12 New Pension System (NPS)

Pension reform is a major initiative undertaken by the Government of India to provide income security after retirement. New Pension System (NPS) has been introduced by the Central Government on Jan 01, 2004, and is being regulated by Pension Fund Regulatory and Development Authority (PFRDA).The NPS for Govt. employees has been operationalised in 2007- 2008 by appointing 3 Pension Fund Managers SBI, UTI and LIC.

- NPS is the least cost pension system in India and probably in the world. NPS has unique *Permanent Retirement Account Number (PRAN)* for each subscriber.
- This scheme has already been made mandatory for Central Government employees who joined their services on or after Jan 01, 2004 (except the armed forces). Most of the state governments have also joined NPS for their employees, who joined their service on or after Jan 01, 2004.
- New Pension System has been made available to all citizens of India from May 1, 2009. Subscriber should be a resident Indian having valid identity proof and address proof (KYC compliant) and age should be 18 to 55 years on the date of application.
- NPS is a low cost portable Pension . For Individuals there are multiple Fund Managers such as SBI, UTI, ICICI-prudential, KOTAK-mahindra, IDFC, and Raliance Capital with multiple investment options for different ratios of equity and debt.
- The monthly contribution from the employee is 10 percent of the basic and DA as be paid by the employee and matched by the Central Government. However, there is no contribution from the Government in respect of individuals who are not Government employees.
- Under the NPS, an employee will be entitled to exit only at the time of retirement at the age of 60, however at least 40 % Pension wealth would be used for purchasing annuity from a life insurance company approved by the IRDA. In case of Government employees, the annuity should provide for pension for the lifetime of the employee and his dependent parents and his spouse at the time of retirement.
- Individuals can normally exit at or after the age of 60 years from the pension system. At exit, the individual would be required to invest at least 40 % of pension wealth to purchase an annuity. Individuals would have the flexibility to leave the pension system prior to age 60. However, in this case, the mandatory annuitisation would be 80% of the pension wealth. If the subscriber dies before he or she turns 60, the nominee can receive the entire pension corpus.
- PFRDA has approved the *Deferment option* for the annuity purchase at the time of exit from NPS with condition that such deferment can be for a maximum period of 3 years.
- Under the scheme, *SwavalambanYojana* Government will contribute Rs. 1,000 per year to each NPS account for the next three years. The benefit will be available only to persons who join the NPS with a minimum contribution of Rs. 1,000 and a maximum contribution of Rs. 12,000 per annum. It will be applicable to all citizens in the unorganised sector who join the NPS administered by PFRDA.
- NPS Lite has features optimised for low investment potential (min Rs.100) subscribers and is available at ultra low cost.
- As per circular issued regarding investment guideline, (dtd Jan 29, 2014), the investment shall be made as following : In Govt securities : 0-55%, Debt : 0-40%. Money market instruments -0-5% and in equities 0-15%- Shares of companies on which derivatives are available in BSE/NSE or ELSMF/ETF regulated by SEBI and derivatives shall be used to hedge and portfolio rebalancing.
- The provisions of NPS scheme are changing frequently so for more details please visit www.pfrda.org.in