National Pension Scheme

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Manifest Pedagogy

So far government schemes have been on the back foot due to plethora of investment options available in the market such as mutual funds and private pension schemes. In this regard the change in rules were a process to make government schemes more attractive. This topic will gain relevance with respect to NPS rules, choices offered under NPS and type of management agencies etc.

UPSC will focus on the relevance of changes and acceptability of NPS at large amongst the general population and further may ask you to discuss its impact on broader participation towards social security schemes.

In news

Changes in NPS rules

Placing it in syllabus

Paper-2: Schemes related to vulnerable sections, Social security, Health, education and poverty.

Paper-3: Inclusive growth-Financial inclusion

Static dimensions:

1. Social security in India- Organized v/s Unorganized
2. Financial inclusion in India
3. Vulnerability
4. Social security schemes

Current dimensions

1. National Pension scheme
2. National pension scheme at par with PF, Tax free status (EEE)
3. Atal Pension Yojana
4. Criticism of NPS

Content

Unorganized Workers Social Security Act 2008

This Central Government Act is provided with the purpose and object of providing social security and welfare of the unorganized workers. Following are the features of it:

1. It defines the term **unorganized worker.**
2. Act makes provisions for **social security benefits** which can be seen as the main purpose of the Act.
3. It provides for making welfare scheme by central government for unorganized workers which should deal with the matters provided under the several clauses of this provision, such as **covering life and disability, matter of providing benefits such as maternity and health benefits, old age protection.**
4. **Section 4 of the Act** provides for issuing funds by the Central Government for the Scheme(Entire funding is required to be made by the Central Government or in case of partly funding by the State Government)
5. It also mentions the provision for constitution of Board for the Unorganized Workers etc.

Financial inclusion in India

Financial inclusion i.e. remedy of financial exclusion – is process of making formal financial services accessible and affordable to all. Financial services do not mean the provision of credit alone, but the provision of all other services, especially savings, insurance and remittance facilities.

Following are the committees/ experts panel that have recommended for financial inclusion

- Rangarajan Committee – Committee for financial exclusion
- Hundred small steps by Planning commission
- Raghuram G Rajan Committee Report – "Broadening access to necessary financial services in an appropriate form"

Causes of financial exclusion are:

Geographical – Non-existence of branches in an area

Access inclusion – Restricted access due to bank's risk assessment process

Conditional – Product failing to meet needs

Price exclusion – Changes associated with products and services being very high

Marketing – Strategic exclusion of certain markets

Self-Exclusion – Some sections of the population refuse to approach banks, believing that any
request would be turned down.

National Pension Scheme

NPS is a dynamic scheme launched by the Government of India, to help all the citizens to plan their future as per their convenience. Important features of the scheme are:

- **Voluntary Scheme:** It is a voluntary scheme open to every citizen of India between the age group of 18-65 year working in the private / unorganized sector.
- **Flexibility:**
  - The scheme provides flexibility to the citizens to park their excess fund temporarily in the scheme through the Tier II account.
  - The scheme gives flexibility to the citizens to continue their account with as low investment as Rs 500/- at one time and Rs 1000/- per annum.
  - The scheme gives flexibility to select the fund manager and monitor the performance.
- **Portability**: The citizens may operate account from anywhere in India through vast networks of Point of Presence (PoPs).
- **Independence:** The scheme enables the citizens to be independent even after getting retirement
- **Safe Investment**: A safe retirement fund—Introduced by the Government of India and regulated by Pension Fund Regulatory & Development Authority.
- **Low cost scheme:** One of the most important features of the product is that it can manage automated asset allocation for each individual account separately by starting with a higher allocation to equities and gradually shifting away to fixed income as one gets older.

Type of national pension scheme Accounts:

There are two types of accounts that NPS offers;

1. **Tier – 1 Account**-it is a basic pension account with limitations on withdrawal
2. **Tier – 2 Account**– It is a voluntary savings option from which a person can withdraw any limits.

How NPS is at par with EPF and PPF?

The Union Cabinet cleared five changes to the national pension scheme (NPS) which keeps NPS at par with PF. They are:

1. **New Pension Scheme & EEE System**– EEE means, that the money you invest in the scheme (up to a limit) is exempt income tax (1st E), the growth of the money or profit while you remain invested is exempt from income tax (2nd E) and the corpus that you withdraw (subject to limits) is also exempt from income tax (3rd E).
2. **Higher employer contributions** (14%) allowed for government employees NPS accounts.
3. **Investments in Tier 2** by government employees will also qualify under 80 C deductions with a lock-in of 3 years (not clear about this final taxation).
4. **Interest Payments** to be made in the case of delayed payout from the NPS.
5. Government employees can now choose the **asset allocation** (earlier they had a 15% fixed equity).

Atal Pension Yojana (APY)

Highlights

1. Under the APY, there is guaranteed minimum monthly pension for the subscribers ranging between Rs. 1000 and Rs. 5000 per month.
2. The benefit of minimum pension would be guaranteed by the GoI.
3. GoI will also co-contribute 50% of the subscriber’s contribution or Rs. 1000 per annum, whichever is lower. Government co-contribution is available for those who are not covered by any Statutory Social Security Schemes and is not income tax payer.
4. GoI will co-contribute to each eligible subscriber, for a period of 5 years who joins the scheme between the period from 1st June, 2015 to 31st December, 2015.

5. The existing Swavalamban subscribers between 18-40 years will be automatically migrated to APY.
6. All bank account holders may join APY.

Eligibility

- APY is applicable to all citizen of India aged between 18-40 years.
- Aadhaar will be the primary KYC. Aadhar and mobile number are recommended to be obtained from subscribers for the ease of operation of the scheme

Need for social security

- According to 2011 census there is increase in the aging population
- Burden on the state- Japan, Germany and France
- Need for penetration and coverage in India

Criticisms

1. There is a lack of awareness among common people about pension maturity, claim process (if husband died it can be claimed by his wife), bonus.
2. Universalism/ broad based approach by the government is need of the hour.
3. Moreover, the government will have to reach out effectively to cover more beneficiaries under the scheme. (For ex: a camp based approach or a door to door campaign may be required for making the scheme broad based)

Suggestions:

1. It is necessary to make the pension process very simple with the use of local language.
2. People should be given freedom of choice to enroll for a pension scheme
3. Instead of using text messages, voice based messages in

local languages should be used while communicating with the customer
4. Transparency should maintained in claim process and continuation.
5. Camp based services should provided in rural areas(like Polio-where the field worker go home to home)
6. Role models and NGO’s are handful in pursuing common people to enroll for a pension scheme.

Test yourself: Mould your thoughts

Financial inclusion is not only about opening bank accounts but goes much beyond. In light of this statement comment upon various social security initiatives of the government.