Chapter 1 - Introduction

1.1 Rolling out the New Pension Scheme[1]

The Budget for the year 2001-02 mentioned that Central Government (i.e. Government of India (GOI)) pension liability had reached unsustainable proportions and there was a need to review the existing pension system and steps were needed including developing a new pension scheme for new recruits entering Government service. Accordingly, a High Level Expert Group (HLEG) was set up (June 2001) to provide a road map for next steps to be taken by the Government and submitted its report in February 2002. Regarding the unorganized sector, the OASIS (Old Age Social and Income Security) project, commissioned by the Ministry of Social Justice and Empowerment, submitted a report in January 2000.

Further, the total pension liability on account of the Central Government employees had risen from 0.6 *per cent* of GDP (at constant prices) in 1993-94 to 1.66 *per cent* of GDP (at constant prices) in 2002-03 and the actual outgo had increased from ₹5,206 crore in 1993-94 to ₹23,158 crore (excluding telecom) in 2003-04 (BE). As per the Government decision for introduction of New Pension Scheme, in view of the above, and after examining the experiences of other countries, as well as recommendations of the OASIS report and HLEG report, the new pension scheme was announced in the Budget 2003-04 for new entrants to Government service and others.

As on 31 March 2018, the total number of Central Government employees covered under National Pension System (NPS) was 17,58,144 and those of the State Governments was 31,63,415. If NPS fails, the liability to provide pension as a social security measure to these subscribers will fall on Central and respective State Governments, in addition to their existing pension liabilities.

1.2 National Pension System for the Government Sector: Basic features

1.2.1 For Central Government employees

Government approved (23 August 2003) the proposal to implement the budget announcement of 2003-04, relating to introduction of a new restructured defined contribution pension system i.e. New Pension Scheme for new entrants to Central Government service (except Armed Forces). The new system was to replace the then existing system of defined benefit pension. Basic features of NPS are as follows:

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[1] New Pension Scheme: Department of Financial Services vide its O.M. dated 13 August 2009 replaced this nomenclature by "National Pension System" (NPS).

- The Central Government introduced[2] NPS from 01 January 2004, with monthly contribution of 10 *per cent* of salary and Dearness Allowance (DA), to be paid by the employee and matched by Central Government. The contributions and investment returns were to be deposited in a non-withdrawable pension Tier-I account. It was also specified that the then existing provisions of defined benefit pension and General Provident Fund (GPF) was not to be available to the new recruits in Central Government service.
- Individuals could normally exit at or after 60 years for Tier-I of the pension system and at exit, the individual would be mandatorily required to invest 40 *per cent* of pension wealth to purchase an annuity from an Insurance Regulatory and Development Authority of India (IRDAI) - regulated life insurance company. Further, individuals would have the flexibility to leave the pension system prior to age 60, however, in this case, the mandatory annuitisation would be 80 *per cent* of the pension wealth.
- As per the Notification (December 2003), each individual might also have a voluntary Tier-II withdrawable account at his option. Government would make no contribution into this account.

Following are the major differences between the Old Pension System and NPS:

Table: 1.1

Description	Old Pension System	NPS (Tier-I)
Contribution of employee	Nil	10% of (Basic pay plus DA)
Pension guarantee by Government	Yes	No
Amount of pension	50% of last pay drawn	No link with last pay
Dearness Relief provided by Government for mitigating impact of inflation	Yes	No
Amount of commutation allowed	Upto 40%	No option
GPF eligibility	Yes	No
GPF/NPS withdrawal	Temporary: within 15 years Final: after 15 years	Tier-I : Not allowed till May 2015[3]

1.2.2 For Central Autonomous Bodies (CABs) employees

As per Department of Expenditure (DoE) O.M. dated 13 November 2003, all new recruits joining any autonomous body under the administrative control of

[2] NPS was introduced vide its Notification dated 22 December 2003. As per Notification of Department of Financial Services, GOI, dated 31 January 2019, co-contribution by GOI was enhanced to 14 *per cent*. This was applicable from 1 April 2019 onwards.

[3] Partial withdrawal of 25 *per cent* of contribution made by subscribers for certain specified purpose as notified by PFRDA (Exit and Withdrawal under NPS) Regulation, 2015 (May 2015).

various Ministries/ Departments of Central Government, on or after 01 January 2004 would also be governed by NPS.

