



New pension scheme versus old defined pension scheme for Government employees: An analytical overview

Dr. Harish Sharma

Assistant Professor in Commerce, Government College, Jatauli, Gurugram, Haryana, India

Abstract

The New Pension Scheme (NPS) is a defined contribution-based pension scheme, launched by the government and effective from April 1, 2009. While the existing pension fund of the government offers assured benefits, NPS has a defined contribution structure, where an individual can decide where his contributed money will be invested. NPS is intended to resemble the 401k plan offered for employees in the US, but not in totality. NPS follows an EET (exempt-exempt-taxable) structure, similar to its global peer, but the withdrawal amount after the age of 60 cannot remain invested nor can be withdrawn fully. Another important difference is that premature withdrawal is subject to a few life-changing situations. Let's explore other aspects of this scheme. If the employer is offering NPS, he will be making an equal contribution in the scheme from his side. The structure will be of Tier-1 type where premature withdrawal will not be allowed. You will be liable for additional tax benefit on the employer's contribution. An individual can also choose a voluntary Tier-II account having the premature withdrawal facility. The government and employers will make no contribution to this account. The accumulated wealth in this account can be withdrawn anytime without stating any reason.

Keywords: substituted Li ferrite, magnetostatic and spin waves, microstrip array antenna, X-band frequency range

Introduction

NPS is a contributory pension scheme whereby contributions from subscriber along with matching contributions from respective government as an employer, are collected and accumulated in an individual pension account of the employee. NPS uses a system of government /autonomous bodies' nodal offices a CRA and designated pension funds. NPS is mandatory to all employees joining services of Central Government except armed forces and central autonomous bodies on or after 1/4/ 2004.

Types of accounts

Presently under NPS two types of accounts are available for Government employees Tier 1 and Tier 2. Tier 1 is a mandatory account in which you and government contribute funds into your individual accounts. As a subscriber your contribution is 10% of your Basic pay and DA into your Tier 1 account every month along with matching contribution from the employer. Tier 2- A voluntary savings account from which you are free to withdraw the savings at your own choice anytime. No deduction is available in Income tax for Tier 2 account.

Investment of NPS contribution

Presently your contributions are managed by three Pension Funds Managers viz SBI Pension Fund Private Limited, UTI retirement solution Limited and LIC Pension Fund Limited, through investment across different asset classes.

Tier 1 account is non withdrawable till retirement or in the case of death of subscriber. In this type of account the total Corpus at the retirement age is split, whereby a minimum of

40% of the final Corpus has to be compulsorily used to buy an annuity while the subscriber is free to withdraw the remaining 60% as lump sum or in instalments.

Tax benefits- the following tax benefits available only for Tier 1 account.

1. Employees contribution- Employees own contribution is eligible for tax deduction under section 80CCD (1) of Income tax Act up to 10% of salary (Basic+DA) this is within the overall ceiling of Rs 150000/- under section 80CCE of income tax Act.
2. Employer's contribution- Deduction available up to 10% of basic +DA under section 80CCD (2) this rebate is over and above section 80CCE limit of Rs 150000.
3. From financial year 2015-16 subscriber being allowed tax deduction in addition to the deduction allowed under section 80CCD 1 for contribution in his NPS account subject to maximum of rupees 50000 under section 80CCD (1B).

At present at the time of exit the amount utilized for purchase of annuity from IRDA approved Life Insurance Company (i.e., 40% of the total accumulated Corpus under NPS) has been made free but 60% of the accumulated Corpus will be taxed hence working on EET (Exempt Exempt Taxable) concept. It is very good news for all Government employees covered by NPS the government has finally decided to grant Death cum Retirement Gratuity to NPS covered government employee at par with Central Government employee who are entitled to pension under Central civil service (pension) rule 1972. In case of Government employee who leaves the

scheme before attaining the age of 60 the mandatory annuitization would be 80% of pension wealth.

