Pension for Old-age Income Security[1]

Dignitaries on the dais: Dr. V. K. Paul, Member, NITI Aayog, Dr. V. Anantha Nageswaran, Chief Economic Advisor to the Government, my colleague whole-time members Prof. Manoj Anand and Ms Mamta Shankar- and distinguished invitees. I extend a heartily welcome to you to this conference in celebration of NPS Diwas, a significant day dedicated to National Pension System (NPS)—an inclusive retirement saving scheme.

The theme of the conference covering demography and digital enablement assumes importance at the current juncture of our development. We are the most populous and young country on the face of the planet. Currently, every tenth person is over 60 years of age, by the middle of the century by when we are aspiring to be a high income country, every fifth person will be over 60 years of age. Unless we make provision for our retirement security now, it is going to be increasingly challenging. Digital enablement besides making pension schemes accessible to all, eases onboarding and significantly reduces the cost.

We understand the importance of financial security, especially when we look ahead to our retirement years. NPS was launched by the Government, first for the government employees and then extended to the all, with the vision of providing every Indian citizen an opportunity to build a financial foundation for their future. It is not just a pension scheme but a promise of financial independence, offering a reliable platform to ensure our golden years are truly golden.

Pension plays a crucial role in ensuring financial security during retirement, and the structure of pension systems varies across countries depending on their economic development, demographic structure, and social safety nets.

Developed countries have well-established pension systems that typically have three pillars i.e. Public Pension: A universal basic pension funded by mandatory contributions; Occupational Pension: Employer-sponsored pension, often a defined contribution (DC) scheme; Private Pension: Individual personal retirement accounts. Even with three sources of pension, retirement income does not seem adequate underscoring the need for substantial savings for retirement.

In advanced countries majority of citizens, including those in lower-income brackets, have access to public pensions or employer-provided pensions. India's pension system faces

[1] Inaugural address by Dr. Deepak Mohanty, Chairperson, Pension Fund Regulatory and Development Authority (PFRDA) at NPS Diwas Conference on 'Securing Retirement: Transforming India's Pension Landscape' at New Delhi, October 01, 2024.

significant challenges in achieving comprehensive coverage, particularly for workers in the informal sector.

Formal pension schemes in India predominantly cover employees in the organized sector, such as government workers and those in large private enterprises.This leaves a vast majority of the workforce, especially those in the informal sector, without pension benefits. Unlike the formal sector, where employees contribute to schemes like the Employees' Provident Fund (EPF) or the National Pension System (NPS), informal sector workers typically don't have a structured pension savings mechanism.

The fiscal stress of the defined benefit (DB) pension system was the major consideration driving pension reforms for government employees and the introduction of NPS for Government employees which is now transitioning into Unified Pension Scheme (UPS). It is important to underscore that both NPS and UPS are fully funded and contributory schemes. Owing to the financial and practical difficulties of extending coverage to the unorganized sector through mandatory schemes like EPF, voluntary retirement savings are seen as an important policy tool to extend the coverage of pension provision in India.

An important policy measure to achieve higher coverage of the unorganized sector workers is the extension of the NPS to all citizens on a voluntary basis. The introduction of the NPS in India marked a paradigm shift in transition from a defined benefit to a defined contribution system. NPS provides a robust platform to provide pension product for all the strata of our society.

Subsequently, Atal Pension Yojana (APY) was launched in May 2015 with a focus on the unorganized sector and low-income households. The Subscribers under APY get a government guaranteed pension in the range of Rs. 1,000 to Rs. 5,000 depending upon the contribution level opted by them.

As on end of September, 2024 a total of over 7.8 crore active subscribers are in NPS and APY with assets under management (AUM) of Rs. 13.4 lakh crore. However, considering the vast uncovered population of the country, a lot more needs to be done. A major challenge in extending the NPS to all citizens is increasing awareness and financial literacy among potential subscribers. PFRDA has taken several steps to increase awareness through different mass media and capacity-building programmes. We have engaged a dedicated agency for imparting training and capacity building for our service providers, such as banks.

What makes the NPS special is its transparency, cost-effectiveness, and flexibility. It encourages long-term savings, empowering individuals to take control of their retirement planning. With tax efficiency, low management costs, and the option to choose between equity and debt investment or a mix thereof, it stands as one of the most progressive retirement schemes globally.

The NPS offers a high degree of flexibility to its subscribers, allowing them to tailor their retirement savings and investment choices according to their risk appetite, financial goals, and needs. Any citizen of India from new born up to age of 70 years can open NPS account. The just introduced NPS Vatsalya scheme, is a pension program designed for minors, aimed at fostering long-term financial security from an early age. Under this scheme, parents or guardians can contribute on behalf of their children, making it an effective tool for building a significant corpus by the time the child reaches adulthood. Once the child turns 18, the account seamlessly transitions into a regular NPS account.

