

Union Government Forms Committee to Look into New Pension Scheme

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Why in News?

- Union Finance Minister Shri Nirmala Sitharaman announced the formation of a committee to look into improving the system of pension for government employees.
- The move comes against the backdrop of at least five Opposition-ruled states adopting the Old Pension Scheme.

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 attraction 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 serving employees.
- The **OPS was discontinued by the Central government in 2003.**

What were the Concerns with the OPS?

- **Fiscally unsustainable -**
 - 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.**
 - According to **Shri Jitendra Singh**, Union Minister of State, Personnel, the number of people receiving central government pensions exceeds the number of active employees.
 - There are more pensioners, about 77 lakh, than active-duty personnel, which is about 50-60 lakh.
 - He also stated that **there are 6,000-7,000 pensioners who are 'over 100 years old' and receive the same amount as a pension as they did as a salary.**
- **Only benefits few people -**
 - Another criticism of OPS is that it costs the government a lot of money while only benefiting a few people.
 - Under the scheme, **only government employees, and only those who have worked for at least 20 years, are eligible.**
 - As a result, **only 34 million (or less than 11%) of India's estimated working population** is eligible to participate in formal provisions designed to provide old-age income security.

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 contribute 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.

Difference between NPS and OPS

- 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 ***NPS is a market-linked annuity product in which you invest a set amount on a regular basis during your working life and receive an annuity when you retire.***
 - 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 they have the potential to generate significant returns.***

News Summary

- Union Finance Minister Nirmala Sitharaman announced the formation of a committee to look into improving the New Pension Scheme (NPS).
- The committee, headed by **Shri T V Somanathan**, will work on an approach that will ***strike a balance between employees' needs and fiscal prudence, with any changes proposed to be adopted by both Central and State governments.***

- The move to form such a committee comes as **Himachal Pradesh, Punjab, Rajasthan, Chhattisgarh** and **Jharkhand** have reverted to the Old Pension Scheme (OPS), which offers defined benefits.
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Q1) What is Pension Fund Regulatory and Development Authority?

Pension Fund Regulatory and Development Authority is the regulatory body for overall supervision and regulation of pensions in India. It operates under the jurisdiction of Ministry of Finance.

Q2) What is the retirement age for Central government employees in India?

The retirement age for central government employees was last revised in May 1998, when it was moved up from 58 to **60 years**.

Source: [Old vs new hotting up, Govt forms panel to relook at pension](#) | [ToI](#)

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