

# **Old Pension Scheme**

**For Prelims:** New Pension Scheme, Old Pension Scheme, PFRDA. National Pension Scheme, Unorganized Sector.

For Mains: Old Pension Scheme, National Pension Scheme.

# Why in News?

A few political parties are promising to restore to the Old Pension Scheme in some states.

### What is the Old Pension Scheme?

#### About:

- The scheme assures life-long income, post-retirement.
- Under the old scheme, employees get a pension under a pre-determined formula which is equivalent to 50% of the last drawn salary. They also get the benefit of the revision of Dearness Relief (DR), twice a year. The payout is fixed and there was no deduction from the salary. Moreover, under the OPS, there was the provision of the General Provident Fund (GPF).
  - GPF is available only for all the government employees in India. Basically, it allows
    all the government employees to contribute a certain percentage of their salary to
    the GPF. And the total amount that is accumulated throughout the employment
    term is paid to the employee at the time of retirement.

Vision

• The Government bears the **expenditure incurred on the pension**. The scheme was **discontinued in 2004.** 

### Concerns:

- Unfunded Pension Liability:
  - The main problem was that the pension liability remained unfunded that is, there
    was no corpus specifically for pension, which would grow continuously and
    could be dipped into for payments.
  - The Government of India budget provided for pensions every year, there was no clear plan on how to pay year after year in the future.

#### Unsustainable:

- The OPS was also unsustainable. For one, pension liabilities would keep climbing since pensioners' benefits increased every year, like salaries of existing employees, pensioners gained from indexation, or what is called 'dearness relief'.
- And two, better health facilities would increase **life expectancy, and increased longevity** would mean extended payouts.
- This has led to a massive pension burden on the Union and state Governments.

### What was Planned to Address Related Concerns?

In 1998, the Union Ministry of Social Justice and Empowerment commissioned a report for an Old
 Age Social and Income Security (OASIS) project. An expert committee submitted the report in

- January 2000.
- The primary **objective of OASIS was targeted at** <u>unorganised sector</u> workers who had no old age income security.
- The OASIS report recommended individuals could invest in three types of funds safe, balanced, and growth to be floated **by six fund managers.**
- The balance would be invested in corporate bonds or government securities. Individuals would have unique retirement accounts, and would be required to invest at least Rs 500 a year.
- Post retirement, at least Rs 2 lakh from the retirement account would be used to purchase an annuity.
  - An annuity **provider invests the amount and provides** a fixed monthly income which was Rs 1,500 when the report was prepared for the remainder of the individual's life.

## What was the Origin of the New Pension Scheme?

### About:

- The OASIS report became the basis for the New Pension Scheme, which was notified in December 2003.
- The Central Government introduced the **National Pension System (NPS)** with effect from January 2004 (except for armed forces).
  - In 2018-19, to streamline the NPS and make it more attractive, the Union Cabinet approved <u>changes in the scheme</u> to benefit central government employees covered under NPS.
- The NPS was launched as a way for the government to get rid of pension liabilities.
  - According to a news report that cited research from the early 2000s, India's pension debt was reaching uncontrollable levels.
- On introduction of NPS, the Central Civil Services (Pension) Rules, 1972 was amended.
- After retirement they can withdraw a part of the pension amount in a lump sum and use the rest to buy an annuity for a regular income.

### Implementation:

- NPS is being implemented and regulated by PFRDA (Pension Fund Regulatory and Development Authority) in the country.
- National Pension System Trust (NPST) established by PFRDA is the registered owner of all assets under NPS.

### Features:

- The All-Citizens Model of the NPS allows all citizens of India (including NRIs) aged between
   18 70 years to join NPS.
- It is a participatory scheme, where employees contribute to their pension corpus from their salaries, with matching contributions from the government. The funds are then invested in earmarked investment schemes through Pension Fund Managers.
  - In this NPS, those employed by the government contribute 10% of their basic salary to NPS, while their employers contribute up to 14%.
  - In 2019, the Finance Ministry said that Central government employees have the option of selecting the Pension Funds (PFs) and Investment Pattern.
- At retirement, they **can withdraw 60% of the corpus,** which is tax-free and the remaining 40% is invested in annuities, which is taxed.
- Even private individuals can opt for the scheme.

### Issues with the NPS:

- Unlike OPS, the NPS requires **employees to deposit 10% of the basic pay,** along with the dearness allowance.
- There is no GPF advantage and the amount of pension is not fixed.
- The major issue with the scheme is that it is market-linked and return-based. In simple terms, **the payout is uncertain.**

## **UPSC Civil Services Examination, Previous Year Questions (PYQ)**

- 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)

## **Source: IE**

