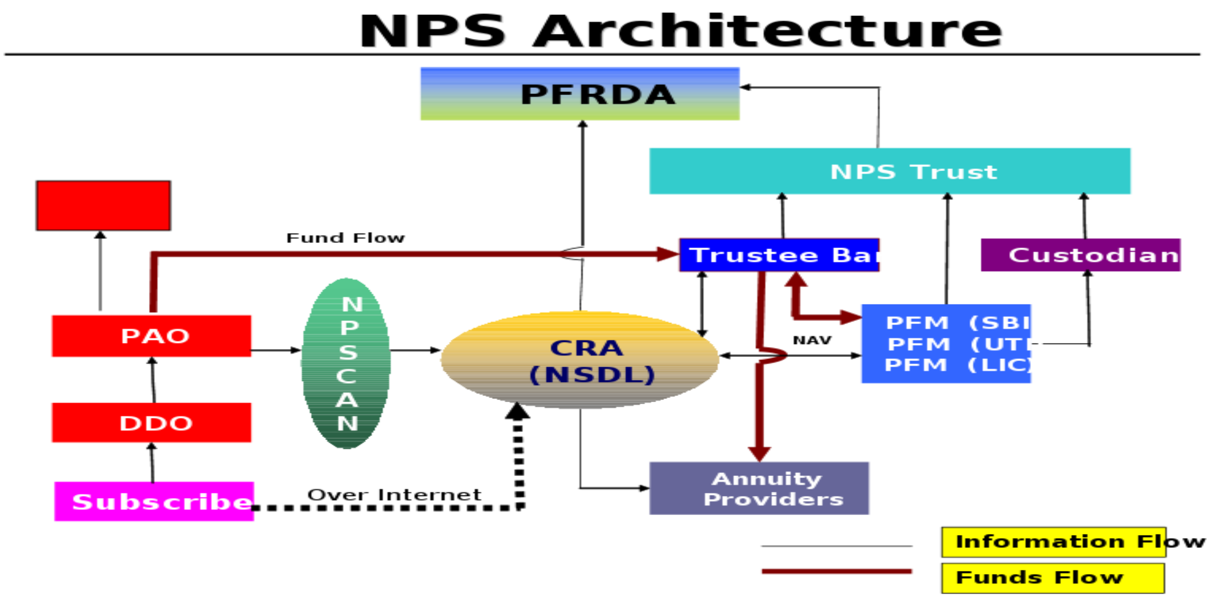
(c) **Simple** – All the subscriber has to do is to open an account with his/ her Nodal Office and get a PRAN.

(d) **Regulated** - NPS is regulated by PFRDA with transparent investment norms & regular monitoring and performance review of fund managers by NPS Trust

11. Thus, NPS, **the Contributory Pension Scheme,** is mandatory to all employees joining services of Central Government (except Armed Forces) and Central Autonomous Bodies on or after 1st January 2004 (Authority : FR : 16). It replaced the existing system of **Defined Benefit Pension** with effect from January 01, 2004. Contributions are made by “Subscriber” and by the “Employer and Deposited into individual pension account (PRAN) of the employee.

NPS Architecture

12. The Ministry of Finance, Department of Financial Services, is centrally responsible for the NPS. PFRDA as a regulatory body is mainly responsible to oversee the functioning of the whole NPS set up. There is National Securities and Depository Limited(NSDL), the Central Recordkeeping Agency (CRA) which *inter alia* maintains records, issues PRAN to subscribers and entertain request for change in nominations. Funds from PAO is transferred to a Trustee Bank from where it is distributed to three Pension Fund Managers (PFM) which are subsidiaries of SBI, UTI and LIC in a designated ratio. In the default scheme the PFMs invest 85% in fixed income instruments and 15% in equity or equity related instruments. At the time of retirement, while 60% of the value is returned to the subscribed, 40% is mandatorily required to be invested in Annuity Plan which ensures monthly pension to the subscriber.

