Performance And Reward Management
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Lecture – 51
Understanding relevance of employee benefits and pension schemes, employee benefits, flexible benefits, pension scheme, 7th Pay Commission (Contd.)

We will continue with our discussion on the pension schemes and in this today's discussion, we are going to discuss on the new pension system.

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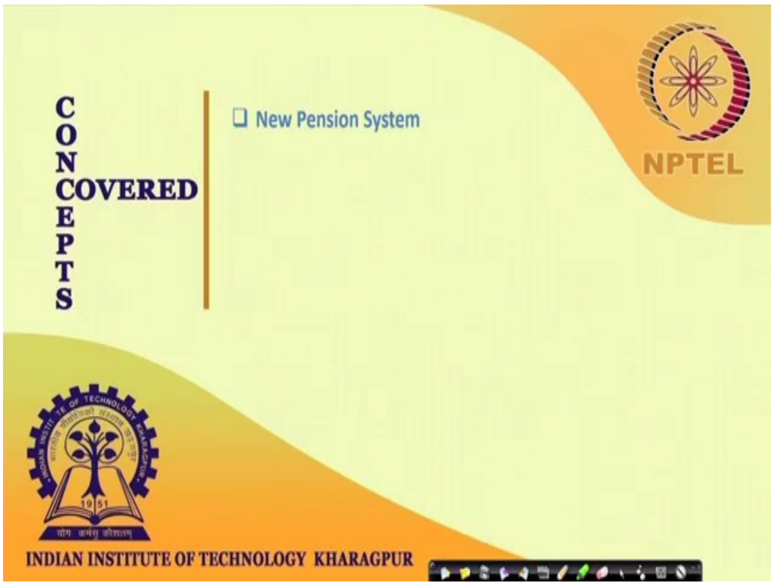

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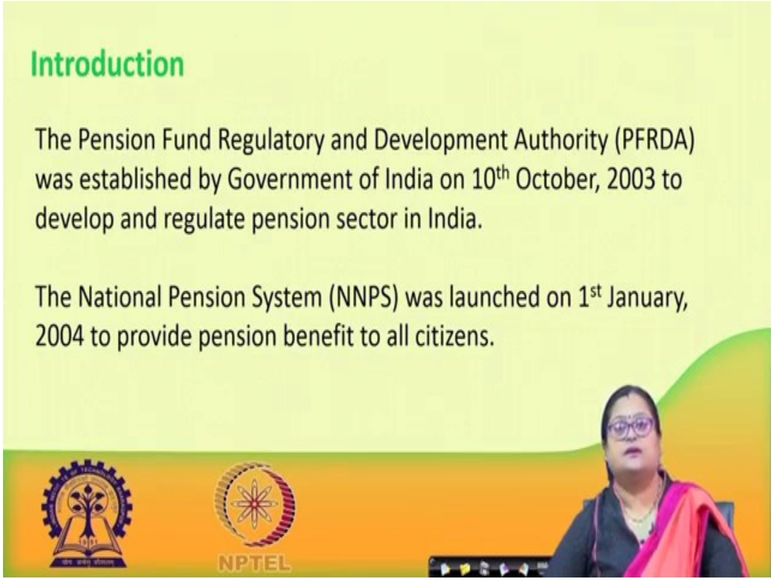

The Pension Fund Regulatory and Development Authority was established by the Government of India on 10th October 2003 to develop and regulate the pension sector in India. The National Pension System was launched on 1st January 2004 to provide pension benefits to all citizens.

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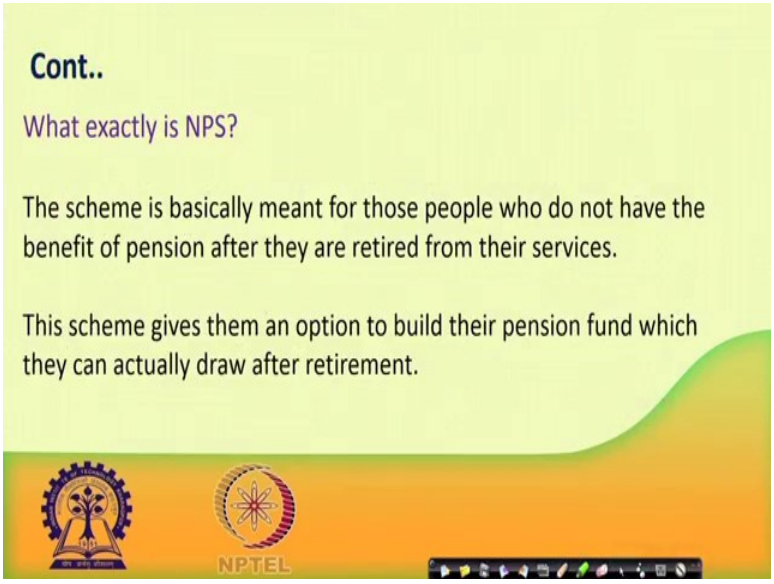

Now, what exactly is a new pension scheme? The scheme is basically meant for those people who do not have the benefit of pension after they are retired from their services. These schemes give an option to build their pension fund which they can actually draw after their retirement.

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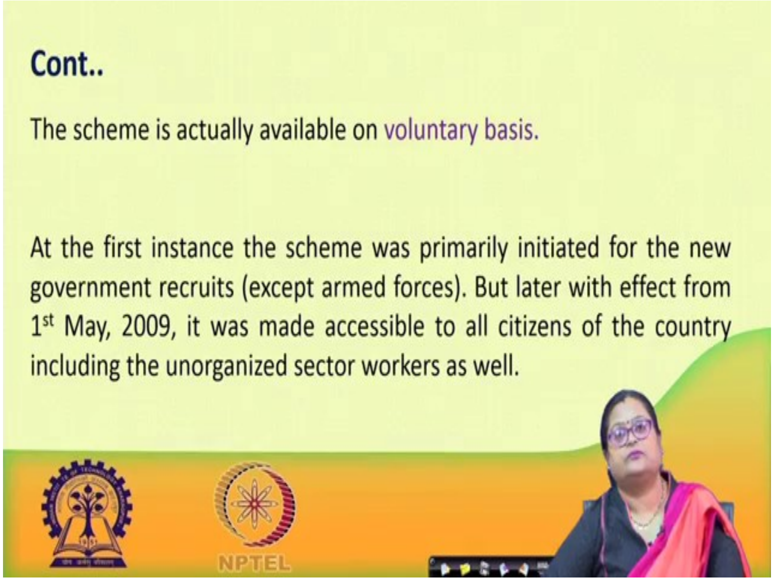

The scheme is actually available on a voluntary basis. The at the first instance the scheme was primarily initiated for the new government recruits except for the armed forces, but later with effect from 1st May 2009 it was made accessible to all the citizens of the country including the unorganized sectors workers as well. We will discuss of the unorganized sector workers and the pension scheme in a later module.

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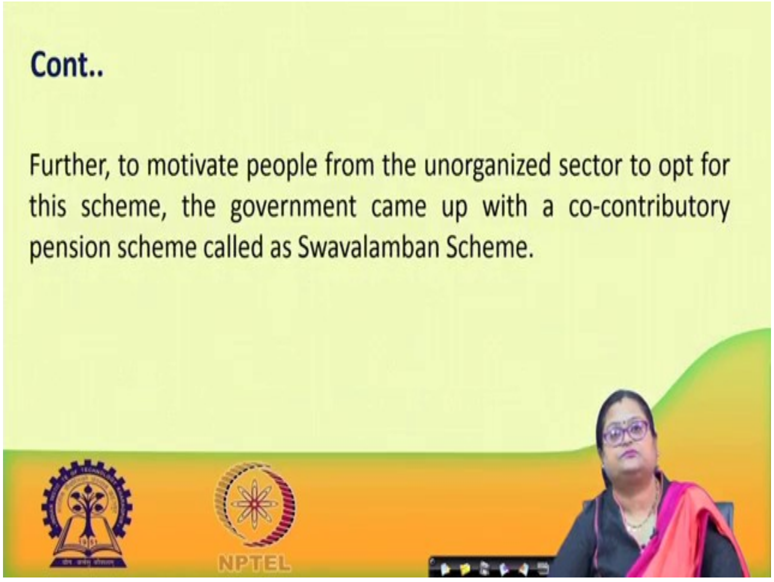

Further, to motivate people from the unorganized sector for to opt for the scheme, the government came up with a co contributory pension scheme called Swavalamban Scheme we will discuss about this with the later modules.

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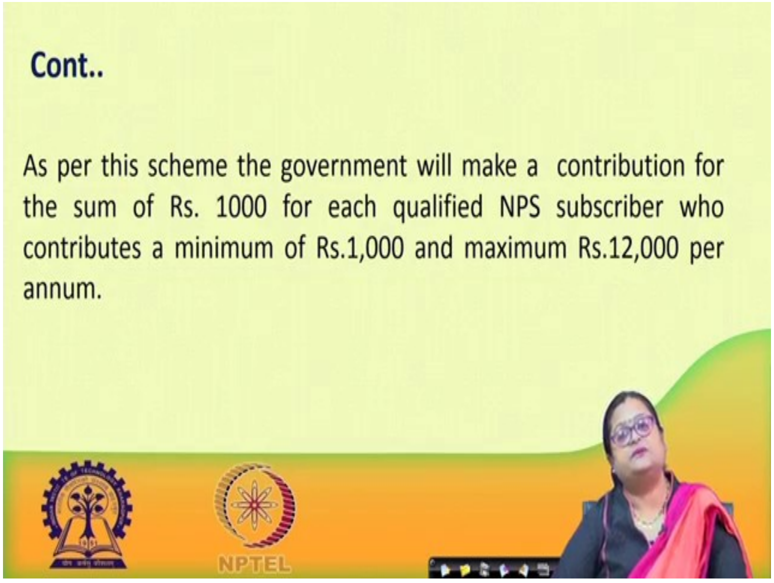

So, as per this scheme the government will make a contribution for the sum of Rs 1,000/ for each qualified New Pension Scheme subscriber, who contributes a minimum of Rs 1,000/ and maximum of Rs 12,000/ per annum.

