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POLICY ANALYSIS REPORT

PRADHAN MANTRI VAYA VANDANA YOJANA

ANALYSIS, EVALUATION AND RECOMMENDATIONS

BY

RAUNAK CHATURVEDI AND TAMANNA MALHOTRA

POLICY RESEACH ASSOCIATES

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Raunak Chaturvedi, *Policy Research Associate*

Tammana Malhotra, *Policy Research Associate*

Abstract

This research project has been designed to thoroughly deal with the Pradhan Mantri Vaya Vandana Yojna (P.M.V.V.Y.) and assess its various impacts, details, legal impacts, pros and cons, etc. First, we shall have an introduction towards the policy, followed by the brief highlights of the same. Moving on, we shall have a comparison of the P.M.V.V.Y. with other senior citizen pensions/insurance schemes, namely the Senior Citizen Savings Scheme (S.C.S.S.) and the Post Office Monthly Income Scheme (P.O.M.I.S.). Then, we shall have a small assessment of the suitability of these policies to be invested in, for the senior citizens. Moving on, we shall delve into the various legal aspects concerning this policy, with an emphasis on the relevant provisions of the Insurance Act. Then, we shall analyse the various pros and cons of this policy and also look upon the implementation status of the same, henceforth concluding our project.

I. Introduction

Senior citizens, being an integral part of our nation and also due to the prolonged culture of taking care of our elderly, the Union Budget of 2018-2019 had announced the extension of the maximum limit of the *Pradhan Mantri Vaya Vandana Yojana* scheme (hereinafter referred to as P.M.V.Y.Y.) to 15 lacs. Also, it was seen that the sales period for the same was extended till the 31st March 2023. This was indeed a characteristic move played by the Central Government. We may see that in order to

i. Increase the availability of cash with the Government, to help them with their projects; and P.M.V.Y.Y.,
ii. Decrease the cash flow within the public to control the inflation

might have been the two main socio-economic reasons as to why the Government not only launched the scheme, but also, extended the scope of the same drastically, in terms of investment. But, is this scheme a 'pension' scheme? Is this going to help the senior citizens? Let's see.

II. Brief Highlights of the Policy

The administration of the P.M.V.Y.Y. has been completely vested with the Life Insurance Corporation (L. I. C.) of India. This is a point that is pertinent to be mentioned even before we start our discussion upon any other aspect. The reason lies in the fact that this move indicates that the scheme is essentially investment-based in nature, or at the least, insurance-based. Now, that we have understood the main nature of the scheme, let us delve into the details.

To avail the benefits of the scheme, the applicant has to fulfil the following criteria-

i. The person has to be a minimum of 60 years of age.
ii. The applicant has no age restriction of a maximum age up to which he can apply.
iii. The ‘policy’ has to be held for a term of ten years.

As per the various details given in the scheme, we may see that the various pension amounts that can be given are as follows-

i. Minimum pension amounts-
   a. Rs. 1,000 per month.
   b. Rs. 3,000 per quarter.
   c. Rs. 6,000 per half-year.
   d. Rs. 12,000 per year.

ii. Maximum pension amount which can be given-

a. Rs. 10,000 per month.

b. Rs. 30,000 per quarter.

c. Rs. 60,000 per half-year.

d. Rs. 1,20,000 per year.

These are the various amounts to be given to the applicants, depending upon the Purchase Price which is deposited by them. Let us now have a look at the process by which the same has to be done.

Steps-

i. After being eligible for being able to apply for the policy, that is, being of 60 years of age, the applicant needs to buy a particular policy at a 'minimum purchase price', which are given in the following table, according to their tenure of pension payment, that is, whether they have opted for a monthly, quarterly, *etc.*, pension. There is also a 'maximum purchase price', beyond which money can't be invested in the policy. The following table shows the minimum and maximum prices respectively as per the type of pension.

Mode of Pension	Minimum Purchase Price	Maximum Purchase Price
Yearly	Rs. 1,44,578	Rs. 14,45,783
Half-Yearly	Rs. 1,47,601	Rs. 14,76,015
Quarterly	Rs. 1,49,068	Rs. 14,90,683
Monthly	Rs. 1,50,000	Rs. 15,00,000

Thus, we may see, that the minimum price that has to be paid in any case is Rs. 1,44,578,

approximately Rs. 1.44 lac and the maximum limit under any circumstances is Rs. 15 lakhs.

ii. After the policy has been purchased, the question as to how would the determined pension amount be paid, follows. For this, the policy mentions that either N.E.F.T or Aadhar Enabled Payment System could be used. The first instalment of the pension shall be paid after 1 year, 6 months, *etc.* (depending on the mode of pension), from the date of purchase.

iii. The sample pension rates have also been mentioned. The sample rates for Rs. 1,000 Purchase Price are-

Yearly	Rs. 83.00 p.a.
Half-Yearly	Rs. 81.30 p.a.
Quarterly	Rs. 80.50 p.a.
Monthly	Rs. 80.00 p.a.