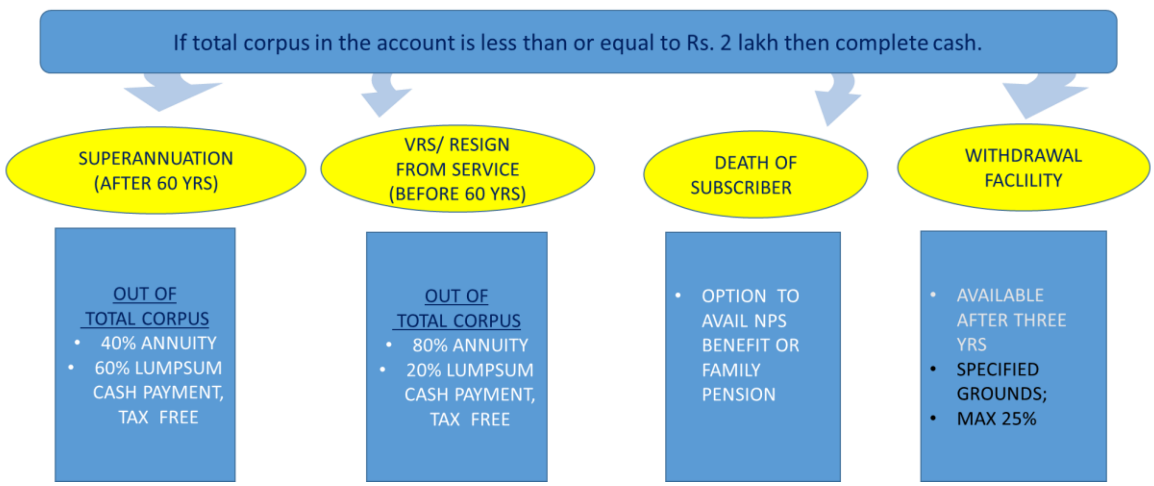


Two Tiers System

13. The subscriber to the scheme will have Tier-I and also have option to open another account Tier-II. Both tier-I (Retirement/Pension Account) and Tier II (Savings/Investment Account) are pure retirement savings products. Tier-I is a **non-withdrawable** account while Tier-II is a **withdrawable** account to meet financial contingencies. Government servants to make a contribution of 10% of his basic pay (i.e Level Pay) plus Dearness Allowance, every month. From 01.04.2019, 14% contribution is made by the Government. In case a subscriber is posted in Foreign Service the contribution is to be made based on presumptive pay, i.e. the pay she would have earned had she continued in her parent office, however in case of deputation, the subscription would be based on the deputation pay. For an employee under suspension, the subscription is based on the subsistence allowance (it is as per option of the subscriber.

14. Tier-I contributions (and the investment returns) are kept in a non-withdrawable Pension Tier-I Account. From Tier II, the amount is withdrawable at the option of the Government servant while Government would not make any contribution to Tier-II account. There should be at least 1 contribution in a financial year and no minimum balance requirement. There is no limit on number of withdrawals and facility for separate nomination and scheme preference is available.

Exit and Withdrawal from Tier-I.



15. **<u>Conditions for withdrawal from Tier-I</u>**. Following conditional are required to be fulfilled before withdrawal from Tier-I account:

a. Subscriber should be in NPS at least for 3 years;

b. Withdrawal amount will not exceed 25% of the contributions made by the Subscriber;

c. Withdrawal can happen maximum of three times during the entire tenure of subscription.

d. Withdrawal is allowed only against the specified reasons, for example:

i. Higher education of children;

ii. Marriage of children;

iii. For the purchase/construction of residential house;

iv. For treatment of Critical illnesses.

16. The CCS (Implementation of NPS) Rules, 2021, provided statutory meanings and defined the entitlement of a subscriber under different contingency of service including death, incapacitation, retirement, superannuation and termination. As per Rule 10 of the new Rules, every subscriber who joins under the scheme is required to give option in form-1 for availing benefits for family pension and also submit form-2 for detail of family. The option will be for retirement benefits either: -

(a) Under NPS Rules; or

(b) Under CCS(P) Rules, 1972; and CCS(EOP) Rules, 1939

17. Those already in service are also required to exercise such option as well as to provide details of family as soon as possible. The option and details of family may be changed by the subscriber during service time. However, in case of his/her death, the family is not entitled to change the option finally given by the subscriber before demise. In case of 'no family', then the subscriber is to furnish the details as soon as he/she acquires a family after marriage/adoption.