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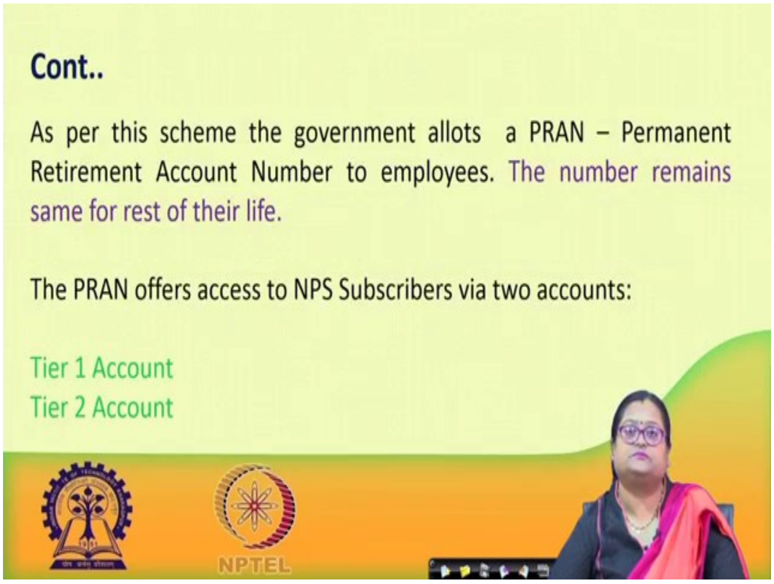

As per the New Pension Scheme the government allots a permanent retirement account number to the employees. The number remains same for the rest of their life the permanent retirement account number offers access to New Pension Scheme subscribers via two accounts; one is the tier 1 account, second is the tier 2 account.

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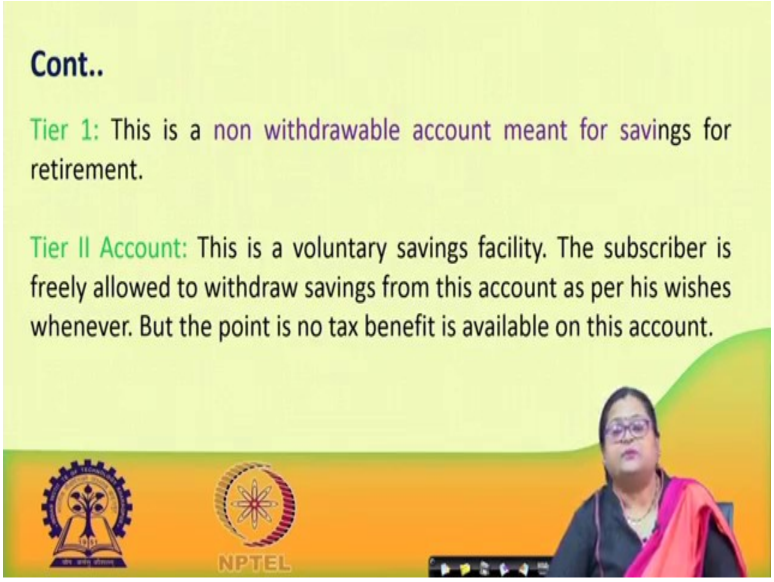

Now, what is there in the tier 1 account? Tier 1 is a non-withdrawable account made for savings for retirement, tier 2 account is a voluntary savings facility. The subscriber is freely allowed to withdraw savings from this account as per his wishes whenever, but the point is no tax benefit is available on this account. So, we see we have again a fixed part which needs to be saved and the part which can be withdrawn.

As we have already discussed like whenever we are talking of flexible funds in benefits there also in that discussion, if you remember we discussed about some parts of the benefit should be like you should not be flexible some part should be fixed because these are very essential benefits and people should not be allowed to encash that benefit like take cash return in lieu of that benefit. Similarly when you are talking of tier 1 and tier 2 you see the tier 1 is a non virtual amount which is made for savings for retirement tier 2 which you can withdraw as and when you require.

So, these keep some checks on the persons withdrawal of money as and when required which may be sometimes non financial acumen of the person or due to like habit of the person to withdraw money and buy things and others so, that when actually in time of need they really will not have any money at hand. To mitigate for that risk tier 1 account is a non-withdrawal account meant for savings for retirement.

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Now, what are the related entities in New Pension Scheme? Pension fund regulatory and development authority, it is an autonomous body which was set up by the Government of India to develop and regulate the pension market in India.

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Central Recordkeeping Agency: the job of the central record keeping agency is to maintain the records of all subscribers and also take care of the administration work along with providing customer services.

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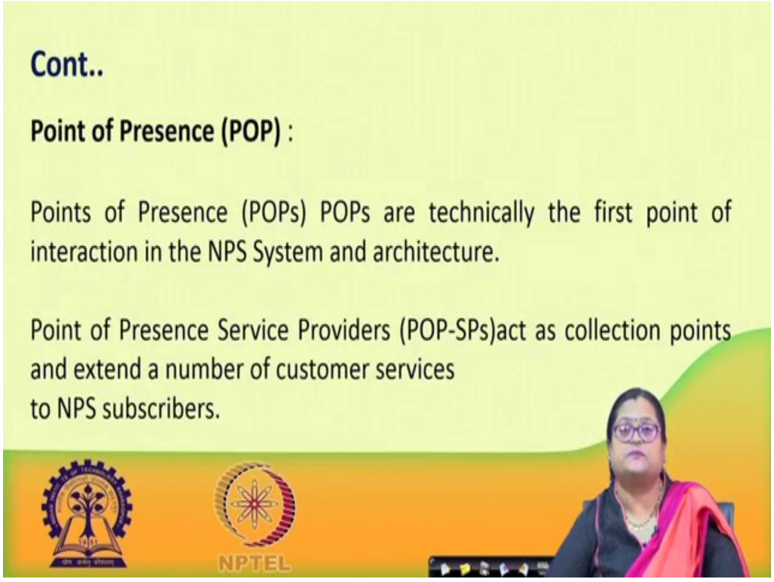

Point of presence; point of presence are technically the first point of interaction in the NPS system and architecture. Point of presence service providers act as collection points and extend the number of customer services to NPS subscribers.

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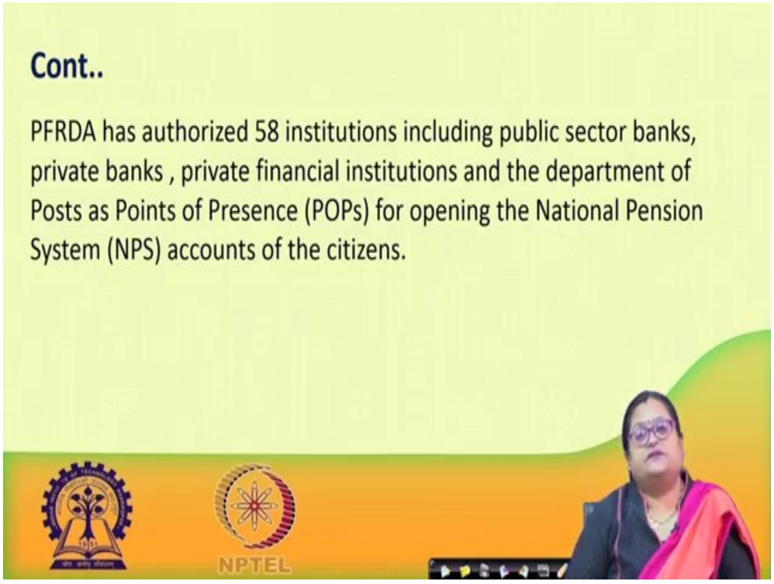

Pension Fund Regulatory and Development Authority has authorized 58 institutions including public sector banks, private banks, private financial institutions on the department of posts as point of presence for opening the national pension system accounts of the citizens.

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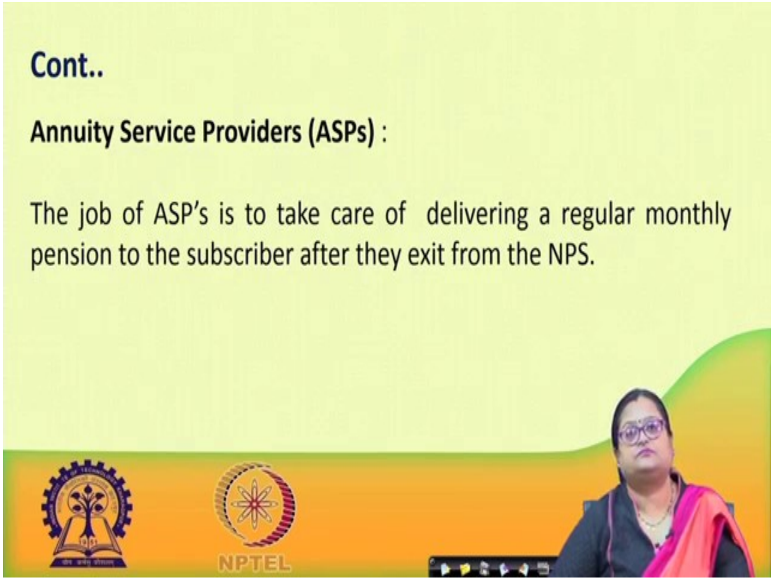

Annuity service providers; the job of annuity service providers is to take care of delivering a regular monthly pension to the subscriber after they exist from the NPS system.