The instalment has to be rounded off to the nearest rupee and the rates are age independent.

iv. At the end of the tenure of the policy, that is, at the end of the last month, the last instalment, as well as the Purchase Price, shall be payable to the applicant.

These were the various steps involved in the pension scheme process. Now, let us have a look at some of its interesting features.

i. **Surrender Value-** The pension scheme states that in case the applicant wants to withdraw the Purchase Price from the scheme if the applicant has some health issues, or maybe there is a family emergency, then 98% of the price shall be repaid. This indeed is a very interesting move. Normally speaking, most of the health complications arise for senior citizens only. Thus, the Government has a huge chance of gaining monetary benefits through this clause.

ii. **Loan Facility-** The Government also included the facility of extending loans to the applicants, to a maximum value of 75% of the Purchase Price. The policy says that the loan shall only be granted if the policy has been held for three years, at least. This move shall ensure the prevention of premature termination of the policies and shall give the Government sufficient time to roll the money into the market. Another important facet is the fact that the Government shall deduct the interest on the loan from the pension amount itself and also, the maximum loan amount which can be granted is 75% of the Purchase Price. Thus, through this scheme, the Government has ensured an effective plan to tackle the defaults.

The benefits which are being provided in the policy may be categorised into three classes-

i. **Pension Payment-** This is the normal pension payment that is paid to the applicant in the desired mode of pension.

ii. **Death Benefit-** In case the applicant dies during the 10-year policy term, then the money shall be refunded to the beneficiary.

iii. **Maturity Benefit-** After the completion of the 10-year term, the Purchase Price shall be paid to the applicant, as already mentioned.

III. Comparison of P.M.V.Y.Y. with S.C.S.S. and P.O.M.I.S.

Comparison	P.M.V.V.Y.	S.C.S.S.	P.O.M.I.S.
Entry age	60 or above	60 or above	10 years or above
Duration	10 years	5 years	5 years
Interest rate	7.40%	7.40%	6.6%
Interest reset frequency	yearly	Quarterly	Quarterly
Interest rate lock-in	10 years	5 years	Quarterly
Interest pay-out frequency	Monthly, Quarterly, Half-yearly, Annual	Quarterly	Monthly
Tax benefit	none	80(c)	none
Tax on Interest	Taxable*	Taxable	Taxable
Minimum Investment	1,56,000	1000	1500
Maximum Investment	15 L/head	15L/head	15L/head

IV. Suitable Policy for Senior Citizens to Invest in

After going through the details of all the three schemes mentioned above, our take would be that the retirement amount received by the senior citizens is the money they have earned by their hard work, so it's important for them to invest their hard-earned money at the right place so that they can have a secured life ahead and enjoy their life properly later on. P.M.V.V.Y. or S.C.S.S., both the schemes are beneficial as their interest amount is high. The pension is based on the assumed rate of return, so the first choice of the investor should be between P.M.V.V.Y. or S.C.S.S. S.C.S.S. has a major benefit as compared to other schemes as it provides income tax advantages. Investments made in a S.C.S.S. account is qualified for income tax deduction benefit up to Rs. 1.5 Lakh under Section 80C of the Income Tax Act, 1961. Interest on S.C.S.S. is fully taxable. In case the interest amount earned is more than Rs. 50,000 for a fiscal, Tax Deducted at Source (T.D.S.) applies to the interest earned. This limit for T.D.S. deduction on SCSS investments is applicable from A.Y. 2020-21 onwards. The interest of 7.4% under P.M.V.V.Y. is payable monthly for the complete maturity period of 10 years whereas the interest rate of S.C.S.S. is updated quarterly.

V. Legal aspects concerning the Policy

Two major Amendments have been made in the Insurance related laws while bringing in this scheme. The first concerns Section 45 of the Insurance Act and the second concerns Section 41 of the same Act. Let's have a thorough look at these Amendments.

Section 45-

i. The first Section limits the applicant from challenging the Life Insurance Policy on any ground after 3 years from-
   a. Date of Issuance of the Policy (when bought); or
   b. Date of commencement of risk; or
   c. Date of the revival of the policy, or
   d. Date of rider to the policy,

   Whichever date from the above four is the latest.

ii. The second section states that the policy may be called into question on the ground of fraud following the above 3-year criterion, by the insurer. The insurer, that is the L.I.C. is supposed to communicate the grounds on which such a decision is based to the insured or any other authorised person, in writing.

iii. Sections 3 and 4 of the Amendment define fraud and state the status of silence concerning fraud, respectively.

iv. Section 5 states that in case the policyholder disproves the allegations of fraud by stating that the grounds on which the same are alleged were unknown to him or had been done in good faith, then the Insurer shall not repudiate the policy. Section 6 is more or less a continuation of the above Sections only.

v. Section 7 states that in case the policy is repudiated on the grounds of mis-statement and not fraud, then the premium shall be paid to the policyholder which had been accrued till the date of repudiation within a period of 90 days from the date of repudiation.

vi. Section 8 is very interesting as this is the only Section shifting the onus of proof on to the Insurer. It states that the onus would lie on the insurer to prove that a particular fact is material to the policy agreement. Had it been disclosed, then the policy wouldn't have been issued.

vii. The last section states that the insurer can call for age proof for ascertaining facts at any time.

