F. No. 5/7/2003-ECB & PR The Government approved on 23rd August 2003 the proposal to implement the budget announcement of 2003-04 relating to introducing a new restructured defined contribution pension system for new entrants to Central Government service, except to Armed Forces, in the first stage, replacing the existing system of defined benefit pension system.

(i) The system would be mandatory for all new recruits to the central Government service from 1st of January 2004 (except the armed forces in the first stage). The monthly contribution would be 10 percent of the salary and DA to be paid by the employee and matched by the Central Government. However, there will be no contribution from the Government in respect of individuals who are not Government employees. The contribution and investment returns "would" be deposited in a non-withdrawable pension tier-I account. The existing provisions of defined benefit pension and GPF would be available to the new recruits in the central Government service.

(ii) In addition to the above pension account, each individual may also have a voluntary tier-II withdrawable account at his option. This option is given as GPF will be withdrawn for new recruits in Central Government service. Government will make no contribution into this account. These assets would be managed through exactly the above procedures. However, the employee would be free to withdraw part or all of the 'second tier' of his money anytime. This withdrawable account does not constitute pension investment, and would attract no special tax treatment.

(iii) Individuals can normally exit at or after age 60 years for tier-I of the pension system. At exit the individuals would be mandatorily required to invest 40 percent of pension wealth to purchase an annuity (from an IRDA-regulated life insurance company). In case of Government employees the annuity should provide for pension for the lifetime of the employee and his dependent parent and his spouse at the time of retirement. The individual would receive a lump-sum of the remaining pension wealth. Which he would be free to utilize in any manner. Individuals would have the flexibility to leave the pension system prior to age 60. However, in this case, the mandatory annuitization would be 80% of the pension wealth.

Architecture of the New Pension Scheme

(iv) It will have a central record keeping and accounting (CRA) infrastructure, several pension fund managers (PFMs) to offer three categories of schemes viz. option A, B and C.

(v) The participating entities (PFMs and CRA) would give out easily understood information about past performance, so that the individual would able to make informed choices about which scheme to choose.

The effective date for operation of the new pension system shall be from 1st January, 2004.