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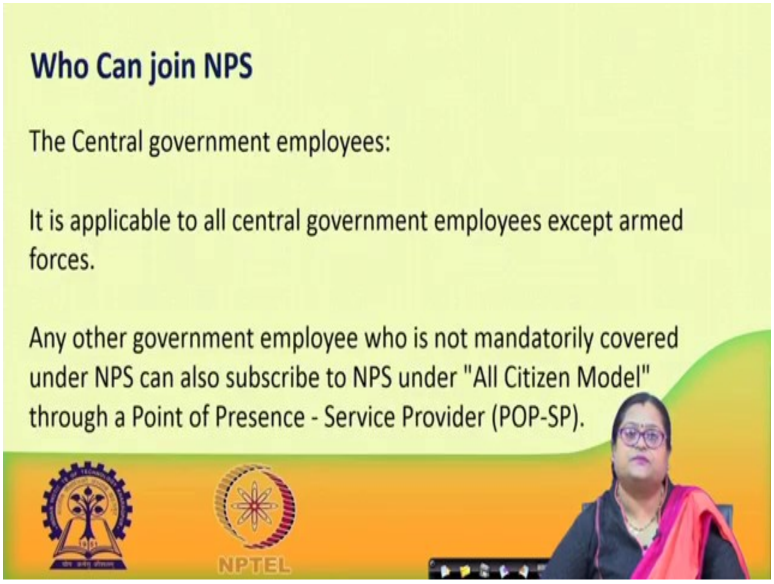

Now, who can join the NPS? The central government employees it is applicable to all central government employees except armed forces. Any other government employee who is not mandatorily covered under New Pension Scheme is also can also subscribe to NPS under all citizen model through a point of presence service provider.

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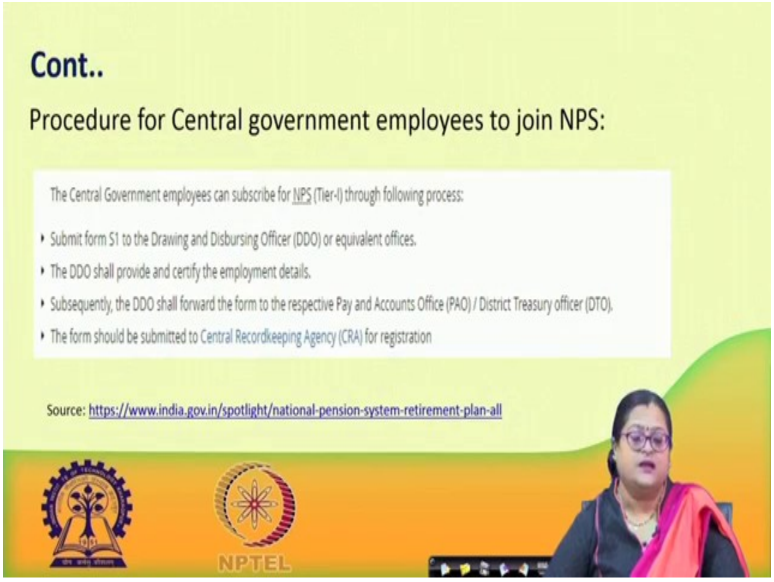

Now, the procedure for central government employees to join New Pension Scheme are like entire one to following process. Submit a form S1 to the drawing and disbursing officer or equivalent officers, the DDO shall provide and certify the employment details subsequently the DDO shall forward the form of the respective pay and accounts officer the district treasury office officer, the form should be submitted to the central record keeping agency for registration. For further details please look into the source the government portal where you can find the details of the steps.

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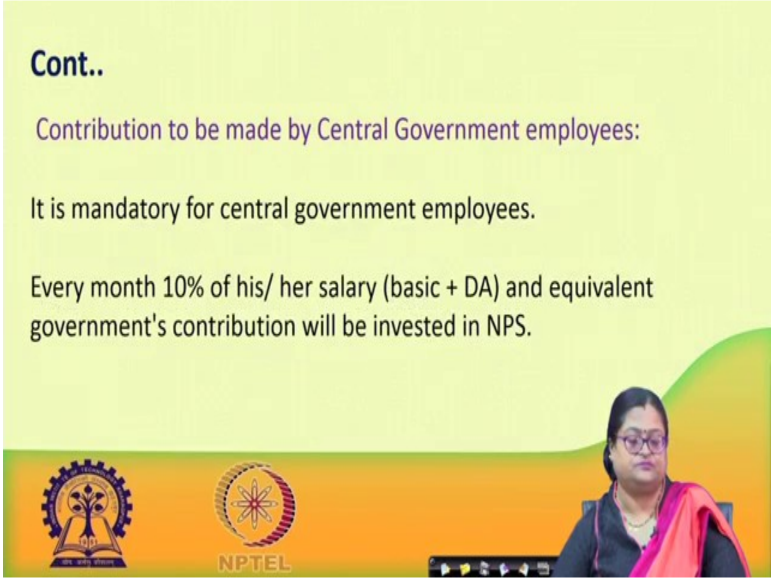

The contribution made by central government employees. It is a mandatory for central government employees every month 10 percent of his or her salary which is basic plus DA allowance and equivalent governments contribution we invested a New Pension Scheme.

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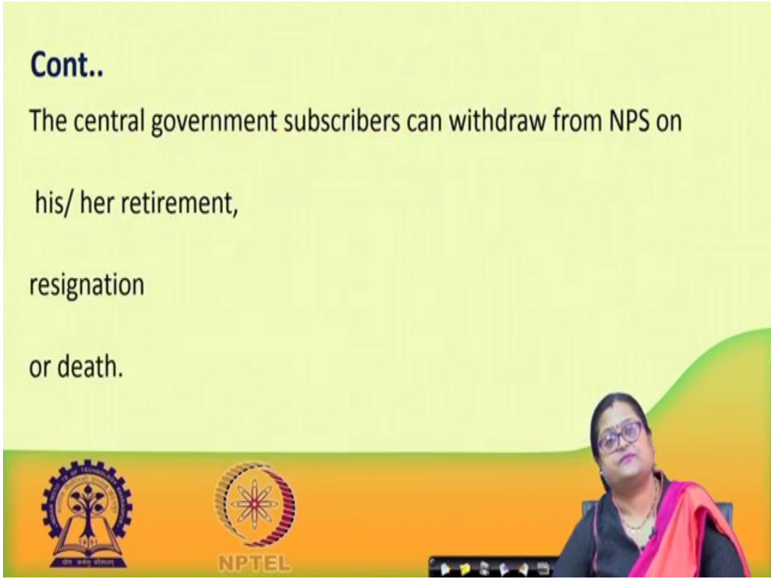

The central government employee or the subscribers can withdraw from NPS on his or her retirement resignation or death.

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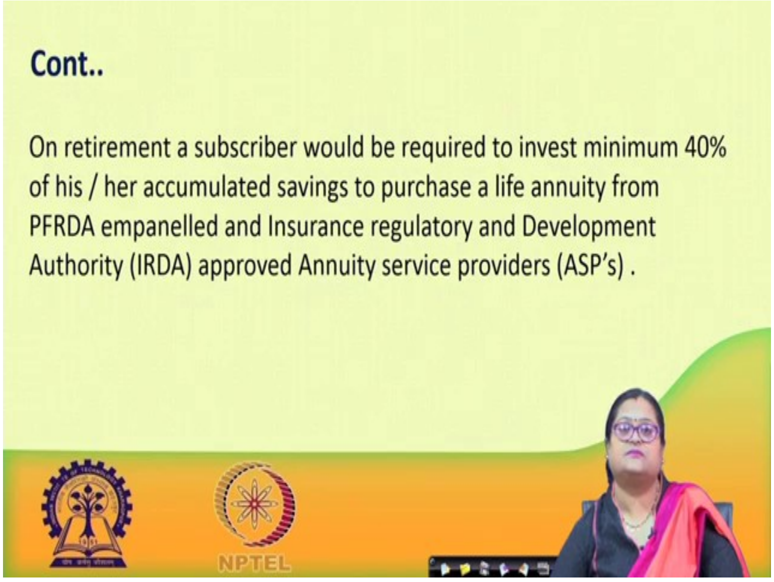

On retirement a subscriber would be required to invest minimum 40 percent of his or her accumulated savings to purchase a life annuity from the Pension Fund Regulatory and Development authorities empanelled and Insurance Regulatory and Development Authority IRDA approved annuity service providers.

