

STREAMLINING OF NATIONAL PENSION SYSTEM (NPS)¹

Decision

The Union Cabinet in its Meeting on December 6, 2018 has approved the following proposal for streamlining the National Pension System (NPS).

- Enhancement of the mandatory contribution by the Central Government for its employees covered under NPS Tier-I from the existing 10% to 14%.
- Providing freedom of choice for selection of Pension Funds and pattern of investment to central government employees.
- Payment of compensation for non-deposit or delayed deposit of NPS contributions during 2004-2012.
- Tax exemption limit for lump sum withdrawal on exit has been enhanced to 60%. With this, the entire withdrawal will now be exempt from income tax. (At present, 40% of the total accumulated corpus utilized for purchase of annuity is already tax exempted. Out of 60% of the accumulated corpus withdrawn by the NPS subscriber at the time of retirement, 40% is tax exempt and balance 20% is taxable.)
- Contribution by the Government employees under Tier-II of NPS will now be covered under Section 80 C for deduction up to Rs. 1.50 lakh for the purpose of income tax at par with the other schemes such as General Provident Fund, Contributory Provident Fund, Employees Provident Fund and Public Provident Fund provided that there is a lock-in period of 3 years.

Background

The new entrants to the central government service on or after 01.01.2004 are covered under the National Pension System (NPS). The Seventh Pay Commission (7th CPC), during its deliberations, examined certain concerns regarding NPS and made recommendations in the year 2015. The 7th CPC recommended for setting up of a Committee of Secretaries in this regard. Accordingly, a Committee of Secretaries was constituted by the Government to suggest measures for streamlining the implementation of NPS in the year 2016. The Committee submitted its report in the year 2018. Accordingly, based on the recommendations of the Committee, draft Cabinet Note was placed before the Cabinet for its approval.

Implementation Strategy and Targets

The proposed changes to NPS would be made applicable immediately once time critical decisions are taken in consultation with the other concerned Ministries / Departments.

Major impact

- Increase in the eventual accumulated corpus of all central government employees covered under NPS.
- Greater pension pay-outs after retirement without any additional burden on the employee.

¹ Available at: <http://pib.nic.in/PressReleaseDetail.aspx?PRID=1555538>

- Freedom of choice for selection of Pension Funds and investment pattern to central government employees.
- Benefit to approximately 18 lakh central government employees covered under NPS.
- Augmenting old-age security in a time of rising life expectancy.
- By making NPS more attractive, government will be facilitated in attracting and retaining the best talent.

Expenditure involved

The impact on the exchequer on this account is estimated to be to the tune of around Rs. 2840 crores for the financial year 2019-20, and will be in the nature of a recurring expenditure. The financial implications on account of provisions regarding payment of compensation for non-deposit or delayed deposit of NPS contributions during 2004 - 2012, would be in addition to the amount indicated above.

No. of beneficiaries

Approximately 18 lakh central government employees covered under NPS would be benefitted from the streamlining of the National Pension System.

States/districts covered

Pan India.

Details and progress of scheme if already running

Presently, the new entrants to the central government service on or after 01.01.2004 are covered under the NPS. NPS is being implemented and regulated by Pension Fund Regulatory and Development Authority in the country.

Team ICSI

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