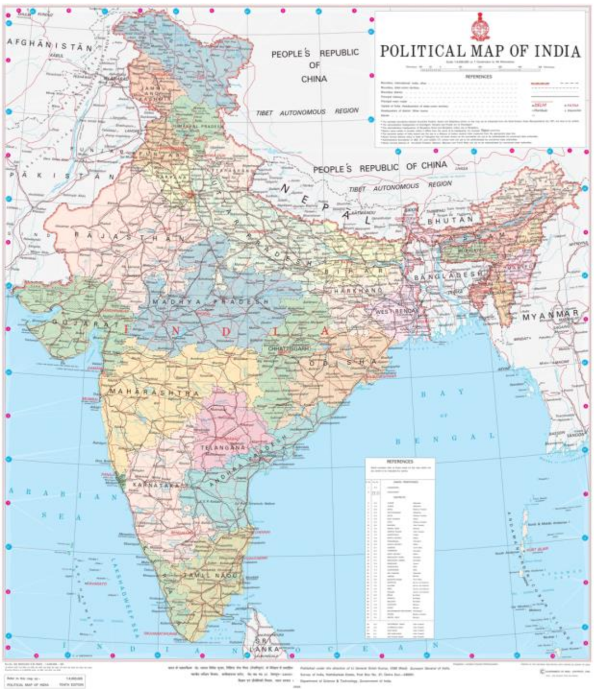
IOPS COUNTRY PROFILE: INDIA



DEMOGRAPHICS AND MACROECONOMICS[1]

GDP per capita (USD in thousands)	**2.36**
GDP growth (%)	**7.24**[2]
Population (billion)	**1.38**[3]
Labour force (000s)	**876,366**[4]
Population over 60 (% of total)	**10.13**[5]
Inflation (%)	**4.8**[6]
Dependency ratio	**55.34%**[7]

[1] GDP per Capita, GDP, Population and Inflation are for the FY 2023 from the RBI Handbook of Statistics. Labour Force, Population over 60 and Dependency Ratio are from the NHM Report on Population Projections for 2021.

[2] Reserve Bank of India. (2023, September 15). RBI Handbook of Statistics. https://rbi.org.in/Scripts/PublicationsView.aspx?id=21810.

[3] Reserve Bank of India. (2023, September 15). RBI Handbook of Statistics. https://rbi.org.in/Scripts/PublicationsView.aspx?id=21807.
Population figures relate to mid-financial year.

[4] National Health Mission. (2019). Report on Population Projection (Pg 164 For 2021). https://nhm.gov.in/. https://nhm.gov.in/New_Updates_2018/Report_Population_Projection_2019.pdf

[5] Ibid

[6] Reserve Bank of India. (2023, September 15). RBI Handbook of Statistics. https://rbi.org.in/Scripts/PublicationsView.aspx?id=21971.
June 2023

[7] Ibid (4)

INDIA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Non-contributory social pension schemes
- Central Civil Services pension scheme, for employees who joined governmental service before 2004, DB in design and financed on PAYG basis
- General Provident Fund, DB in design
- Atal Pension Yojana (APY), focusing on the unorganised sector workers

Public: Occupational mandatory

- Provident Funds for specific occupations (Coal Mines, Seamen, Assam Tea Plantations, etc.)

Private pensions: Occupational mandatory

- National Pension System (NPS), mandatory for central governmental employees, who joined service on or after 1 January 2004, DC in design, except for those in Arm Forces
- NPS extended to employees of Central Autonomous Bodies
- Employees Provident Fund, DC in design and Employees Pension Scheme

Private pensions: Occupational and personal voluntary

- National Pension System, available to corporations and individuals on voluntary basis
- Occupational managed superannuation funds: corporate

Private pensions: Personal

- Superannuation/retirement pension plans offered by insurance companies and mutual funds
- Public Provident Fund, individual savings account

INDIA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

The Indian pension regime presently has mandatory, quasi-mandatory and voluntary plans. Indian citizens 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, above 60 years of age, disabled or widows under the National Social Assistance Programme (NSAP). Presently 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.