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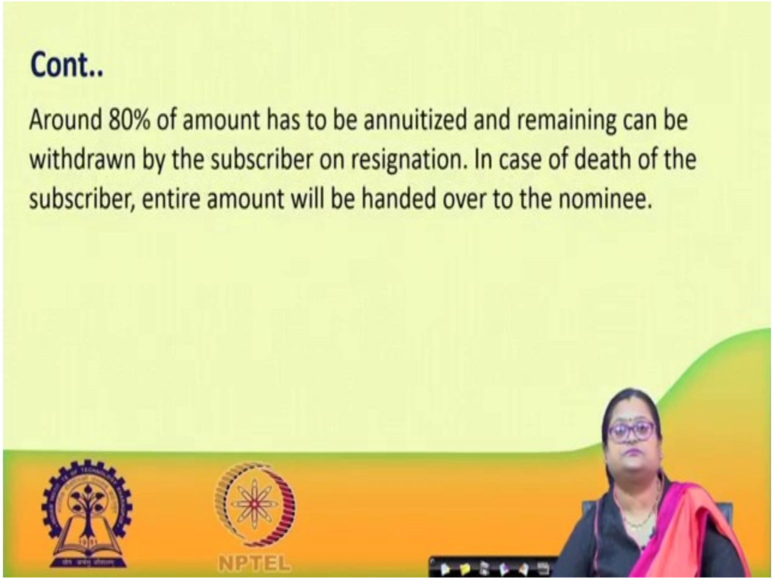

Around 80 percent of the amount has to be annuitized and remaining can be withdrawn by the subscriber on resignation. In case of death of the subscriber entire amount will be handed over to the nominee.

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For state government employees, NPS is applicable to all the employees of state government state autonomous bodies joining services after the date of notification by the respective state governments. Others who are not mandatorily covered can join it through all citizen model through point of presence service providers.

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Procedures for joining for state government employees are again like they have to submit form S1 to the DDO or equivalent officers, the DDO shall provide and certify the employment details, subsequently the DDO shall forward the form to the respective pay and accounts office at or the district treasury office, the form should be submitted to the central record keeping agency for registration. Again this is the link its very very important link that you need to visit in order to get more details about the steps.

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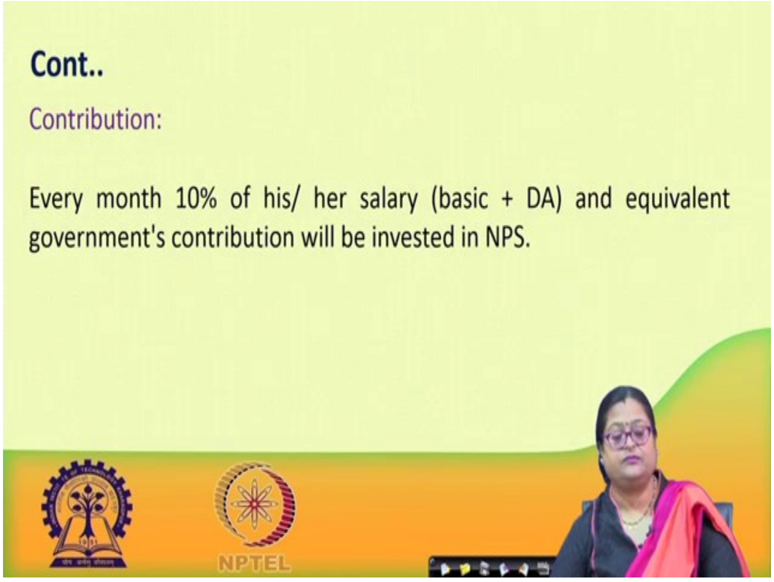

What is the contribution? Like the every month 10 percent of his or her salary again which is basic plus DA and equivalent government's contribution will be invested in NPS.

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On retirement the subscriber will be required to invest minimum 40 percent of his or her accumulated savings to purchase a life annuity from the PFRDA empanelled and IRDA approved annuity service providers.

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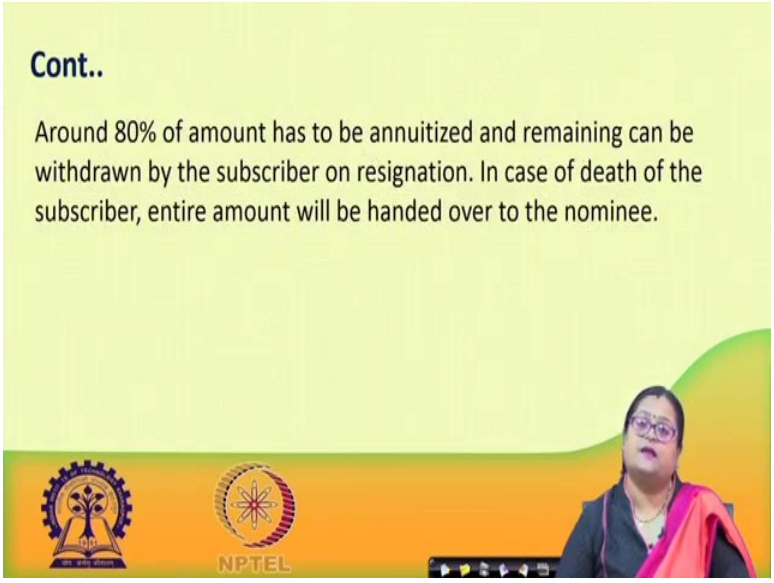

Again around 80 percent of the amount has to be annuitized and remaining can be drawn by the withdrawn by the subscriber on resignation in case of death of the subscriber the entire amount again will be handed over to the nominee.

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For corporate; the corporates are free at their will to make the investment choice either at subscriber level or at the corporate level centrally for all its underlying subscribers.

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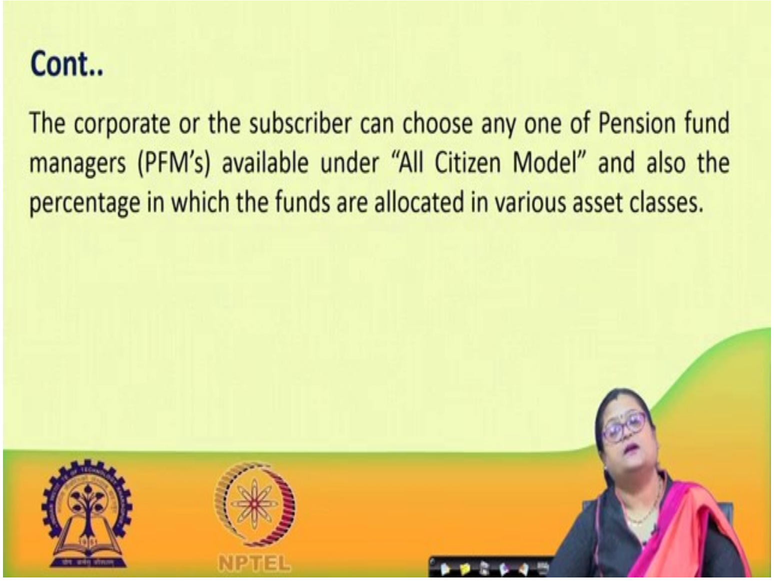

The corporate or the subscriber can choose any one of the pension fund managers available under all citizens model and also the percentage in which the funds are allocated on to various asset classes.

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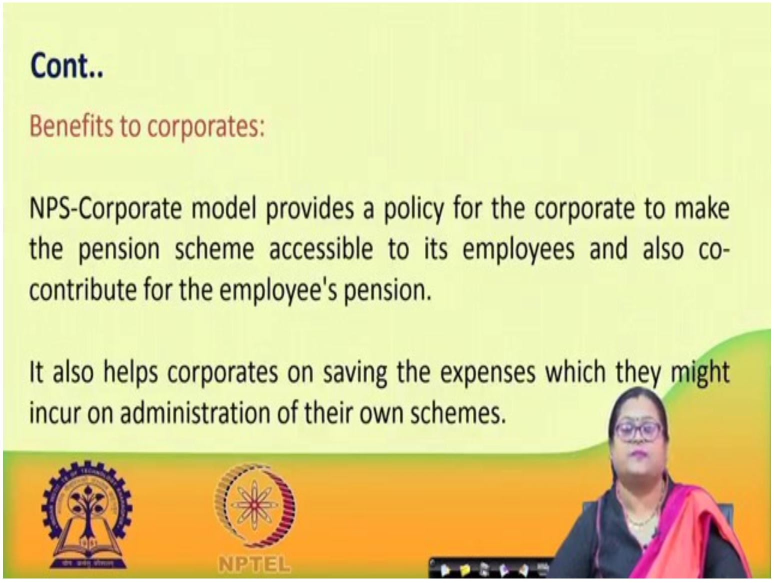

Now, what are the benefits to the corporates? NPS corporate model provides a policy for the corporate to make the pension scheme accessible to its employees and also co contribute for the employee's pension. It also helps corporates on saving the expenses which they might incur on administration of their own schemes.

