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National Pension System- Swavalamban Scheme

Anita[1] and Pankaj Kumar[2]
[1] Associate Professor at Delhi College of Arts and Commerce, University of Delhi
[2]Assistant Professor at Delhi College of Arts and Commerce, University of Delhi

Abstract : Unlike most of the developing countries, India did not have a universal social security system for the old aged people. As there is no formal pension scheme in India for the newly appointees, a need was felt to have a scheme so that people can save for their future when they are no longer working. It was also felt that for the person of small, unorganized sector, without regular income there should be a scheme to develop among them the habit of saving for their old age. Against this background the government of India announced in the budget of 2010-11 a pension scheme known as **NPS Swavalamban.** The paper discusses the important features of this newly announced pension scheme. It also lists out the challenges that the scheme is facing and finally gives the conclusion so that the small town uneducated people also have the financial security and independency in their old age.

Key Words: PFRDA, HLEG, OASIS, AGGREGATOR, CGMS, PRAN, IRA, SOT, CRA

Introduction:

Pension, the first impression that comes to mind and in layman language is the fixed monthly amount that a person will receive after retirement when they are no longer earning.Pension plansprovide financial security and stability during old age when people don't have aregular source of income. Retirement plan ensures that people live with pride andwithout compromising on their standard of living during advancing years. Pension scheme gives an opportunity to invest and accumulate savings and get lump sumamount as regular income through annuity plan on retirement.

Need for Pension arises because of:

- One is not as productive in the old age as in youth.
- The rise in the nuclear family system as compared to earlier joint family system.
- Migration of younger earning members as they are no longer interested in their family business.
- Rapidly growing informal and unorganized sector.
- Rise in cost of living.
- Urbanization andimproved standard of life
- Increase in the life span because of good medical facilities.
- Bringing unorganized sector into formal scheme of pension.

Need for reform in the pension sector:

In India, only about 12% of the working population is covered under the formal schemes of pensionand that to only in the government sector or big companies in the private sectors .Rest of the persons have to depend either on the private insurance companies offering different pension plans or their life time savings in the form of gold, property, fixed deposit etc. As more and more people are now working in the unorganized and private sector and pension is not to be given to the new recruited government employees, need for a new formal pension system is desired.

Announcement of new pension scheme (NPS):

Years 2000-2007 have a major shift in the pension policy of India by the introduction of new pension scheme. The High Level Expert Group (HLEG) set up by the Department of Pension and Pension’s Welfare, Ministry of personnel, Pension and Public Grievance and the Old Age Social and Income Security (OASIS) Project commissioned by the Ministry ofSocial Justice and Empowerment are the two major steps that paved the way for the pension reforms in India.Notified on 22 December 2003 Government of India announced a new pension scheme from 1 January 2004 for new recruited in Central Government services except in armed forces. Voluntarily any person of the age group 18 to 55(revised now to 60) years can also join NPS w.e.f.1st may 2009.

Announcement of NPS-Swavalamban Scheme in the Union Budgets 2010-11.

To increase the habit of savings in the weaker and other small and unorganized sector,on voluntary basis the Central Government has launched the Swavalamban Scheme in the 2010-11 union budget.National Pension System (NPS) is an initiative of Pension Fund Regulatory and

Development Authority (PFRDA), the apex body established by Government of India to regulate and develop the pension sector in India. NPS has been extended to all citizens of India with effect from 1st May 2009. To extend the coverage of NPS to the weaker and economically disadvantaged sections of the society with their limited investment potential, PFRDA has launched NPS- Swavalamban which specifically targets the marginal investors and promotes small savings during their productive life. It aims at building up a corpus sufficient enough to buy an annuity for their old age.

NPS-Swavalamban Model is designed to ensure ultra-low administrative and transactional costs, so as to make such small investments viable. NPS-Swavalamban works on a group model. It also aims at harnessing the outreach and capacity of the Government operated schemes, NGOs, MFIs, NBFCs etc. in targeting and servicing the old age savings needs of low income workers. Each eligible group or "Aggregator" in NPS Swavalamban model will be responsible for grass-root level enrolments, ongoing collection, and reconciliation and transfer of individual contributions as well as for ongoing services and information delivery.SwavalambanYojana is a scheme announced by the Government of India, under which Government will contribute Rs.1000 per year to each NPS–Swavalambanaccount opened in year 2010-2011, 2011-2012,2012-2013 for five years beginning the same year as under:

- Account opened in 2010-2011 will get the benefit till 2014-2015
- Account opened in 2011-2012 will get the benefit till 2015-2016
- Account opened in 2012-2013 will get the benefit till 2016-2017
- NPS–Swavalamban account opened in the period 2013-2014 to 2016-2017 will get the Swavalamban benefit up to 2016-17 as this scheme is presently up to 2016-17 only.

