



## New Pension System

### Background

The Government of India has established Pension Fund Regulatory and Development Authority (PFRDA) in the year 2003 to promote old age income security.

The Government has authorized<sup>1</sup> PFRDA vide Ministry of Finance, Department of Financial Services, to extend the New Pension System (NPS) on a voluntary basis to all citizens of India with effect from 01 May 2009.

Under the NPS, the types of accounts available to subscriber are as under:

**Tier I Account:** In this account, the subscriber contributes his savings for the retirement. It is a non-withdrawal account. This account is available from 01<sup>st</sup> May, 2009.

**Tier II Account:** This is a voluntary savings account from which contributions can be withdrawn as per the subscriber's choice. The date of operationalisation of this account is yet to be notified.

Currently, the details mentioned in the offer document issued by PFRDA are in respect of Tier I Account. These have been tabulated as below:

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<sup>1</sup> Letter No. 11(11)/ 2008 – PR dated 29<sup>th</sup> July 2008

No.	Particulars	Features of NPS
1.	Who can join NPS	A citizen of India (whether resident or non-resident) between the age of 18 to 55 years as on the date of application. Further, the subscriber should comply with all the terms and conditions given in the registration form <sup>2</sup> .
2.	Who cannot join NPS	<ul style="list-style-type: none"> <li>- Individuals who are not granted an order of discharge by a court.</li> <li>- Individuals of unsound mind.</li> <li>- Pre-existing account holders under NPS.</li> </ul>
3.	How to enroll in the NPS	The subscriber is required to open an NPS account by submitting a registration form [with one of the authorized branches of service providers called 'Point of Presence' (POP)]. Upon registration, a Permanent Retirement Account Number (PRAN) would be allotted to the subscriber. The PRAN will help in identifying and operating the account of the subscriber.
4.	Details of contributions	<ul style="list-style-type: none"> <li>- Minimum amount per contribution- Rs 500</li> <li>- Minimum contribution per year- Rs 6,000</li> <li>- Minimum number of contributions per year- 4</li> <li>- There is no upper ceiling on the total contribution per year or on the number of contributions per year.</li> </ul>
5.	Mode of contribution	The subscriber can contribute the amount through cash, local cheques or demand drafts.
6.	Investment Options	<p>NPS offers following two approaches to the subscriber to invest in the NPS account:</p> <p><b>Active Choice:</b> Under this approach, the subscriber can choose how his funds should be invested in the following three options:</p> <ul style="list-style-type: none"> <li>- Asset Class E: Investment in equity instruments (<i>maximum upto 50% of total investment</i>).</li> <li>- Asset Class C: Investment in fixed income instruments other than Government securities.</li> <li>- Asset Class G: Investment in Government securities.</li> </ul> <p><b>Auto Choice-</b> In case the subscriber does not exercise any choice as regards asset allocation, the money will be invested according to the auto choice option.</p> <p>Under this approach, the funds are apportioned between the three asset categories depending upon the age of the subscriber.</p>

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<sup>2</sup> Form No. UOS-S1

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7.	Tax benefits under NPS	The NPS specifies that tax benefits would be applicable as per Income-tax Act, 1961 as amended from time to time.
8.	Exit from NPS	<p><b>At any time before 60 years-</b> 80% of pension wealth is to be invested to purchase a life annuity plan from an authorised insurance company. Balance 20% may be withdrawn as lump sum amount.</p> <p><b>On attaining the age of 60 years and upto 70 years:</b> The subscriber has to invest atleast 40% of his pension wealth to purchase a life annuity plan. The balance may be withdrawn in lump sum amount or in a phased manner at the option of the subscriber subject to a minimum withdrawal of 10% every year.</p> <p><b>At the age of 70 –</b> The subscriber has to compulsorily withdraw the amount in the NPS account in lump sum.</p>
9.	Penalty for Non contribution	INR 100 per year of default and the account would become dormant.
10.	Closure of NPS account	<p>The NPS account will be closed under the following circumstances:</p> <ul style="list-style-type: none"> <li>- Death of the subscriber.</li> <li>- Account value reduces to zero.</li> <li>- Change in citizenship status of the subscriber.</li> </ul>

### Our Comments

The NPS is an attempt to provide an old age security coverage to citizens of India. Currently, the NPS works on EET (exempt/exempt/taxable) model, while few other savings plans like Provident Fund and Public Provident Fund work on the EEE (exempt/exempt/exempt) model.

### Disclaimer

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