New Pension Scheme

(Defined Contributory Pension Scheme)

PRELIMINARY STUDY REPORT

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Pension – Greatly Valued

- Pension is valuable in the sense that it is secure.
- Supreme Court held that pension is a valuable right vested in a Govt. servant.
- Refusal, reduction, forfeiture of pension not allowed unless on extreme conditions.
- Pension is secured against attachment & seizure.

Defined Benefits Pension & GPF (prior to 1.1.2004)

- **Pension**
- **Commutation of Pension**
- **Retirement Gratuity**
- **Death Gratuity**
- **Service Gratuity**
- **Leave Encashment**
- **Family pension**
- **Group Insurance**

Types of Pension

(1) Superannuation

- calculated as 50% of average emoluments of last 10 months salary drawn subject to the minimum of Rs.3500 and maximum of Rs.45000.

(2) Family Pension

- At the rate of 30% of basic pay subject to the minimum of Rs.3500 and maximum of Rs.27000.

(3) Voluntary Retirement (VR)

- Maximum of 5 years weightage in the Qualifying Service

COMMUTATION OF PENSION

- Can commute a lumpsum payment not exceeding 40%.
- Reduced pension in proportion to the % of commutation and age factor.
- Commuted portion of pension shall be restored after the completion of 15 years.
- Lumpsum amount received on commutation of pension is not liable for Income tax.
- Dearness relief calculated to the original pension not on the reduced pension.

Gratuity

- Retirement Gratuity: Admissible (along with pension) on retirement after completion of 5 years of qualifying service.
- Calculated @ 1/4th of a month's Basic Pay + DA for each completed six monthly period of qualifying service. Maximum retirement gratuity payable is 16½ times of emolument limited to Rs. 10 lakhs.

  Death Gratuity: Payable to the nominee in the event of employees death.
- Service Gratuity: entitled for service gratuity (and not pension) if total qualifying service is less than 10 years.

New Pension Scheme

(Defined Contributory Pension Scheme)

Salient Features

- **Operational with effect from 1.1.2004.**
- **Implemented by Central Government and 22 states.**
- **Existing provision of Defined Benefit Pension & GPF would not be available to new Govt. servants joining service on or after 1.1.2004.**
- **Will have tiers – Tier-I & tier-II.**

Salient Features Continues ...

CONTRIBUTION TO TIER-I

- 10% of BP+DA contribution by the Govt. servant every month.
- Equal matching contribution by the Government.
- Kept in the non-withdrawable Pension Tier-I account.
- Tier-II voluntary contribution will be kept in a separate withdrawable account.
- The scheme is implemented by Central Record keeping Agency & Several Pension Fund mangers.
- An independent Pension Fund Regulatory and Development Authority (PFRDA) will regulate the pension market.

Salient Features Continues ...

- Permanent Retirement Account Number (PRAN) allotted after 1.4.2008.
- Govt. servant can exit at or after 60 years of age.
- 60% of pension wealth can be withdrawn lumpsum.
- 40% of pension wealth to be invested in annuity - mandatory – to provide pension for life time for self and dependent.

Salient Features **Continues ...**

To leave the scheme before 60 years of age

- **80% of pension wealth mandatory for investment.**
- **Benefit of Invalid pension, Disability pension, Family pension, Extraordinary Family pension are extended.**
- **Retirement Gratuity for discharge from duty due to Disease / Injury or invalidation also extended.**

