IOPS COUNTRY PROFILE: INDIA

DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	1,269
GDP growth (%)	7.1
Population (billion)	1.2108
Labour force (000s)	730072
Population over 60 (% of total)	8.58
Inflation (%)	4.9
Dependency ratio[1]	60.29%

Data from 2015 or latest available year.

1. Age dependency ratio (% of working-age population)

**The boundaries and names shown on this map do not imply official endorsement or acceptance by PFRDA.*

INDIA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

The Indian pension regime presently has mandatory, quasi-mandatory and voluntary plans. Indians are covered under the following pension plans:

(i) Non-contributory social pension schemes financed by the Government to provide minimum level of protection to the people below poverty line and above 60 years of age, disabled or widows under the National Social Assistance Programme (NSAP).

(ii) There is defined benefit pension scheme on pay-as-you-go basis like Central Civil Services Pension for employees who joined government service before 2004, and also employees of state government and many public sector undertakings/banks etc.

(iii) National Pension System (NPS) administered by the Pension Fund Regulatory and Development Authority of India (PFRDA) is for the government employees joining on or after 1st January 2004 on mandatory basis and for state government employees from the date of adoption of NPS by the respective states, NPS for all citizens on voluntary basis covering persons in the private sector both employees and self-employed including those in the unorganised sector.

(iv) Some establishments both in public and private sector employing more than 20 employees are covered under Employees' Provident Fund (EPF) and Employees' Pension Scheme (EPS) administered by Employee's Provident Fund Office EPFO. Further, the corporates exempted from EPF and Miscellaneous Act, 1952 can have their own superannuation funds.

(v) In addition to the above, there are other statutory occupational Provident Funds like Coal Mines, Seamen's, Assam Tea Plantations, etc.

(vi) There are superannuation/retirement pension plans offered by insurance companies and mutual funds which any individual can join on voluntary basis. Also, there is Public Provident Fund offered by the Government of India which an individual can join on voluntarily.

INDIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION NATIONAL SOCIAL ASSISTANCE PROGRAMME

In providing social assistance benefits to poor households in the case of old age, death of the breadwinner and maternity, the NSAP aims at ensuring minimum national standards, in addition to the benefits that the States are currently providing or might provide in future. It also aims at ensuring that social protection to the beneficiaries everywhere in the country is uniformly available without interruption.

Presently the NSAP comprises of five schemes, namely - (1) Indira Gandhi National Old Age Pension Scheme (IGNOAPS), (2) Indira Gandhi National Widow Pension Scheme (IGNWPS), (3) Indira Gandhi National Disability Pension Scheme (IGNDPS), (4) National Family Benefit Scheme (NFBS) and (5) Annapurna.

The Indira Gandhi National Old Age Pension Scheme (IGNOAPS) is a non-contributory old age pension scheme that covers Indians who are 60 years and above and live below the poverty line. The pension scheme is part of the National Social Assistance Programme (NSAP) that was launched by the Ministry of Rural Development in August, 1995.

All IGNOAPS beneficiaries aged 60–79 receive a monthly pension of Rs. 200. Those 80 years and above receive a monthly pension amount of Rs.500.

DEFINED BENEFIT (PAYG) PENSION FOR GOVERNMENT EMPLOYEES

Central Government servants appointed in a pensionable establishment before 2004 and retire from Government service with a qualifying service of 10 years or more are eligible for pension.

Civil servants in the central government recruited prior to 1 January 2004 are covered by the mandatory pension scheme, i.e. Central Civil Services Pension (CCSP) and General Provident Fund (GPF). Pension and gratuity of the employees retiring from Central Government Departments who joined prior to 2004 is regulated by the Central Civil Services (Pension) Rules, 1972. There are separate rules regarding pension and gratuity of Railway employees and Defence personnel. CSFS is PAYG and does not require contribution from employees. However, it requires 10 years of qualifying service, and the maximum benefit is up to 50% of last salary drawn.

