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TAX FLASH NEWS

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Pension Fund Regulatory and Development Authority increases the maximum age of joining National Pension System (NPS) from 60 years to 65 years, under NPS all citizen model and corporate sector model

Background[1]

The Pension Fund Regulatory and Development Authority (PFRDA) Act was passed by the Parliament in September, 2013 and the same was notified on 1 February, 2014. The PFRDA regulates National Pension System (NPS) which is subscribed by employees of Government of India, State Governments and by employees of private sector and unorganised sectors.

The government also permitted all Indian citizens who are between the age of 18 to 60 years to join NPS voluntarily in the year 2009. The corporate sector model of NPS was launched in December 2011.

In the above context, the Pension Fund Regulatory and Development Authority (PFRDA) has issued a circular with regard to increasing the maximum age of joining NPS under the private sector model.

Key highlights of the circular[2]

- Any Indian Citizen, resident or non-resident, between the age of 60 to 65 years, can also join NPS and may continue to contribute upto the age of 70 years in NPS. With this increase of joining age, the subscribers who are willing to join NPS at a later stage of life will be able to avail the benefits of NPS.
- The subscriber joining NPS beyond the age of 60 years will have the same choice of the Pension Fund as well as the investment choice as is available under the NPS for subscribers joining NPS before the age of 60 years.
- If such subscribers exit after completion of 3 years in NPS, it will be considered as normal exit and in this case, subscriber will be required to annuitise at least 40 percent of corpus for purchase of annuity and remaining corpus can be withdrawn in lump sum.
- If such subscribers wish to exit from NPS before completion of 3 years in the NPS, they will be allowed to do so, but in such cases, the subscriber will have to utilise at-least 80 percent of the corpus for purchase of annuity and the remaining can be withdrawn in lumpsum.
- In case of death of the subscriber the entire corpus will be paid to the nominee of the subscriber.
- The new change is effective from 1 November, 2017.

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[1] http://pfrda.org.in/index1.cshtml?lsid=4 accessed on 3 November 2017
[2] PFRDA Circular - http://pfrda.org.in/WriteReadData/Links/Circular-Increase%20in%20joining%20age%20under%20NPS24991e86-8d6d-41ab-bedd-74fbf3b62fd3.pdf (Circular no- PFRDA/2017/35/PD/1) accessed on 3 November 2017

Our comments

The decision to increase maximum age of joining NPS is a major policy shift by the pension regulator. This change is a recognition of increasing life expectancy in India and the consequent need for a robust pension planning architecture.

This is a welcome step by the pension regulator and it is likely to increase the subscriber base significantly. Individuals who work after the age of 60 years can use the new regulations to accumulate higher pension savings.

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