Six Pension Fund Managers

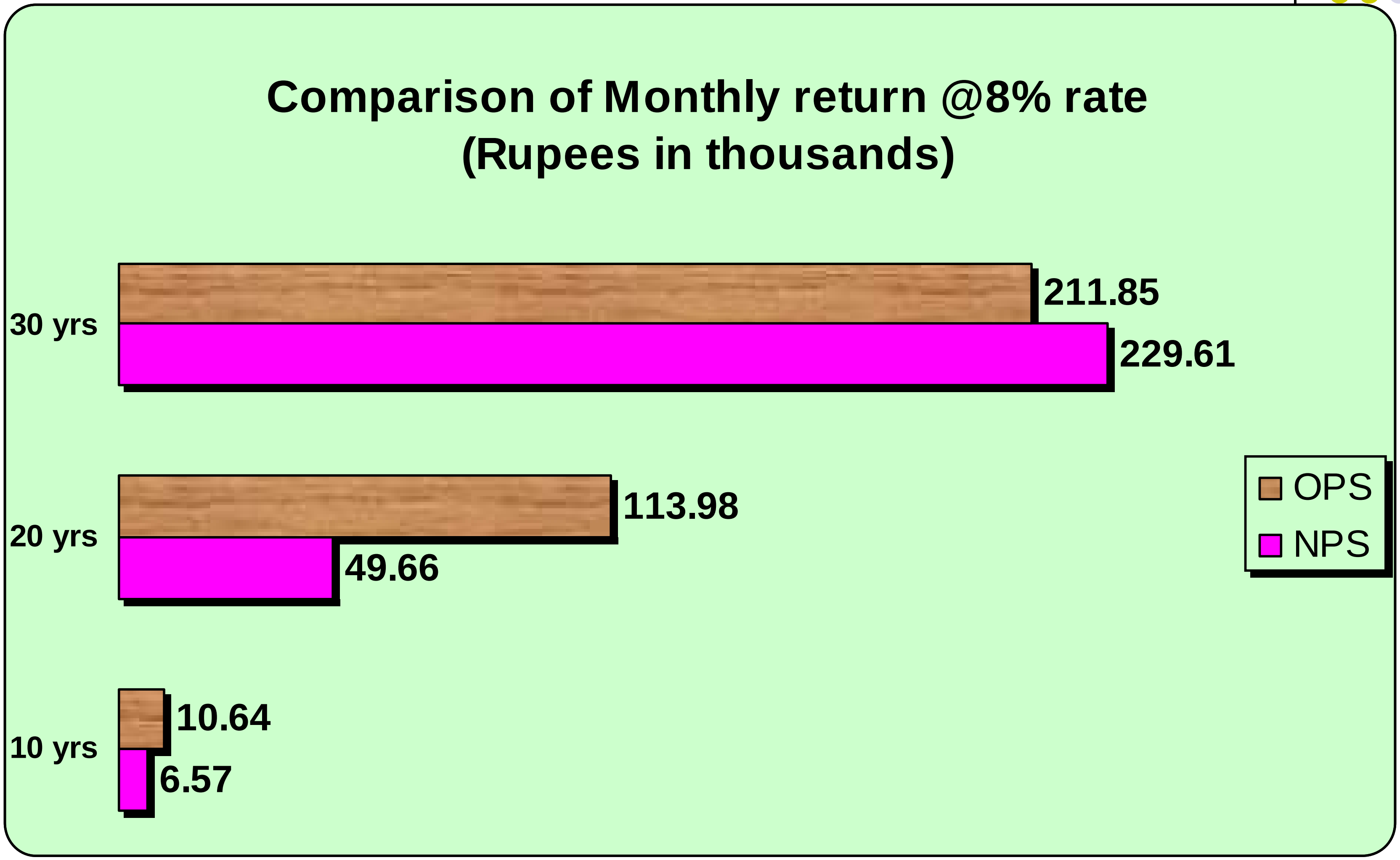
- ICICI Prudential Pension Funds Management Company Limited
- IDFC Pension Fund Management Company Limited
- Kotak Mahindra Pension Fund Limited
