

Streamlining of National Pension System (NPS): Union Cabinet Decision

The Union Cabinet has approved the following proposal for streamlining the National Pension System (NPS):

- Enhancement of the mandatory contribution by the Central Government for its employees covered under NPS Tier-I from the existing 10% to 14%.
- Providing freedom of choice for selection of Pension Funds and pattern of investment to central government employees.
- Payment of compensation for non-deposit or delayed deposit of NPS contributions during 2004-2012.
- Tax exemption limit for lump sum withdrawal on exit has been enhanced to 60%. With this, the entire withdrawal will now be exempt from income tax. (At present, 40% of the total accumulated corpus utilized for purchase of annuity is already tax exempted. Out of 60% of the accumulated corpus withdrawn by the NPS subscriber at the time of retirement, 40% is tax exempt and balance 20% is taxable.)
- Contribution by the Government employees under Tier-II of NPS will now be covered under Section 80 C for deduction up to Rs. 1.50 lakh for the purpose of income tax at par with the other schemes such as General Provident Fund, Contributory Provident Fund, Employees Provident Fund and Public Provident Fund provided that there is a lock-in period of 3 years.

Major Impacts:

- Increase in the eventual accumulated corpus of all central government employees covered under NPS.
- Greater pension payouts after retirement without any additional burden on the employee.

- Freedom of choice for selection of Pension Funds and investment pattern to central government employees.
- Benefit to approximately 18 lakh central government employees covered under NPS.
- Augmenting old-age security in a time of rising life expectancy.
- By making NPS more attractive, government will be facilitated in attracting and retaining the best talent.
- Approximately 18 lakh central government employees covered under NPS would be benefitted from the streamlining of the National Pension System.

Expenditure involved: The impact on the exchequer on this account is estimated to be to the tune of around Rs. 2840 crores for the financial year 2019-20, and will be in the nature of a recurring expenditure. The financial implications on account of provisions regarding payment of compensation for non-deposit or delayed deposit of NPS contributions during 2004-2012, would be in addition to the amount indicated above.

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