ii. There is defined benefit pension scheme on pay-as-you-go basis like Central Civil Services Pension, 1972 for employees who joined government service before 2004, employees of state government with different dates of adoption by different states and many public sector undertakings/banks etc.

iii. National Pension System (NPS) is a Defined Contribution Pension Scheme regulated by the Pension Fund Regulatory and Development Authority (PFRDA) in India. NPS is mandatory for Central Government employees, who joined service on or after January 1, 2004, except for those in the armed forces and is also extended to the employees of Central Autonomous Bodies. Most of the State Governments /State Autonomous Bodies/ Union Territories (UTs) have adopted NPS for their employees (the date of adoption of NPS varies). Since May 1, 2009, NPS has been made available to every Indian Citizen on a voluntary basis, introduced for corporates in 2010.

iv. The Government of India introduced a pension scheme called the Atal Pension Yojana (APY), with effect from 1st June, 2015, pursuant to the announcement in the budget for 2015-16 on creating a universal social security system for all Indians, especially the poor, the under-privileged and the workers in the unorganised sector. Atal Pension Yojana (APY), is focused on the unorganized sector workers in the age group of 18-40 years. As per notification dated 10th August 2022 issued by Ministry of Finance, Government of India, from 1st October 2022, any citizen who is or has been an income-tax payer, shall be eligible to join APY. Under the APY, a minimum guaranteed pension of Rs. 1,000/- or 2,000/- or 3,000/- or 4,000/- or 5,000/- per month will start once the subscriber attains the age of 60 years, depending on the pension amount opted for and contributions made by him/her.

v. 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 can also have their own superannuation funds.

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

vii. 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 National Social Assistance Programme (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 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.

Indira Gandhi National Old Age Pension Scheme (IGNOAPS): Under the scheme, below poverty line (BPL) persons aged 60 years or above are entitled to a monthly pension of Rs. 200/- up to 79 years of age and Rs.500/- thereafter.

Indira Gandhi National Widow Pension Scheme (IGNWPS): BPL widows aged 40-59 years are entitled to a monthly pension of Rs. 200/-.

Indira Gandhi National Disability Pension Scheme (IGNDPS): BPL persons aged 18-59 years with severe and multiple disabilities are entitled to a monthly pension of Rs. 200/-.

National Family Benefit Scheme (NFBS): Under the scheme a BPL household is entitled to lump sum amount of money on the death of primary breadwinner aged between 18 and 64 years. The amount of assistance is Rs. 10.000/-.

Annapurna: Under the scheme, 10 kg of food grains per month are provided free of cost to those senior citizens who, though eligible, have remained uncovered under NOAPS.

DEFINED BENEFIT (PAYG) PENSION FOR GOVERNMENT EMPLOYEES

Central Government employees 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 employees in the central government recruited prior to 1 January 2004 are covered by the mandatory pension scheme which is defined benefit in nature 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. 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. Most of the State Governments and eight Union Territories have notified adoption of NPS for their new employees joining from the notified dates.

Atal Pension Yojana

To encourage people from the unorganised sector to voluntarily save for their old age, Government had launched the Atal Pension Yojana with effect from 1 June 2015. The scheme is open to all citizens of India who have a savings bank account. The minimum age of joining APY is 18 years and maximum age is 40 years. As per notification dated 10 August 2022 issued by Ministry of Finance, Government of India, from 1 October 2022, any citizen who is or has been an income-tax payer, shall be eligible to join APY

Benefits under APY:

APY subscribers would receive the following triple benefits:

(i) Central Government guaranteed minimum pension amount: Each subscriber under APY shall receive a Central Government guaranteed minimum pension of Rs. 1000 per month or Rs. 2000 per month or Rs. 3000 per month or Rs.4000 per month or Rs. 5000 per month, after the age of 60 years until death.

(ii) Central Government guaranteed minimum pension amount to the spouse: After the subscriber's demise, the spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber until the death of the spouse.

(iii) Return of the pension wealth to the nominee of the subscriber: After the demise of both subscriber and spouse, the nominee of the subscriber shall be entitled to receive the pension wealth, as accumulated till age 60 of the subscriber.