- Reliance Capital Pension Fund Limited
- SBI Pension Funds Private Limited
- UTI Retirement Solutions Limited

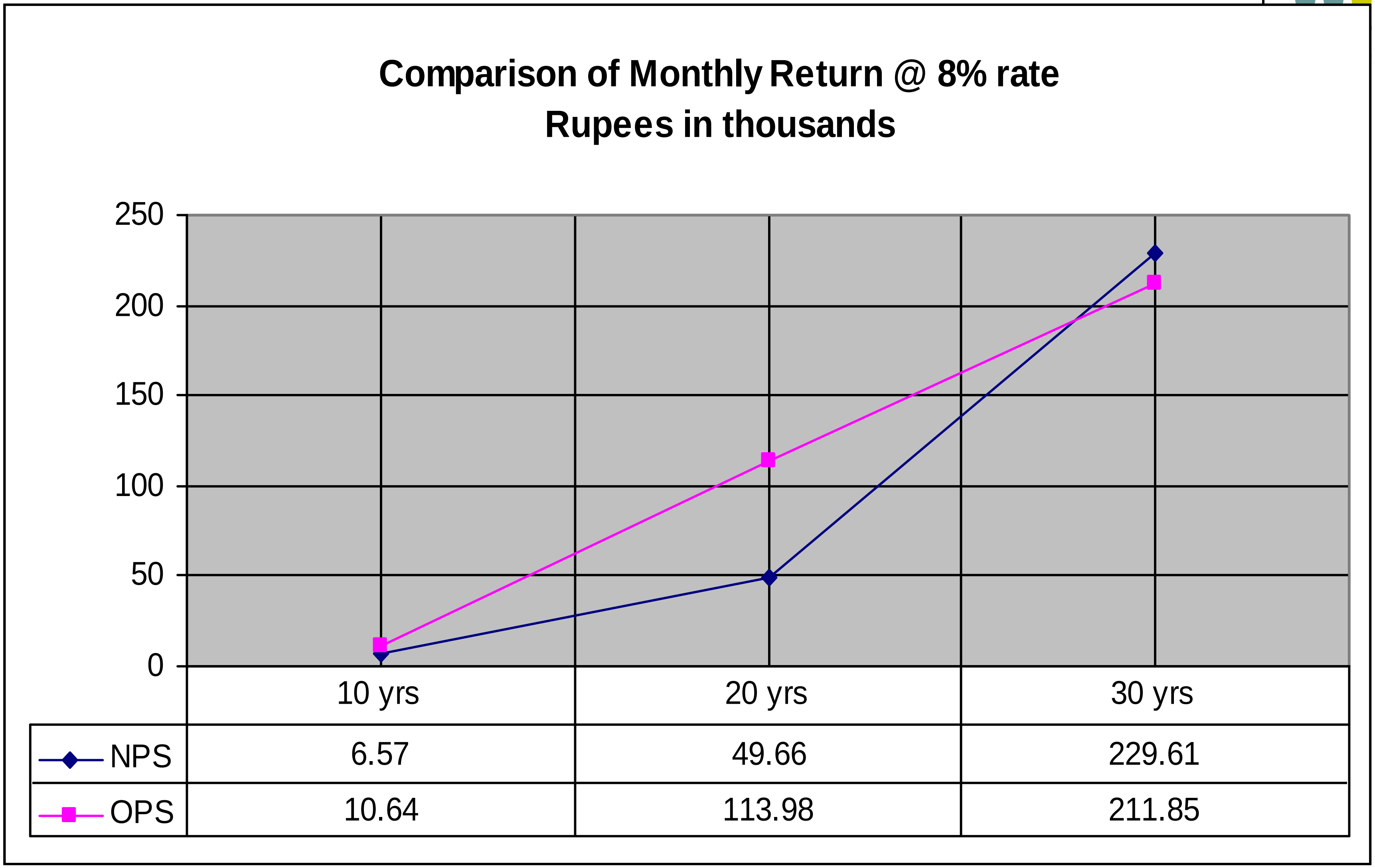
Comparison of Earnings of Old Pension Scheme and NPS

