



## **PFRDA's Guaranteed Return Scheme**

### **Why in news?**

The Pension Fund Regulatory and Development Authority (PFRDA) is preparing to launch a guaranteed return scheme called Minimum Assured Return Scheme (MARS).

### **What is PFRDA?**

- PFRDA is the authority that operates the National Pension System (NPS), subscribed by employees of Government of India, State Governments and by employees of private organizations & unorganized sectors.
- It was established through the Pension Fund Regulatory & Development Authority Act, 2013.
- The PFRDA is ensuring the orderly growth and development of pension market.
- The Authority shall consist of a Chairperson and not more than six members, of whom at least three shall be whole time members, to be appointed by the Central Government.

### **What is NPS?**

- National Pension System (NPS) is a voluntary pension cum investment scheme launched by Government of India to provide old age security.
- It is being administered and regulated by PFRDA set up under PFRDA Act, 2013.
- NPS can be broadly classified into two categories - Government Sector (Central and state governments) and private sector (Corporates and individuals).
- Both resident and Non-resident citizen of India in the age group of 18-65 years can join NPS, an NRI can also open an NPS account.
- NPS offers two types of accounts- Tier-I and Tier-II.
  - Tier-I account is the pension account having restricted withdrawals.
  - Tier-II is a voluntary account which offers liquidity of investments and

withdrawals.

- Upon successful enrolment, a Permanent Retirement Account Number (PRAN) is allotted to the subscriber under NPS.
- Subscriber contributes periodically and regularly towards NPS during the working life to create the corpus for retirement.
- On retirement or exit from the scheme, the corpus is made available to the subscriber with the mandate that 40% of the corpus must be invested in to annuity to provide a monthly pension post retirement or exit from the scheme.

### What is the PFRDA's plan?

- This will be the first scheme from the pension regulator that will offer a guaranteed return to investors by providing the savers and salaried class an option for their investments.
- The regulator has appointed EY Actuarial Services LLP as a consultant to help design the proposed MARS under the NPS.
- Only the floor is set in the proposed scheme, and the consultant is expected to work out the framework of MARS in the next couple of months.

### What does the proposal say?

- **Returns-** The actual returns will depend on the market conditions.
- Any shortfall will be made good by the sponsor, and the surplus will be credited to the subscribers' account.
  - **Fixed guarantee option-** the guaranteed return is fixed along the accumulation phase.
  - **Floating guarantee option-** the guaranteed rate of return is not fixed along the savings phase.
- The floating guarantee depends on the development of the 1-year interest rate until retirement.
- **Lock-in-** It refers to the length of time during which you are not allowed to end a financial agreement.
- Lock-in may be applicable on each contribution, and will be applied based on the period since that contribution has been made.
- It may also consider multiple lock-in period for flexibility.
- The subscriber may have the option to withdraw or to stay invested after the lock-in period however, there won't be any guarantee applied on the investment after lock-in.
- **Contributions-** Minimum and maximum monetary limits on contributions

may be prescribed.

- The attraction for investors will be the minimum guaranteed return.

## References

1. <https://indianexpress.com/article/explained/explained-pfrdas-guaranteed-return-scheme-another-option-for-savers-salaried-class-7795162/>
2. <https://www.pfrda.org.in/index1.cshtml?lsid=1757>
3. <https://financialservices.gov.in/pension-reforms-divisions/National-Pension-System>
4. <https://npscra.nsdl.co.in/all-faq-about-nps.php>



# IAS PARLIAMENT

*Information is Empowering*

A Shankar IAS Academy Initiative