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An Analytical Study of Pension Schemes in India

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ABSTRACT

Pension schemes are one of the main social security means which help individuals financially for years after his retirement from his services. A traditional old pension scheme is a benefit for public sector employees to help them to have a permanent source of financial assistance even after their retirement. In order to obliterate any loop holes in the old pension scheme and to decrease financial expenses of the government in the year 2004, a national pension system was started and the objective of it was that employees who were under the central government and who have retired, to provide them a financial security and stability in their old age when after retirement they don't have any permanent source of income. Under the national pension system the amount for the post retirement fund of pension is contributed jointly by the employee and employer. When the old pension scheme was being displaced and the national pension system was being introduced in the country, there was widespread agitation among the common public and till today we can see such agitations. In compliance with the introduction of the national pension system many States in the country have implemented it in their State but now the central government through appeasement means has introduced a new pension scheme which is known as unified pension scheme which will provide pension to public employees after they retire from their service. This unified pension scheme will be applicable from 1st April 2025, and then the employees of the central government will be transferred from the present national pension system to unified pension scheme and the State governments will also have an independent option to adopt and implement newly introduced unified pension scheme.

KEYWORDS: Old pension scheme; national pension system; unified pension scheme; pension fund regulatory and development authority.

OBJECTIVE OF STUDY

1. To study pension systems of India namely, old pension scheme, national pension system and unified pension scheme.
2. To conduct an analytical study into the working of the old pension scheme, national pension system and unified pension scheme.
3. To do a comparative analysis among the old pension scheme, national pension system and unified pension scheme.
4. To explore deficits in and offer solutions and suggestions for its better implementation and working.

ACTION PLAN FOR THE STUDY

In order to conduct an analytical study of pension schemes and systems the author has resorted to primary and secondary sources of data which includes legislations, textbooks, articles, publications, judicial precedents and relevant websites.

INTRODUCTION

Pension schemes and systems are one of the most important social security schemes which are for the benefit of persons after their retirement from their long period of active service. Pension schemes and systems show development towards the ideology of welfare state keeping in mind the ever changing social and economic aspects of society which is moving ahead from traditional old pension scheme and national pension system towards the unified pension scheme. In the starting of the 20th century the government introduced an old pension scheme that provided retired government employees to provide a defined pension benefits on the basis of their last pay scale which proved to be a stable source of income for retired employees. This old pension scheme which was beneficial for a limited section of society due to increasing numbers of retired employees and enlarged life expectancy of retired employees was subject to the government review related to its stability and financial viability worries.[1] In order to encourage the pension sector in our country and develop and regulate it, the government proposed to establish a Pension Fund Regulatory and Development Authority in the year 2003. The Pension Fund Regulatory and Development Authority started a contributory pension system in 2004 which is known as the national pension system. The Pension Fund Regulatory and Development Authority again on 1st February 2014 widened the scope of national pension system and included in it Central government, willing State governments, Central and State self financed institutes, private institutes and organisations and every Indian citizen. Currently, the national pension system is controlled and regulated by the Pension Fund Regulatory and Development Authority which also ensures its substantial and systematic growth and development.[2]

The introduction of the national pension system is in the line of a self financed pension scheme arrangement which is in accordance with the global pension rules which stresses upon financial planning by individuals and motivates to increase the sensibility of individual financial responsibility. However, this new pension system has also posed certain challenges regarding its implementation which involves larger and broader public awareness, understanding of schemes and awareness of the financial market and its knowledge of ups and downs in the financial market.[3] As the country is progressing forward, the effectiveness of the pension scheme and system in place of providing financial security to common people has been turned into a hot debate of dispute. From early there has been a public simmer and furore to discontinue the newly introduced national pension system and reintroduce the old pension scheme. In order to solve the problem and fulfill the demands of retired public servants, the central government has introduced a unified pension scheme and has also tried to convince people that the unified pension scheme is far better than the traditional old pension scheme. The unified pension scheme is scheduled to be applicable from 1st April 2025 which will ensure pension benefits to retired government employees. The government employees under the central government will then be transferred from the national pension system to the unified pension scheme and state governments will also be encouraged to accept the option of a unified pension scheme.[4]

HISTORICAL BACKGROUND

The annals of pension schemes and systems in our country shows the complex development of colonial