CIRCUMSTANCES ASSUMED

- Date of Appointment - 1.1.2006
- Entry Grade - GP – 4200, PB-2, 9300 – 34800
- VI CPC period - 1.1.2006 to 31.12.2015
- VII CPC period - 1.1.2016 to 31.12.2025 (with the multiplication factor of 2.06 + 40% fixation)
- VIII CPC period - 1.1.2026 to 31.12.2035 (with the multiplication factor of 2.06 + 40% fixation)

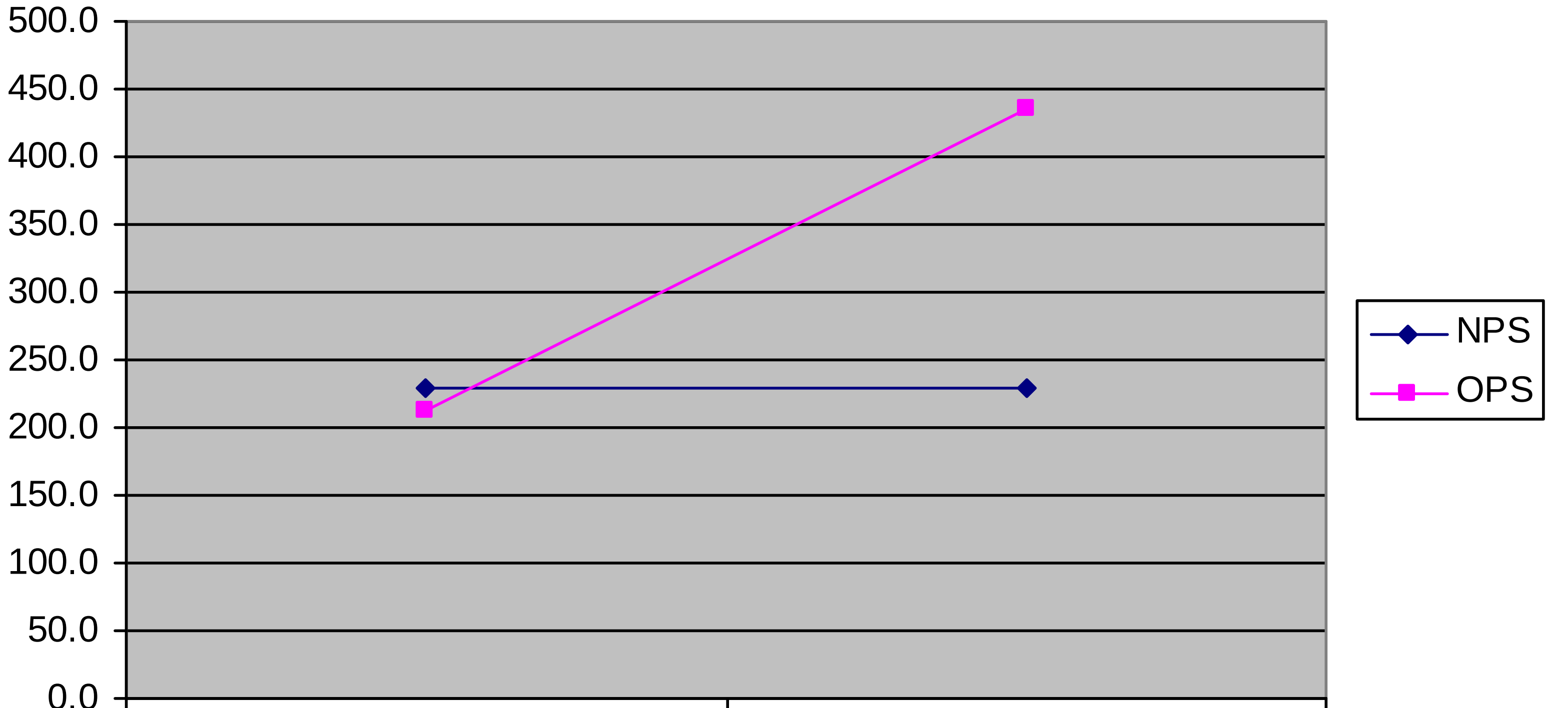
- **Dearness Allowance** - Jan 2006 to Dec 2011 actual, From Jan 2012 to Dec 2015 assumed increase @ 6% every half year for the periods 1.1.2016 to 31.12.2025 & 1.1.2026 to 31.12.2035.
- Promotion / MACPS - First promotion / MACPS during Jan-2016 and second promotion / MACPS during Jan-2026