Distinguishing Features of NPS Swavalamban:

- Focussed: For economically disadvantaged sections of the society and marginal investors.
- Voluntary: Open to eligible citizens of India, in the age group of 18–60 years. Subscriber is free to choose the amount he/she wants to invest every year.
- Simple: Eligible individuals in the unorganized work force can open an account through their Aggregator and get an Individual subscriber (NPS – Swavalamban) Account.
- Safe: Regulated by PFRDA, with transparent investment norms and regular monitoring and performance review of fund managers by NPS Trust.
- Economical: low cost structure with no minimum amount required per annum or per contribution.
- Portable: Subscriber can operate account from anywhere in the country, even with change of residence, employment or Aggregator.
- No bank account detail while opening- Though a bank account is not mandatory at the time of entry into NPS-Swavalamban, However, bank account is mandatory for exit from NPS-Swavalamban since no cash transactions are permitted at the time of withdrawal. This is in the interest of the subscriber.
- Subscriber friendly-There is a Central Grievance Management System (CGMS) under which any subscriber can either log his / her complaint through his / her aggregator, or can send a written complaint to PFRDA or CRA. This complaint will be monitored by PFRDA and CRA.

How different is NPS-Swavalamban:

NPS-Swavalamban is a pension product to ensure a monthly income after the retirement age has been attainted. NPS - Swavalamban invests a portion of the contributions in the equity (stock) market and hence there are possibilities of returns much higher than what banks & similar financialinstitutions are able to offer. A portion of the corpus is invested in equity markets which enables the corpus to grow quickly. However, unlike other equity based investment schemes where risk of losing the money is high, in NPS - Swavalamban; the risk is reduced considerably as up to 55% of money is invested in Government securities and up to 40% in corporate bond.

How safe is this?

Investments are regulated by PFRDA/GOI. NPS-Swavalamban invests only up to 15% of the total funds in the equity or stock markets. The balance funds are invested into fixed income instruments such as corporate bonds and Government securities. PPF and FDs are investments that have a fixed interest rate and maturity period; hence it is possible to calculate the long-term returns of these investments. NPS-Swavalamban is a long term scheme which is based on flexible contribution and market returns that are subject to change as per the market conditions.

Who can subscribe to NPS-Swavalamban?

A citizen of India, who belongs to the unorganized sector, can open NPS-Swavalamban account based on the following conditions:

- Should be between 18 – 60 years of age as on the date of submission of his/her application by Aggregator.
- Should comply with the KYC process carried out by an Aggregator.
- Subscriber should not covered under social security scheme like Employees' Provident Fund and Miscellaneous Provision Act , The Coal Mines Provident Fund and Miscellaneous Provision Act etc.

How to open NPS-Swavalamban Account?

- Contact the aggregator recognized and approved by the PFRDA
- Fill up the registration form.
- Provide KYC documents, Identity Proof & Address Proof.
- Minimum contribution of Rs.100/- at the time of registration.
- Receive Permanent Retirement Account Number (PRAN) card through an aggregator.

What happens in case subscriber changes his residence?

Subscriber can retain his/her PRAN when he/she changes residence/city. The same PRAN wouldbe valid across the country to continue making investments, through an aggregator who is operational in his/her locality/city.

How much contributions can be made?

- Minimum contribution amount at the time of Registration - Rs 100
- Though there is no minimum contribution requirement per year, minimum contribution of Rs.1000/-per year is recommended to avail Swavalamban benefit.
- However it may be remembered that the higher contribution amount will yield higher pension and since Swavalamban benefit is available for contribution upto Rs.12000/-per year. It may be desirable to save higher amounts in NPS-Swavalamban account.

How many times subscriber can invest in a year?

There are no lower or upper limits to the number of contributions per year. The subscriber is free to manage the frequency and amounts of the contributions.

Where will the savings be invested?

The contributions under NPS-Swavalamban are invested in a single scheme consisting of Equity, Corporate Bonds and Government Securities in terms of guidelines prescribed by GOI, Ministry of Finance.

