

# **NATIONAL PENSION SYSTEM (NPS)**

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## **AAO PAPER IV**

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## Exam Notes NPS (NATIONAL PENSION SYSTEM)

### Short, title and commencement: -

- These rules may be called the Central Civil Services (Implementation of National Pension System) Rules, 2021.

### Application: -

- these rules shall apply to the Government servants,
- including civilian Government servants in the Defence Services, appointed substantively to civil services and posts in connection with the affairs of the Union on or after 1st day of January, 2004, but shall not apply to
  - Railway servants;
  - persons in casual and daily rated employment;
  - persons paid from contingencies;
  - members of the All India Services;
  - persons locally recruited for services in diplomatic, consular or other Indian establishments in foreign countries;
  - persons employed on contract;
  - persons whose terms and conditions of service are regulated by or under the provisions of the Constitution or any other law for the time being in force; and
  - persons to whom the Central Civil Services (Pension) Rules, 1972 apply in accordance with any special or general order issued by the Government.

### Definition

1. **“Accumulated Pension Corpus”** means the monetary value of the pension investments accumulated in the Individual Pension Account of a subscriber under the National Pension System;
2. **“Annuity”** means periodic payment by the Annuity Service Provider to the subscriber on purchase of annuity plan out of the Accumulated Pension Corpus;
3. **“Annuity Service Provider”** means a life insurance company registered and regulated by the Insurance Regulatory and Development Authority and empanelled by the Authority for providing Annuity services to the subscribers of the National Pension System;
4. **“Central Recordkeeping Agency”** means an agency registered under section 27 of Pension Fund Regulatory and Development Authority Act, 2013 to perform the functions of recordkeeping, accounting, administration and customer service for subscribers to schemes;

5. **“Drawing and Disbursing Officer”** means a Head of Office and also any other Gazetted Officer so designated by a Department of the Central Government, a Head of Department or an Administrator, to draw bills and make payments on behalf of the Central Government. The term shall also include a Head of Department or an Administrator where he himself discharges such function;
6. **“Pay and Accounts Officer”** means an officer, whatever his official designation, who maintains the accounts of a Ministry, Department or Office of the Central Government or Union territory and includes an Accountant-General, who is entrusted with the functions of maintaining the accounts or part of accounts of the Central Government or Union territory;
7. **“Permanent Retirement Account Number”** means a unique identification number allotted to each subscriber by the Central Recordkeeping Agency.

### **The National Pension System (NPS)**

National Pension System (NPS) **means the contributory pension system.** Where employee contribute 10% (basic+da) and employer contribute 14% of same are collected and accumulated in an individual pension account

NPS is mandatory to all employees joining services of Central Government (except Armed Forces) and Central Autonomous Bodies on or after **1st January 2004.**

Regulated by: Pension Fund Regulatory and Development Authority (PFRDA).

**Objective:** To provide a sustainable pension system for retirement by promoting regular savings during the working life of individuals.

Open to all Indian citizens, (including NRIs) between the ages of 18 and 70 years.

### **Feature of NPS:**

Following are the features of NPS:

a. **Transparent:** NPS is transparent and cost effective system wherein the pension contributions are invested in the pension fund schemes and the employee will be able to know the value of the investment on day to day basis.

b. **Portable:** Each employee is identified by a unique number and has a separate Permanent Retirement Account which is portable i.e., will remain same even if an employee gets transferred to any other office.

c. **Simple:** All the subscriber has to do is to open an account with his/ her Nodal Office and get a PRAN.

d. **Safety:** NPS is regulated by PFRDA with transparent investment norms & regular monitoring and performance review of fund managers by NPS Trust.

e. **Dual benefit of Low Cost and compounding effect:** The pension wealth accumulates over a period of time till retirement; grows with a compounding effect and the account maintenance charges are also low.

f. **Tax benefit to employee:** Individuals who are employed and contributing to NPS would under section 80 C, 80CCD(1), 80 CCD(1)(B). (2 Marks)

## Account Types under NPS

Under NPS, two types of accounts are available to you i.e., **Tier I & Tier II**

- **Tier I account** where you and the Government contribute funds into your individual account. As a subscriber you contribute 10% of your Basic Pay and DA into your Tier I account on a **mandatory basis** every month, which is invested along with 14 % contribution from the employer.
- Tier II account a **voluntary savings** account from which you are free to withdraw the savings at your own choice.

