PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA
*****

WORKSHOP ON NEW PENSION SCHEME AND CENTRAL RECORD KEEPING

ISSUES RELATING TO NEW PENSION SCHEME ADDRESSED

Dated: 9th February, 2008.

A one day Workshop on the "Overview of NPS and CRA Architecture" was jointly organised by PFRDA and National Securities Depository Limited (NSDL) in New Delhi on 9th February 2008. The workshop was attended by representatives of the Ministry Of Finance, other Central Government Departments and State Governments.

The focus of the workshop was on addressing core operational issues relating to the New Pension System (NPS) such as transfer of information from Government to the new Central Recordkeeping Agency (CRA) being setup by NSDL, transfer of funds from the Public Account of India to Pension Fund Managers (PFMs), reconciliation of data, grievance redressal and settlement.

Speaking on the occasion, Shri D. Swarup, Chairman, PFRDA stated that India is one of the youngest countries in the World today with the average age being only 26 years. The dependency ratio in India is also one of the lowest in the World. The policy imperative of this demographical situation is that this is an opportune time to introduce pension reforms and establish a solid and sustainable social security arrangement in the country. It is also true, however, that India is greying at a very fast rate and the population of people above 60 years of age, which is 80 million today, would double in the next 18 to 20 years. Any delay in the implementation of pension reforms would hit hard the reform process and nullify the advantages which we have today, he stated.

The selection of NSDL as the CRA and SBI, UTI AMC and LIC as fund managers was an outcome of a two stage competitive bidding process in which technical competence of the bidders, their past track, etc and the fees and charges quoted by them was given due weightage. This competition resulted in low fees and charges.

The CRA operation being setup by NSDL is expected to be in place by 1st June, 2008. It is a first of its kind venture in India and is critical to the successful operationalization of the NPS. The main functions and responsibilities of the CRA shall include:

(i) Recordkeeping, Administration and customer service functions for all subscribers of the NPS.

(ii) Issue of unique Permanent Retirement Account Number (PRAN) to each subscriber, maintaining a database of all PRANs issued and recording transactions relating to each subscriber's PRAN.

(iii) Acting as an operational interface between PFRDA and other NPS intermediaries such as Pension Funds, Annuity Service Providers, Trustee Bank etc.

State Bank of India (SBI), UTI Asset Management Company (UTI-AMC) and Life Insurance Corporation (LIC) have already incorporated their Pension Funds as new companies under the Companies Act, 1956 and are expected to start work by 31st March, 2008, he stated. The three pension funds will be performing the investment management functions under the NPS for a fee varying from three to five basis points. PFRDA is currently engaged in the process of registration of the NPS Trust and appointment of a Custodian and a Trustee bank. It is expected that by 31st May 2008 the entire NPS architecture will be in place in respect of Government employees. The system would be capable of being scaled up as and when NPS is made available to other citizens of India.

The NPS shall at present offer only two investment choices – investment of entire contribution in Government securities alone or adopting the investment guidelines applicable to non-government provident funds. The current government guidelines provide that upto 15% can be invested in equities and the balance 85% in fixed income instruments.

Chairman, PFRDA clarified that the NPS replaces pension benefits under the old system and was not intended to be a substitute for other retirement benefits like gratuity, leave encashment etc. It was PFRDA's view that, other than pensions, retirement benefits available to the employees covered under NPS should be at par with the benefits available to other employees under the old pension system. A High Level Task Force appointed by the Government is presently examining these issues and is in the process of framing detailed Rules in this regard.

PFRDA have also taken up with Government the issue of tax treatment relating to savings under the NPS so as to bring these at par with EPF, GPF and PPF. At present, NPS is subject to the EET tax regime as against EPF, GPF and PPF which are governed by an EEE regime. Applying the EET regimen to NPS savings goes against the basic philosophy of encouraging long-term contractual savings which provide long-term funds for investment.

Chairman, PFRDA also urged the Controller General of Accounts and other Heads of Accounting Organisations who have till now been maintaining contribution records of individual subscribers under the NPS to ensure that data relating to the existing subscribers under the NPS is reconciled, on an individual subscriber-wise basis, and transferred to the CRA by 1st June, 2008. These organisations would also need to start the process of registration of entities into the new CRA system immediately so as to ensure that contributions on an individual basis can be accepted and accounted for in the system w.e.f 1st June 2008. The endeavour should be to ensure that the new CRA is not constrained in its efforts to provide quality service to subscribers under the NPS by any kind of legacy issues, he stated.

Speaking on the occasion, Chairman, NSDL, Shri C.B. Bhave stated that his organisation was privileged to have been mandated to be the CRA under the NPS. He assured that NSDL would take all steps as were necessary to make the CRA operational w.e.f the appointed date i.e. 1st June 2008. Prior to that, however, there were a number of operational issues to be addressed and the present Workshop was a step in that direction. Addressing the State Governments, he stated that NSDL would be willing to consider any requirements that they may have with respect to the CRA architecture, provided these were within the overall framework of the NPS as prescribed by PFRDA.

****

SB/