What rate of return will contributions earn?

There is no investment return guarantee. Returns in NPS-Swavalamban are market based. The benefits will entirely depend upon the amounts contributed and the investment growth upto the point of exit from NPS. To know how much return is accumulated subscriber will receive a physical annual Statement of Transaction (SOT) of his NPS-Swavalamban account, which will indicate the details of contribution made and current value of the corpus in the individual retirement account. However he can access his account anytime through the aggregator to check the status of your Individual Retirement Account (IRA).

When will a subscriber be permitted to withdraw from the account?

The normal exit from NPS–Swavalamban account is at the age of 60. However early exit is also permitted with certain conditions. Withdrawal process details are as follows:

- **Exit on 60 years (Later on relaxed to exit after 50 years or a minimum tenure of 20 years whichever is later):** Subscriber would be required to invest minimum 40% of accumulated savings (pension wealth) to purchase annuity. Subscriber will provide the bank account and withdrawal details to the aggregator to upload the information for execution. At the time of exit, the effort is to give a monthly pension of Rs.1000/-. If 40% of corpus is not sufficient to give pension of Rs.1000/- higher percentage or entire pension wealth (corpus) would be subject to annuitisation.
- **Exit before the expiry of the term:** Subscriber would be required to invest minimum 80 % of accumulated savings (pension wealth) to purchase annuity. Subscriber can withdraw balance 20%.

Withdrawal on Death of Subscriber:

In case of death, the entire 100% corpus will be transferred to the nominee/ legal heirs. The nominee/ legal heir will approach the aggregator with necessary documents such as Death Certificate, Identity proof of the nominee etc. In case the nominee wishes to continue with the NPS, he/she shall have to subscribe to NPSindividually after following prescribed KYC norms, and to contact the aggregator for subscribing into NPS–Swavalamban of his area.

Establishment of Central Record keeping Agency (CRA) for National Pension System:

NSDL e-Governance Infrastructure Limited and The Pension Fund Regulatory and Development Authority (PFRDA) have entered into an agreement relating to the setting up of a Central Record keeping Agency (CRA) for the National Pension System (NPS).CRA is the core infrastructure for the National Pension System and is critical for its successful operationalization. The main functions and responsibilities of the CRA include:

- Recordkeeping, Administration and customer service functions for all subscribers of the NPS.
- Issuing 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.
- Acting as an operational interface between PFRDA and other NPS intermediaries such as Pension Funds, Trustee Bank, Annuity Service Providers, etc.
- CRA will monitor member contributions and instructions and transmit the information to the relevant Pension Fund and schemes on a daily basis.
- CRA will provide periodic, consolidated PRAN statements to each member and discharge such other duties and functions as may be determined by the guidelines, directions and regulations issued by the PFRDA from time to time.

Challenges before NPS–Swavalamban:

- Sufficient staff to organize meetings / coordinate with people is not available with PFRDA.
- This is a voluntary scheme so they cannot force the people to open the account.
- Heavy commission to middlemen unlike those private sector pension and insurance firms cannot be offered by the state government and other govt. agencies.
- Poor and lower middle class people don't have lot of surplus income, especially in the times of inflation. State government is already opening bank accounts for rural poor, to give NREGA payments, direct cash transfer etc.Whatever surplus income they have is deposited in the bank accounts. Then hardly any cash is left to invest in NPS.
- People in the small town are still not aware and educated of this scheme.
- Returns under this scheme is not attracting to subscribers as the inflation rate is still very high.
- In India people still like to save in the traditional ways like gold, silver, property etc. rather than such schemes as they are not confident about it.

Conclusion:

It has been nearly three years since this scheme was started. In spite of having bare minimum registration charges just Rs.100, flexibility in making contribution, government benefits, easy to operate etc. the NPS–Swavalamban Scheme is still not very popular.There is a lukewarm response to this scheme. In the remote and rural areas,people are still ignorant about having such scheme. Lack of confidence in the government funded schemes among the uneducated rural people is also one of the major reasons of not getting the desired results of the scheme. Investment in the old traditional ways gives them more mental satisfaction and surety. It is now high time to advertise and popularize this, so that,the benefit of the scheme reaches to them. Confidence among the small investors have to be boosted and they have to be motivated thatwiththe assured monthly income they can live a dignified life in old age.

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