

New Pension System (01 January 2004)

Frequently Asked Questions

Department of Economic Affairs

Ministry of Finance, Government of India

North Block, New Delhi 110 001

For any further questions or clarifications, please email the

NPS Help Desk

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Disclaimer: *The specific rules and guidelines related to the NPS as well as benefits and operation of this new pension system will be reviewed and finalised by the PFRDA. The information contained in this FAQ is subject to change.*

A. Eligibility for NPS

Q1. What is the New Pension System (NPS)?

The NPS is a new *contributory* pension scheme introduced by the Central Government for its own new employees. Under the new pension system, each new central government employee will open a personal retirement account on joining service. Every month, and till the employee retires or leaves government service, a part of the employee's salary will be transferred into this account. When the person retires, he will be able to use these savings to take care of the needs and expenses of his family during old age.

Q2. When was the NPS introduced?

The NPS was introduced with effect from 01 January 2004 vide Notification 5/7/2003-ECB&PR issued on 22 December 2003 by the ECB&PR Division of the Department of Economic Affairs, Ministry of Finance, Government of India.

Q3. Who is covered by the NPS?

You are covered by the NPS if

1. You joined central government service on or after 01 January 2004, and
2. You are an employee of a Central (Civil) Ministry or Departments, or
3. You are an employee of a non-civil Ministry or Department including Railways, Posts, Telecommunication or Armed Forces (Civil), or
4. You are an employee of an Autonomous Body, Grant-in-Aid Institution, Union Territory or any other undertaking whose employees are eligible to a pension from the Consolidated Fund of India.

Q4. Who is not covered by the NPS?

You are not covered by the NPS if

1. You are already covered by the Employees Provident Fund and Miscellaneous Provisions Act, 1952 and any other special Acts governing these funds, or
2. You joined Central Government service before 01 January 2004, or
3. You are an employee of the Indian Armed Forces (Army, Navy and Air Force), or
4. You are employed in a Department or in a Post under which you are not eligible to receive a pension from the Consolidated Fund of India.

Q5. [If I joined Central Government service on or after 01 January 2004, do I have an option of not being covered by the NPS?](#)

No. The NPS is mandatory for you.

Q6. [I am covered by the NPS. Do the old Pension Rules apply me?](#)

No. The Central Civil Service Pension Rules (1972) do not apply to you. You are covered only by the New Pension System Rules framed for the NPS.

Q7. [I am covered by the NPS. Can I contribute to the GPF?](#)

No. The General Provident Fund (Central Service) Rules, 1960 also do not apply to you. You will not be permitted to contribute towards GPF.

Q8. [I am covered by the NPS. Am I eligible to Gratuity?](#)

No. You will not be eligible to Gratuity.

B. Operating the NPS

Q9. [How does the NPS work?](#)

When you join Government service, you will be allotted a unique Personal Pension Account Number (PPAN). This unique account number will remain the same for the rest of your life. You will be able to use this account and this unique PPAN from any location and also if you change your job. The PPAN will provide you with two personal accounts:

1. A mandatory Tier-I *pension* account, and
2. A voluntary Tier-II *savings* account.

Q10. [What is the difference between Tier-I and Tier-II accounts?](#)

1. **Tier-I account:** You will have to contribute 10% of your basic+DA+DP into your Tier-I (pension) account on a *mandatory* basis every month. You will not be allowed to withdraw your savings from this account till you retire at age 60. Your monthly contributions and your savings in this account, subject to a ceiling to be decided by the government, will be exempt from income tax. These savings will only be taxed when you withdraw them at retirement.

2. **Tier-II account:** This is simply a *voluntary* savings facility for you. Your contributions and savings in this account will not enjoy any tax advantages. But you will be free to withdraw your savings from this account whenever you wish.

Q11. How will I contribute to my Tier-I (pension) account?

Every month, the government will deduct 10% of your salary (basic+DA+DP) and automatically transfer this amount to your Tier-I account in your name.

Q12. Will the Government contribute anything to my Tier-I (pension) account?

Yes. As your employer, the Government will match your contribution (10% of basic+DA+DP) and transfer this amount also to your Tier-I account in your name.

Q13. Can I contribute more than 10% into my Tier-I account?

Yes. You will be permitted to contribute more than the mandated 10% of Basic+DA+DP into your Tier-I account – subject to any ceiling that may be decided by the Government.

Q14. Will the Government also contribute more than 10% into my Tier-I account?

No. The contribution of the Government will be limited to 10% of your basic+DA+DP.

Q15. What will happen if I am transferred to another city or country?

The PPAN number will stay the same and you will be able to use the same accounts from anywhere in the world.

Q16. If I leave Government service before I retire, will the Government continue to contribute to my Tier-I account?

No. The 10% contribution by the Government will stop when you leave Government service. However, your savings in your Tier-I and Tier-II accounts will stay in your name and you will be able to continue using these accounts to save for your retirement.

Q17. Will the government make any contributions to my Tier-II account?

No. The government will not make any contribution to your Tier-II account.

Q18. What if I die or become permanently disabled during my service?

The Government is yet to issue any guidelines on this.

Q19. Who will be responsible for the NPS and for protecting my interests?