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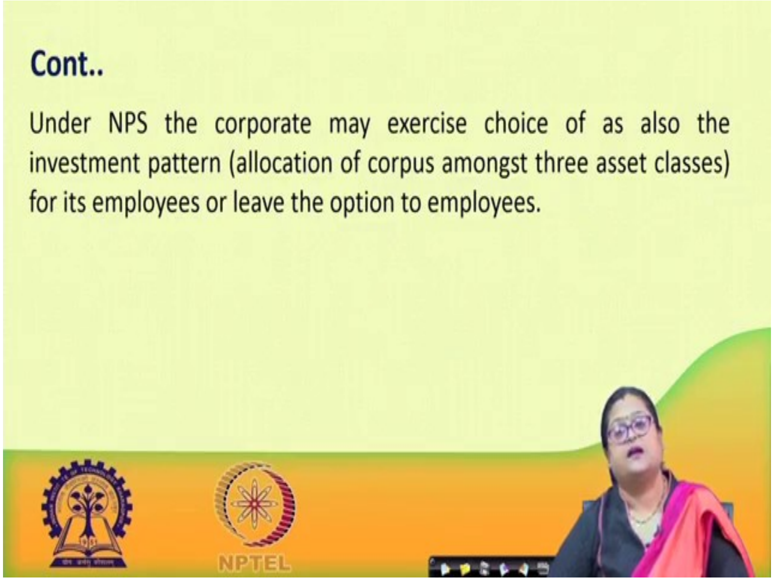

Under NPS the corporate makes the precise choice of as also the investment pattern. Like allocation of corpus amongst three asset classes, for its employees or leave the option to the employees.

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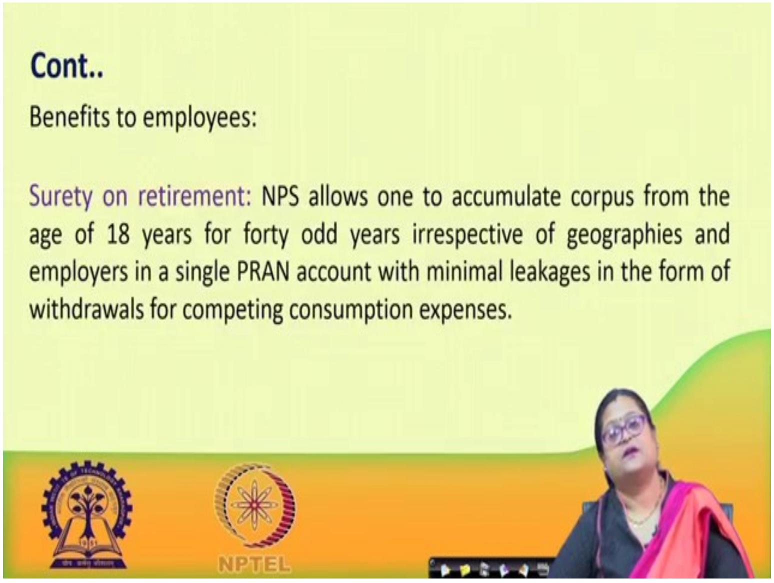

What are the benefits to the employees? It is a surety on retirement; NPS allows one to accumulate corpus from the age of 18 years for 40 odd years irrespective of geographies and employers in a single like account with limited like the minimal leakages in the form of withdrawals for competing the consumption expenses.

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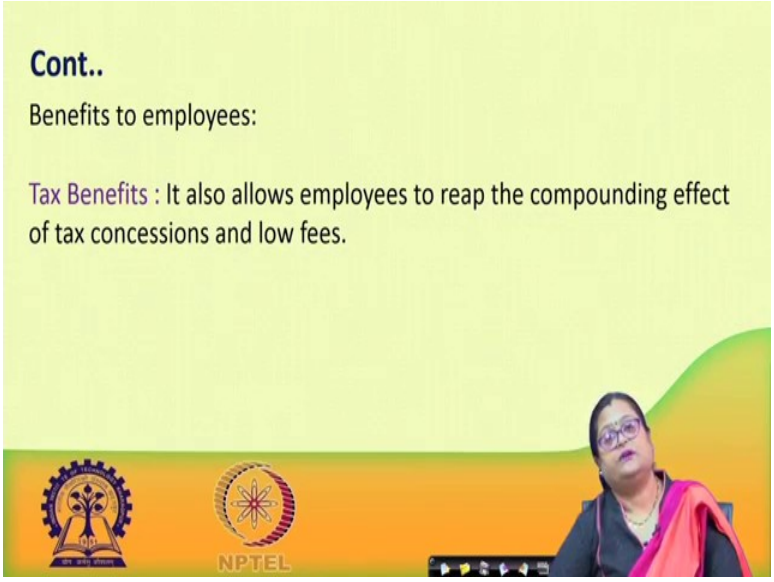

Other benefits are of course, like tax benefits, it also allows employees to rip the compounding effect of tax concessions and low fees.

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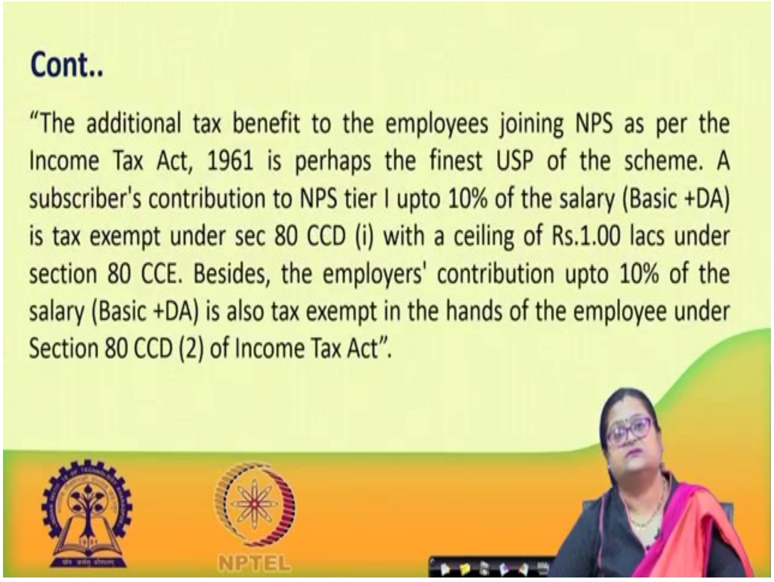

The additional tax benefit to the employees joining NPS as per the Income Tax Act 1961 is perhaps the finest USP of this scheme. A subscribers contribution to NPS tier 1 up to 10 percent of the salary which is basic plus DA is tax exempt under section 80 CCD subsection 1 with the ceiling of rupees 1 lakh under the section 80 CCE. Besides the employers contribution up to 10 percent of the salary which is basic plus DA is also tax exempt in the hands of the employee under section 80 CCD subsection 2 of the Income Tax Act.

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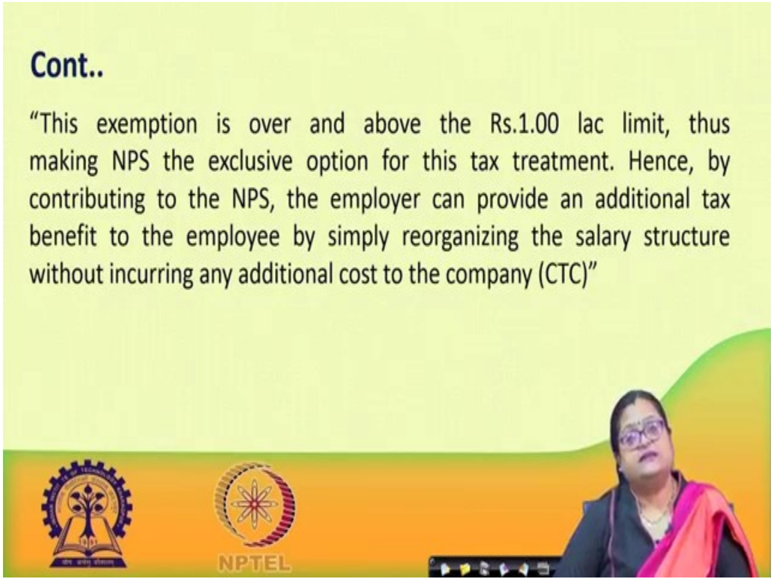

This exemption is over and above the Rs 1 lac limit thus making NPS the exclusive option for this tax treatment. Hence by contributing to the NPS the employer can provide an additional tax benefit to the employee by simply reorganizing the salary structure without like incurring any extra cost to the company.

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Contribution; there exists a flexibility to provide investment scheme preferences like and prefer investment choices either at the subscriber level or at the corporate level centrally for all underlying subscribers.

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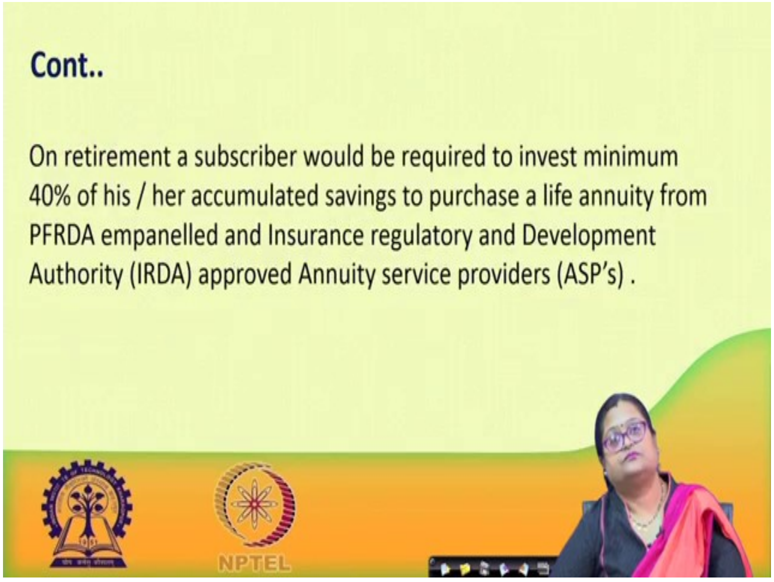

On retirement, subscriber would be required to invest as already told let the 40 percent of our accumulated savings to purchase a life annuity from the PFRDA empanelled an IRDA approved an annuity service provider which is a mode of compulsory saving so, that the risks further in life are taken care of and the person does not suffer from like the financial constraints or limitations like their post retirement life.