1.2.3 For State Governments and State Autonomous Bodies (SABs) employees

State Governments and their Autonomous Bodies also adopted NPS architecture on different occasions for their employees. State-wise details of date of adoption and notification are mentioned in **Annexure I(A)**.

1.3 Architecture of NPS

As per Government decision (23 August 2003) and the notification of the Department of Economic Affairs (DEA), dated 22 December 2003:

i. An independent Pension Fund Regulatory and Development Authority (PFRDA) would regulate and develop the pension market, which would be located in New Delhi;

ii. There would be a Central Record Keeping and Accounting Agency (CRA) which would be the central facility for holding records for all individuals in the new pension system;

iii. There would be several pension fund managers (PFMs), each offering three categories[4] of schemes – A, B and C; and

iv. The participating entities (Pension Funds and CRA) would give out easily understood information about past performance, so that the individual would be able to make informed choices about which scheme to choose.

The key functionaries in NPS {details in **Annexure I(B)**} are as follows:

- **Pension Fund Regulatory and Development Authority**
  The Pension Fund Regulatory and Development Authority (PFRDA), an interim regulator (precursor to a statutory regulator), was constituted in October 2003. The PFRDA Act was passed on 19 September 2013 and notified on 01 February 2014. PFRDA regulates NPS subscribed by employees of Central Government, State Governments and employees of private institutions/ organisations and unorganised sectors.

- **Central Record Keeping Agency (CRA)**
  Central Record Keeping Agency acts as an operational interface between PFRDA and other NPS intermediaries such as Pension Funds, Annuity Service Providers, Trustee Bank etc. It performs the record

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4 Under option A, around 60 *per cent* of the assets would be held as Government paper, 30 *per cent* in investment grade corporate bonds and 10 *per cent* in equity. The asset allocation for option B would be around 40 *per cent* for Government paper, 40 *per cent* for investment grade corporate bonds and 20 *per cent* in equity. Option C would have 25 *per cent* of pension assets in Government paper, 25 *per cent* in investment grade corporate bonds and 50 *per cent* in equity.

keeping, administration and provides customer service functions for all NPS subscribers.

- **Trustee Bank**
  Trustee Bank is responsible for day-to-day flow of funds and banking facilities in accordance with the guidelines/ directions issued by the Authority under NPS.

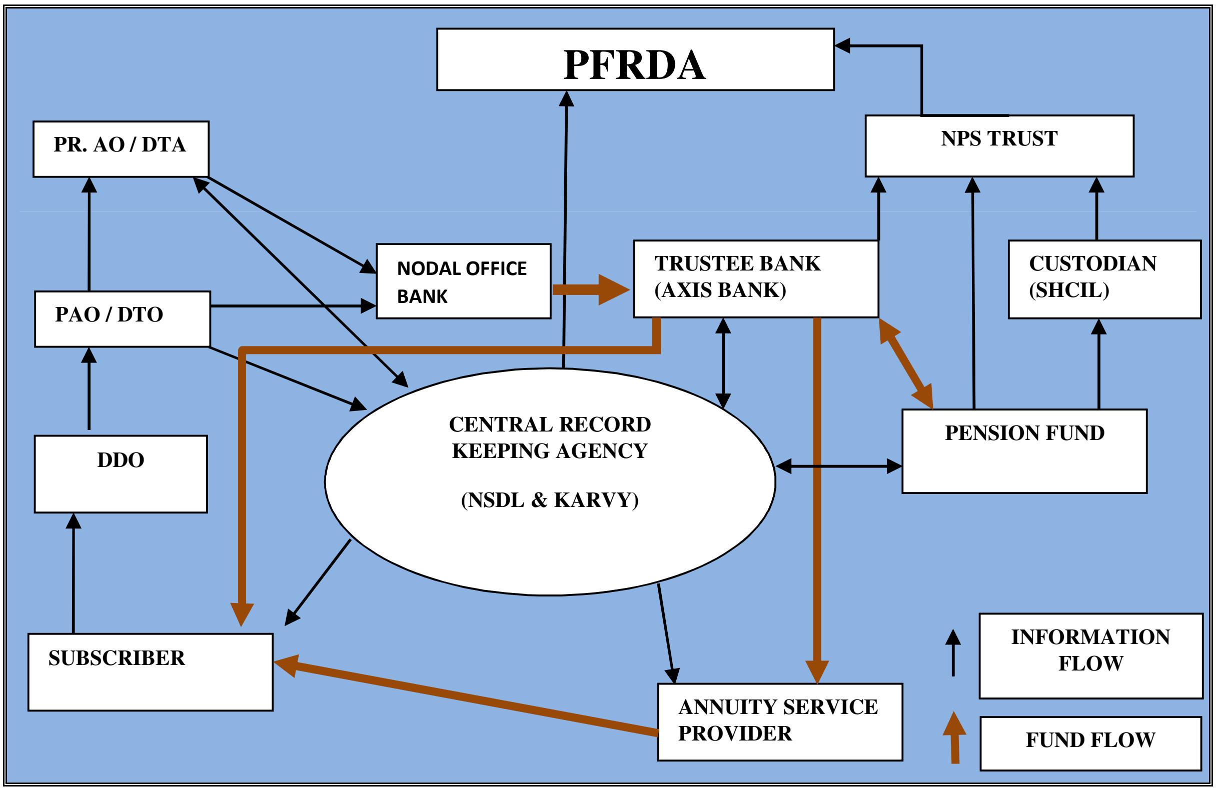
- **Pension Funds**
  Pension Funds manage pension corpus through various schemes under NPS.