18. An invalidated or discharged subscriber may give fresh option however, if fresh option is not given, then the option already given will be operative. In case of death of a subscriber while in service the last option exercised is final. If no option is available in case of subscriber dying while in service or those disabled or invalidated, who are unable to exercise the option and if death and/or invalidation/discharge happens before completion of 15 years of service or within 3 years of this notification (Upto Mar 2024) then the subscriber is granted family pension/invalid pension as per CCS(P) Rules and the disabled subscriber will be granted EOP as per CCS(EO) Pension Rules, 1939, as default option. In all other cases, where no option was exercised the claims will be regulated as per PFRDA (Exits and Withdrawals under NPS) Regulation, 2015 as default option. Further, in cases of a deceased subscriber when the option has been exercised, but there is no eligible member of the family then the option becomes infructuous and the option would be deemed to have become invalid. In such cases, the benefits will be admissible and shall be granted to the legal heirs of the subscriber as per NPS Regulation, 2015;

19. **VRS/PMR/Resignation.** In case of retirement on completion of 20 years of service i.e. in case of voluntary retirement and in case of Premature Retirement under FR(56)j, the subscriber will be entitled for retirement benefits as admissibility under PFRDA (Exit and Withdrawals under NPS) Regulations, 2015 and may continue his individual pension account or to defer payments of benefits under NPS beyond the date of retirement. In case of resignation from govt. service, then, unless it is allowed to be withdrawn in public interest, she would be paid not more than 20% of the accumulated pension corpus and the balance 80% is be invested for buying the annuity

Frequently Asked Questions on NPS

1. Whether a retiring Government servant is entitled for leave encashment after retirement under the NPS?

The benefit of encashment of leave salary is not a part of the retirement benefits admissible under Central Civil Services (Pension) Rules, 1972. It is payable in terms of CCS (Leave) Rules which will continue to be applicable to the government servants who join the government service on after 1-1-2004. Therefore, the benefit of encashment of leave salary payable to the governments/to their families on account of retirement/death will be admissible.

2. Why is it mandatory to use 40% of pension wealth to purchase the annuity at the time of the exit (i.e. after the age of 60 years) from NPS?

This provision has been made in the New Pension Scheme with an intention that the retired government servants should get regular monthly income during their retired life.

3. Whether any minimum age or minimum service is required to quit from Tier-I?

Exit from Tier-I can only take place when an individual leaves Government service. However, as Tier-II is entirely optional, the subscriber may decide whether to continue with it or to close it. However, to have a Tier-II account, having a Tier-I account is mandatory.

4. Whether contribution towards Tier-I from arrears of DA is to be deducted?

Yes. Since the contribution is to be worked out at 10% of (Pay+ DP+DA), it needs to be revised whenever there is any change in these elements

5. Who will calculate the interest PAO or CPAO?

The PAO should calculate the interest.

6. What happens if an employee gets transferred during the month? Which office will make deduction of Contribution?

As in the case of other recoveries, the recovery of contributions for the full month (both individual and government) will be made by the office who will draw salary for the maximum period.

7. Whether NPA payable to medical officers will count towards ‘Pay’ for the purpose of working out contributions to NPS?

Yes. Ministry of Health & Family Welfare has clarified vide their O.M. no. A45012/11/97-CHS.V dated 7-4-98 that the Non-Practising Allowance shall count as ‘pay’ for all service benefits. Therefore, this will be taken into account for working out the contribution towards the New Pension Scheme.

8. Whether a government servant who was already in service prior to 1.1.2004, if appointed in a different post under the Government of India, will be governed by the CCS (Pension) Rules or NPS?

In cases where Government servants apply for posts in the same or other departments and on selection they are asked to render technical resignation, the past services are counted towards pension under CCS (Pension) Rules, 1972. Since the Government servant had originally joined government service prior to 1-1-2004, he should be covered under the CCS (Pension) Rules, 1972.

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