A government employee who joined before 2004 and is a resident in India is eligible for the General Provident Fund account. GPF requires employee contributions of at least 6% of salary. For GPF, the government pays an administered rate which is adjusted annually. Commutation of pension up to certain level is also available upon retirement.

Liberal withdrawals/ loans from GPF are available.

NATIONAL PENSION SYSTEM

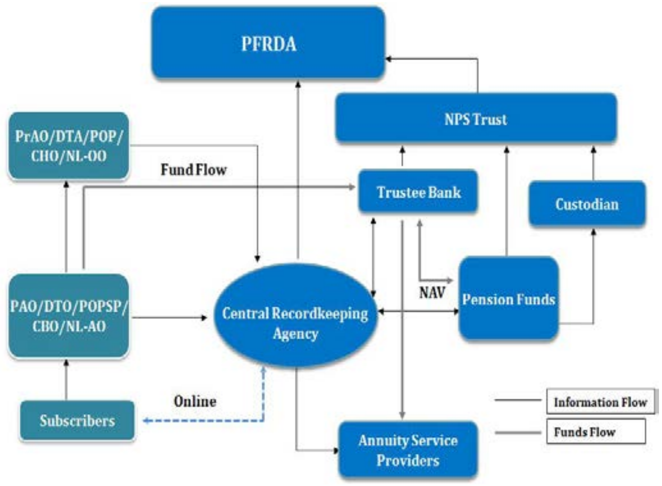
NPS was introduced in 2004 initially for the government employees other than armed forces who joined the service on or after 2004. Subsequently it was extended to new segments, such as, autonomous bodies, State Governments, corporate sector and un-organised sector. NPS has been adopted resoundingly by the State Governments. Twenty seven State Governments have notified adoption of NPS for their new employees joining from the notified dates. To encourage people from the unorganised sector to voluntarily save for their old age, Government had launched the Atal Pension Yojana in May, 2015.

The Pension Fund Regulatory and Development Authority of India (PFRDA), the statutory regulator for the pension sector in India is responsible for the development and regulation of pension sector by establishing, developing and regulating the pension funds involved in the administration of NPS with a view to protecting interest of subscribers to schemes of pension funds and regulating entities involved in collecting, managing, recordkeeping and transmission of pension accumulations.

Features of NPS

Architecture

PFRDA has put in place an unbundled architecture managed through a set of intermediaries/ entities that have experienced in their own areas of operations. Each intermediary, looking after specific activities such as recordkeeping, fund transfers, fund management and custodial services etc., has been selected through competitive bidding process to bring about the advantages of low-cost, and effective checks & balances in the system, to the subscriber.



Intermediaries

Central Recordkeeping Agency is entrusted with the record keeping of the data of individual subscribers and also acts as an interface between the different intermediaries in the NPS system.

PAO/DTO/CBO- Responsible for collecting the contribution from the pay rolls of Government & Corporate employees who were covered under NPS.

Points of Presence (PoP), POP-Service Provider (PoP-SP) and Aggregators - Appointed by PFRDA, comprise mainly commercial banks, non-banking financial companies and Department of Post who act as the first points of interaction of the NPS subscriber under the NPS architecture. The authorized branches of a POP, called Point of Presence Service Providers (POP-SPs), act as collection points and extend a range of customer services to NPS subscribers.

NPS Trust & Trustee Bank - the NPS Trust is the legal beneficiary of subscribers' funds and is responsible for taking care of the funds under the NPS. The Trust holds an account with a bank and this bank is designated as 'Trustee Bank'. The Trustee Bank pools funds from all the establishments/subscribers covered under NPS and remits funds to the Pension Funds (PFs) for investment in the financial securities as per investment guidelines prescribed by the PFRDA. On superannuation, a part of the accumulated pension wealth is paid to the NPS subscriber and the remaining passed on to insurance companies/Annuity Service Providers (ASPs) for making periodic pension payments to the subscribers.