Old defined pension scheme

There is a monthly payment which is equal to 50% of last drawn salary and DA as applicable. Minimum payment to retired employees as pension through this old scheme is Rs 3500/-. Those above the age of 80 get an additional pension in the range of twenty and a hundred percent of basic pension. After the death of employee his/her family gets family pension which is 30% of basic. Beside there is also dearness relief, based on all India Price Index for Consumers.

Employees covered under Old Defined Pension Scheme having GPF account in which minimum subscription is 8% of pay, maximum subscription does not exceed the maximum amount of pay. The Accumulated fund in GPF account is completely tax free i.e., EEE concept. Pay is defined as the basic and special pay if any. Facility of Refundable/Non Refundable advance is available for GPF account holder.

Objectives of study

1. To study NPS by giving brief introduction of new pension scheme
2. To compare new pension scheme with old defined pension scheme.
3. To know the future returns in order to living sustainable life.

Hypothesis

New pension scheme for government employee is better than old define pension scheme.

Methodology

1. Excel worksheets used for calculation of returns and Corpus fund.
2. Returns calculated on the basis of past performance of Pension Fund managers that is 8% to 11%.
3. Pay scale 9300-34800 has been considered for starting pay as service of government employee started from January 2006.
4. Actual 6th pay commission and 7th pay commission has been considered, next Pay Commission on the basis of assumption as per past Pay Commissions reports. Rate of DA assumed 3% for every 6 months, i.e., every January and July of the Year.
5. Total length of service is assumed 35 years i.e., from Jan 2006 to Dec 2040.

Findings

1. Excel Calculation sheet showing that how much can a Corpus fund on different rate of Returns. Corpus fund calculated on the basis of the NPS return so far from 8% to 11%.
2. Let's take example of Corpus fund calculated on the basis of 10% of rate of return. Based on the calculation the Corpus fund will be Rs 48 984334 whose 60% will be rupees Rs29 390 600 approximately. According to the taxation rules of that time we can assume that tax will be at 30% rate and after this 30% tax the remaining amount will be Rs 20573420. The amount of 40% of the Corpus

fund will be Rs 1959 3734 this amount must be dedicated to a Life Insurance Company for annuity. If 7% returns are considered then there will be return of Rs 137 1561 i.e., monthly return will be approximately Rs 114300.

3. If employee is in the old define pension scheme then about 8% annual return from his /her GPF account will accumulate Rs 1191 9908 approximately at the time of retirement and which is fully exempted from tax, hence working on EEE concept..
4. After tax on 60% of the NPS Corpus fund the balance amount will be approximately Rs 20 573420. Even if you invest it too so it return at the rate of 8% per annum will be approximately Rs 137156 per month.
5. Now total return will be approximately Rs 25 1456 maximum monthly (Pension +Interest) under the New Pension Scheme.
6. In addition to the maturity amount of GPF account in the old define pension scheme the employees get pension equal to 50% of the last basic salary which will be approximately Rs 318800 (50% of 637600) and DA as applicable apart from that. If the employees gets the age of 80 then he will get additional pension which can be from 20% to 100% and if the employee dies his/her life partner will get 30% of basic as a family pension.
7. Employee under Old Defined Pension Scheme will get Pension Rs 318800 per month without DA where's Employee under New Pension Scheme will get Pension and Interest Rs 251456 per month for life time i.e., as time passes, there will be no change in it.
8. Returns given on NPS can be affected if rates of DA change. Returns may increase drastically if, actual DA will be more than 3%.
9. Returns will be variable in extreme quantities. The return time and period of service period will have a great impact on Returns.
10. All calculations are based on assumption, actual situation may vary.

Conclusions

Based on the above analysis it can be said that the New Pension Scheme is not better than Old Defined Pension scheme. The New Pension Scheme cannot replace the security provided under the Old Defined Pension Scheme.

Suggestions

1. In order to make scheme more lucrative EET concept should be replaced with EEE concept.
2. In future it is very difficult to predict rate of annuity by Life Insurance Company either it will be 6% or less than 6%. In that case assurance should be given for minimum annuity rate.
3. Market is so volatile the above calculation may change if market suddenly drop or any crisis in economy in future then what happened to Returns, so assurance should be given to maintain certain Corpus in future like Old defined pension scheme.
4. Facility of refundable or non-refundable loan should be provided to meet necessity is out of 50% of Corpus which is self-contribution of employee.