**Statement of Transaction (SOT):** It contains details of contribution amount invested and units allocated during the financial year in your pension account.

## Eligibility Who can join

A citizen of India, whether resident or nonresident or an OCI card holder can join NPS subject to the following conditions:

Age criteria: Any Indian citizen (resident or nonresident) aged between 18 and 70 years can join NPS.

Can be joined on an individual basis or by employees through an employer.

Subscribers can contribute until they reach 75 years of age.

- As per circular No: PFRDA/2021/36/SUPCRA/14 Dated:26.08.2021, those Subscribers who have closed their NPS Accounts are permitted to open a new NPS Account as per increased age eligibility norms, ie. **From 65 years to 70 years.**
- Should not be Undischarged insolvent and individuals of unsound mind.
- A non-resident can open an account, but the account will be closed if the citizenship status of the NRI has been changed.

## **Investment Options**

NPS offers three main asset classes:

Equity (E): Invests in stocks and offers high growth potential. Maximum exposure to equity is 75% of the total corpus for individuals aged up to 50.

Corporate Bonds (C): Invests in fixed income securities.

Government Securities (G): Invests in government bonds.

**Auto Choice**: Allocation is automatically adjusted as per the subscriber's age (more equity for younger subscribers, gradually shifting to debt instruments as they age).

**Active Choice**: Subscribers can actively choose the proportion of investments in each asset class.

## **Contribution may be made by the Subscriber, at his option, during the following period**

**During suspension**, the subscriber need not pay any contribution.

On exoneration or otherwise, the subscription will be based on emolument which he was entitled on the first day after his return to duty. If he elects to pay for the period of suspension on reinstatement, the subscription will be based on emolument allowed for the period of suspension.

**During HPL**, the subscription will be based on leave salary.

**During EOL** including on medical grounds, no contribution either from Government servants or from Government.

## **Tax Benefits on Under NPS**

Under Section 80C:

Deduction of up to ₹1,50,000 for contributions to NPS (included within the overall limit of Section 80C).

Additional Deduction under Section 80CCD(1B):

Additional deduction of ₹50,000 over and above the ₹1.5 lakh under 80C for contributions to NPS Tier I account.

Employer Contributions under Section 80CCD(2):

Employer contributions to the employee's NPS account are deductible up to 10% of salary (Basic + DA) with no upper monetary limit.

## **Tax on Withdrawals**

At retirement (60% Lump sum withdrawal):

## **SERVICE DISCHARGE BENEFIT SCHEME (SDBS)(NPS Lite)**

[For Gramin Dak Sevaks engaged under GDS (Conduct and Employment) Rules, 2001] The scheme came into effect with effect from the 1st day of the month of April 2011.

### **1. ELIGIBILITY TO JOIN:-**

(1) All existing regularly engaged GDS who have been selected after due process in accordance with the GDS (Conduct and Employment) Rules, 2001 and rendered at least one year's satisfactory service, are eligible to join the scheme.

(2) The scheme shall be mandatorily applicable to all GDS engaged on a regular basis under the prescribed GDS (Conduct and Employment) Rules, 2001 on or after introduction of the scheme, on completing one year of satisfactory service.

### **2. Enrolment and assigning of PRAN number in SDBS for GDS:**

(i) The Gramin Dak Sevaks opting to come under the new Service Discharge Benefit Scheme (SDBS), shall have to submit an application in the prescribed proforma for their enrolment in the Service Discharge Benefit Scheme (SDBS).

Such applications for enrolment will be sent to the Postal Divisional Office concerned by the Sub Divisional Inspector/ASPOs, duly attested and verified as required.

(ii) The Divisional Heads (Directors /Sr./Supdt. of Post offices) will collect all such applications, and ensure that the applications are complete in all respects, and forward them to the Central Record Keeping Agency's (CRA) Facilitation Centers for enrollment and issue of a digitized card containing *inter alia* Permanent Retirement Account Number (PRAN) for Gramin Dak Sevak concerned.

### **3. SUBSCRIPTION**

(i) The monthly contribution to SDBS shall be Rs. 300/- for both sides i.e. Department's contribution and the GDS.

(ii) No contribution/subscription shall be made by the Department in respect of GDS during the period they are placed under "Put off duty" or remain unauthorizedly absent from duty.

(iii) Subscriptions to Service Discharge Benefit System can be received from such GDS, the recoveries being made ordinarily by deduction from pay bills of the Government servants concerned. The recoveries happen monthly based on the