Section 41-

i. The first section of the Amendment states that no person is supposed to allow or even offer, in any manner, to a person to take out, renew or continue as an insurance policy concerning any risk related to life or property in India. Moreover, it prohibits any person from either offer or accepting any rebate on the policy, other than the one mentioned in the prospectuses of the insurer.

ii. Section 2 states that in case any person commits an offence under the previous Section, then he shall be liable to pay a penalty which may extend to 10 lac rupees.

VI. Pros and Cons

Pros-

i. The biggest advantage of this policy is that the income of the applicant is increased at the end of the 10-year tenure. The additional instalments which are being paid are nothing but an extra income. Suppose, a person takes the yearly pension mode and deposits 15 lac. Then, as per the provided data, he will accrue an additional income of 12,00,000 at the end of 10 years along with the original 15 lacs.

ii. The fact that the percentage of the return is very high, that is 98%, in case of the surrender value, would certainly not be a burden on the applicants in the event of an unforeseen mishap, due to which they have to terminate the policy.

iii. The loan facility shall help the applicant to build up a house or fulfil other obligations like marriage, *etc.*, without any hassle and in tension regarding a situation of a default.

iv. The provision of a 'Free Look Period' in the policy, where the policyholder may repudiate the policy because he isn't satisfied with the "Terms and Conditions" within 15 days (or 30 days, in case the policy is purchased online), is truly a good option for the nervous folks.

v. In case the applicant commits suicide, then too the complete purchase price is to be paid to the beneficiary. This is a very important and helpful provision, particularly in the case of a married woman, if her applicant husband commits suicide.

Cons-

i. The first and foremost problem with the policy is that it requires an investment to be made by the applicant, who in turn is a senior citizen. Now, the problem arises that normally people of that age in our country, don't have much money left with themselves. Only the higher-class people do, for example, a retired Justice. Thus, this policy essentially is a rich-people pro policy.
ii. The fact that the Tax clause in Section 9 of the First Amendment to the Insurance Act makes Government taxes applicable to the policy, the concepts and clutches of G.S.T. are once again at play.
iii. One very interesting point is the fact that the interest rates on the loan are going to be determined from time to time. Thus, this in turn indicates that the rates may not be permanent during the repayment period as well. Sometimes less, sometimes high.

VII. Implementation Status of the Policy

Well, if we look at the implementation status, then we may see that the policy is still undergoing the sales stage, whereby the policies are still being sold and shall be continued to be sold till the 23rd of March, 2023. [1] We may interpret this move as either an extension of the time to bring in more applicants or as to troubleshoot an exigency generated due to the pandemic. However, we may see that several implementation steps have been taken, the first of all being popularising this policy through various information technologies and the extension of the time, which was just discussed. However, there might be a few implementation problems, which can be summarised as follows-

i. Many senior citizens may not have any money left with them to be invested, as the majority of their savings might have been depleted due to family expenses.
ii. Many of the senior citizens may suspect the policy, as to whether they would truly get anything or not. Considering it to be a risky investment, they may simply not invest anything.
iii. The policy lies in an ugly middle position. The rich and the high-class senior citizens, for example, retired Justices, army personnel, etc., shall invest at better places, whereas the middle and the lower class senior citizens, may hardly be in a position to invest anything, or may not want to. Hence, the steps taken to bring applicant may prove to be defeated.

VIII. Conclusion

Hence, this was all about the P.M.V.Y.Y.. We've seen how the scheme is going to be implemented, what are its details and had a detailed look at its various pros and cons. The biggest cons, that we have to mention about this scheme is that very few people know about it. Neither did the current research team know about it unless they've started working on the study. If this is the scenario with the most informed generation of its time, then the case of the senior citizens can only be speculated. However, we need to keep in mind that no policy is perfect. Implementation takes time and we need to remember that, *'Rome wasn't built in a fortnight'.*

IX. References

[1] Navneet Dubey, Good news for senior citizens: PM Vaya Vandana Yojana pension scheme extended till March 31, 2023, The Economic Times (Oct. 29, 2020, 1:53 P.M.), https://economictimes.indiatimes.com/wealth/invest/good-news-for-senior-citizens-pm-vaya-vandana-yojana-pension-scheme-extended-till-march-31-2023/articleshow/75845146.cms.