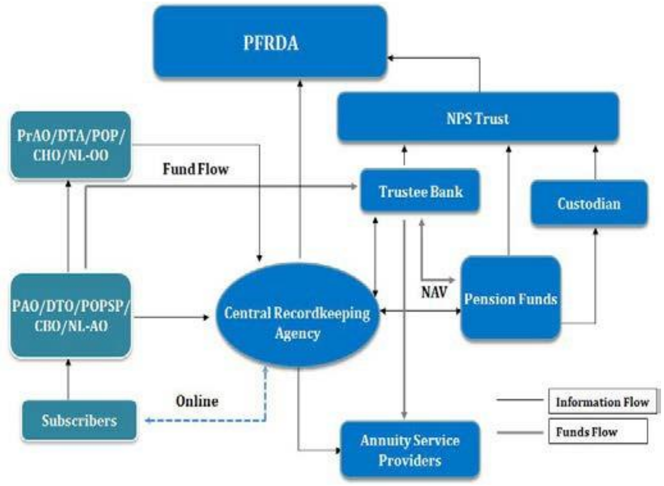
The Pension Fund Regulatory and Development Authority of India (PFRDA), the statutory regulator for the pension sector in India is responsible for the development and regulation of pension sector by establishing, developing and regulating the pension funds involved in the administration of NPS with a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

APY is being administered by the PFRDA under the overall administrative and institutional architecture of the National Pension System (NPS).

Features of NPS

Architecture

The PFRDA has put in place an unbundled architecture managed through a set of intermediaries/ entities that have experience 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 a transparent 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 (Central Government)/DTO (State Government) /CBO (Corporate)- Responsible for collecting the contribution from the pay rolls of Government & Corporate employees who were covered under NPS.

Points of Presence (PoP), are registered by the PFRDA as an intermediary as a distribution channel. These PoPs are mainly commercial banks, non-banking financial companies, brokers and Department of Post who act as the first point 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 the 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.

Table 1: NPS exit/withdrawal rules for Premature exit/Voluntary retirement, Normal exit and Unfortunate death:

A. NPS Exit Reference Table

Category	Premature Exit / Voluntary Retirement (Exit before 60 years/Superannuation)	Normal exit (60 years or beyond /Superannuation)	Unfortunate Death before normal exit / 60 years or Superannuation
Government Sector	a. Complete (100%) Lump sum withdrawal allowed if the corpus is equal to or below ₹ 2.5 Lakh. b. If the corpus higher than ₹ 2.5 Lakh, at least 80% of the accumulated pension wealth has to be utilized for purchase of an Annuity providing for monthly pension to the Subscriber and the balance 20% is paid as lump sum to the Subscriber. c. Subscribers can opt and encouraged to continue in NPS under All Citizens Model post carrying out Inter Sector Shifting (ISS).	a. Complete (100%) Lump sum withdrawal allowed if the corpus is equal to or below ₹ 5 Lakh. b. If the corpus is more than ₹ 5 Lakh, at least 40% of the accumulated pension wealth of the Subscriber has to be utilized for purchase of an Annuity providing for monthly pension to the Subscriber and the balance 60% is paid as lump sum to the Subscriber. c. In case of death after 60 years / superannuation) 60% lump sum will be paid to the nominees and 40% for default annuity by dependents.	a. Complete (100%) withdrawal for corpus to nominees/legal heirs if the corpus is less than or equal to ₹ 5 Lakh. However, the nominees can opt for annuity if desired. b. If the corpus is higher than ₹ 5 Lakh, at least 80% of the accumulated pension wealth of the Subscriber has to be utilized for purchase of default Annuity by dependents and the balance 20% is paid as lump sum to the nominee/legal heir. c. If none of the dependent family members (spouse, mother & father) are alive, the Corpus i.e. 80 % has to be returned to the surviving children of the Subscriber and in the absence of children, to the legal heirs.
Non – Government Sector	a. 5 Years mandatory subscription. b. Complete (100%) Lump sum withdrawal if the corpus is equal or less than ₹ 2.5 Lakh. c. If the corpus more than ₹ 2.5 Lakh, at least 80% of the accumulated pension wealth of the Subscriber has to be utilized for purchase of an Annuity and the balance 20% is paid as lump sum to the Subscriber.	a. Complete (100%) Lump sum withdrawal is allowed if the corpus is less than or equal to ₹ 5 Lakh. b. If the corpus is more than ₹ 5 Lakh, at least 40% of the accumulated pension wealth of the Subscriber has to be utilized for purchase of an Annuity and the balance 60% is paid as lump sum. c. In case of death after 60 years / superannuation, lump sum is paid to the nominees. However, the nominees can opt for annuity if they desire so.	a. The entire accumulated pension wealth of the Subscriber payable to the nominee or legal heirs if the Subscriber dies before or after attaining 60 years. However, the nominees can opt for annuity if they desire so.

