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An overview of the unified pension scheme: Key features, benefits, and its role in enhancing retirement security

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Abstract
Pensions provide essential financial security in retirement, and India's system has evolved significantly. The Old Pension Scheme (OPS) offered guaranteed benefits but placed a heavy financial burden on the government. In response, the New Pension Scheme (NPS), introduced in 2004, shifted to a market-linked, defined contribution model, creating uncertainty for retirees due to market volatility. To address these concerns, the Unified Pension Scheme (UPS) will be launched in 2025, blending features of both OPS and NPS. The UPS aims to ensure stable retirement benefits while incorporating market investments, providing enhanced security and inflation-linked adjustments. This study is based on secondary qualitative data from newspapers and websites, and analyzes the key features and benefits of UPS, highlighting its role in strengthening retirement security.

Keywords: Pension, old pension scheme, new pension scheme and unified pension scheme

Introduction

Pension schemes are a crucial component of any social security framework, designed to provide financial stability and security in retirement. In India, the pension system has undergone significant transformations over the years, reflecting the evolving economic and social priorities of the country. Initially, the Old Pension Scheme (OPS) provided government employees with a defined benefit pension, where the amount was determined based on the last drawn salary, and the government fully funded the contribution. This scheme, while financially secure for employees, placed a considerable burden on government finances. In 2004, under Prime Minister Atal Bihari Vajpayee’s leadership, the New Pension Scheme (NPS) was introduced to address these financial concerns. The NPS shifted from a defined benefit model to a defined contribution system, where both the government and the employee contributed 10% each. This market-linked scheme, managed by pension fund managers, introduced an element of investment risk, leading to concerns among government employees regarding their future pension amounts. Recognizing these concerns and aiming for a more balanced and inclusive approach, the Government of India, under Prime Minister Narendra Modi, introduced the Unified Pension Scheme (UPS) in August 2024. The UPS integrates elements of both the OPS and NPS, offering a hybrid solution that increases government contributions to 18.5%, while employees continue to contribute 10%. The UPS is designed to provide a minimum assured pension of ₹10,000 for employees with at least ten years of service, with pension amounts based on the last 12 months' salary. Furthermore, it ensures inflation-linked adjustments through the Consumer Price Index (CPI) and offers enhanced benefits for employees and their families, including a provision for 60% of the pension to be provided to the family in the event of an employee’s demise. This scheme, which will take effect from April 2025, aims to offer a more secure and predictable retirement, alleviating concerns about market volatility while ensuring broader pension coverage across sectors. The introduction of the UPS marks a significant shift in India's pension landscape, bringing together the strengths of the OPS and NPS to create a more equitable and financially stable solution for future retirees.

Review of Literature

Kimiyaghalam, (2023) [1] explained a comprehensive analysis of global pension systems, emphasizing the importance of adequate income for retirees. It categorizes pension schemes into five pillars, highlighting the diverse approaches countries take to ensure financial security in old age. The study employs case study research and literature reviews to assess the effectiveness of these systems, focusing on key outcomes such as sustainability, adequacy, coverage, security, and efficiency. The findings suggest that countries with a balanced reliance on both public and private pension systems tend to achieve better results. Additionally, the paper discusses the challenges posed by aging populations and the need for reforms to enhance pension sustainability. Overall, it offers valuable insights for policymakers aiming to improve pension systems worldwide.

Pandey, Sharma & Ranjan, (2023) [2] revealed that many eligible beneficiaries under the Indira Gandhi National Old Age Pension Scheme (IGNOAPS) encounter a cumbersome application process, particularly affecting those living alone in rural areas who must travel long distances to banks. Systemic issues, such as corruption and administrative hurdles, further exclude vulnerable populations, with illiteracy significantly increasing the likelihood of exclusion. The findings highlight the urgent need for reforms in the application and approval processes to ensure benefits reach those in need. The study concludes that national pension schemes like IGNOAPS and the Indira Gandhi National Widow Pension Scheme (IGNWPS) require urgent evaluation and regulation to enhance their effectiveness, emphasizing the necessity for improved social security measures for India's aging population.

