EPFO’s Proposed Universal Pension Scheme – Explained

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Universal Pension Scheme Latest News

- The Union Government is working on a new EPFO-led contributory pension scheme under the EPFO 3.0 reforms, aimed at providing a flexible, universal retirement savings framework for formal, informal, and gig workers.

Background

- India’s social security landscape is fragmented, with different retirement schemes catering to different sections of the workforce.
- While organised sector employees are covered under the **Employees’ Provident Fund Organisation** (EPFO) and the Employees’ Pension Scheme (EPS), a large proportion of informal workers, gig workers, and higher-income employees remain outside comprehensive pension coverage.
- According to the **Periodic Labour Force Survey** (PLFS), nearly 90% of India’s workforce is employed in the informal sector, many of whom lack adequate retirement security.

- The implementation of the **Code on Social Security, 2020,** further highlighted the need to extend social security benefits to gig and platform workers for the first time.
- Against this backdrop, the government has initiated EPFO 3.0 reforms, which aim to modernise the retirement system through digital infrastructure, greater flexibility, and universal coverage.
- As part of these reforms, the Ministry of Labour and Employment is developing a new contributory pension scheme centred around the concept of a Target Retirement Sum (TRS).
- Unlike the existing **Employees' Pension Scheme** (EPS), which follows a defined-benefit model subject to eligibility conditions, the proposed scheme is expected to adopt a defined contribution framework, allowing individuals to build a retirement corpus through contributions from multiple sources while offering greater flexibility in retirement planning.

Proposed Target Retirement Sum (TRS) Scheme

- The proposed scheme is a defined contribution pension system under which every subscriber will maintain an individual pension account.
- Instead of guaranteeing a fixed pension amount, the scheme will help members accumulate a Target Retirement Sum (TRS) based on:
    - Desired retirement income
    - Expected retirement age
    - Periodic contributions
    - Investment returns
- At the age of 60 years, the accumulated corpus may either:
    - Converted into an annuity based on prevailing annuity and interest rates; or
    - Withdrawn through a Systematic Withdrawal Plan (SWP), depending on the member's preference.
- The scheme seeks to combine the long-term savings approach of the Employees' Provident Fund (EPF) with the pension objective of retirement planning.

Key Features of the Proposed Pension Scheme

- **Defined Contribution Framework**
    - The proposed scheme will follow a **defined contribution** model, under which pension benefits will depend on the accumulated corpus rather than a pre-defined pension amount.
    - Contributions will be invested in **long-term government-backed securities**, with interest credited annually to the pension account.
- **Target Retirement Sum (TRS)**
    - Each subscriber will be able to choose a **Target Retirement Sum**, representing the desired retirement corpus.
    - The EPFO's digital platform will:
        - Dynamically calculate the required corpus
        - Estimate the contribution amount needed
        - Track progress towards the target
        - Allow members to revise their retirement goals over time

    - Members will have access to personalised dashboards displaying:
        - Total contributions
        - Current corpus
        - Progress towards the TRS
        - Projected retirement benefits
- **Multiple Sources of Contributions**
    - One of the distinguishing features of the scheme is its flexible contribution model.
    - Contributions may come from:
        - Employees & Employers
        - Government co-contributions for lower-income workers
        - Aggregators for gig and platform workers
        - Corporate Social Responsibility (CSR) funds
        - NGOs and other third-party contributors
    - This multi-source approach aims to improve retirement savings, especially for workers with irregular incomes.
- **Flexible Pension Withdrawal**
    - Unlike traditional pension systems that mandate annuity purchase, the proposed scheme will provide flexibility in retirement withdrawals.
    - Members may choose:
        - A regular annuity
        - A Systematic Withdrawal Plan (SWP)
        - Higher withdrawals during the initial years of retirement
        - Lower withdrawals to allow the remaining corpus to continue earning interest
    - This flexibility is intended to help retirees align pension pay-outs with their financial needs.
- **Inflation-Adjusted Retirement Planning**
    - The proposed digital platform will include pension simulation tools based on factors such as:
        - Age
        - Retirement age
        - Corpus size
        - Interest rates
        - Voluntary contributions
        - Contribution frequency
    - Members will also receive **inflation-adjusted projections**, enabling better long-term retirement planning.
- **Coverage of Gig and Informal Workers**
    - A major objective of the scheme is to expand social security coverage beyond the organised workforce.
    - The proposed framework will cover:
        - Gig workers
        - Platform workers
        - Building and construction workers

        - Informal sector workers
        - Existing EPFO subscribers
        - Employees currently outside the Employees’ Pension Scheme (EPS)
    - The government expects nearly 2.5 crore gig workers and construction workers to be brought under the social security net over the next five years.
    - To facilitate multiple employments, the scheme will introduce a one-to-many mapping, allowing a single Universal Account Number (UAN) to be linked with multiple employers and digital platforms while maintaining separate contribution records.
- **Family and Survivor Benefits**
    - The proposal also includes a **Family Benefit Fund**, managed on actuarial principles.
    - The fund is expected to provide:
        - Survivor pension for spouses
        - Benefits for children
        - Support for orphaned dependents
    - This would strengthen the social protection aspect of the pension system.

Significance of the Proposal

- If implemented, the proposed pension scheme could significantly strengthen India’s social security architecture by:
    - Expanding pension coverage to millions of informal and gig workers
    - Providing greater flexibility in retirement planning
    - Encouraging voluntary retirement savings
    - Leveraging EPFO’s digital infrastructure for efficient service delivery
    - Supporting the implementation of the **Code on Social Security, 2020**
    - Reducing old-age income insecurity among workers outside the organised sector
- The proposal also aligns with the government’s broader objective of achieving **universal social security coverage**.

Source: IE