[1] Planning Commission of India Report 2013, "Report on Pension Reformation".
[2] Ministry of Finance, *available at:* https://finmin.nic.in/ (last visited on December 29, 2024).
[3] National Pension System Trust, "An Insight into the National Pension System 2021".
[4] National Pension System Trust, "An Insight into the National Pension System 2021".

policies and social and financial changes. In our country, the roots of the pension system can be connected to when there was a British colonial era prevalent in our country and where in order to provide financial security to civil servants and army personnel, a pension system was introduced and established in our country. These initial pension systems which were established by the British government were primarily focused upon ensuring protection of livelihood of government employees after they retire from their service and to provide a platform which could be later on expanded and can be beneficial to the common people also.

OLD PENSION SCHEME

The starting of the old pension scheme can be formally traced from the 20th century in our country which was primarily for civil servants and government employees. According to this scheme the pension was calculated on the basis of the last pay scale of a government employee so that the retiring employee would get certain defined pension benefits. One of the peculiar features of the old pension scheme is that this scheme was non-contributory in nature because the burden of financial expenses of pension was incurred entirely by the government alone so that retired government employees could get pension benefit for lifetime.

CONTEMPORARY SCENARIO AND FUTURE PERSPECTIVES

Currently the national pension system has considerably gained public confidence and popularity and millions of customers in the form of employees both public and private are becoming part of this pension system. The transformation from the old pension scheme to the new pension system shows global leaning towards the self finance after retirement pension systems which focuses upon the importance of individual responsibility in the retirement policies and plans. However, challenges are still present at their place which involves widespread public awareness regarding the national pension system and understanding of stereotype investors regarding their concerns relating to instability of the financial market. The historical development of the pension scheme and system in our country shows changing social and financial circumstances and the importance of need for constant corrections in this regard.
Since the population of our country is growing and the population of the working class is also growing, then in such circumstances pension schemes and systems for all citizens regarding their financial security will play an important role.

OLD PENSION SCHEME, NATIONAL PENSION SYSTEM AND UNIFIED PENSION SCHEME

In our country after retirement pension schemes and systems like the old pension scheme, national pension system and unified pension scheme cater to different ideologies from different sections of society. Every pension scheme or system has its own unique features, benefits and limitations which has been discussed below:
Old Pension Scheme: The relevant different aspects of this pension scheme has been discussed under the following points:

1. Defined Benefit Structure - The old pension scheme is a defined benefit structure policy which means that the person who is getting retired will receive a predetermined pension amount which has been already fixed on the basis of his last withdrawn salary.[5]
2. Non Contributory Nature - According to the old pension scheme employees do not contribute toward

their amount of pension. All the financial burden is borne alone by the government of pension for the retiring government employees out of its financial budget. This model of pension scheme provides immediate financial benefit to retired government employees but it burdens the State with long term financial burden.[5]

3. Lifetime Pension - Under the old pension scheme, a retiring person gets guarantee of lifetime pension which means that when once any government employee retires then he will receive his monthly pension till he dies so that a retired government employee could get a monetary benefit till his last days of old age.[6]
4. Periodic Adjustment - When the amount of pension is fixed under this scheme, the government keeping in mind the current inflation rate may from time to time modify the amount of pension. However, there is no guarantee of any such periodic adjustments and it all depends upon the government budgetary health and its policies.[7]
5. Limited Scope - The old pension scheme does not take into account the unorganised service sector which is a huge service sector in our country and rather only focuses mainly upon government employees.[8]
6. Lack of Portability - There is substantial lack of portability in the old pension scheme and the pension benefit is non transferable in services and sectors. The employee who changes his service, especially from being a government employee to the private sector, they lose their pension benefits which may lead them towards financial insecurity and instability.[9]

National Pension System: This system has been discussed under following points:

1. Contributory Structure - As opposed to the nature of the old pension scheme, the national pension system runs on the basis of a defined contribution where the employer and employee both contribute 1% of employee’s total salary into the pension fund. This feature of this pension system encourages employees to take active part in post retirement benefit schemes.[10]
2. Broad Inclusion - The national pension system has been developed as a broad inclusive policy where every employee from the private and unorganised sector can become a part of this national pension system. This broad over reach ensures social security in the mind of every employee from every sector.[11]
3. Investment Flexibility - There is availability of options with the person who has taken pension policy under the national pension system so as to choose how he could invest in the pension fund. Every employee can choose from the options of equity, government bond or corporate loan including other modes or manners of investment so that they can, according to their risk factor and financial goals, determine their investment policy and strategy.[12]
4. Portability - National pension system provides portability so that customers can allocate their collected pension amount to other services or sectors and this particular facility is especially benefic-

