

Executive Summary

By 2001-02, Central Government (i.e. Government of India) pension liability had reached unsustainable proportions. To review the existing pension system and to develop a new one for new recruits entering Government service, a High Level Expert Group was set up (June 2001). Its report, providing a road map for next steps to be taken by the Government, was submitted in February 2002.

Government of India approved (August 2003) the proposal to introduce a new restructured defined contribution pension system i.e. National Pension System (NPS) for new entrants to Central Government service (except Armed Forces) with effect from 01 January 2004 replacing the old pension system. Its basic features are:

- Employee to pay a monthly contribution of 10 *per cent* (salary and Dearness Allowance), matched by the Central Government to be deposited in a non-withdrawable Tier-I account.
- On exit (at or after 60 years for Tier-I) from NPS, the individual would be mandatorily required to invest 40 *per cent* of pension wealth to purchase an annuity and 60 *per cent* would be paid to the subscriber in a lump sum.
- For exit prior to the age of 60, the mandatory annuitisation would be 80 *per cent* of the pension wealth and 20 *per cent* would be paid as lump sum.

NPS was also applicable to new employees of all autonomous bodies of Central Government Ministries/ Departments with effect from 01 January 2004. Further, State Governments and their Autonomous Bodies also adopted NPS on different occasions for their employees.

The Nodal Offices (act as interface between subscribers and Central Record keeping Agency) under NPS were the Principal Accounts Officers (Pr. AOs), Pay and Accounts Officers (PAOs) and Drawing and Disbursing Officers (DDOs) under the Central Government and analogous offices under the State Governments. As on 30 April 2018, there were 19,303 DDOs, 4,719 PAOs and 687 Pr. AOs having 19.29 lakh subscribers in Central Government Ministries/ Departments and Central Autonomous Bodies (CABs). Further, there were 2,31,745 DDOs, 5,463 PAOs/ District Treasury Offices and 443 Pr. AOs/ Directorate of Treasury and Accounts having total 38.72 lakh subscribers in State Government and State Autonomous Bodies (SABs).

Performance Audit on the NPS was conducted to assess whether the system for NPS was established as envisaged; all eligible subscribers had been covered under the NPS; and due contributions (subscribers' and employers') were timely deducted and remitted to Trustee Bank.

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 sample of seven State Governments (Andhra Pradesh, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Rajasthan and Uttarakhand), 02 Union Territories (National Capital Territory of Delhi and Andaman and Nicobar Islands) and 16 Ministries/ Departments of Central Government.

The audit findings have been categorized under three broad headings viz. Planning, Implementation and Monitoring as follows:

Planning

- Even after 15 years from introduction of NPS, rules on service conditions/ retirement benefits in respect of employees covered by NPS were pending finalisation.

(Para 3.2)

- NPS was made applicable to new entrants in all Autonomous Bodies under various Central Ministries/ Departments recruited on or after 01 January 2004, without putting in place record keeping and accounting arrangements for the Autonomous Bodies.

(Para 3.3)

- In respect of States, CABs and SABs, PFRDA did not fix timelines for upload of legacy data and transfer of legacy contributions to the Trustee Bank, affecting the timely transfer of legacy amount to the Trustee Bank. Further, PFRDA was unaware of the quantum of legacy amount and the status of its transfer to the Trustee Bank.

(Para 3.5)

- Unlike private sector employees who had the choice in making their investments, Government employees did not get to choose the Pension Fund and schemes for a period of more than 15 years i.e. from 01 January 2004 to 30 January 2019.

(Para 3.6)

- There was no indication that actuarial evaluation of the fund/ scheme was conducted once in two years and of adoption of any other mechanism to assess the viability of the fund/ Scheme.

(Para 3.9)

Implementation

- There was no assurance that all Nodal Offices (under Central Government, State Governments, CABs and SABs) were registered under NPS.

(Para 4.1.1)

- During formulation of the scheme, essential controls to ensure 100 per cent coverage of eligible employees were not envisioned. Thereby there was no

assurance that 100 *per cent* of eligible employees were covered under NPS, despite 15 years of implementation.

(Para 4.1.3)

- There were cases of delay in issue of Permanent Retirement Account Number (PRAN), first deduction of NPS contributions, bills reaching PAO, uploading Subscriber Contribution Files (SCFs) and remittance of contributions to the Trustee Bank.

(Para 4.3.1, 4.3.2, 4.4, 4.5, 4.6)

- An amount of ₹5.20 crore and ₹793.04 crore were not remitted to the Trustee Bank by Central Government/ CABs DDOs and States/ UTs DDOs respectively in respect of those nodal offices who had joined NPS.

(Para 4.8)

Monitoring

- Out of 66-68 Ministries/ Departments between 2012-13 and 2018-19, not all had constituted the Committee comprising Joint Secretary, Principal Chief Controller of Accounts/ Chief Controller of Accounts and Financial Advisers.

(Para 5.1.1)

- Substantial number of grievances were outstanding for one or more years, between 2013-14 and 2017-18.

(Para 5.2)

- In 4,130 cases pertaining to Civil Ministries of Central Government, an amount of ₹139.95 crore of NPS accumulations was lying in the NPS accounts (i.e. PRANs) which were required to be transferred to Nodal Office/ Government as these employees/ families of employees were granted the benefit of additional relief (old pension on death/ invalidation).

(Para 5.3)

Recommendations

- *A foolproof system needs to be put in place to ensure that all nodal offices and eligible employees are registered under NPS. 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.*
- *Government may ensure that rules on service matters for NPS beneficiaries of Government sector are put in place.*
- *Government must identify all such cases where legacy contributions were not remitted to Trustee Bank and ensure that the same may be remitted with due interest and compensation so that subscriber does not suffer loss.*

- *Immediate steps need to be taken for providing Minimum Assured Return Scheme (MARS), in compliance to the provisions of the PFRDA Act, to the subscriber for ensuring their social security post retirement.*
- *DFS may arrive at minimum replacement rate taking into consideration the annuity rates, increased longevity and interest rates.*
- *DFS may ensure that the amendment being made to the PFRDA Act, clearly defines the responsibility, accountability and penalty for delay at each level (as they are for employees in the Employees Provident Funds and Miscellaneous Provisions Act, 1952) to ensure that NPS subscribers' contribution is remitted to the Trustee Bank and credited in subscriber's PRAN within the scheduled time.*
- *PFRDA should mark cases of grant of additional relief in CRA system to avoid payment of any sum to Annuity Service Provider or to subscriber/ family member subsequently. The pension paying authority may obtain NOC from nodal office to the effect that claimant has not been granted the pension under NPS. Government may take immediate steps to recover the payment already made from the NPS corpus or on account of NPS pension to the subscribers/ family members who had received benefits of additional relief.*
- *Audit findings in report are based on sample scrutiny. Government, both at the Centre and States, may identify similar instances in the entire NPS Universe and determine the magnitude of deficiencies in implementation and take remedial action.*