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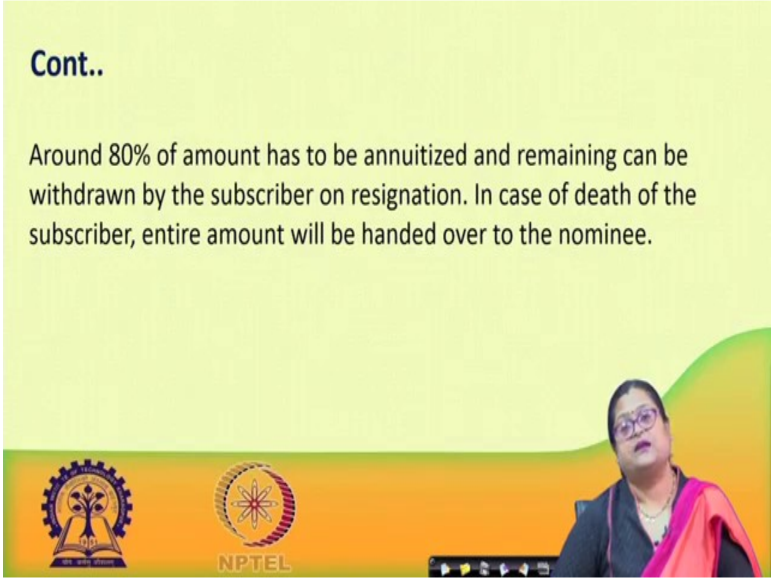

And also like the around 80 percent of the amount again has to be annuitized and the remaining can be withdrawn by the subscriber on resignation.

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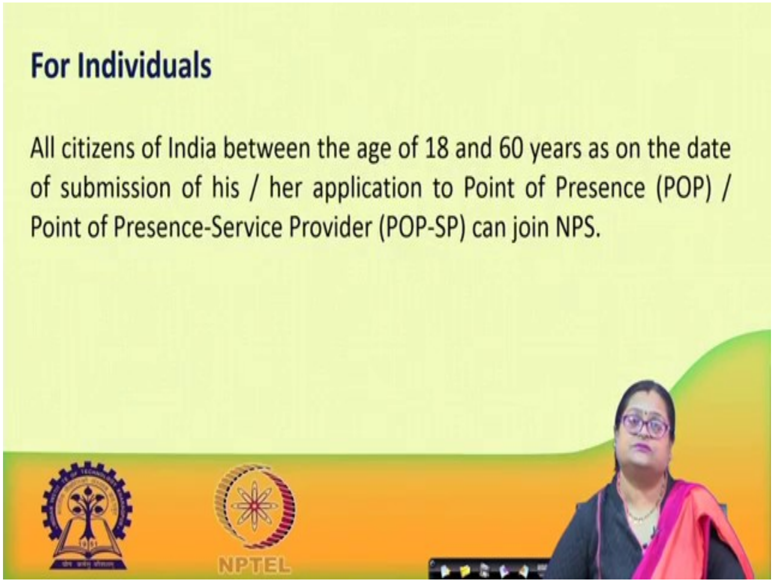

So, for individuals is like all citizens who is between the age of 18 and 60 years as on the date of submission of his or her application to the point of presence or point of presence service providers can join New Pension Scheme.

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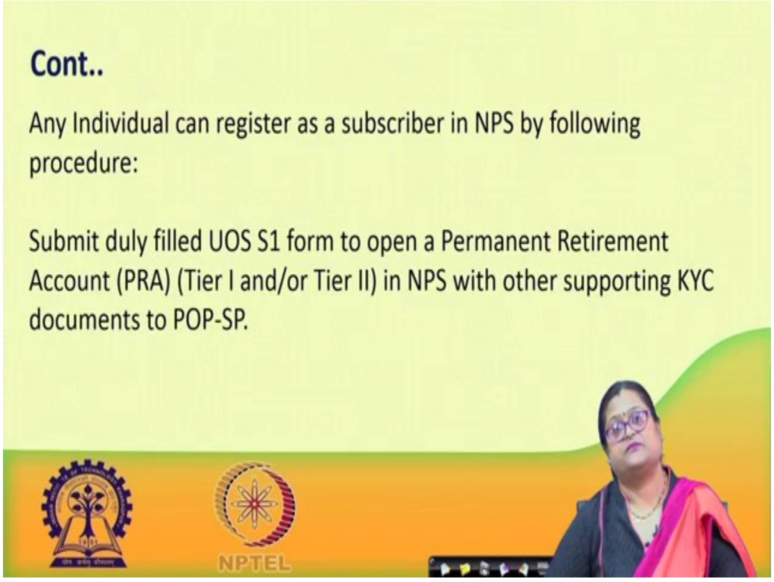

Any individual can register as a subscriber by following this procedure like the was duly filled in the form UOS S1 submit duly filled in UOS S1 form to open a permanent retirement account tier 1 or tier 2 in NPS with other supporting KYC documents to the point of presence service provider.

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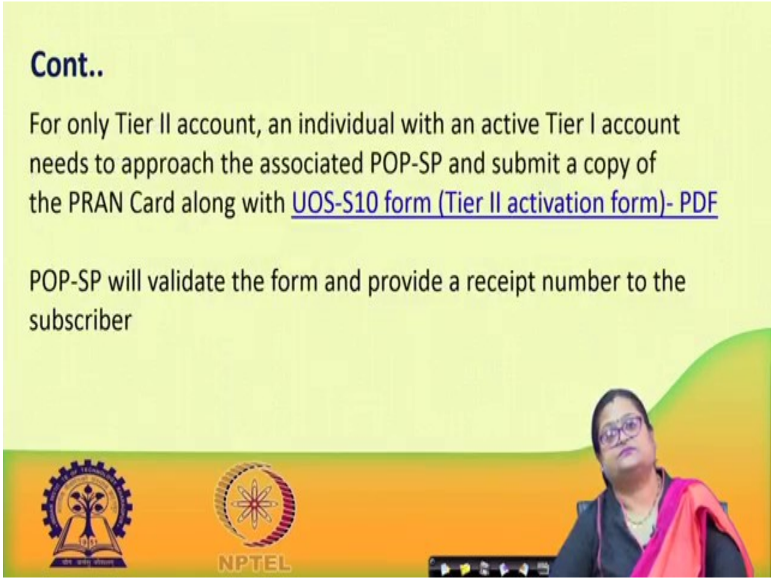

For only tier 2 account the individual will have with an active tier 1 account needs to approach the associated point of presence service provider and submit a copy of the Pran card along with UOS S10 form like tier 2 activation form and the pop service provider will validate the form and provide a receipt number to the subscriber.

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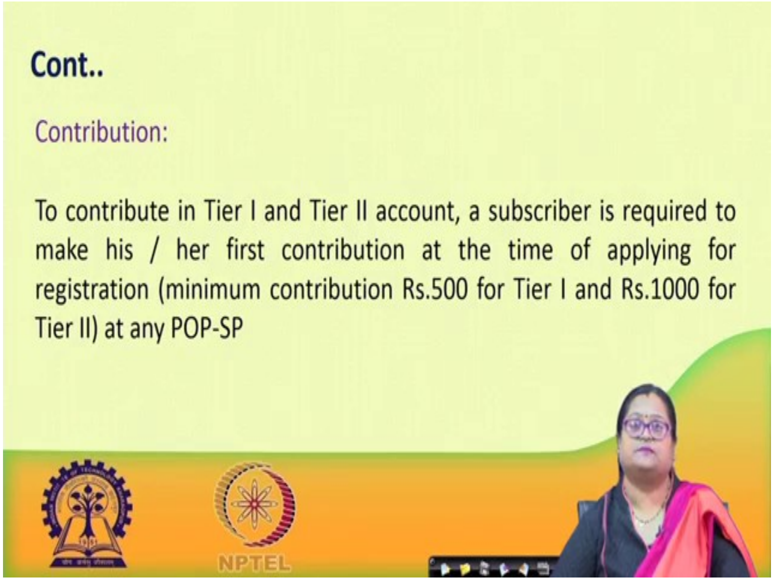

Contribution: To contribute in the tier 1 and the tier 2to account a subscriber is required to make his or her first contribution at the time of applying for registration, minimum contribution is Rs 500/ for tire 1 and Rs 1,000/ for tier 2 at any point of presence service provider.

