PROCEEDINGS OF GOVERNMENT OF KARNATAKA

Subject:- Implementation of New Defined Contributory Pension Scheme w.e.f. 01.04.2006 for new entrants to Civil Service – N

GOVERNMENT ORDER NO. FD (SPL) 04 PET 2005, BANGALORE, DATED: 31st MARCH 2006

PREAMBLE:

The problem of growing pension liability aggravated due to the nature of the scheme not being backed by any build up of asset to back this liability. Identifying this growing burden, Government of India took the lead in revising the existing pension scheme by constituting a high level expert group on New Pension system in June 2001. The group submitted its report in February 2002. The issue of growing pension liabilities of the States came up for discussion during the conference of State Finance Secretaries held in the Reserve Bank of India in January 2003. A comprehensive examination of all the issues relating to State pension liabilities was considered crucial. The Reserve Bank of India in February 2003 constituted a Group to study pension liabilities of the State Governments.

The situation in Karnataka has been no different. Pension payments increased from a modest of Rs.5 crores in 1970-71 to as high as Rs.2157 crores in 2004-05. The average annual growth rate of pension payments for the last forty years has been as high as 21% which indicates that the pension liability is increasing significantly.

Government of India introduced the New Defined Contributory Pension Scheme replacing the existing system of Defined Benefit Pension System in December 2003. The new system is applicable to all new entrants to Central Government joining Government service on or after 01.01.2004. Based on the changes made by the Government of India and the recommendations of the Group set up by the Reserve Bank of India, many States like Andhra Pradesh, Tamil Nadu, Kerala introduced the New Defined Contributory Pension Scheme for their new employees.

The State Government announced its decision to adopt wide ranging reforms in pension funding and employee related costs to reduce burden of governance cost on the citizens. The Medium Term Fiscal Plan for Karnataka 2004-05 to 2007-08 stress the need through structural reforms for the Unfunded Defined Benefit Pension System to be converted to a Contributory Funded Pension Scheme. Even the Budget Speech 2006-07 stressed the need to shift to a Defined Contribution Scheme for new recruits to ensure that the liability to pay pension of an employee rendering his service now is not shifted to the future generations. The Government has approved the New Defined Contributory Pension Scheme and to operationalise the new scheme to all new entrants to State Government service joining on or after 01.04.2006.

In order to implement the new scheme, it is proposed to have a Central Record Keeping Agency (CRA) & several Pension Fund Managers (PFMs) to offer three categories of schemes to Government servants viz., Options A, B and C based on the ratio of investment in fixed income instruments and equities. An independent Pension Fund Regulatory & Development Authority (PFRDA) is proposed to be appointed by Government of India to regulate and develop the pension market.

Hence, the Order.

ORDER

(1) The New Defined Contributory Pension Scheme shall be mandatory to all new recruits to the State Government service joining on or after 01.04.2006. The monthly contribution shall be 10% of Basic Pay & Dearness Allowance thereon to be paid by the employee and matched by the State Government in equal proportion. However, there shall be no contribution from the Government in respect of individuals who are not State Government employees.

(2) The contributions and returns thereon shall be deposited in a non-withdrawable Pension Tier – I Account. The existing provisions of Defined Benefit Pension and General Provident Fund shall not be available to the new recruits joining service on or after 01.04.2006.

(3) In addition to the above Pension Account, each Government servant shall also have a Voluntary Tier – II withdrawable account at his option. This option is given as the General Provident Fund shall be withdrawn for new recruits in State

Government from 01.04.2006. Government shall make no contribution into this account. However, the employee shall be free to withdraw part or the entire Tier – II account of his money any time. This withdrawable account shall not constitute pension investment.

(4) Government servants under the new scheme shall normally exit at the age of superannuation for Tier – I of the pension system. At exit, the Government servant shall be mandatorily required to invest 40% of pension wealth to purchase an annuity. In case of Government employees, the annuity shall provide for pension for the life time of the employee and his dependent parents & his spouse at the time of retirement. The individual shall receive a lumpsum of the remaining pension wealth which he would be free to utilize in any manner.

(5) In the case of Government servants who leave the scheme before attaining the age of superannuation, the mandatory annuitisation shall be 80% of the pension wealth.

(6) Separate Orders shall be issued appointing the Central Record Keeping Agency and Pension Fund Managers. Till such time, the accumulated balances under each individual account are transferred to them, contributions made by the Government servants and the matching contribution by the State Government shall be kept in the Public Account of the State on which appropriate interest shall be given. But, this shall be a purely temporary arrangement.

(7) The Optional Tier – II scheme shall not be made operative during the interim period.

(8) The Defined Benefit Pension to the employees of Grant-in-Aid educational institutions shall be discontinued to the recruits joining on or after 01.04.2006. The New Defined Contributory Pension Scheme shall be applicable to them on optional basis to the employee & the employer and the option shall be exercised by both. However, the employer's contribution shall be met by the respective institutions and not by the State Government.

(9) The effective date for operationalisation of the new pension system shall be from 1st April 2006.

(10) Detailed guidelines and procedure for accounting contributions till the regular Central Record Keeping Agency & Pension Fund Managers are appointed shall be issued separately.

(11) Clarifications, if any in implementing the New Defined Contributory Pension Scheme shall be sought from the Special Officer (Pension), Finance Department, MS Building, Bangalore.

(12) Amendments to the Karnataka Civil Service Rules shall be issued in due course.

By Order and in the Name of
the Governor of Karnataka

(N. GOKULRAM)
Principal Secretary to Government
Finance Department

To:

1 The Accountant General (A&E)/Principal Accountant General (Audit-I), Bangalore
2 The Chief Secretary to Government, Vidhana Soudha, Bangalore
3 The Additional Chief Secretary to Government, Vidhana Soudha, Bangalore
4 The ACS & Development Commissioner, Vidhana Soudha, Bangalore
5 All the Principal Secretaries/Secretaries to Government
6 All the Heads of Departments
7 All the Deputy Commissioners of Districts
8 All the Chief Executive Officers of Zilla Panchayats
9 Director of Treasury, Bangalore & District Treasury Officers
10 Principal Secretary, State Legislature, Bangalore
11 Secretary, Karnataka Public Service Commission, Bangalore with a covering
12 Registrar, Karnataka Lokayukta, Bangalore letter
13 Registrar, High Court of Karnataka, Bangalore
14 Registrar, Karnataka Administrative Tribunal, Bangalore
15 The Compiler, Karnataka Gazette, Bangalore, for publication in the next issue of the Gazette.