



Social Security in India and Pension Schemes – FA Notes in PDF

Financial Awareness is important in today's day and age. You simply must know what is and what can affect you and your family's financial security. Are prices going to rise? Do you have to start saving for retirement as soon as you join the workforce? Is this government going to raise taxes? No wonder Financial **Awareness** has gained prominence in banking exams like **SBI PO** and **SBI Clerk**. Let us take now take a look at **Social Security in India**.

In India, the coverage gap is about 90% of the total estimated workforce. Coverage gap refers to workers who do not have access to any formal scheme for old-age income. Addressing Social Security in India with particular reference to retirement income for workers within the coverage gap is the need of the hour. This article gives a detailed description about Pension Schemes & Social Security in India. You can also download Social Security in India and Pension Schemes in PDF format for later revision.

What is Social Security?

- Social security means protecting a worker and his family against work or health related eventualities.
- Eventualities include, but are not limited to, Sickness, Maternity, Disability, Death, Unemployment, Old age.
- Social Security in India covers treatment, rehabilitation or compensation.
- If there is no provision of social security then there can be no human dignity.
- Lack of Social Security in India leads to destitution, crime, child labour, etc.

Social Security in India

- Professor B. P. Adarkar developed the first Social Security scheme in India in 1944.
- The govt enacted the Employees' State Insurance Act, 1948 (ESI Act) to set up **Employee State Insurance Corporation (ESIC).**





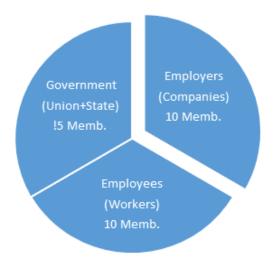




- Employees Provident Fund Act, 1952 was enacted to set up Employees
 Provident Fund Organisation (EPFO).
- Some earlier schemes like **Workmen's Compensation Act (1923)** paved the way for workers & families to receive benefits in case of injuries.
- The Maternity Benefit Act, 1961 provides for 12 weeks wages during maternity plus paid leaves.
- The Payment of Gratuity Act, 1972 provides 15 days wages for each year of service to employees who have worked for 5 years or more in organizations with 10 man strength or more.

Employees Provident Fund Organisation (EPFO)

- EPFO comes under administrative control of Ministry of Labour and Employment.
- It is a 3 party board called the Central Board of Trustees.
- It has 3 different schemes-
 - The Employees' Provident Funds Scheme, 1952 (EPF).
 - The Employees' Deposit Linked Insurance Scheme, 1976 (EDLI).
 - The Employees' Pension Scheme, 1995 (EPS).
- Provident Fund and Pension Fund are two schemes under EPFO, in which an employee (worker) can get a consideration for the services rendered by him for years.













Comparison between Provident Fund and Pension Fund

Basis for	Provident Fund	Pension Fund
Comparison		
Meaning	A fund in which employer and	A fund created by the employer in
	employee make a contribution	which he contributes an amount of
	while an employee is in	his salary for providing retirement
	employment with the	benefits to the employee is known
	organisation is known as	as Pension Fund.
	Provident Fund.	
Who makes	Both employer and employee.	Employer and Central
the contribution		Government.
Statute	Employee's Provident Fund	Employees' Pension Fund Scheme.
	Scheme.	
Nature of amount	Lump Sum.	Either Lump Sum or in the form of
received		regular income depends on pension
		opted by the member.
Basis	The contribution made by both	The pension amount will be based
of the amount	the parties, plus interest	on an average of last 12 month's
	thereon.	salary and years of service.
Withdrawal	A person can withdraw the	Only one-third amount can be
	entire amount of provident	withdrawn.
	fund.	
	Partial withdrawal allowed for	
	House Construction, Marriage,	
	Higher Education, Illness etc.	

Advantages & Disadvantages of Provident Fund

- Recognized, government approved provident fund schemes are exempt from income tax.
- Provident funds are generally invested in government schemes, which have low interest rates (~8%) compared to other options like Bank fixed deposits and mutual funds.
- Inflation erodes (reduces) the real value of savings.
- These funds are inadequate for risks occurring early in the working life as not much amount is accrued.







National Pension Scheme (NPS)

The Government of India established Pension Fund Regulatory and Development Authority (PFRDA) on 10th October, 2003. Its purpose is to develop and regulate pension sector in the country. The National Pension System (NPS), launched on 1st January 2004, provides retirement income to all citizens. It hopes to encourage citizens to develop the habit of saving for retirement.

Initially, NPS was introduced for the new government recruits (except armed forces). Since 1st May 2009, NPS has been provided for all citizens of the country including the unorganised sector workers. Citizens can now seek to enroll in the NPS on a voluntary basis. The Central government also introduced the "Swavalamban Scheme" to encourage people from the unorganised sector to voluntarily save for their retirement.

NPS allots the subscriber a unique Permanent Retirement Account Number (PRAN). This unique account number will remain the same for the rest of subscriber's life. This unique PRAN can be used from any location in India. PRAN will provide access to two personal accounts:

- Tier I Account: This is a non-withdrawable account meant for savings for retirement.
- **Tier II Account**: This is simply a voluntary savings facility. The subscriber is free to withdraw savings from this account whenever subscriber wishes. No tax benefit is available on this account.

Public Provident Fund (PPF)

The Public Provident Fund is a savings-cum-tax-saving instrument in India. The National Savings Institute of the Ministry of Finance introduced PPF in 1968. The aim of the scheme is to mobilize small savings by offering an investment with reasonable returns combined with income tax benefits.











The government of India decides the rate of interest for PPF account. The current interest rate effective from 1st April 2016 is 8.1% Per Annum (compounded annually). Broadly speaking, if you deposit an amount of 1 lakh every year for 15 years without any exception, then you will receive a total sum of more than 30 lakh. This reflects the huge amount of benefit applicable on PPF account, for a total investment of 15 lakh (1 lakh every year * 15 years) interest received is more than 16 lakh, which is also in fact non-taxable.

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