New Pension SCHEME - 2004

Government of India have introduced a new defined Contributory Pension System for the new entrants to Central Government Service, except for Armed Forces in the first stage, replacing the existing system of defined benefit pension system vide Government of India, Ministry of Finance, Department of Economic Affairs notification dated 22.12.03 sent herewith. The new pension system has come into operation w.e.f. 1.1.2004. The salient features of the new pension system are as under:-

(i) The new pension system is based on defined contributions, which will use the existing network of bank branches and post offices etc., to collect contributions and interact with participants allowing transfer of the benefits in case of change of employment and offer a basket of pension choices. The system is mandatory for all Government servants who join Government service on or after 1.1.04. It has two tiers i.e., Tier-I & Tier-II. In tier-I, Government servants shall compulsorily make a contribution at the rate of 10% of salary and DA and a matching contribution will be made by the Government (the term ‘salary’ in Ministry of Finance’s notification quoted above may be read as ‘basic pay’). The contributions and investment returns would be deposited in a nonwithdrawable pension tier-I account. The existing provisions of defined benefit pension and SRPF/GPF would not be available to the new recruits in the Central Government service joining Government service w.e.f. 1.1.2004.

(ii) In addition to the above pension account, each Government servant may also have a tier-II withdrawable account at his option. This option is given asSRPF/GPF Rules are not SRPF/GPF Rules are not applicable to the new recruits joining the Central Government service w.e.f. 1.1.2004. Government will not make any contribution to this tier-II account. These assets would be managed through exactly the above procedures. However, the Government servant would be free to withdraw part or whole of the second tier of his money any time. This withdrawable account does not constitute pension investment and would attract no special tax treatment.

(iii) A Government servant covered under the new system can exit at or after attaining the age of 60 years from the tier-I of the system. At exit, it would be mandatory for the individual to invest 40% of the pension wealth to purchase an annuity from an IRDA regulated life insurance company, which will provide for pension for the lifetime of the employee and his dependent parents/spouse at the time of retirement. In the case of Government servants, who leave the system before attaining the age of 60 years, the mandatory annuitization would be 80% of the pension wealth.

(iv) In order to implement the system, there will be a Central Record Keeping Agency (CRA) and several Pension Fund Managers (PFMs) to offer 3 categories of schemes to Government servant viz. Option A, B and C based on the ratio of investment in fixed income instruments and equities. Option A would imply pre-dominant investment in fixed income instruments and some investment in equity. Option B will imply greater investment in equity. Option C will imply almost equal investment in fixed income instrument and equity. An independent Pension Fund Regulatory and Development Authority (PFRDA) will regulate and develop the pension market.

(v) As an interim arrangement, till such time a statutory PFRDA is established, an interim PFRDA has been appointed by Ministry of Finance. Further, till the regular Central Record keeping Agency (CRA) and Pension Fund Managers (PFMs) are appointed and the accumulated balances under each individual account are transferred to them, Government has decided that Central Pension Accounting Office (CPAO) will function as CRA and such amounts representing the contributions made by the Government servants and the matching contribution m ade by the Government shall be kept in an account under Public Account of India as an interim arrangement. 2. Accordingly, the following instructions are issued in consultation with Controller General of Accounts, Ministry of Finance for the guidance of Railways for implementation of the New Pension System during the interim arrangements referred to above:

a. The new pension system is effective from 1.1.2004.

b. The contributions payable by Railway servants towards the system under tier I and tier II will be recovered from their salary bills every month.

c. Pending formation of a Central Record Keeping Agency, Central Pension Accounting Office/Ministry of Finance will function as the Central Record Keeping Agency for this system.

d. The contribution towards the system under tier-I will be recovered at the rate of 10% of Basic Pay and DA from Railway Servants.

e. The system of voluntary contribution under Tier-II will not be operative during the period of interim arrangement. Therefore, no recoveries will be made from the salaries of the employees on this account during the above period.

f. Recoveries towards the contribution to tier-I of the system shall be effected from the Ist of the month following the month in which the Railway servant has joined the service. No deduction will be made from his salary earned in the month of joining the service.

g. No deduction shall be made towards SRPF/GPF contribution from the Railway servant joining the service on or after 1.1.04, as the said scheme is not applicable to them.

h. (i) Immediately on joining the service the Railway servant shall be asked by the bill drawing officer concerned to furnish the particulars viz., name, designation, scale of pay, date of birth, nominee for the fund etc; in the prescribed form (Annexure I).

Each bill drawing officer will consolidate this information in respect of all the Railway servants, who have joined service during the previous month and submit it in the prescribed format (Annexure II) to the associate bill passing Accounts Officer by 7th of each month. Annexure I will be retained by the bill drawing officer and will be placed in the service book of the employee.

(ii) Since the Pension Fund Account number and ledger thereof will be permanent records, the permanent accounting units viz., divisional/workshop/Headquarters Office etc. only shall be nominated as Associate Accounts Office for this system and the project railways/construction offices may be attached to Divisional Accounts Office under whose regional jurisdiction such project/construction offices are situated. These offices after passing of salary bills will transfer the salary debits to the concerned accounting units through transfer certificate for accountal against relevant work/expenditure head of account. This will ensure proper maintenance of records, timely submission of information to CPAO for the present and timely flow of funds to PFMs when they come into being.

(iii)FA&CAO shall issue suitable local procedure order to ensure effective implementation of the new system. (i) On receipt of the information (Annexure-II) from the bill-drawing officers, the associate bill passing Accounts Officer will allot a unique 16 digit permanent pension account number as under:-

1 st to 4th digiT	Calendar year in which the account is opened (To be allotted by Railway)
5 th digit	Ministry Code as allotted by CGA (Code No. '.5' has been allotted to Railways by CGA).
6 th to to 8th digits	Zone/Production unit Code (As per FMIS Programme to be allotted by FA&CAOs themselves prefixing '0' to the existing 2 digit railway code e.g. 3-digit numercial code for ECR will be 030)
9 th to 11th digits	Associate Accounting Unit Codes to be allotted by FA&CAOs themselves starting from 001.
12th to 16th digits	Employee Number (To be allotted by Associate Accounts Office concerned starting from 00001 running from January to December of a calendar year)

FA&CAO shall be the nodal officer for each Railway/Production Unit and Dy.CAO/General shall be the officer-in-charge at Headquarters Office responsible for this system to correspond with the office of CPAO.