# Unified Pension Scheme

**For Prelims:** **Unified Pension Scheme (UPS)**, **Inflation Indexation**, **All India Consumer Price Index for Industrial Workers**, **Old Pension Scheme (OPS)**, **National Pension Scheme (NPS)**, **Income Tax Act, 1961**, **Pension Fund Regulatory and Development Authority (PFRDA)**, **Debt-to-GDP Ratio**.

**For Mains:** Changes in India's Pension Framework and their Impact on Economy and Society.

**Source: IE**

## Why in News?

The Union Cabinet approved the **Unified Pension Scheme (UPS)**, which will provide government employees with **assured pension** after retirement.

- The scheme will be effective from **1st April, 2025** with **central government employees** shifting to UPS from the current National Pension System (NPS).
- **State governments** will also have the option to adopt the **Unified Pension Scheme.**

## What are the Provisions of the Unified Pension Scheme?

- **Assured Pension:** This would amount to **50%** of the **employee's average basic pay** drawn over the **last 12 months** before retirement for a minimum qualifying service of **25 years.**
  - The amount would **proportionately go down** for a smaller service period, up to a minimum of **10 years** of service.
- **Assured Minimum Pension:** In the case of retirement after a minimum 10 years of service, the UPS provides for an **assured** minimum pension of **Rs 10,000 per month**.
- **Assured Family Pension:** Upon a retiree's death, their **immediate family** would be eligible for **60%** of the pension last drawn by the retiree.
- **Inflation Indexation:** Dearness relief will be available on the above mentioned three kinds of pensions.
  - **Indexation** will be calculated based on the **All India Consumer Price Index for Industrial Workers.**
- **Lumpsum Payment at Retirement:** In addition to **gratuity**, employees will receive a **lump sum payment** at retirement equivalent to **1/10th of their monthly emoluments** (pay+DA) as of the retirement date for every completed six months of service.
  - This payment will not affect the amount of the assured pension.
  - Gratuity is an **amount paid** by an employer to its employees for **rendering their services.**
- **Choice for Employees: The employees can still opt to remain under the NPS. However, an employee can only opt for once. once opted, the option can not be changed.**

## What are the Key Differences between UPS, Old Pension Scheme (OPS) and

## National Pension Scheme (NPS)?

- **Pension Calculation Method:** In **OPS**, pension was **fixed at 50%** of the **last base salary plus dearness allowance (DA)**.
    - In **UPS**, pension is calculated as **50%** of the **average of the basic salary plus DA drawn** in the last year before retirement. This adjustment means a slightly **lower pension** if an employee receives a **promotion** shortly before retiring.
- **Employee Contribution:** In OPS, **no employee contribution** was required.
    - In **UPS**, the employee contribution amount is **10%** of the **basic pay**, and the DA and the **government** will also contribute **18.5%**.
    - **NPS** required a **10%** contribution from the **central government employee's** basic salary and **14%** contribution from the **government**.
- **Tax Benefits:** Central government employees are eligible for **tax benefits** for the government's contribution to the **NPS scheme**. They can deduct **14%** under the **Income Tax Act, 1961** from both the old and new taxation regimes.
    - As there were no employee contributions to **OPS**, they **cannot reap tax benefits**.
    - The **government has yet to clarify if employee and government** contributions are available for any tax benefits under UPS.
- **Higher Minimum Pension in UPS:** Under the UPS scheme, the **minimum pension** offered per month is **Rs 10,000** at the time of **retirement** after a 10 year minimum service.
    - The **present minimum amount is Rs 9,000** after the ten-year minimum service period.
- **Lumpsum Payments: OPS** allowed **commutation** of up to **40%** of the pension into a **lumpsum payment**, reducing the monthly pension amount.
    - **UPS** provides a **lumpsum payment** at retirement calculated as **one-tenth** of the monthly salary plus DA for every six months of service, without affecting the pension amount.