Panakaje, (2023) [3] explored the complexities of investing in the NPS in India. It reveals that the pension system is fragmented, leading to inefficiencies and gaps in coverage. Despite advancements in technology and financial inclusion, a lack of financial literacy hinders widespread adoption of the NPS. The research employs a semi-systematic review of secondary data, providing a solid foundation for its findings. It highlights the necessity for increased awareness and education on retirement planning to enhance enrollment in pension schemes. The ABCD analysis framework is used to evaluate the NPS's advantages and challenges, making the study a valuable resource for both policymakers and potential investors. Overall, it underscores the importance of informed investment for a secure retirement.

Feher & de Bidegain, (2020) [4] ascertained a comprehensive analysis of the implications of the COVID-19 crisis on pension schemes, particularly focusing on defined benefit (DB) and defined contribution (DC) systems. It highlights the challenges posed by early withdrawal policies, which can lead to reduced future pensions and potential liquidity issues for retirees. The authors emphasize the need for cautious regulation of early withdrawals to ensure that remaining balances can meet future pension obligations. Additionally, the paper discusses the declining funding levels of DB schemes, particularly in the U.S. where funding ratios have significantly dropped, raising concerns about long-term sustainability. The authors also note that negative operating cash flows in pension funds exacerbate the financial strain, necessitating urgent interventions. Overall, the paper effectively outlines the critical policy considerations that must be addressed to safeguard pension systems during and after the pandemic, making it a valuable resource for policymakers and researchers alike.

Shekar & Veeramani, (2017) [5] highlighted the importance of accessible financial services in eradicating poverty and financial untouchability in India. It notes that less than two-thirds of Indian households have banking access, indicating a significant gap in financial services. The authors focus on the PMJDY scheme, which aims to provide banking access to poorer sections, analyzing its performance, benefits, and challenges while suggesting strategies for improvement and greater financial literacy awareness. Through a comprehensive review of reports and literature, the paper contrasts India's progress in financial inclusion with that of other emerging economies. The authors emphasize the need for ongoing monitoring and evaluation of these schemes to ensure their effectiveness, ultimately reinforcing the crucial role of insurance and pension schemes in promoting financial inclusion among marginalized communities.

Objectives

- To provide a comprehensive comparison between the Old Pension Scheme (OPS), New Pension Scheme (NPS), and Unified Pension Scheme (UPS).
- To explore the key features and benefits of the Unified Pension Scheme (UPS) and its potential to enhance retirement security.

Need for the study

The introduction of the Unified Pension Scheme (UPS) has raised crucial discussions about its sustainability, especially given the balance it seeks to strike between fiscal responsibility and employee retirement security. This study is necessary to evaluate how the UPS addresses the shortcomings of both the Old Pension Scheme (OPS) and the National Pension Scheme (NPS) by offering guaranteed benefits while maintaining a contributory system. The study will explore the key features of the UPS, such as its defined benefit structure, inflation indexation, and family pension provisions. Understanding the fiscal implications and sustainability of this scheme is essential for policymakers and employees, particularly regarding its long-term impact on retirement security. Moreover, this research will assess whether the UPS can provide a reliable pension system, mitigating the risks associated with market-linked returns in the NPS, while also considering government liabilities. This comprehensive analysis is timely as it informs future decisions for current and upcoming retirees.

Methodology

This study employs a descriptive research design to analyze and interpret secondary data from a variety of sources. The data collection primarily involves reports from newspaper articles and information available on relevant websites. This method provides a thorough examination and comprehensive understanding of the Unified Pension Scheme (UPS). By leveraging existing resources, the study aims to offer valuable insights into the key features, benefits, and role of the UPS in enhancing retirement security.

Statement of the Problem

The shift from the Old Pension Scheme (OPS) to the National Pension Scheme (NPS) has been a contentious issue among government employees and policymakers. The

OPS provided defined benefits, ensuring financial security for retirees, but placed an unsustainable financial burden on the government. On the other hand, the NPS introduced a contributory system, transferring some financial responsibility to employees and reducing the government's liability. However, the NPS exposed individuals to market risks, leading to uncertainty in pension outcomes, which reduced its appeal to employees nearing retirement. This has led to dissatisfaction and calls for a return to the OPS.

In response to these challenges, the government introduced the Unified Pension Scheme (UPS) in 2024, attempting to strike a balance between the benefits of both OPS and NPS. The UPS promises a guaranteed pension while requiring contributions from both the government and employees, thus distributing the fiscal burden. Despite its potential benefits, the UPS introduces new complexities regarding its sustainability, employee satisfaction, and the government's long-term financial liabilities.

