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Streamlining of National Pension System

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In a bid to streamline the National Pension System (NPS) and make it more attractive, the Union Cabinet has approved changes in the scheme to benefit **around 18 lakh Central government employees** covered under NPS.

The approved changes are:

- **Enhancement of the mandatory contribution** by the Central Government for its employees covered under **NPS Tier-I from the existing 10% to 14%**.
- Providing **freedom of choice for selection of Pension Funds** and pattern of investment to central government employees.
- **Payment of compensation** for non-deposit or delayed deposit of **NPS contributions during 2004-2012**.
- Tax exemption limit for lump sum **withdrawal on exit has been enhanced to 60%**. With this, the entire withdrawal will now be exempt from income tax. (At present, 40% of the total accumulated corpus utilized for purchase of annuity is already tax exempted. Out of 60% of the accumulated corpus withdrawn by the NPS subscriber at the time of retirement, 40% is tax exempt and balance 20% is taxable).
- Contribution by the Government employees **under Tier-II of NPS will now be covered under Section 80C for deduction** up to Rs. 1.50 lakh for the purpose of income tax at par with the other schemes such as General Provident Fund, Contributory Provident Fund, Employees Provident Fund and Public Provident Fund **provided that there is a lock-in period of 3 years**.

Impact

- **Increase in the eventual accumulated corpus** of all central government employees covered under NPS.
- Greater pension payouts after retirement **without any additional burden** on the employee.

- **Freedom of choice for selection** of Pension Funds and investment pattern to central government employees.
- By making NPS more attractive for its employees, government will **not only retain but also attract the best talent.**
- The impact on the exchequer on this account is estimated to be to the **tune of around Rs. 2840 crores** for the financial year 2019-20, and will be in the **nature of a recurring expenditure.**

Background

- The **Seventh Pay Commission (7th CPC) in the year 2015** recommended for setting up of a Committee of Secretaries to address certain concerns regarding NPS.
- Accordingly, based on the recommendations of the Committee, draft Cabinet Note was placed before the Cabinet for its approval.

National Pension System

- The Central Government has introduced the National Pension System (NPS) with **effect from January 01, 2004 (except for armed forces).**
- NPS is being implemented and regulated by **Pension Fund Regulatory and Development Authority** in the country.
- **National Pension System Trust (NPST)** established by PFRDA is the **registered owner of all assets under NPS.**
- NPS is structured into **two tiers:**
 - **Tier-I account:** This is the **non-withdrawable permanent retirement account** into which the accumulations are deposited and invested as per the option of the subscriber.
 - **Tier-II account:** This is a **voluntary withdrawable account** which is allowed **only when there is an active Tier I account** in the name of the subscriber. The withdrawals are permitted from this account as per the needs of the subscriber as and when claimed.
- NPS was made available **to all Citizens of India from May 01, 2009.**
- Any individual **citizen of India (both resident and Non-resident)** in the age group of **18-65 years** (as on the date of submission of NPS application) can join NPS.
- However, **OCI (Overseas Citizens of India) and PIO (Person of Indian Origin) card holders and Hindu Undivided Family (HUFs)** are **not eligible** for opening of NPS account.

PFRDA

- The Pension Fund Regulatory & Development Authority Act was **passed on 19th September, 2013.**

- Its vision is to be a model regulator for promotion and development of an organized pension system to serve the old age income needs of people on a sustainable basis.
- Along with NPS, it **also regulates other pension schemes** subscribed by employees of public and private sector of India.