SATURDAY, OCTOBER 17, 2020

NATIONAL PENSION SYSTEM (NPS)

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA (C&AG)

DATED 4th AUGUST 2020

M.Krishnan

Vice President

Confederation of C G E & Workers.

- **C & AG report (Para 3.7) recommends for providing Minimum Assured Return Scheme (MARS) to the NPS subscribers.**
- **C & AG report (Para 3.8) quotes the strike notice of Confederation of Central Government Employees & Workers served to the Central Government demanding 50% of the last pay drawn as Minimum Pension and the reply of the Government.**

sThe following are the important recommendations and observations of the Report of the Comptroller and Auditor General of India on National Pension System (NPS) submitted to Central Government on 4th August 2020. (Total 75 pages excluding Annexures).

1. **The National Pension System (NPS) was introduced with effect from 01 January 2004 for new recruits to Central Government Service (except Armed Forces) replacing the old Pension System and subsequently, State Governments (except West Bengal) also adopted NPS on voluntary basis for their employees. NPS is being regulated by the Pension Fund Regulatory and Development Authority (PFRDA).**

2. **As on 31st March 2018, there are 58.01 lakhs Government Sector subscribers including Central Government Employees (1758144), State Government employees (3163415), Central Autonomous Body employees (170856) and State Autonomous body employees (708585).**

3. **Total Assets Under Management (AUM) in NPS amounted to**

Rs.399245 Crore as on 31 January 2020, with Rs.341815.87 Crore pertaining to Government Sector (Central and State Government).

4. Key functionaries in NPS are (a) Pension Fund Regulatory and Development Authority (PFRDA) which regulates NPS subscribed by employees of Central Government, State Governments and employees of private institutions/organisations and unorganised sectors (b) Central Record Keeping Agency (CRA) which acts as an operational interface between PERDA and other NPS intermediaries such as Pension Funds, Annuity Service Providers, Trustee Bank etc. It performs the record keeping, administration and provide customer service functions for all NPS subscribers. (c) Trustee Bank which is responsible for day-to-day flow of funds and banking facilities in accordance with the guidelines/direcetions issued by the Authority under NPS (d) Pension Funds which manage pension corpus through various schemes under NPS (e) Custodian who holds scheme securities in Demat accounts in the name of NPS Trust and provides custodial and depository participant services for the pension schemes regulated by the Authority. (f) Annuity Service Providers (ASPs) licenced and regulated Life Insurance Companies, for servicing the annuity requirements of the NPS subscribers and (g) NPS Trust which has been constituted to take care of assets and funds under the NPS in the interest of the subscribers.

5. The performance Audit was conducted during October 2018 to January 2019 covering the period from 01 January 2004 to 31 March 2018 in the selected samples of seven state Governments (Andhra Pradesh, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Rajasthan and Uttarakhand) 02 Union Territories (National Capital Territory of Delhi and Andaman Nicobar Islands) and 16 Ministries/Departments of Central Government.

6. Audit noted that even after 15 years of introduction of NPS, rules ,on service comnditions/retirement benefits in respect of employees covered by NPS had not been framed. The Committee formed (October 2016) for streamling implementation of NPS in its report also identified the necessity for seperate rules on service matters pertaining to pensionary benefeits of NPS employees for issues like Suspension, extra-ordinary leave (ie; leave without pay) or without medical certificate, unauthorised absence, entitlement in the event of imposition of penalty of compulsory retirement or dismissal/removal, recoveries in the event of pecuniary loss caused by employee to Government during service, cases of pending departmental or judicial proceedings, voluntary retirement etc.

7. Department of Pension and Pensionary Welfare (DoPPW) vide OM dated 05 May 2009 extended provisionally the benefit of gratuity (on invalidation/death during service), Family Pension (on death during service), disability Pension (disability attributable to performance of duty) and Extra-ordinary Family Pension (death attributable to performance of duty) to NPS covered employees at par with the employees appointed before 01 January 2004. The benefit being provisional, were subject to adjustment against final payments to be made in accordance with Rules to

be framed by PFRDA. Audit noticed that benefits of retirement and death gratuity (DCRG) were made applicable to NPS employees on the same terms and conditions as were applicable to employees covered by Central Civil Services (Pension) Rules. However rules in respect of invalid pension, family pension, disability pension and Extra-ordinary family pension are yet to be framed.