Under NPS, subscribers can actively decide how their contributions are allocated across main asset classes i.e. Equity, Corporate Bond, Government Securities and Alternate Investment Fund. The subscribers can construct their own portfolio keeping the mix of various asset class according to their risk appetite. For those who are not comfortable managing their own investments, NPS offers an Auto Choice option, where asset allocation is automatically managed based on the subscriber's age, in Aggressive fund, Moderate Fund and Conservative fund, and now in just to launched a Balanced Life Cycle Fund. In this new Balance Life Cycle Fund tapering of equity starts at the age of 45 unlike the auto choice option where it is at the age of 35.

Additionally, subscribers can choose from a range of Pension Fund Managers (PFMs) who manage their NPS investments. Subscribers have the flexibility to switch between different investment options (Active and Auto choice) and asset allocation percentages. They can also change their PFM once in a financial year.

Further, NPS allows for flexibility in terms of the amount and frequency of contributions. For Tier-I accounts (the mandatory retirement account), the minimum annual contribution is ₹1,000. For Tier-II accounts (optional, offering liquidity), there is no fixed annual contribution requirement. Subscribers can contribute as per their convenience—monthly, quarterly, or even in lump sums. There is no fixed upper limit on the contribution amount, allowing individuals to increase their savings based on their financial situation. This makes the NPS suitable for individuals with irregular income streams, such as self-employed or those in the informal sector.

Additionally, NPS gives flexibility during withdrawal, as well. NPS allows partial withdrawals from the Tier-I account under specific conditions, even before retirement. Subscribers can withdraw up to 25 percent of their own contributions (not including returns) after completing 3 years of subscription, and this can be done for specific reasons.

At the time of retirement, NPS subscribers get flexibility in annuity purchase. Subscribers have to use minimum 40 percent of their corpus to purchase an annuity (regular pension income), the remaining maximum 60 percent can be withdrawn as a lump sum (tax-free) or periodically in form of Systematic Lumpsum Withdrawal (SLW). Subscribers have flexibility in choosing the type of annuity and the provider. They can choose from annuity options like lifetime pension, joint pension with spouse, annuity with return of purchase price. This allows individuals to customize their post-retirement income flow based on their needs.

NPS provides flexibility in the timing of withdrawals after retirement. Subscribers can defer lump-sum withdrawals for up to 10 years after reaching the age of 60. This allows individuals to keep their corpus invested and benefit from market returns if they do not need immediate access to the funds. Additionally, subscribers can defer annuity purchase until they reach the age of 75, which may help in securing higher annuity rates.

NPS, now in its 20th year, has stood the test of time. It has generated competitive returns of around 9.6 percent compound annual growth rate (CAGR) since inception for the government sector. In the non-government sector, the permitted asset classes viz. 'Equity', 'Corporate Debt' and 'Government Securities' have delivered CAGR of 14.4 percent, 9.1 percent and 8.9 percent respectively since inception. Also, NPS is a low-cost product as compared to similar pension products across the globe. While saving for a long-term goal such as retirement, the cost matters a lot as the charges can trim off a significant amount from the corpus over 35-40 years of investment horizon.

To enhance accessibility, convenience, and transparency for subscribers of the National Pension System and making the process easier to navigate for millions of users, the NPS has embraced technology to make the process seamless and efficient. With the introduction of eNPS, NPS mobile app, and other digital initiatives, it has become easier than ever to open accounts, contribute, track investments, and plan for retirement—all at the touch of a button.

This is a clear demonstration of how we are moving towards a more digital, efficient, and user-friendly pension system.

The eNPS portal allows individuals to open an NPS account online using their Aadhaar, PAN, or bank details, making the process fast, paperless, and secure. Digital KYC (Know Your Customer) is integrated into the account-opening process, allowing for Aadhaar-based e-KYC verification. This reduces paperwork and speeds up the onboarding process for new subscribers.

The entire exit and withdrawal process have been digitized, making it convenient for retirees to withdraw funds, choose annuity plans, and manage their accounts online, reducing manual processing time. NPS has integrated online services from Annuity Service Providers, allowing subscribers to choose annuity plans and complete the pension withdrawal process digitally at retirement.

For better security and user authentication, NPS uses OTP-based verification for transactions like withdrawals, contributions, and changes in account details. A Centralized Grievance Management System (CGMS) enables NPS subscribers to raise and track grievances online. The system helps address complaints related to contributions, withdrawals, and other services.

On this NPS Diwas, the aim is to spread awareness and encourage people to take charge of their future by investing in this simple and reliable pension system. The earlier we begin, the better the benefits we can reap. Planning for the future is not just about accumulating wealth — it's about ensuring that we can live our post-retirement life with dignity and financial independence.

As we celebrate NPS Diwas today, let us encourage everyone around us — friends, family, colleagues — to take retirement planning seriously. Financial discipline, even in small steps, can go a long way in securing a brighter future. By creating awareness about NPS, we contribute to the larger goal of building a financially secure nation.

Thank you.

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