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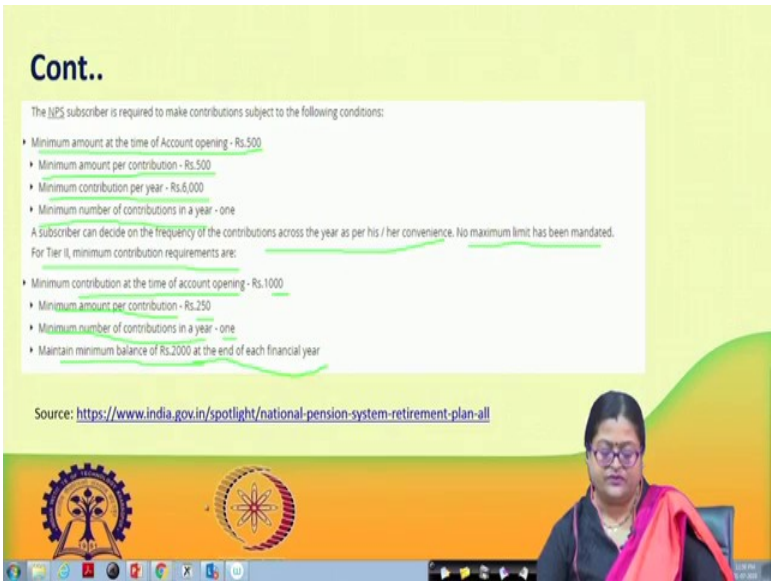

So, the subscriber is required to make contribution subject to the following conditions, minimum amount at the time of account opening is Rs 500/; minimum amount per contribution is Rs 500/, minimum contribution per year is Rs 6000/, minimum number of contributions in a year is 1. So, it is sort of self discipline financial discipline that you get through is like you are at least making one contribution per year, a subscriber can decide and the frequency of contributions across the year as for his or her convenience no maximum limit has been mandated.

For tier 2 the minimum contribution requirements are, minimal contribution at the time of account opening is Rs 1,000/, minimum amount per contribution is Rs 250/, minimum number of contributions in a year is at least 1, maintain minimum balance of Rs 2000/ at the end of the financial year. This point is really very very important so, the you are not under the like compulsion sometimes it would be a very cool like drastically irrationally and we want to withdraw money.

So, but here if you have to maintain a minimum balance of Rs 2000/, then it then it gives you some restrictions on the amount that you can withdraw. And it leads to somewhat compulsory saving for you.

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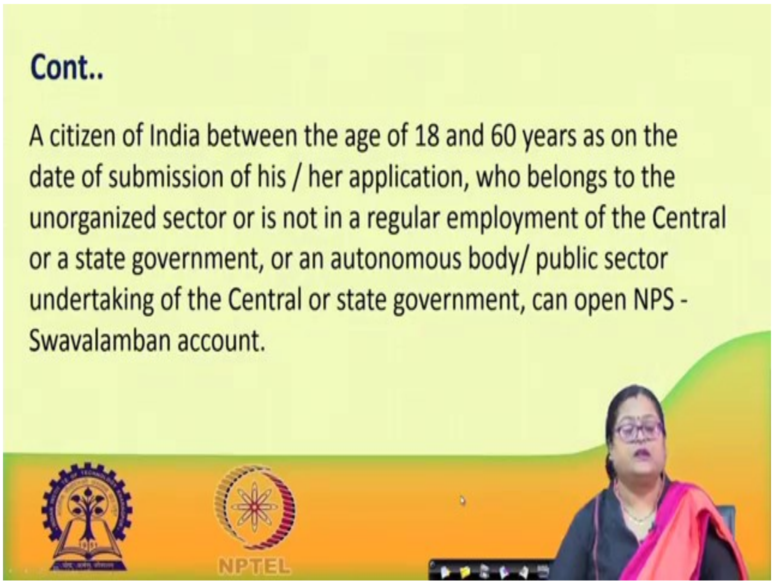

A citizen of India between the age of 18 and 60 years as on the date of submission of his or her application, who belongs to the unorganized sector or is not in a regular employment of a central or state government or an autonomous body or a public sector undertaking of the central government can open an NPS Swavalamban account.

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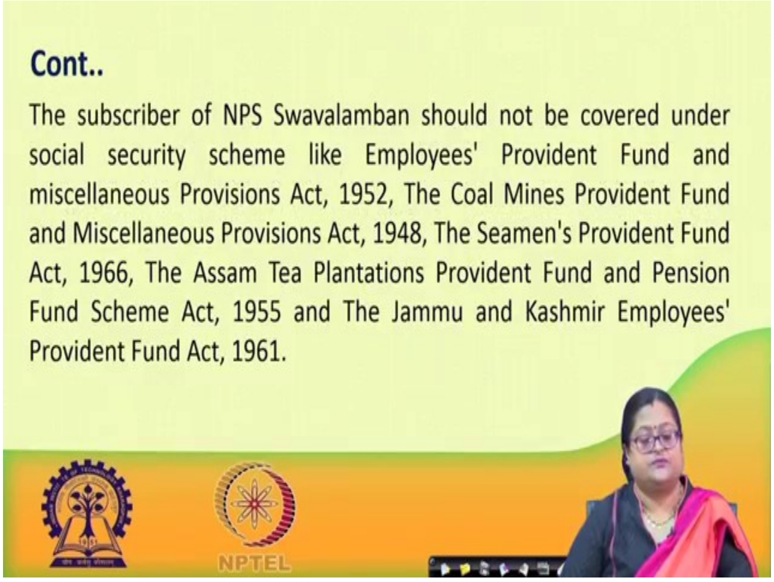

The subscriber of the NPS Swavalamban should not be covered under a social security scheme like Employees Provident Fund and the miscellaneous Provisions Act 1952. The Coal Mines Provident Fund and Miscellaneous Provisions Act 1948, the Seamen’s Provident Fund Act 1966, the Assam Tea Plantations Provident Fund and Pension Fund Scheme Act 1955 and the Jammu and Kashmir Employees Provident Fund at 1961.

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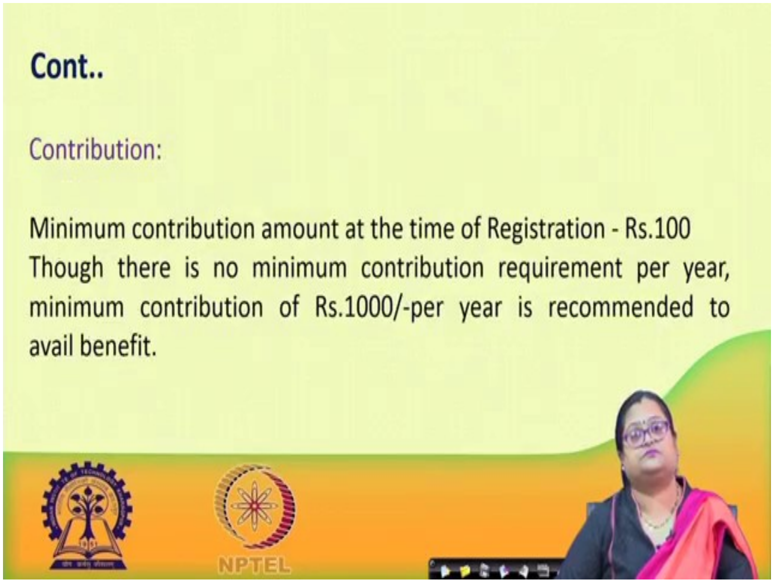

Contribution for this minimum contribution amount at the time of registration is Rs 100/. Though there is no minimum contribution requirement per year minimum contribution of Rs 1,000/ per year is recommended to avail of benefit.

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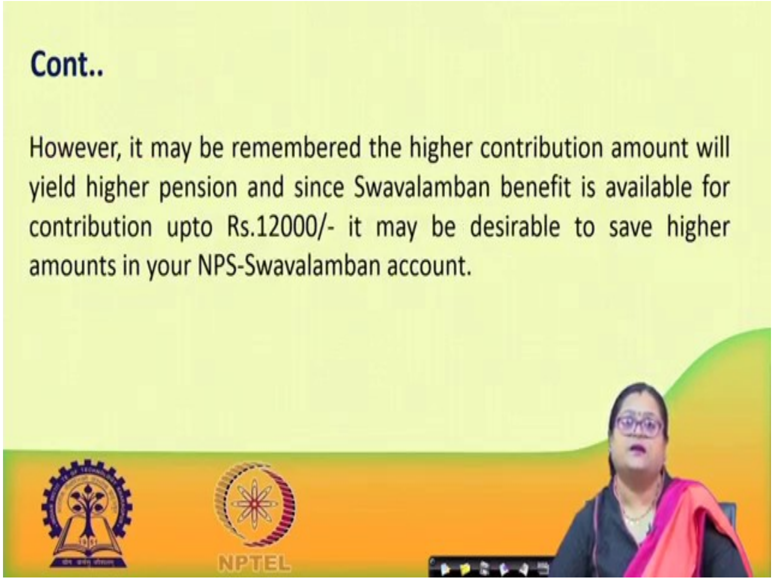

However, it may be remembered that the higher contribution amount will yield higher pension and since Swavalamban benefit is available for contributions up to Rs 12,000/ as we seen in the earlier slide, it may be desirable to save higher amounts in your NPS Swavalamban account.

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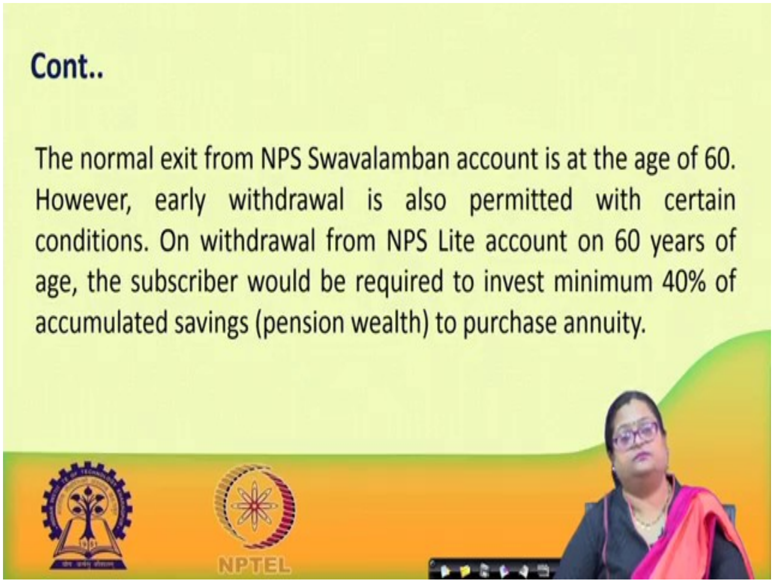

The normal exit from the NPS Swavalamban account is at the age of 60. However, early withdrawal is also permitted with certain conditions. On withdrawal from NPS light account of 60 years of age the subscriber would be required to invest minimum 40 percent of the accumulated savings which is the pension wealth to purchase annuity.