## What is NPS?

- **About:** NPS was a **market-linked** contribution scheme introduced by the Central Government to help the individuals have **income** in the form of **pension** to take care of their retirement needs.
    - The NPS replaced the OPS on **1st January, 2004** as part of the Centre's effort to reform **India's pension policies**.
    - The **Pension Fund Regulatory and Development Authority (PFRDA)** regulates and administers **NPS** under the **PFRDA Act, 2013**.
- **Need for NPS:** There was a fundamental problem with the **OPS** i.e. it was **unfunded**, there was **no corpus** specifically for pension.
    - Over time, this led to the government's **pension liability** to balloon to fiscally **unhealthy levels**.
    - The pension liabilities of the Centre jumped from **Rs 3,272 in 1990-91 to Rs 1,90,886 crore in 2020-21**.
- **Working of NPS:** The NPS was different from OPS in two fundamental ways.
    - **First, it did away with an assured pension.**
    - Second, **it would be funded by the employee himself/ herself,** along with a matching contribution by the government.
        - The defined contribution comprised 10% of the basic pay and dearness allowance by the employee and the government's contribution of 14%.
    - Individuals under NPS can choose from a range of **schemes and pension fund managers** as well as private companies to **invest** their money contributed to NPS.
- **Opposition to NPS:** Under the NPS, government employees received **lower guaranteed returns** and had to **contribute to their pension**, unlike the OPS where there were no employee contributions and higher guaranteed returns.
    - Amid ongoing calls for a return to the OPS, the union government established a committee in 2023 led by **T V Somanathan**. The recommendations of the committee have led to the introduction of the new **Unified Pension Scheme (UPS)**.

## What can be the Fiscal Implications of UPS?

- **Large Debt-to-GDP Ratio:** The **Unified Pension Scheme (UPS)** will have significant fiscal

impacts on a government with high debt and a large [debt-to-GDP ratio](#).
    - The scheme's cost could strain government finances further.
- **High Fiscal Burden:** A Reserve Bank of India study (September 2023) warned that if all states switched to OPS, the fiscal burden could be up to **4.5 times** that of the **National Pension System (NPS),** potentially reaching **0.9% of GDP** annually by 2060.
    - There is concern about how the **UPS** will impact Union finances as it broadly **resembles OPS.**

## Conclusion

UPS aims to **balance** the fiscal cost with employee aspirations. It addresses the uncertainty of the **National Pension Scheme (NPS)** and the high fiscal burden of reverting to the **Old Pension Scheme (OPS)**. UPS combines elements of both OPS **(defined benefit)** and NPS **(contributory)**, providing a defined return on the pension pool and reducing market risk. With assured returns and inflation protection, the UPS is expected to increase the overall pension fund, mitigating some risks associated with debt burden.

***Drishti Mains Question:***

Q. Explain the key Differences between Unified Pension Scheme (UPS), Old Pension Scheme (OPS) and National Pension Scheme (NPS). How UPS seeks to mitigate the risks associated with NPS?

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### ***Prelims***

**Q. Who among the following can join the National Pension System (NPS)? (2017)**

**(a)** Resident Indian citizens only

**(b)** Persons of age from 21 to 55 only

**(c)** All State Government employees joining the services after the date of notification by the respective State Governments

**(d)** All Central Government employees including those of Armed Forces joining the services on or after 1st April, 2004

**Ans (c)**

**Q. Regarding 'Atal Pension Yojana', which of the following statements is/are correct? (2016)**

1. It is a minimum guaranteed pension scheme mainly targeted at unorganised sector workers.
2. Only one member of a family can join the scheme.
3. Same amount of pension is guaranteed for the spouse for life after the subscriber's death.

**Select the correct answer using the code given below:**

**(a)** 1 only

**(b)** 2 and 3 only

**(c)** 1 and 3 only

**(d)** 1, 2 and 3

**Ans: (c)**