Comparison of Monthly return @8% rate
(Rupees in thousands)
30 yrs
211.85
229.61
20 yrs
113.98
49.66
10 yrs
10.64
6.57
OPS
NPS

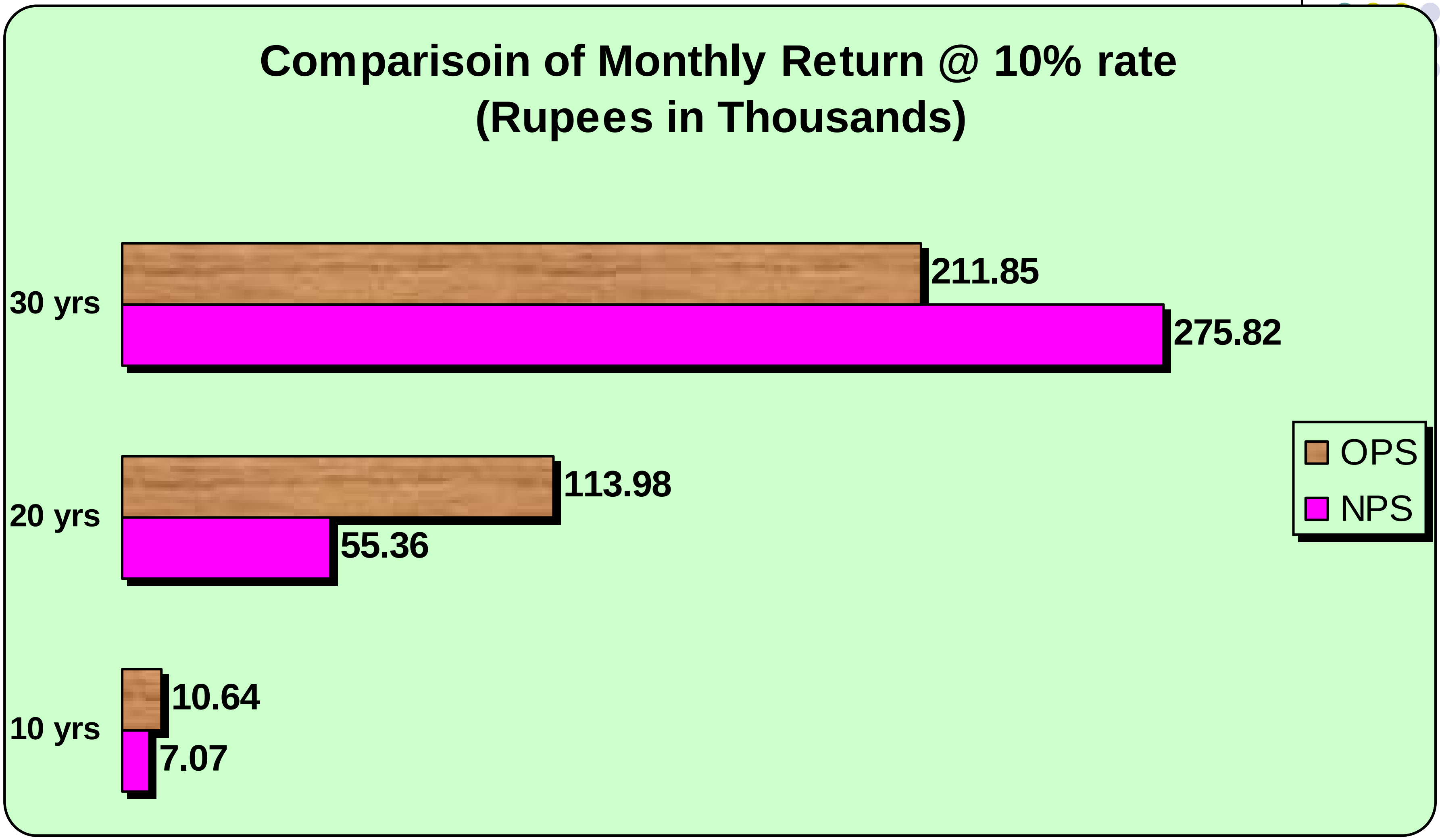


	10 yrs	20 yrs	30 yrs
NPS	6.57	49.66	229.61
OPS	10.64	113.98	211.85

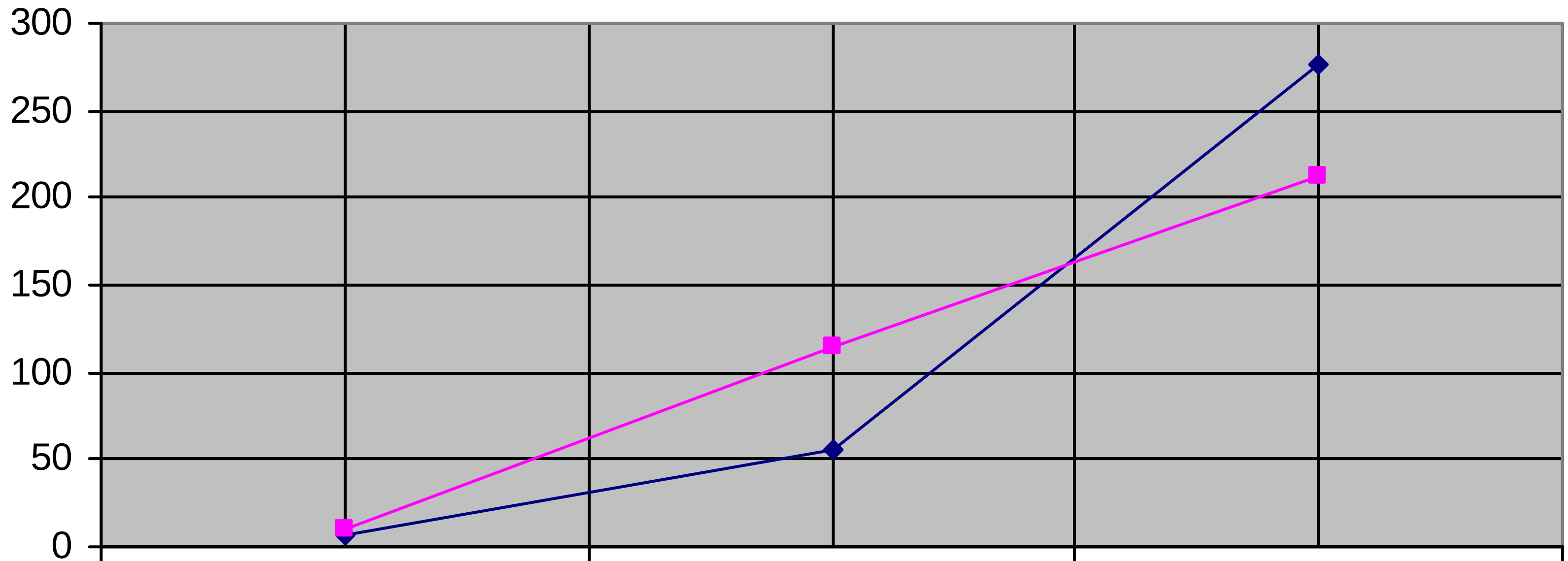
Inflation proof for New Pension not available (Rs. In thousands)