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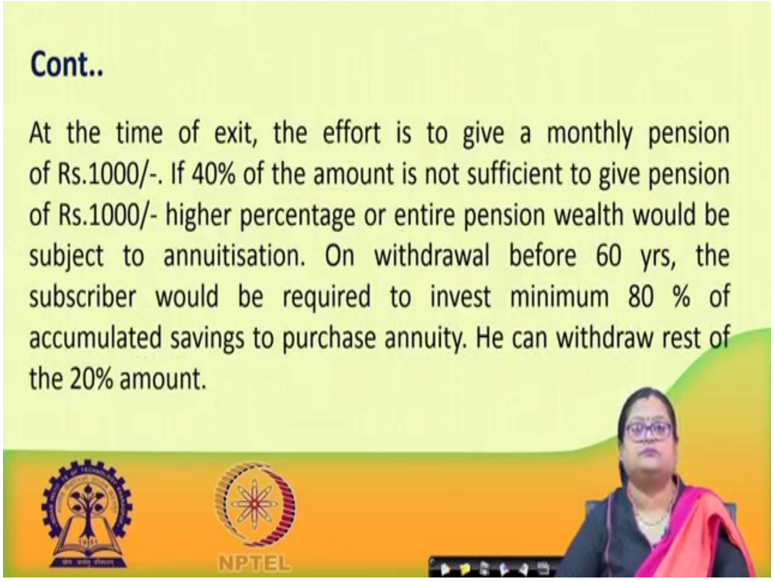

At the time of exit the effort is to give a monthly pension of Rs 1,000/, if 40 percent of the amount is not sufficient a new pension of Rs 1,000/, higher percentage entire pension wealth will be subject to annuitization. On withdrawal before 60 years, the subscriber would be required to invest minimum 80 percent of the accumulated savings to purchase annuity he can withdraw rest of the 20 percent amount.

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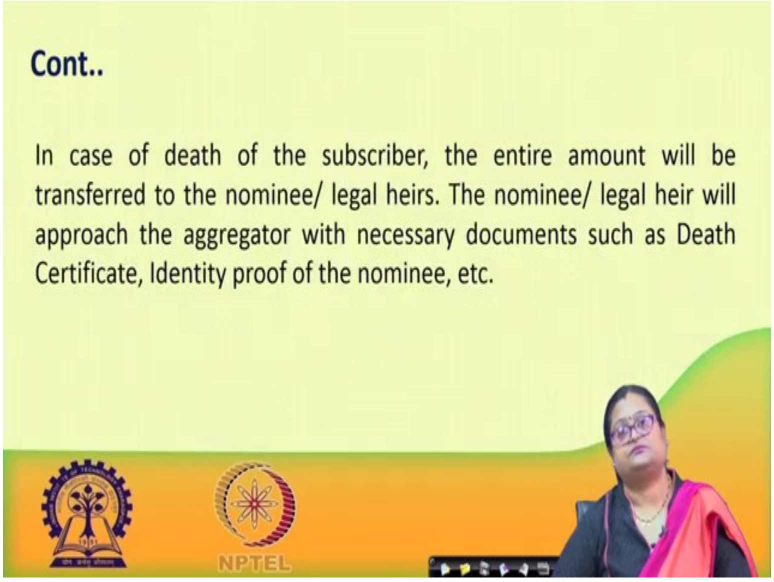

In case of the death of the subscriber the entire amount will be transferred to the nominee or the legal heirs. The nominee or the legal heir will approach the aggregator with necessary documents such as death certificate, identity proof of the nominee etcetera.

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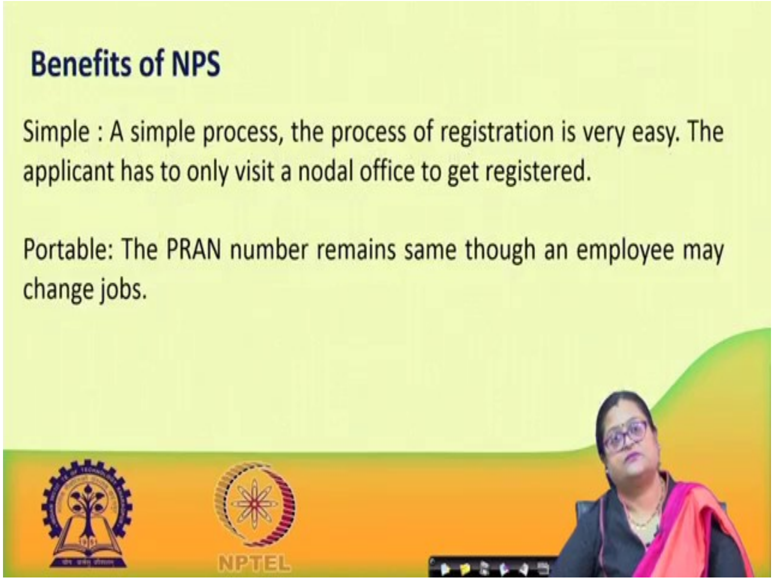

Benefits of New Pension Scheme; the beautiful benefits are it is simple, it is a simple process the process of registration is very easy the applicant has only to visit a nodal office to get registered. It is portable which is very very important the PRAN number remains same throughout the employee's career though an employee change jobs.

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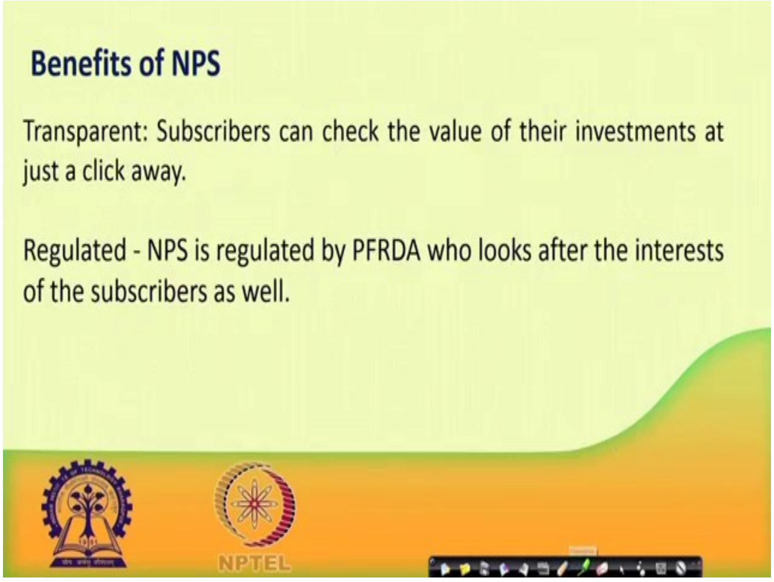

Benefits of the New Pension Scheme: Transparent; subscribers can check the value of their investments at just a click away it is regulated. New Pension Scheme is regulated by pension fund regulatory and development authority who looks after the interests of the subscribers as well.

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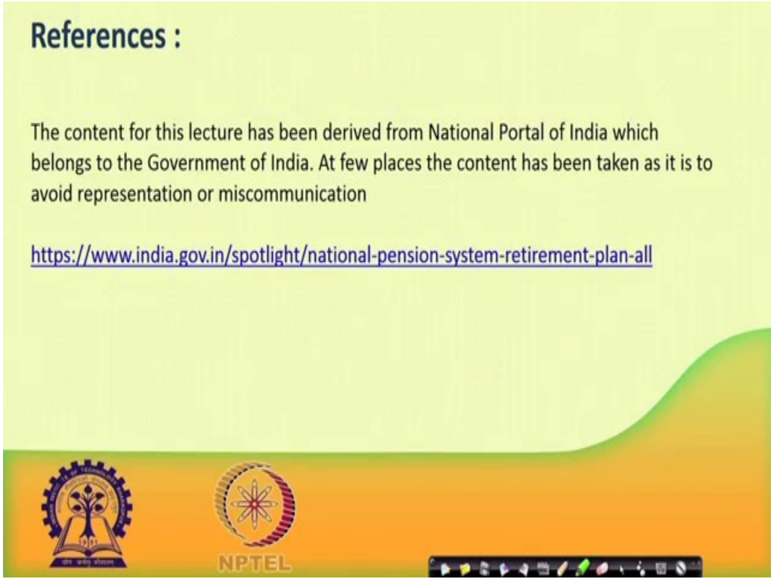

The reference for these lectures have been entirely drawn from the government portal without any like distortions made because it is taken as it is so, that there is to avoid waste representations or miscommunications. And, it is recommended that you visit this government portal to get further ideas and the detailed ideas about the different pension schemes.

Thank you in the next module we are going to discuss on the Atal Pension Yojana.

Thank you.