The NPS is a cost effective system wherein each subscriber is identified by a unique number, Permanent Retirement Account Number (PRAN) which is portable i.e., it remains same even if the subscriber gets transferred to any other office/location.

The APY provides subscribers with minimum guaranteed monthly pension ranging between Rs.1000 to Rs.5000 based on their contribution which depends on the intended pension and the age of joining the scheme. Under the scheme, the subscriber gets pension on attaining age of 60 throughout his/ her life term and thereafter his/her spouse receives the same pension throughout her/his life term. The corpus is returned to the nominee post the demise of both the subscriber and the spouse. The Government co-contributes 50% of the contributions or Rs 1000 whichever is lower, per year (for a 5 year period) to APY subscribers account who have joined the scheme on or before March 31, 2016 provided they are not covered by any other social security scheme and are not income tax payer.

Subscriber Category	Subscribers	Contributions (Rs. Cr)	AUM (Rs. Cr)
Central Government	1,788,699	48,451.73	67,040.20
State Governments	3,332,526	67,099.32	84,917.29
Corporate	585,595	12,130.82	14,953.22
All Citizen Model	437,076	3,022.09	3,123.13
NPS Lite Swavalamban	4,429,342	2,118.54	2,639.21
Atal Pension Yojana	4,863,699	1,751.32	1,885.00
Total	**15,436,937**	**Rs. 134,573.82 crore**	**Rs. 174,558.05 crore**
	15.44 million	**Rs 1.35 trillion**	**Rs. 1.75 trillion**
		US$ 20.76 billion	**US$ 26.92 billion**

As of 31 March 2017, a total of 15.44 million members/ subscribers (including APY scheme) have been enrolled. Assets under management which include the returns on the contribution, is to the tune of Rs.1.75 trillion (US$ 26.92 billion) as of 31 March 2017. Sector wise details are given in the table above.

Taxation

Income Tax Act allows benefits under NPS as per the following sections,

- On Employee's contribution: Employee's own contribution is eligible for tax deduction under sec 80 CCD (1) of Income Tax Act up to 10% of salary (Basic + DA). This is within the overall ceiling of Rs. 1.50 Lacs under Sec. 80 CCE of the Income Tax Act.
- On Employer's contribution: Up to 10% of Basic & DA (no upper ceiling) under 80CCD (2). This rebate is over and above 80 C.
- Exclusive Tax Benefit: As announced by the Government of India in Budget 2015-16, subscriber are allowed tax deduction in addition to the deduction allowed under Sec. 80CCD(1) for additional contribution in his NPS account subject to maximum of Rs. 50,000/- under sec. 80CCD 1(B).

- Tax benefit on maturity: Lump sum withdrawal of up to 40% of accumulated corpus is tax exempt. Annuity income taxed in the year of receipt.

- For self-employed or non-salaried class: there is tax deduction on contribution to the NPS up to 20% of gross total income, under Section 80CCD of IT Act.

Employees' Provident Fund (EPF) and Employees' Pension Scheme (EPS) administered by Employee's Provident Fund Office (EPFO)

The Employees' Provident Funds and Miscellaneous Provisions Act (1952) came into effect on 4 March 1952. The organisation is administered by a Central Board of Trustees; composed of representatives of the Government of India, State governments, employers and employees. The board is chaired by the Union Labour Minister of India.

Presently, the following three schemes are in operation under the Act:

- Employees' Provident Fund Scheme, 1952: It is a DC plan. Lump sum is available upon retirement.
- Employees' Pension Scheme, 1995
- Employees' Deposit Linked Insurance Scheme, 1976

Employees in public and organized private section with more than 20 employees in the specified industries should join two mandatory schemes, i.e. Employees Provident Fund (EPF) and Employees Pension Scheme (EPS). However, employers could be exempted from participation if they satisfy EPFO that their own pension plans provide at least the same level of benefits. The act is applicable to whole India except the state of Jammu Kashmir.