	1st year	10th year
NPS	229.6	229.6
OPS	211.9	436.4

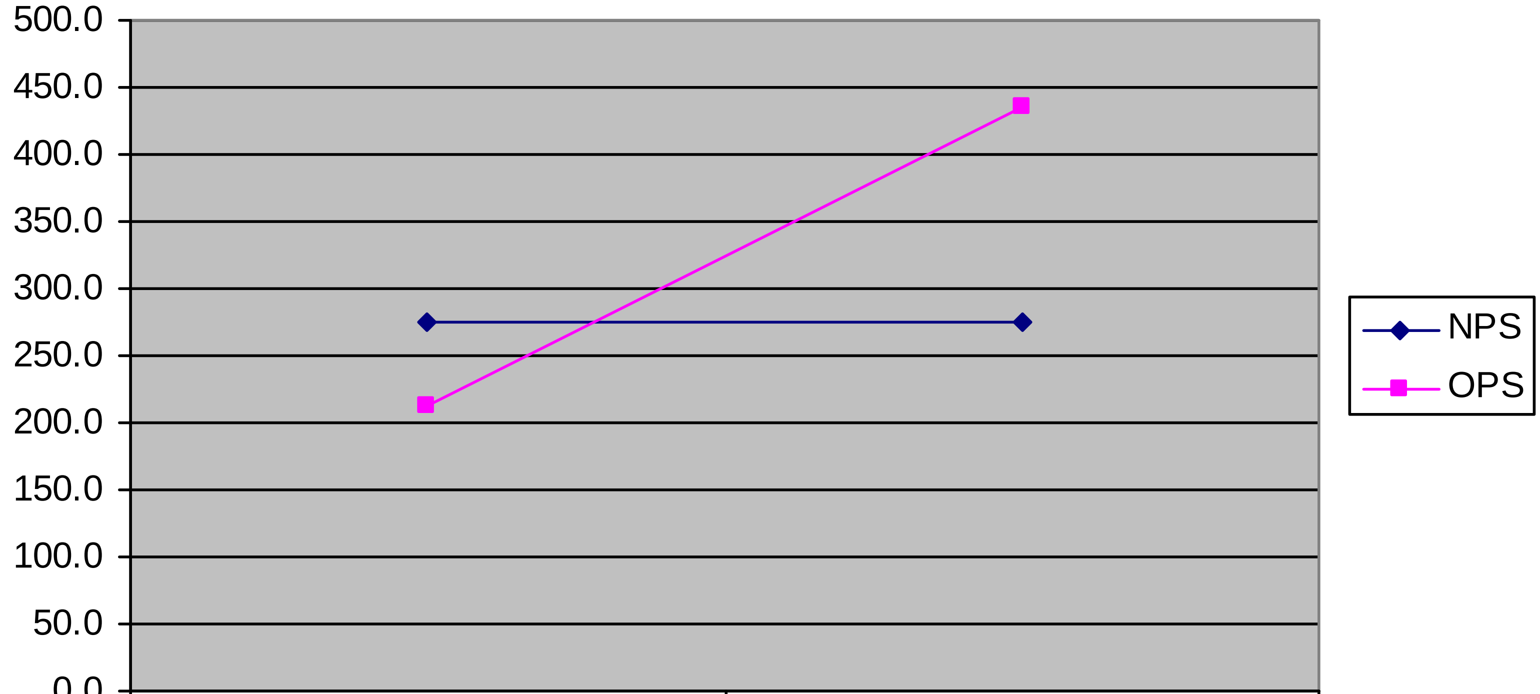

Comparisoin of Monthly Return @ 10% rate
(Rupees in Thousands)
30 yrs
211.85
275.82
20 yrs
113.98
55.36
10 yrs
10.64
7.07
OPS
NPS

Comparison of Monthly Return @ 10% rate
(Rupees in thousands)

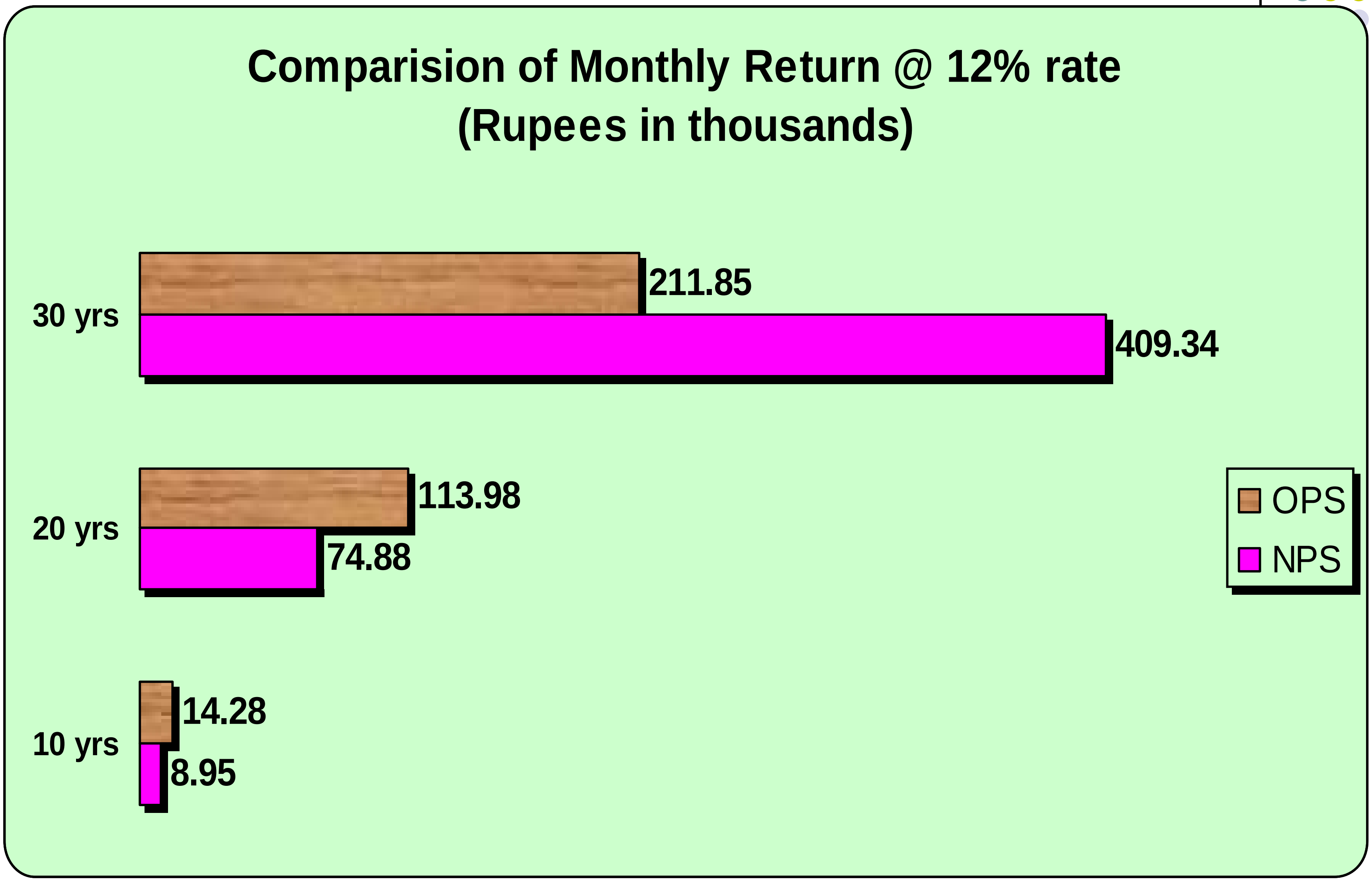


	10 yrs	20 yrs	30 yrs
NPS	7.07	55.36	275.82
OPS	10.64	113.98	211.85

Inflation proof for New Pension not available (Rs. In thousands)

