Old Pension Scheme vs New Pension Scheme

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Why in News?

- Recently, the Reserve Bank of India (RBI) has cautioned against the reintroduction of the Old Pension Scheme (OPS) by some states.

What is Old Pension Scheme (OPS)?

- OPS offers pensions to government employees on the basis of their last drawn salary. **50% of the last drawn salary**.

- The attract ion of the Old Pension Scheme or ‘OPS’ lay in its promise of an assured or ‘defined’ benefit to the retiree. It was hence described as a ‘**Defined Benefit Scheme**’.
- To illustrate, if a government employee’s basic monthly salary at the time of retirement was Rs 10,000, she would be assured of a pension of Rs 5,000.
- Also, like the salaries of government employees, the monthly pay-outs of pensioners also increased with hikes in dearness allowance or DA announced by the government for s erving employees.
- The OPS was discontinued by the Central government in 2003.

What were the Concerns with the OPS?

- 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.
- The ‘pay-as-you-go’ scheme created **inter-generational equity issues** — meaning the present generation had to bear the continuously rising burden of pensioners.

What is New Pension Scheme (NPS)?

- As a substitute of OPS, the NPS was introduced by the Central government in **April, 2004**.
- This pension programme is open to employees from the **public**, **private** and even the **unorganised sectors** except those from the armed forces.
- The scheme encourages people to invest in a pension account at regular intervals during the course of their employment.
- After retirement, the subscribers can take out a certain percentage of the corpus.
- The beneficiary receives the remaining amount as a monthly pension, post retirement.
- **Nodal agency:** Pension Fund Regulatory and Development Authority (PFRDA)
- **Eligibility:**
- Any Indian citizen **between 18 and 60 years** can join NPS.
- **NRIs** (Non-Residential Indians) are also eligible to apply for NPS.
- **Permanent Retirement Account Number (PRAN):**
    - Every NPS subscriber is issued a card with 12-digit unique number called Permanent Retirement Account Number or PRAN.
- **Minimum contribution in NPS:** The subscriber has to contribute a minimum of **Rs. 6,000 in a financial year**.
- If the subscriber fails to contribue the minimum amount, his/her account is frozen by the PFRDA.
- **Who manages the money invested in NPS?**
- The money invested in NPS is managed by PFRDA-registered Pension Fund Managers.
- At the moment, there are eight pension fund managers.

What is the Difference between OPS and NPS?

- The Old Pension Scheme is a **pension-oriented scheme**. It offers regular pensions to employees during retirement. The pension amount is 50% of the last drawn salary by the employee.
    - Thus, in OPS, **the pension amount is constant**.
- On the other hand, the National Pension Scheme is an **investment cum pension scheme**.
- NPS contributions are invested in market-linked securities, i.e., equity and debt instruments.
    - Therefore, **NPS doesn't guarantee returns**.
- However, the investments, in NPS, are volatile and hence have the potential to generate significant returns.

News Summary

Image Caption: Pension to Revenue Expenditure Ratio

- The RBI has red-flagged the return to the Old Pension Scheme (OPS) by some states as a major concern on the sub-national fiscal horizon.
- The RBI said "***by postponing current expenses to the future, states risk accumulation of unfunded pension liabilities in the coming years***".
- Several states, including Himachal Pradesh, Jharkhand, Punjab, Chhattisgarh and Rajasthan have announced a return to the OPS, promising retired government employees 50% of the last pay drawn as the monthly pension.
- Several economists have criticised the move by the states. In several cases, the pension outgo is already high (see graphic below).

Source: **TOI** **|IE**