This study aims to analyze the UPS in detail, examining its key features, benefits, and potential challenges. It will explore whether the scheme effectively enhances retirement security while being financially viable for the government. The study also seeks to understand the impact of the UPS on employees' retirement planning and the broader implications for pension policy in India.

Discussion

Old Pension Scheme (OPS)

The Old Pension Scheme (OPS) was a government pension system in India that provided a defined benefit to retirees, primarily based on their last drawn salary and years of service. The key benefit of OPS was the assurance of a fixed pension, usually 50% of the employee's last salary, along with the added benefit of being adjusted to inflation through the dearness allowance (DA). This system offered financial security to government employees' post-retirement, as they were guaranteed a steady and predictable income for life, making it highly favorable for retirees. However, OPS was eventually phased out and replaced by the National Pension System (NPS) in 2004 due to concerns over its financial sustainability. The government faced increasing pension liabilities as the number of retirees grew, and the cost of maintaining the scheme began to strain public finances. Unlike OPS, which was entirely funded by the government, NPS shifted the responsibility partially to employees by introducing a contribution-based system. This change was made to reduce the fiscal burden on the government and ensure long-term sustainability of pension provisions.

Currently, the governments of Rajasthan, Chhattisgarh, Jharkhand, Punjab, Himachal Pradesh, and West Bengal have informed the central government and the Pension Fund Regulatory and Development Authority (PFRDA) about their decision to revert to OPS for their state government employees. These states have requested the withdrawal and refund of contributions along with returns on them, as recently communicated to Parliament by the finance ministry. However, reports indicate that the return to OPS by these states, along with indications that other states may follow suit, could significantly strain state finances. The central bank's analysis suggests that if all states revert to OPS from NPS, the cumulative fiscal burden could reach up to 4.5 times that of NPS, potentially adding 0.9 percent to GDP annually by 2060. Such a shift is seen as a major step backward, undermining the benefits of past reforms and compromising the interests of future generations. Moreover, some states have budgeted fiscal deficits exceeding 4 percent of their Gross State Domestic Product (GSDP) in 2023-24, against an all-India average of 3.1 percent, with debt levels surpassing 35 percent of GSDP compared to the national average of 27.6 percent. This situation indicates that any further provision of non-merit goods, subsidies, and transfers could jeopardize their fiscal stability, disrupting the overall fiscal consolidation achieved in recent years.

New Pension Scheme (NPS)

The National Pension System (NPS) is a government-sponsored pension scheme in India, introduced in 2004 to provide retirement savings for employees in both the public and private sectors. NPS is designed as a defined contribution scheme, where employees contribute a portion of their salary, which is then matched by the employer, and the accumulated corpus is invested in various financial instruments. The key features of NPS include portability, tax benefits, and flexibility in investment choices, allowing subscribers to manage their retirement savings actively. However, despite these benefits, there has been significant protest from employees against the NPS. Both the employee and the government contribute 10% of the employee's salary (with the government contribution increased to 14% in 2014). The accumulated funds are managed by professional pension fund managers and invested in various financial markets. At retirement, employees can withdraw 60% of the corpus tax-free, while the remaining 40% is used to purchase an annuity that provides a monthly pension. If an employee exits the scheme before retirement, they can withdraw 80% of the corpus, while the remaining 20% is used for an annuity.

The National Pension System (NPS) is applicable to both government and private employees in India. However, it has faced significant criticism, particularly from government employees, due to its reliance on market performance. Employees argue that the pension amount under NPS is uncertain and subject to market volatility. In Tamil Nadu, associations such as JACTO GEO have protested against NPS, demanding a return to the Old Pension Scheme (OPS) because of its more predictable nature. Many employees believe that NPS lacks the financial security offered by OPS, which guarantees a fixed pension amount. There are concerns about the uncertainty of returns and the risk of inadequate savings upon retirement. Additionally, some employees feel that NPS shifts the pension burden onto individuals rather than providing a stable, government-funded pension, which can be particularly challenging for those with lower salaries or less job security. Protests have been organized in several states, reflecting broader concerns about the adequacy of NPS in meeting the long-term financial needs of retirees in an increasingly uncertain economic landscape.

