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COMPARATIVE STUDY ON INDIA'S PENSION SYSTEMS: OLD (OPS) V. NEW (NPS)

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ABSTRACT

As people age, their ability to generate income typically decreases while their need for financial stability remains constant or even increases due to healthcare cost and other expenses associated with aging. The right to social security is of central importance in guaranteeing human dignity for all persons when they are faced with circumstances that deprive them of their capacity to fully realize their human rights. Pensions are a way with which one can sense the financial stability at their older age when they are naturally unlikely to work and earn for themselves. And India is a country that has been providing pension since a long time now, however a major shift was brought in the pension system by the notification from Ministry of Finance (Department of Economic Affairs) dated 22/12/2003 that has introduced the Defined Contribution based Pension System known as the National Pension System (NPS) replacing the system of Defined Benefit Pension with effect from January 01, 2004. Since then revival of OPS has been in demand and became a major factor that would decide the fate of political parties in coming future as today India is filled with working class population that are active voters too. This study will try to bring out the reasons as to why people are so reluctant towards the NPS and favours OPS, as to whether NPS is effective or not, if all this is just a political gimmick or real reasons to have concerns about. Also it would be suggesting ways that make elder people more financially secure after their retirement.

Keywords: OPS, NPS, Pension, old age, social security, investment.

RESEARCH METHODOLOGY

Quantitative and analytical research method have been used for this study. The secondary data taken from the government's official websites and their reports have been analysed for deriving the conclusion of the study.

INTRODUCTION

A pension is a type of retirement plan that provides a regular income to individuals after they retire from their employment or reach a certain age. It is a form of financial support that helps individuals maintain their standard of living during their retirement years when they are no longer earning a regular income from employment. India being a welfare state has the obligation to look after a certain section of population that require government interference as they are protected by the constitution especially old age people. **Article 41** and **Article 46** under Part IV of the Constitution of India are the directives to the State to protect the Fundamental Rights of the people. Article 41 says that it is the right of a citizen to receive public assistance in the case of old age, sickness and disablement.

In accordance with the intent of the Indian constitution , system of pension has always been in the country. However the older system of pension in India guaranteed 50% of the last drawn salary as the pension with Dearness allowance as per the growing inflation. after one gets old and gets retire until he dies. This scheme of government has always made government jobs very alluring for the society as the employees and their families are guaranteed a secured future. This well-established system shook up in its entirety with the new system known as NPS i.e. national pension scheme coming into frame brought by the BJP led NDA government in 2004.

OPS in one side is liability on government[1] but at the same time seems very essential for a government job employee as most jobs don’t allow secondary sources of income and pay a very minimal salary to the employees during their lifetime whereas NPS Regulated and administered by the PFRDA or Pension Fund Regulatory and Development Authority under the PFRDA Act 2013, NPS is a defined, voluntary contribution scheme that is market-linked and managed by professional fund managers. Since it is market linked it creates apprehensions in the mind of its subscribers that is leading to the feeling dissatisfaction among individuals falling under the ambit of NPS. Hence both schemes are very different from each other having a same objective that is to provide financial and social security for the old age population. This study has its importance in pointing out the details of these very schemes and suggest some measures for the social good.

BRIEF HISTORY ABOUT THE PENSION SYSTEMS IN INDIA

After successfully completing the Indian battle for independence in 1857, the British became the first to implement a pension system in India. The purpose of this pension system was to ensure that the local rulers continued to collect their British pensions and did not entertain any ideas of rebellion. The provisions of this system, however, served to encourage employees to make financial preparations for their lives after retirement. The Indian Pension Act of 1871 was passed into law to solve the numerous issues plaguing the previously established pension system.

[1] Unless specifically mentioned otherwise, “government” refers to the central government and not the governments of the individual states.

With the passing of the Indian Pension Act in 1971, one-time increases were added to the pension every so often to make up for the continually rising cost of living. To appease retirees, the idea of a dearness allowance was brought into the spotlight. However, similar to the situation in the majority of developing nations, there was no comprehensive social security system in place to shield the elderly from the effects of economic hardship.

In India, under most of the pension schemes, both the employer and employees need to make contributions towards the pension scheme. Provident funds, pension programs, and gratuity plan are some of the most important retirement options in India today. The first two plans offer retirement benefits in the form of a single lump amount, while the third and final plan offers payments in the form of a monthly annuity. These programs share several characteristics, the most prominent of which are that participation is required, they are occupation-based, they are connected to a person's earnings, and they include built-in insurance protection against death and disability.

On January 1, 2004, the Government of India announced the National Pension Scheme (NPS), which is a pension plan that is contributory in nature. Since May 2009, the NPS has also covered many people who work for themselves or in the "unorganised sector." The NPS is looked after by the Pension Fund Regulatory and Development Authority (PFRDA) and can be portable when you switch your job or job locations. The minimum contribution that needs to be made towards NPS is Rs. 500 and can be further increased depending on your will.

OLD PENSION SCHEME V. NATIONAL PENSION SCHEME

The old pension scheme is a fixed pension plan for government employees in India. Employees who have worked for at least 10 years get a monthly pension based on their last salary. In this scheme, the government pays the whole pension amount without deducting it from the employee's salary during service.

