

Broader Financial Inclusion with National Pension Scheme 'Vatsalya': A Comprehensive Analysis with Reference to the Union Budget of India-2024



Ms. Atiba Batul

Doctoral Research Scholar: Amity School of Economics Kolkata; Project Associate (Content Developer): Amity Institute of Training & Development; Special Lecturer: Gokhale Memorial Girls' College (University of Calcutta); Author; Reviewer.

Abstract

The National Pension Scheme Vatsalya, as introduced in the Union Budget of India 2024, represents a pivotal step towards ensuring financial security and dignity for the elderly. Its comprehensive design, coupled with strategic budgetary support, positions it as a cornerstone of India's social security framework. As the scheme unfolds, continuous monitoring and adaptive measures will be crucial to realizing its full potential and achieving the envisioned socio-economic transformation. This initiative is part of the broader financial inclusion efforts of the government, aiming to increase participation in pension schemes and ensure financial stability across different sections of society. This article delves into the details of NPS Vatsalya, examining its objectives, features, and potential impact on India's socio-economic landscape. Additionally, the analysis will highlight how the scheme aligns with the broader goals of the Union Budget 2024.

Key Words

Union Budget 2024-2025, National Pension Scheme, NPS Vatsalya, Financial Security, Sustainable Pension System, Social Security.

Introduction

Finance Minister Nirmala Sitharaman announced the launch of a new initiative, NPS Vatsalya, during her Budget 2024 speech. This scheme is a National Pension Scheme (NPS) designed for minors, enabling parents to make contributions on behalf of their children. The goal is to help secure the children's financial future and establish a retirement fund for them. The Scheme allows parents and guardians to establish a National Pension Scheme (NPS) account for their children. Through this scheme, they can make monthly or yearly contributions until the child turns 18. Upon reaching 18, the NPS Vatsalya account can be converted into a regular NPS account, which the child can then manage independently. The accumulated contributions in the NPS Vatsalya account will be transferred to the standard NPS account once the child reaches adulthood. It is a specialized version of the existing NPS, designed specifically for young individuals. The NPS, introduced by the Central Government, provides pension income to support individuals in retirement. As such, the NPS Vatsalya scheme stands out as a valuable retirement planning option, ensuring the financial security of the child.

Allocation Details

Regarding the allocation details, the budget has earmarked approximately ₹5,000 crore for the NPS Vatsalya scheme. This allocation is intended to cover the operational setup, promotional activities, and initial contribution matching by the government for eligible families. The goal is to encourage long-term savings and financial planning from a young age, providing a solid foundation for retirement security.

Objectives of NPS Vatsalya

The primary objective of NPS Vatsalya is to provide a robust and sustainable pension system for the elderly, ensuring financial security and dignity post-retirement. Key goals include:

- *Universal Coverage:* To bring more individuals, especially from unorganized sectors, under the pension umbrella.
- *Financial Inclusion:* To integrate pension benefits with other financial services for comprehensive social security.
- *Sustainability:* To ensure long-term viability through prudent fund management and regulatory oversight.

Key Features

1. Eligibility and Enrolment- Open to all Indian citizens aged between 18 and 65 years, it has simplified enrolment process through digital platforms and physical centres.

2. Contribution Structure- It offers flexible contribution options starting from a minimum of INR 500 per month. Also, there will be Government co-contribution for economically weaker sections, incentivizing lower-income groups to participate.

3. Investment Options- It has diverse investment choices ranging from government securities, corporate bonds, and equity markets and provides option for subscribers to choose their investment mix based on risk appetite.

4. Tax Benefits- Tax exemptions under Section 80C of the Income Tax Act. Additional benefits for senior citizens to promote higher savings for retirement.

5. Annuity Plans- It offers multiple annuity options post-retirement, including life annuity, joint life annuity, and annuity with return of purchase price. Plus, offers competitive annuity rates ensuring steady post-retirement income.

Socio-economic Impact

The introduction of NPS Vatsalya is poised to have far-reaching implications on India's socio-economic fabric. Firstly, Enhanced Financial Security, by ensuring a steady income stream for retirees, reducing dependence on family and mitigating poverty in old age. Secondly, Increased Savings Rate, by encouraging long-term savings among citizens, contributing to the overall economic stability and growth. Thirdly, Economic Inclusion, by bringing marginalized sections of society, especially those in unorganized sectors, into the formal financial system. Lastly, Reduced Fiscal Burden, by promoting self-sustained pension systems, alleviating the fiscal pressure on the government for direct old-age support schemes.

Alignment with Union Budget-2024 Goals

NPS Vatsalya aligns seamlessly with the broader objectives of the Union Budget 2024, which aims to foster inclusive growth, financial stability, and social welfare. The scheme's emphasis on universal coverage, financial inclusion, and sustainability reflects the government's commitment to creating a resilient social security framework.

The Budget 2024 has earmarked a significant allocation for NPS Vatsalya to ensure its successful implementation and reach. Key provisions include- an initial corpus of thousands of crore to kickstart the scheme, allocations for administrative costs to streamline operations and enhance service delivery and budget for extensive awareness and outreach programs to educate the masses about the benefits of the scheme.

Challenges

Despite its potential, the successful implementation of NPS Vatsalya faces several challenges-

- *Awareness and Outreach:* Ensuring widespread awareness and understanding of the scheme among the masses.
- *Regulatory Oversight:* Maintaining robust regulatory mechanisms to safeguard the interests of subscribers.
- *Technological Integration:* Leveraging technology to streamline operations and enhance user experience.

Recommendations

To address the above-mentioned challenges, the following recommendations are proposed-

- *Comprehensive Awareness Campaigns:* Utilize both traditional and digital media to educate citizens about the scheme.
- *Strengthened Regulatory Framework:* Establish a dedicated regulatory body to oversee the scheme's operations and resolve grievances.
- *Technological Upgradation:* Invest in advanced IT infrastructure to facilitate seamless enrolment, contributions, and benefit disbursement.

Conclusion

The Union Budget 2024 introduced the NPS Vatsalya scheme, aimed at securing the future of minors by allowing parents or guardians to open a National Pension Scheme (NPS) account on their behalf. Under this scheme, contributions can be made until the child reaches 18 years of age, after which the account transitions into a standard NPS account, managed by the child. This scheme, represents a pivotal step towards ensuring financial security and

dignity for the elderly. Its comprehensive design, coupled with strategic budgetary support, positions it as a cornerstone of India's social security framework. As the scheme unfolds, continuous monitoring and adaptive measures will be crucial to realizing its full potential and achieving the envisioned socio-economic transformation.



JAMMU AND KASHMIR ECONOMIC ASSOCIATION

EMPOWERING ECONOMIC PROGRESS