Every establishment which is a factory engaged in any industry specified in Schedule I and in where 20 or more person are employed should join two mandatory schemes.

Any other establishment employing 20 or more persons or class of such establishment, which informs the central government by notification may specify in this behalf.

Any employer who wishes to give such benefits to his employee can also join the scheme voluntarily.

Present rate of contributions:

PRESENT RATES OF CONTRIBUTION			
CONTRIBUTION BY	CONTRIBUTION ACCOUNTS		
	EPF	EPS	EDLI
EMPLOYEE	12%	0	0
EMPLOYER	3.67%	8.33%	0.5%
Central Govt.	0	1.16%	0

EPF Ceiling limit:

It is mandatory to bring all employees who earn up to Rs.15000 per month under the EPF. For employees earning more than Rs.15000 per month, joining EPF is a voluntary arrangement.

Occupational Pension Schemes

There are four other statutory social security schemes for the organised labour force in specified sectors, with a component of pension schemes, except under the Seamen's Provident Fund Act, 1966. These are covered under the following Acts:

- The Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948;
- The Seamen's Provident Fund Act, 1966;
- The Assam Tea Plantations Provident Fund and Pension Fund Scheme Act, 1955; and
- The Jammu and Kashmir Employees' Provident Funds Act, 1961

Pension plans by Mutual Funds and Insurance Co., PPF – Voluntary Pension Plans

(a) Pension Plans by Mutual Funds

There is tax exemption for investing in pension plans of mutual funds. Mutual Funds pool savings for retirement and invest in equity and debt market. The member has the option to lock-in the money till his retirement or redeem it before that. In pension plans offered by the mutual funds the subscribers need not buy annuities at the time of exit. These schemes are regulated and administered by the Securities Exchange Board of India, the securities market regulator of India.

(b) Pension plans by Insurance Co.

There are broadly two kinds of pension policies. The first is a unit-linked pension plan (ULPP), which is market-linked, so premiums get invested in funds of subscribers' choice, and the costs as well as fund performance are made transparent to the member. The second is the traditional plan, which comes with structure in which costs and investment portfolio are not disclosed. These plans either offer a minimum guaranteed return and peg additional returns to bonuses from the participating fund, or offer a guaranteed benefit at the outset.

All pension plans offered by insurance companies are mandated to offer a non-zero positive return of premiums to the policyholder on maturity or to the beneficiary in case of death of the policyholder. Due to this rule, ULPPs don't typically offer pure equity funds for investment.

At the end of the tenor, the accumulated retirement corpus becomes available to the subscriber from which they can keep only up to one-third of the accumulated corpus; the rest has to be used to either buy an annuity product or a single-premium pension policy.

Pension plans of insurance co. are regulated by the Insurance Regulatory and Development Authority of India.

(c) Public Provident Fund (PPF)

The Public Provident Fund is a savings cum tax savings account offered in India. It was introduced by the Ministry of Finance in 1968. The fund offers administered returns fixed quarterly along with income tax benefits for contribution. Any resident of India is eligible for the account. Only one PPF account can be opened and maintained per individual except for accounts that are opened on behalf of minors. It is a 15 years scheme and the account matures only after 15 years. In case of death of the account holder, the nominee will be given the amount from the fund. The interest received on the account is completely tax free.

Way Forward

- Expanding the pension coverage to the entire population in a manner which is affordable to the subscriber and sustainable to the economy.
- Strengthening the regulatory and supervisory framework for the entire pension sector to ensure efficiency, adequacy, sustainability, security.

References:

1) Annual Reports and Pension Bulletin of PFRDA; www.pfrda.org.in
2) Department of Pension and Pensioners Welfare; http://doppw.gov.in/

3) India Post, Ministry of Communications, Government of India https://www.indiapost.gov.in/Financial/Pages/Content/PPF-Account.aspx
4) Employees Provident Fund Organisation; http://epfindia.gov.in

Source map: Central Intelligence Agency, The World Factbook, the United States