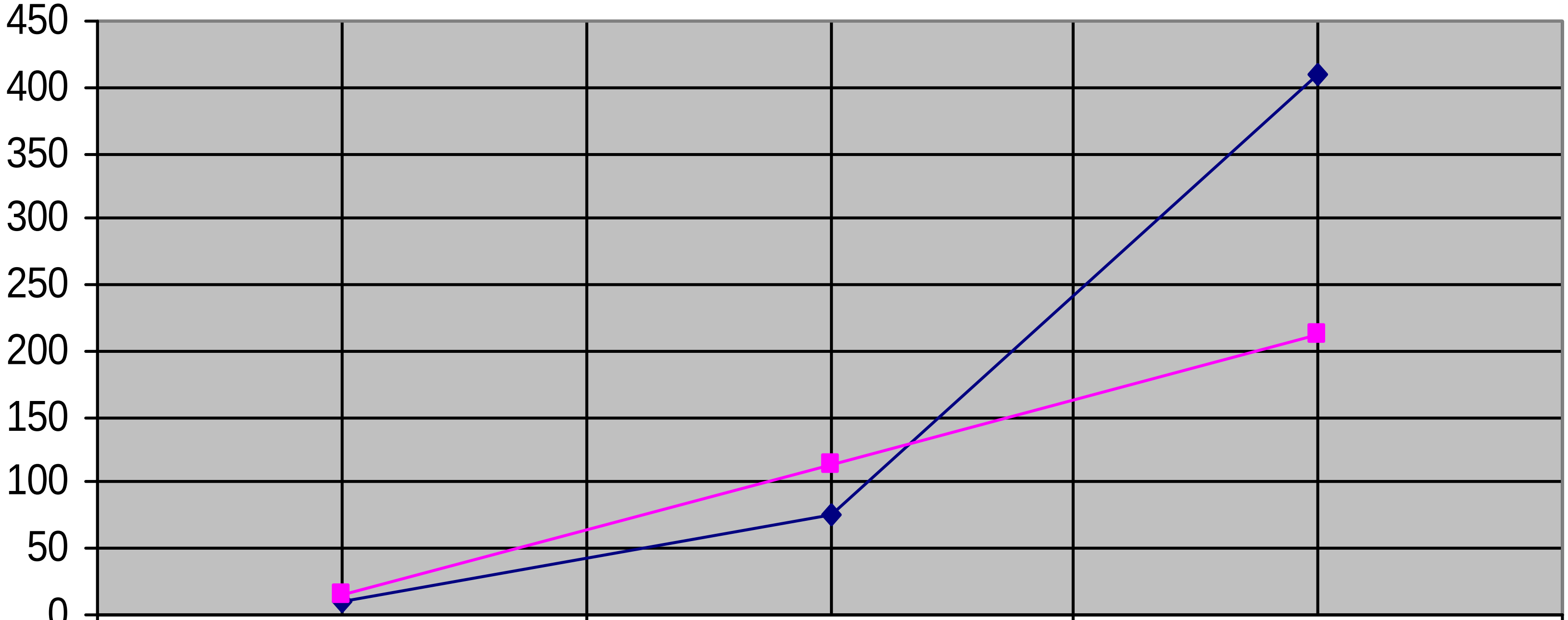


	1st year	10th year
NPS	275.8	275.8
OPS	211.9	436.4



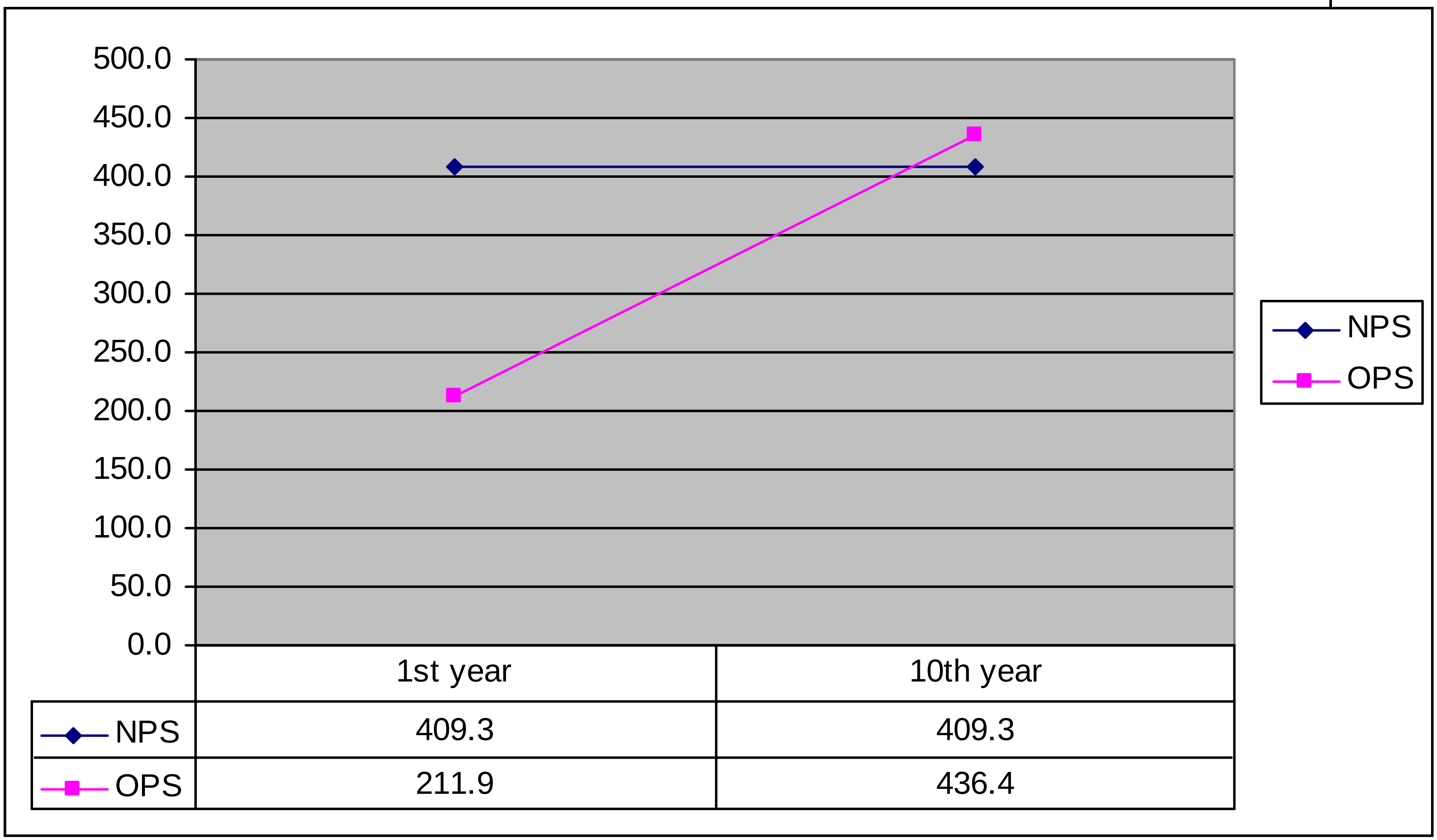
Comparision of Monthly Return @ 12% rate
(Rupees in thousands)
30 yrs
211.85
409.34
20 yrs
113.98
74.88
10 yrs
14.28
8.95
OPS
NPS

Comparison of Monthly Return @ 12% rate
(Rupees in thousands)



	10 yrs	20 yrs	30 yrs
NPS	8.95	74.88	409.34
OPS	14.28	113.98	211.85

Inflation proof for New Pension not available (Rs. In thousands)



THE IMPLICATIONS ARE QUITE DEEP

Right for dignified life stripped

- In a single swoop the idea of pensions being rights of workers, has been thrown into the neo-liberal dustbin.
- Fundamental issue of stripping of employees’ right to a life of dignity
- The return under NPS is market driven.
- There is no guaranteed/defined amount of return.
- The returns generated through investments are accumulated and is not distributed as dividend or bonus

Why Armed Forces kept away

- If the expected return under NPS is much higher than the return under existing old Pension Scheme, why does not the government allow the members of the Armed Forces to exercise this option? Armed force are the most valued functionaries of the nation. That the members of the Armed Forces are being kept under old pension scheme does indicate that there is something shady in the argument that NPS would earn better; at least the government itself is not convinced that NPS would give better benefits to its employees. One can never be sure that the returns from equities would always be better than the guaranteed returns.