8. As per Ministry of Finance (GOI) OMs dated 07January 2004 and 04 February 2004, CPAO (Central Pension Accounting Office) had to prepare Annual Accounts Statement (AAS) for each employee (showing the opening balance, details of monthly deductions and Government's matching contribution, interest earned and closing balance) and issue AAS to the subscribers. Further CPAO after close of each financial year, had to report the details of the balance (Pay and Accounts Office (PAO) wise) to each Principal Accounts Office (Pr.AO) who would forward the information to each Pay and Accounts Office (PAO) for the purpose of reconciliation.

9. Department of Economic Affairs vide OM dated 29 March 2008 sanctioned transfer of Rs.1165.39 Crore from Government of India's Budget for the year 2007-2008 to the Trustee Bank in respect of NPS Accumulations (Legacy Contributions). Till March 2008, GOI gave interest at GPF rate on such amount. Vide OM, it was indicated that no more interest would be given after March 2008 and subscriber-wise accounts were to be transferred to Central Record Keeping Agency (CRA) within the month of April 2008. Government must identify all such cases where legacy contributions are not remitted to the Trustee Bank and ensure that the same may be remitted with due interest and compensation, so that subscriber does not suffer loss.

10. GOI vide its notification dated 31 January 2019, allowed subscribers to choose (i) any one of the Pension Funds, including Private Sector Pension Funds (ii) the option to invest 100 per cent of the funds in Government Securities and (iii) two life-cycle based schemes. Audit noticed that Government sector employees did not have the choice of pension fund and different categories of schemes for a period more than 15 years, ie; from 01 January 2004 to 30 January 2019 (till Government issued a notification in this regard), which implied that Government sector subscribers had no choice in making their investment whereas non-Government subscribers had this opportunity available since 01 May 2009.

11. <u>No Scheme for Minimum Assured Return (MARS):</u>

As per PERDA Act 2013, vide sub section 2(d) under Section 20, the subscriber:-

- **shall have an option of investing upto 100 per cent of his funds in Government Securities; and**
- **seeking minimum assured returns, shall have the option to invest his funds in such schemes providing minimum assured returns as may be notified by the Authority.**

In this regard, the Audit noticed that PFRDA initiated (February 2019), the

process to design the Minimum Assured Returns Scheme (MARS) by issuing an Expression of Interest for design and development of MARS under NPS inviting response from Actuary/Actuarial Investment Management firms. However, it was not available (December 2019) to NPS subscribers, in violation of PFRDA Act. Thus, it was only after a lapse of five years since notification of PERDA Act, that PFRDA had initiated process to design/formulate a scheme offering Minimum Assured Returns and evenafter lapse of more than 15 years since the introduction of the NPS, the subscribers were not yet to receive such minimum assurance. Immediate steps need to be taken for providing MARS in compliance to the provisions of the PFRDA Act, to the subscriber for ensuring their social security post retirement.

12. Replacement rates- As per the Government decision (August 2009), it was expected that contribution of the salary (basic pay plus DA) and a matching contribution by the employer ie; Central Government, could achieve a replacement rate around 56% Per cent of the last emoluments (basic pay plus DA) for Group A employees, around 58% for Group B employees, around 59% for Group C employees, and around 68% for Group D employees. These estimates were based on certain assumptions which, inter-alia, included no change in the existing pay structure, inflation indexation of wage (rise of DA) at the rate of four per cent per annum, investment of contribution in scheme A (it is estimated that Government securities give real returns of 1.6% per annum, corporate bonds give real rate of returns of 5% per annum and Equity give a real rate of returns of 8% Per annum over a long period).

In this regard, Audit noticed that Confederation of Central Government Employees & workers, with a notice of strike, submitted a charter of demands to Department of Economics Affairs (DEA). With reference to the charter of demands, PFRDA informed (October 2007) that apprehension expressed regarding inadequacy of return on pension accumulation to provide a replacement rate of 50% were unfounded. It added that the simulations made by experts indicated that real rate of return of 5% or more per annum would provide pension of more than 50% of the last pay.

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Department of Financial services (DFS) replied (March 2019) to Audit that periodic assessment of the actual replacement rate vis-a-vis the assessment rate and identifying a critical level of the replacement rate across various categories of employees was not mentioned in the Government decision. DFS further added (December 2019) that falling annuity rates, increased longevity and inevitable lowering of interest rates as the economy matures, the replacement rates envisaged in the Government decision might not be achieved.