Overview of the Unified Pension Scheme

The Unified Pension Scheme (UPS) is a new initiative introduced by the Central Government of India, aimed at enhancing the financial security and well-being of government employees post-retirement. Announced on August 24, 2024, and set to be implemented on April 1, 2025, the UPS is expected to benefit around 23 lakh Central Government employees and potentially more if adopted by state governments.

The UPS replaces the existing National Pension System (NPS) for government employees, offering a more stable and guaranteed pension structure. Employees have the option to either continue with the NPS or transition to the UPS, but the choice for UPS is irreversible. The scheme seeks to ensure that government employees have a secure and dignified life after retirement.

Eligibility criteria

1. Service Duration

Employees must have completed at least 10 years of service to qualify for a minimum pension. To receive a pension based on average basic pay, employees need a maximum of 25years and a minimum of 10 years

2. Coverage

The UPS applies to Central Government employees and can be adopted by state governments for their employees, with Maharashtra being the first state to implement it.

3. Contribution Structure

- **Employee Contribution:** 10% of basic salary + dearness allowance.
- **Employer Contribution:** 18.5% of basic salary + dearness allowance

Benefits of the Unified Pension Scheme

- Employees with at least 25 years of service will receive a pension amounting to 50% of their average basic pay over the last 12 months before retirement. Employees with 10 to 25 years of service will receive a proportionate pension.
- A minimum pension of Rs. 10,000 per month is guaranteed for those retiring after 10 years of service.
- In the event of a pensioner's death, 60% of the pension will be paid to the spouse.
- The scheme provides inflation protection, with pensions adjusted according to the All India Consumer Price Index
- Retirees will receive a lump sum payment, calculated as 1/10th of their last drawn pay for every six months of completed service, in addition to their gratuity.
- Unlike the NPS, which does not guarantee a fixed pension and is reliant on market returns, the UPS offers a more predictable and secure retirement income.

Findings on the Unified Pension Scheme (UPS)

- The UPS provides a guaranteed pension, enhancing financial stability for government employees post-retirement.
- With an employer contribution of 18.5%, the UPS offers a more substantial financial backing compared to the NPS.
- The scheme ensures a minimum pension of Rs. 10,000 for employees with at least 10 years of service, which supports low-income retirees.
- The provision of a 60% family pension after the retiree's death offers additional financial security for dependents.
- The UPS includes inflation indexation, helping to maintain the real value of pensions over time.
- Employees can choose between remaining under the NPS or switching to the UPS, allowing for personal financial planning.
- The benefits structure incentivizes longer service, as higher pensions are linked to longer tenures.
- The UPS provides a clear and fixed pension structure, contrasting the uncertainty associated with the NPS, which is market-linked.
- If implemented by state governments, the UPS could benefit millions of additional employees across India.

Conclusion

The Unified Pension Scheme (UPS) represents a progressive step forward in India's pension system, combining the strengths of both the Old Pension Scheme (OPS) and the New Pension Scheme (NPS). By offering a balance between assured pensions and market-based returns, UPS addresses the uncertainty associated with NPS while maintaining the financial sustainability of pension provisions. The increased government contribution and the provision of a minimum pension enhance the scheme's appeal, ensuring greater financial stability for retirees. Moreover, the flexibility for NPS subscribers to switch to UPS offers employees more choice in securing their retirement. As UPS rolls out, it has the potential to significantly improve the retirement security of government employees, ensuring a dignified and secure post-employment life. Continuous evaluation of the scheme's performance will be key to adapting it to future needs and challenges.

Suggestions

- Since the UPS is currently limited to central government employees, it could be beneficial to consider expanding its eligibility to include state government employees and private sector workers. This would ensure more comprehensive coverage and allow for uniform pension benefits across different sectors. Additionally, establishing a robust monitoring mechanism is crucial to ensure timely and accurate disbursement of pensions, addressing issues faced under the Old Pension Scheme (OPS).
- To facilitate informed decision-making, it's essential to conduct extensive awareness campaigns about the features and benefits of both the UPS and NPS for government employees.
- Establishing a regular review process to assess the performance and impact of the UPS is vital. This could involve soliciting feedback from beneficiaries to identify any challenges they face and making necessary adjustments to the scheme. Engaging with pensioners and their families can provide insights that lead to improvements in service delivery.

These suggestions aim to improve the effectiveness and inclusivity of the Unified Pension Scheme while addressing the concerns that have arisen from the implementation of previous pension schemes.

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