Table 1

	Period	Basic	DA	Self Contribution	Govt contribution	Total	Investment @8% p.a	Corpus Fund	Investment @9% p.a	Corpus Fund	Investment @10% p.a	Corpus Fund	Investment @11% p.a	Corpus Fund	GPF contribution 8% of Basic	Accumalated fund @8% p.a
2006	Jan	13500	0	1350	1350	2700		2700		2700		2700		2700	1080	1080
	Feb	13500	0	1350	1350	2700	18	5418	20	5420	23	5423	25	5425	1080	2167
	Mar	13500	0	1350	1350	2700	36	8154	41	8161	45	8168	50	8174	1080	3262
	Apr	13500	0	1350	1350	2700	54	10908	61	10922	68	10936	75	10949	1080	4364
	May	13500	0	1350	1350	2700	73	13681	82	13704	91	13727	100	13750	1080	5473
	June	13500	0	1350	1350	2700	91	16472	103	16507	114	16541	126	16576	1080	6590
	July	13910	278	1419	1419	2838	110	19420	124	19468	138	19517	152	19565	1113	7746
	Aug	13910	278	1419	1419	2838	129	22387	146	22452	163	22517	179	22582	1113	8911
	Sept	13910	278	1419	1419	2838	149	25374	168	25458	188	25542	207	25627	1113	10084
	Oct	13910	278	1419	1419	2838	169	28381	191	28487	213	28593	235	28700	1113	11264
	Nov	13910	278	1419	1419	2838	189	31408	214	31538	238	31669	263	31800	1113	12452
	Dec	13910	278	1419	1419	2838	209	34455	237	34612	264	34770	292	34929	1113	13649

Table 2

	Period	Basic	DA	Self Contribution	Govt contribution	Total	Investment @8% p.a	Corpus Fund	Investment @9% p.a	Corpus Fund	Investment @10% p.a	Corpus Fund	Investment @11% p.a	Corpus Fund	GPF contribution 8% of Basic	Accumalated fund @8% p.a
2040	Jan	619000	148560	76756	76756	153512	214624	32561736	276309	37271066	354569	43056389	454705	50212414	49520	10543846
	Feb	619000	148560	76756	76756	153512	217078	32932326	279533	37704111	358803	43568704	460280	50826206	49520	10664009
	Mar	619000	148560	76756	76756	153512	219549	33305387	282781	38140404	363073	44085289	465907	51445625	49520	10784978
	Apr	619000	148560	76756	76756	153512	222036	33680935	286053	38579969	367377	44606178	471585	52070722	49520	10906758
	May	619000	148560	76756	76756	153512	224540	34058987	289350	39022830	371718	45131408	477315	52701549	49520	11029353
	June	619000	148560	76756	76756	153512	227060	34439559	292671	39469014	376095	45661015	483098	53338158	49520	11152770
	July	637600	172152	80975	80975	161950	229597	34831106	296018	39926982	380508	46203474	488933	53989042	51008	11278501
	Aug	637600	172152	80975	80975	161950	232207	35225264	299452	40388384	385029	46750454	494900	54645892	51008	11405075
	Sept	637600	172152	80975	80975	161950	234835	35622049	302913	40853248	389587	47301991	500921	55308763	51008	11532497
	Oct	637600	172152	80975	80975	161950	237480	36021480	306399	41321597	394183	47858125	506997	55977710	51008	11660773
	Nov	637600	172152	80975	80975	161950	240143	36423574	309912	41793460	398818	48418893	513129	56652790	51008	11789908
	Dec	637600	172152	80975	80975	161950	242824	36828348	313451	42268861	403491	48984334	519317	57334057	51008	11919908

References

1. <https://npscra.nsdl.co.in>.
2. Wikipedia app
3. www.moneyaware.com.
4. www.relakhs.com