[5] Ministry of Finance, Government of India, “National Pension Scheme, 2004”.
[6] Reserve Bank of India, “Annual Report, 2020”.
[7] The Planning Commission of India, “Report on Pension Reformation, 2013”.
[8] The Economic Survey of India 2018-19, Social Area.
[9] International Labour Organisation, “Worldwide Pension Systems, 2019”.
[10] National Pension System Trust, “National Pension System Review, 2021”.
[11] Ministry of Labour and Employment, Government of India, “National Policy on Pension, 2020”.
[12] Pension Fund Regulatory and Development Authority, “Annual Report of Pension Fund Regulatory and Development Authority, 2021”.

ial where employees often change their career from one service sector to another.[13]

5. Return Related to Market Based - According to the national pension system the investment in the pension fund is dependent upon the performance of the market which means that possible return may be more than the ascertained other income schemes. However, it also involves a factor of risk because the instability or poor performance of the market may affect the savings and investments in the pension fund.[14]
6. Withdrawal and Annual Option - Upon the retirement of an employee the customer of the national pension system has an option to withdraw a part of the total accumulated amount and invest the rest amount in other annual schemes. This facility provides a person to manage their after retirement accumulated amount according to their financial needs.[15]
7. Regulatory Infrastructure - The national pension system is regulated by the Pension Fund Regulatory and Development Authority which has established certain guidelines and rules in order to ensure transparency and accountability in the pension system. This nature of the regulatory body increases the formal management and credibility of the national pension system as compared to the old pension scheme.[16]

Unified Pension Scheme: Unified pension scheme is a hybrid model where certain features from the old pension scheme and from the new pension system has been included which provides investment based development and guarantee of minimum pension amount which creates stability and flexibility in post retirement benefits. Certain other features has been discussed as below:

1. Contribution of Government and Employee - The contribution of government in the pension fund will be 18.5% which has been increased from 14% of basic pay and dearness allowance.
2. Eligibility and Pension Benefit - Pension will be payable of 50% of average of last 12 month basic pay when an employee has completed his 25 years of service and pension will be calculated on the basis of ratio if the service period of employee is between 10 to 25 years.
3. Family Pension - On the account of death of any employee the pension amount will be payable of 60% of the income to the spouse of that employee.
4. Minimum Pension - Any employee who comes for at least 10 years under the unified pension scheme then there is a provision of payment of monthly minimum pension amount of rupees 10,000.
5. Index of Pension - In order to ensure the pension, one third pension beneficiaries of industrial labours will be paid according to Indian Consumer Price Index so that they can get common and equal benefit.
6. One Time Withdrawal - On all the occasions of final retirement of any employee there is a provision for wholesale one time withdrawal of the total amount of pension.

COMPARATIVE ANALYSIS OF OLD PENSION SCHEME, NATIONAL PENSION SYSTEM AND UNIFIED PENSION SCHEME

In order to understand the effectiveness and stability of the old pension scheme, new pension system and unified pension scheme it is important to understand and discuss the fundamental differences between them and their different aspects which has been discussed below under the following heads:

[13] Securities and Exchange Board of India, "Guidelines for National Pension System, 2018".
[14] Economic Times, "Understanding the National Pension System, 2020".
[15] Business Standard, "Performance of Market and National Pension System Returns, 2019".
[16] Financial Express, "National Pension System Withdrawal and Comprehension of Annual Options, 2021".

Structure of Benefit

1. The old pension scheme is a defined benefit scheme where retired employees get a specific predetermined monthly pension on the basis of their service period and last paid salary.
2. The national pension system is opposite to the old pension scheme where the benefit under the system is on the basis of defined contribution where employer and employee both contribute a part of salary into the pension fund. The last accumulated pension amount is on the basis of total contribution and invested amount which makes it less predictable but more financially stable.
3. A unified pension scheme is ascertained for which minimum 25 years of service is taken into account and before retirement the last 12 month average of salary drawn by the employee is calculated. A minimum 10 years of service is required and in the cases of retirement after 10 years of service under the unified pension scheme a minimum pension of monthly rupees 10,000 is paid to the employee.