Govt arguments not true

- While introducing the NPS, the Government had argued in the same way as one would find in the IMF Report (2001).
- Briefly speaking, the argument is that DBS is unsustainable because the pension expenditure is increasing at a very high rate.
- Thus, over 1993-94 to 2004-05, the pension expenditure of the GOI has increased by 21 per cent; for the state governments, the rate of increase is still higher (27 per cent over the same period).

Is DBS unsustainable in India

- What the Government did not mention is that the government's pension expenses as a percentage of GDP is quite negligible in India (less than 0.1 per cent).
- In South Korea or in Hongkong it is about 2 per cent.
- In Italy, France and Germany where the coverage under DBS pension is wide, the pension expenses as percentage of GDP is much higher in these countries.
- In Italy it is 14 per cent; in France and Germany the ratio is 12 per cent. In Japan 9 per cent of the GDP is spent on DBS pension.
- One wonders how it becomes unsustainable in India where the expenses on DBS pension is so low.

NPS SHOULD GO

- The argument that DBS would render all governments ‘bankrupt’ thus appears to be untenable.
- Why should the small pensioners who usually do not have savings to tide over the crisis should be driven to uncertain situation?
- Global capital does not have any moral obligation to honour the right of the citizen to live with dignity even in the retired life.

Thank you

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