- **Custodian**
  Custodian holds scheme securities in Demat account in the name of NPS Trust and provides custodial and depository participant services for the pension schemes regulated by the Authority.

- **Annuity Service Providers**
  Annuity Service Providers (ASPs) are IRDAI licensed and regulated life insurance companies, for servicing the annuity requirements of the NPS subscribers.

- **NPS Trust**
  NPS Trust has been constituted to take care of the assets and funds under the NPS in the interest of the subscribers.

1.4 Flow of funds/ information across the architecture



The subscribers' enrolment/ registration in NPS is followed by deduction of the defined contribution by Drawing and Disbursing Officer (DDO) and sending of the pay bill containing the contributions so deducted, to Pay and Accounts Officer (PAO)/ District Treasury Officer (DTO).

Thereafter, Nodal Offices[5] upload subscriber details in New Pension Scheme Contribution Accounting Network (NPSCAN) and remit NPS contributions (of employee and employer) to the Trustee Bank through their bankers.

This is followed by transmission of NPS funds by the Trustee Bank to Pension Funds, investment of NPS funds by Pension Funds as per investment guidelines prescribed by PFRDA and daily interaction of Pension Funds with the Custodian for purchase of securities and valuation of Net Asset Value (NAV) at the end of the day.

When there is exit of the subscriber from NPS, there is flow of funds from the Trustee Bank to the subscriber (lump sum) and ASP (annuity).

1.5 Nodal Offices

Nodal Offices are offices, which act as interface between subscribers and CRA. They include the Principal Accounts Officers (Pr. AOs), PAOs and DDOs under the Central Government and analogous offices under the State Governments. The following table depicts the number of Nodal Offices and subscribers involved in the Government Sector NPS model as on 30 April 2018.

Table: 1.2

Sector	DDOs	PAO/ DTO	Pr. AO/ DTA	Total subscribers (in lakh)
Central Government[6]	15,443	2,885	131	17.58
State Government	2,20,217	2,249	67	31.63
Total (A)	**2,35,660**	**5,134**	**198**	**49.21**
The number of Nodal offices and subscribers in Central and State Autonomous Bodies are as under:				
Central Autonomous Bodies	3,860	1,834	556	1.71
State Autonomous Bodies	11,528	3,214	376	7.09
Total (B)	**15,388**	**5,048**	**932**	**8.8**
Total (A) + (B)	**2,51,048**	**10,182**	**1,130**	**58.01**

The primary function of DDO is to obtain duly filled application for Permanent Retirement Account Number (PRAN) from subscribers, whereas the PAO uploads the Subscriber Contribution File (SCF) containing details of pension contribution, PRAN, DDO, amount etc. to the NPSCAN system. The Pr. AO

5 PAO / DTO / Directorate of Treasury and Accounts (DTA)

6 Central Government includes these accounting formations : Civil, Defence (Civilian employees), Railways, Posts, Telecommunications and NCT of Delhi

monitors the performance of PAO and DDO and monitors the grievance redressal.

The details of role and functions of the Nodal offices are mentioned in **Annexure I(C)**.