Facility of Systematic Lump sum Withdrawal (SLW) for NPS Subscribers at the time of Superannuation

As per the existing exit guidelines, the subscribers post 60 years/superannuation can defer availing of annuity & withdrawing the lump sum on any combination till 75 years of age. With the SLW facility, now the subscribers are allowed to withdraw up to 60% of their pension corpus, through the SLW on a periodical basis viz. monthly, quarterly, half-yearly or annually for a period till 75 years of age as per the choice at the time of their normal exit.

Table 2: Members, contributions, assets under management

As of 31 December 2023, a total of 70.29 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.10.9 trillion (US$ 130.8 billion). Sector wise details are given in the table below.

Subscriber Category	No. of Subscribers	Contributions (Rs. Crore)	AUM (Rs. Crore)
Central Government	25,32,711	2,09,890	3,05,116
State Governments	64,50,288	3,97,653	5,42,394
Corporate	18,86,480	1,07,871	1,52,122
All Citizen Model	32,35,928	54,842	53,254
NPS Lite Swavalamban	33,23,283	3,308	5,356
Atal Pension Yojana	5,28,65,112	29,333	33,034
Total[8]	7,02,93,802	₹ 8,03,439	₹ 10,91,861
	70.29 million	$9,622.02	$13,076.18

[8] The total Contribution and AUM also includes the amount invested in the APY Fund Scheme which is Rs. 542 Crores and Rs. 584.55 Crores respectively.

Taxation

Income Tax Act in India allows following benefits for subscription to the NPS:

• 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.

• 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 Income Tax Act.

• On Employer's contribution: Up to 10% of Basic & DA under 80CCD (2). This rebate is over and above 80 C. On Employer's contribution, there is an upper ceiling of Rs. 7,50,000/- for NPS, recognized PF, Superannuation Fund in aggregate.

• On Employer's contribution in case of Government (Central and state government): there is tax deduction up to 14% of salary (Basic + DA) contributed by employer (Central Government and state government) under Section 80 CCD (2) over the limit of Rs. 1.50 lakh provided under section 80 CCE. On Employer's contribution, there is an upper ceiling of Rs. 7,50,000/- in aggregate.

• Exclusive Tax Benefit: As announced by the Government of India in Budget 2015-16, subscriber is allowed tax deduction in addition to the deduction allowed under Sec. 80CCD (1) for additional contribution in NPS account subject to maximum of Rs. 50,000/- under sec. 80CCD 1(B).

• Tax benefits on partial withdrawal from a NPS account: there is tax exemption on the amount withdrawn up to 25% of the self-contribution, under section 10(12B).

• Tax benefit on lump sum withdrawal: there is tax exemption on lumpsum withdrawal of 60% of accumulated pension wealth upon attaining the age of 60 or superannuation under section 10(12A).

• Tax benefit on purchase of Annuity: there is tax exemption on purchase of annuity upon attaining the age of 60 or superannuation under section 80CCD (5). However, the subsequent income received from annuity is subject to tax under section 80CCD (3).

• Waiver of GST on annuities purchased: GST is waived on annuities purchased with the NPS corpus. Normally, there is 1.8% GST payable on the value of the annuity, but NPS investors are exempt.

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).

Every establishment which is a factory engaged in any industry specified in Schedule I and in where 20 or more persons 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.

Table 3: 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 Companies, 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 untill his/her 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 Companies

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