Financial Accountability

1. The liability under the old pension scheme is totally upon the government which incurs the total burden of pension and because of this serious fiscal burden takes place.
2. The national pension system distributes the burden of pension between employer and employee and according to which in the defined contribution, 10% of basic pay and dearness allowance of employees and 14% contribution of the government is included which makes fiscal burden upon the government very less. This model encourages government employees to take interest and part in the post retirement financial future of their lives.
3. Under the unified pension scheme the employee will contribute 10% of basic pay and the government will contribute 18.5%.

Coverage and Inclusiveness

1. The old pension scheme primarily provides benefits to government employees due to which a big part of the working class, especially the unorganised working sector does not get benefit of this scheme which creates a difference among workers working class regarding their social security.
2. The national pension scheme has been designed in a way to make it more inclusive so that private and unorganised sector and every other citizen can also take part and contribute in this pension scheme which ultimately increases the volume of social security in the society.
3. The unified pension scheme will be implemented from 1st April 2025 when the central government's employees will be transferred from the national pension system to the unified pension scheme and State governments will also have an option to adopt the unified pension scheme into their state.

Investment and Return

1. According to the old pension scheme the pension amount does not affect with the performance of the market and it gives a definite amount of pension to the employee but it has less rate of increase in its amount. Although there can be periodic adjustment but there is no statutory guarantee and it all depends upon the discretion of the government.
2. The national pension system gives freedom to customers to choose their form or manner of investment according to equity, government bond and corporate loan which makes the possibility of return higher but this higher rate of return comes with the ups and downs of the market which gives birth to an inherent level of risk.
3. Under the unified pension scheme the amount will be available on the basis of inflation rate and for industrial labourers the rate of return will be calculated on the basis of all India consumer rate index.

Portability

1. There is a lack of portability in the old pension scheme and if any employee, especially the government employee changes his profession then he will lose his benefits of pension. Lack of portability gives a sense of financial insecurity where there are higher chances of employees changing their profession often.
2. One of the important features of the national pension system is its portability and subscribers can transfer their accumulated pension amount according to their change of service and sectors which ensures that due to change in service or sector an employee can still get the benefit of pension and will not lose the pension benefits.
3. The government has still not decided whether under the unified pension scheme upon the contribution of employees and government there will be any benefit or not.

Regulatory Supervision

1. The old pension scheme has limited access by the regulatory authorities which create anomalies in the distribution and ascertainment of pension of employees.
2. The national pension system is effectively controlled and supervised by the Pension Fund Regulatory and Development Authority which further creates transparency and accountability in its working and which boost confidence and integrity in the minds of the subscribers.
3. The unified pension scheme will also be controlled and supervised by the Pension Fund Regulatory and Development Authority.

CONCLUSION AND SUGGESTIONS

After the analytical study of the old pension scheme, national pension system and unified pension scheme, the post retirement benefit scheme prevalent in India represents different views in the society. However, today when the economy of our country has broken all past records and has become the fifth largest economy of the world it seems that even then governments have quite failed in successfully implementing pension schemes and systems effectively and instead the pensions of members of parliament and various legislative assemblies have been increased considerably. The government has defended that the unified pension scheme which is to be implemented with effect from the near future is far better than the old pension scheme and the national pension system.

A unified pension scheme as compared to the old pension scheme will decrease the financial burden of the government and will provide a more balanced pension system and at the same time will also decrease the liability of the government which will improve and strengthen the fiscal stability and confidence. A unified pension scheme as it is partially a private scheme has encouraged better government budget management and financial schemes and policies. Under the unified pension scheme the benefits of the defined contribution will be more as compared to defined benefits.

Under the upcoming unified pension scheme there will be a unification of benefits of the old pension scheme and new pension system and the deficits of these two pension schemes will be removed. The ultimate goal of this scheme will be to satisfy the ambitions of the employees as well as at the same time to balance physical burden. The confirm return and protection from the inflation rate of the market, there is probability and hope that due to implementation of the unified pension scheme there will be an increase in overall pension fund which will decrease the risk of loan and other market risks.

It is demanded upon the government that it brings and implements the pension scheme in such a way that it ensures common people a life with dignity and with the advancement of old age the common people are not compelled to make any unwanted adjustments in their life which is against their interests and dignity.

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