The Government is setting up a new dedicated regulatory authority. This will be named the Pension Fund Regulatory and Development Authority (PFRDA). The PFRDA will be responsible for the NPS and for protecting your interests in the NPS.

Q20. When will my contributions start?

Your contributions (and the matching contribution by the Government) towards your Tier-I pension account will begin only from the month following the month in which you join Government service. During the first month of your service, you will be allotted the PPAN.

Q21. Who in the Government will issue me a PPAN, open my accounts and be responsible for the deductions?

When you join service, your Drawing and Disbursement Officer (DDO) will instruct you to fill out a NPS form. You will be required to provide your full professional and personal details including details of your nominee in this form. The DDO will issue you the PPAN number and will also be responsible for all administrative matters related to your NPS accounts including deduction of your contributions, transferring your contributions and the matching contribution of the Government to your Tier-I pension account.

Q22. What will happen to my contributions to my Tier-I account?

Your monthly contributions, and the matching contributions by the Government into your Tier-I account, will be transferred by the Government in your name to a Pension Fund Manager (PFM). The PFM will invest your contributions on your behalf. In this way, your savings will earn an interest and grow over time.

Q23. Which agency will serve as a PFM?

The PFRDA will appoint a limited number of leading professional firms to act as PFMs. One of these PFMs will be a public sector agency.

Q24. Who will decide which PFM manages my contributions and savings?

You will select a PFM to manage your contributions and savings.

Q25: Will I be permitted to select more than one PFM to manage my savings?

Yes. If you wish, you will be able to spread your savings across multiple PFMs – where a part of your savings are managed by 2 or more PFMs.

Q26. Will I be permitted to change my PFM preference?

Yes. If you wish, you will be free to change the PFM and move all your savings to another PFM of your choice.

Q27. Where will my savings be invested?

Each PFM will offer you a limited number of simple, standard schemes. You will be free to choose any of the following schemes for investing your savings:

- Scheme A* This scheme will invest mainly in Government bonds
- Scheme B* This scheme will invest mainly in corporate bonds and partly in equity and government bonds
- Scheme C* This scheme will invest mainly in equity and partly in government bonds and corporate bonds

Q28. Will I be able to select more than one scheme?

Yes. You will be free to spread your savings across these three schemes. Whenever you decide, you will also be free to switch your savings from one scheme to another.

Q29. How will my contributions be transferred to the PFM and scheme selected by me?

You will specify the PFM and scheme to your DDO. The DDO will arrange for transfer of your contributions to the PFM(s) and scheme(s) that you have selected.

Q30. What rate of return will my contributions earn?

Your contributions will not earn any specified rate of return. The PFM will invest your savings in a scheme of your choice. The returns earned by the PFM on the scheme selected by you will be credited to your account.

Q31. Will I have to pay any fees or charges under NPS?

You will have to pay a fee to the Central Recordkeeping Agency (CRA) which will maintain your accounts and also to the PFM(s) which manage your savings. These charges will be deducted from your savings on a periodic basis. The fees and charges by the CRA and PFMs will be regulated by the PFRDA.

Q32. Are the PFRDA, PFMs and CRA already in place?

No. The PFRDA, CRA and PFMs will be appointed in the next few months.

Q33. What will happen to my contributions in this period?

During this (interim) period, the Controller General of Accounts (CGA) and the Central Pensions Accounting Office (CPAO) are working together. They will issue your PPAN number, deduct your monthly contributions towards your Tier-I pension account and transfer this along with the Government's matching contribution to a separate head under the Public Account.

Q34. Will I get any interest on my contributions to Tier-I account in this period?

Yes. Your contributions and the Government's matching contribution in your name will earn the same interest as GPF (8% per annum).

Q35. Can I operate the Tier-II account at the moment?

No. You will be allowed to operate (and contribute to) your Tier-II account only when the PFRDA, CRA and PFMs are appointed.

Q36. Can I contribute more than the 10% of basic+DA+DP into my Tier-I account at the moment?

No. You will be allowed to do so only when the PFRDA, CRA and PFMs are appointed.

Q37. What will happen to my contributions and earnings in my Tier-I account when the PFRDA, CRA and PFMs etc. are appointed?

Your full contributions, matching contributions by the Government, and the interest earned on the same will be transferred in your name to the PFM and scheme select by you.

Q38. Will I have the option of continuing with the current 8% rate of return?

No. Once your savings are transferred to the PFM, your savings will enjoy only the rate of return earned by the PFM on scheme you have selected.

Q39. When will I be permitted to withdraw from my Tier-I account?

You will be able to withdraw your savings in your Tier-I account at age 60.

Q40. What will happen to my savings in the Tier-I account when I retire?

You will be able to withdraw 60% of your savings as a lumpsum when you retire. You will be required to use the balance 40% of your savings to purchase an annuity scheme from a

life insurance company of your choice. The life insurance company will pay you a monthly pension for the rest of your life.

Q41. Can I use more than 40% of my savings to purchase the annuity?

Yes.

Q42. What will happen to my savings if I decide to retire before age 60?

You will be required to use 80% of your savings in your Tier-I account to purchase the annuity. You will be able to withdraw the balance 20% of your savings as a lumpsum.

Q43. Will the annuity also provide a family (survivor) pension?

Yes. You will have an option of selecting an annuity which will pay a survivor pension to your spouse.

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