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DFS may arrive at minimum replacement rate taking into consideration the annuity rates, increased longevity and interest rates.

13. Appointment of Actuary and Actuarial evaluation of the scheme:

High level Expert Group (HLEG) recommended that in order to ensure that the fund would be viable in long run, it would be necessary to have an

actuarial evaluation conducted once in two years, additing that based on the findings of the actuarial evaluation, the Government might like to rationalise the benefit structure or increase contribution rate as the case might be. Audit could not draw assurance on viability of the fund/scheme. This assumes importance in view of the fact that the actuarial evaluation is at the core of any pension scheme. DFS in its reply (December 2019) stated that a review of performance of NPS vis-vis the expected outcomes and standards envisaged at inception, and way forward is under consideration. Further DFS intimated (May 2020) that it intended to conduct actuarial evaluation to assess the present situation and take appropriate measures to maximize and optimize the replacement rate keeping in view the recent replacement rates under NPS vis-a-vis the benefits envisaged at the introduction of NPS.

14. Coverage and Registration of Nodal offices and eligible employees-

PFRDA also informed that any delay in registering all Nodel offices and individual subscribers into new CRA system, so as to enable individual, subscriber-wise contributions to accepted for the investment, would have adverse consequences on the pension savings of NPS subscribers, adding that their assessment indicated that one day's delay in transfer of funds would erode the terminal pension wealth of an employee by Rs.40000/-.

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DFS replied (Dember 2019) that for delays post 2012, the recommendation of Committee of secretaries, suggesting measures for streamlining NPS, were under active consideration for implementation. Further, pusuant to the budget announcement 2019 on seperation of NPS Trust from PFRDA, requisite ammendments to PFRDA Act also were under examination inter-alia including incorporating provisions for compensation and penal provisions for delay in Government Departments. DoPPW has also incorporated penal provisions in the draft CCS (NPS) Rules.

Fool proof system needs to be put in place to ensure that all NPS eligible employees are registered, internal Audit mechanism should see that every employee is brought into the system. To ensure this, delays need to be penalised and compensation effected to avoid loss to the subscriber.

There are cases where due to delay in issuance of PPAN (Permanent Pension Account Number), commencement of first deduction of contribution did not occur, in the month subsequent to the month of joining, the subscriber suffered a loss of interest (whereever no such compensation has been made to the subscriber) on contributions between month of actual deduction and the months in which deduction was due. DFS in is reply (December 2019) expressed its view that penal provisions reed to be introduced for delinquent officials to prevent occurence of delay in future.

15. CGA had prescribed (September 2008) that NPS contributions should be credited to the Trustee Bank on the last working day of each month. Test check of selected sample revealed that there were delays at each stage from the issuance of Permanent Retirement Account Number (PRAN), deduction of contribution, submission of bills PAO, uploading of

subscriber contribution file (SCF) containing details of Pension Contribution, PRAN, DDO, amount etc, which would ultimately lead to delayed remittance of contribution to Trustee Bank. Audit noted that the delayed issue of PRAN were due to late receipt of duly filled application forms from subscribers or forms received with incorrect/missing details and delay in procedural approvals. The delay in issue of PRAN resulted in delayed remittance to the Trustee Bank. Delay in issuance of PRAN would lead to loss of NPS corpus to the extent of contribution of subscriber and its employer and return thereon, thereby affecting its terminal wealth (where such contribution and reutrn was not provided subsequently to the subscriber of NPS account). Delay in remittance of contribution to Trustee Bank affects timely credit of contributions to the subscribers account. DFS accepted (December 2019) that these cases may lead to monetary loss to the subscribers.

There were case of delay in issue of Permanet Retirement Account Number (PRAN), First deduction of NPS contributions, Bills reaching PAO, uploading subscriber contribution files (SCFs) and remittance of contribution to the Trustee Bank.

16. In 4130 case pertaning to Civil Ministers of Central Government, an amount of Rs.139.95 crore of NPs accumulation was lying in the NPS accounts (ie; PRANs) which were required to be transfered to Nodel office/ Government as these employees/families were granted the benefit of additional relief (old pension on death/invalidation).

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Confederation Of Central Government Employees at 4:28 PM

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