This scheme is for government employees only. Once a person gets retired, they receive their pension regularly. Additionally, every government employee does get a dearness allowance, calculated as a proportion of basic salary. Twice in every year, they get an increase in their pensions due to changes in dearness allowance. Also, one gets its pension amount from GPF.[2]

[2] GPF is a mandatory scheme for government employees, requiring them to contribute a certain percentage of their salary towards the fund. The contributions are deducted from the employee's monthly salary, and the amount earns interest at a predetermined rate.
The GPF scheme is administered by the Department of Pension and Pensioners' Welfare, falling under the Ministry of Personnel, Public Grievances and Pensions. This scheme offers several benefits to government employees, including tax savings, low-risk investments, and guaranteed returns.

The All-Citizens Model of the NPS allows all citizens of India (including NRIs) **aged between 18 - 70 years** to join NPS. The General Provident Fund (GPF) is a long-term investment option that allows government employees to accumulate savings over their employment tenure.

So overall OPS has been a safe option for government employees since years, as people in India are not very financially educated which hinders them from investing their money in funds, bonds, stocks, etc. Very few people in India make use of financial instruments like stocks and bonds as they save for retirement. which in result lead the population to look upon the government for providing them with enough money in their old age for their survival. Gaurav Patankar, an analyst at Bloomberg Intelligence, told Al Jazeera in an interview that Indian households invest only 7% of their household income in equities, compared to 30% on average for other emerging markets, 40% for Latin American and 50% for US households. Furthermore, according to a 2019 survey by the Reserve Bank of India (RBI), a mere 8% of Indian households held financial assets in shares or mutual funds. Only 3% of the Indian population invests in the stock market, compared to 13% of the Chinese population and 55% of the US.[3]

All seemed sorted until government realized in 2004 that pensions are unfunded liabilities on government as an internal RBI study suggests that **OPS results in 4.5 times more liability compared to NPS,** with an additional burden of 0.9% of GDP by 2060. Hence NPS is introduced. The NPS was launched as **a way for the government to get rid of pension liabilities.** According to a news report that cited research from the early 2000s, India's pension debt was reaching uncontrollable levels. In NPS After retirement one can withdraw a part of the pension amount in a lump sum and use the rest to buy an annuity for a regular income.

It is a participatory scheme, where employees contribute to their pension corpus from their salaries, with matching contributions from the government. The funds are then invested in earmarked **investment schemes through Pension Fund Managers.**

In this NPS, those employed by the government contribute 10% of their basic salary to NPS, while their employers contribute up to 14%.

In 2019, the Finance Ministry said that Central government employees have the option of selecting the Pension Funds (PFs) and Investment Pattern.

At retirement, they **can withdraw 60% of the corpus,** which is tax-free and the remaining 40% is invested in annuities, which is taxed.

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[3]https://www.livemint.com/money/personal-finance/finding-the-right-int-l-market-for-your-investments-11687105884592.html

Even private individuals can opt for the scheme.

Let's tabulate the differences between OPS and NPS

OLD PENSION SYSTEM	NATIONAL PENSION SYSTEM
Contribution of the employee is nil	Contribution of employee is 10% of (basic pay plus DA)
Guarantee of the pension is present	No such guarantee
Liability on the government	Not a liability to the government
Amount of pension is 50% of the last drawn salary	No such link with the salary of an individual
Private sector and unorganized sector are neglected here	It is inclusive of private and unorganized sector
There is a provision of GPF (general provident fund)	No GPF in this
Fixed pension system	Contributory pension system

WHY THE DEMAND OF OPS IS GROWING?

Many people have started calling NPS as national problem scheme for employees. There is a huge demand for the revival of OPS by the Indian population that states like Jharkhand, Himachal Pradesh, West Bengal, Chhattisgarh, Rajasthan have already reverted back to OPS. So, what is something OPS provides that NPS doesn't.

One of the major issues that was brought up was that the families of deceased employees have suffered due to "gratuity"[4] and "family pensions". Suppose one employee invested some money under NPS and dies within 5 years of its employment, this means that he has not generated enough amount of return to support his family. What will be the remedy then.

After several protests, writ petitions and representations, the Centre amended the family pension system of NPS on March 30, 2021. It provided that, for the purpose of family pension in case of death of a

[4] Gratuity is defined as "an amount of money given as a reward for service." It is a way companies reward their employees for a long-term association with them.

working employee, only government contribution will be taken back and the employee's contribution with interest will be surrendered to deceased's family. And no completion of seven years' of service will be compulsory for full family pension from this date.

The other issue is that there is no provision for minimum guarantee of pension in case one has served for less than 20 years prior to retirement, in many cases there is a chance that one would draw a very little amount under the current scheme which would be insufficient for their survival as it is corpus-based pension system. The outcome depends upon the market, choice as where to invest, and how much to invest.

Next and the biggest problem is implementation of the scheme, in many states neither employees' contribution has been deducted for many years nor has government contribution be added which leads to investment of no corpus and in turn no return and this is creating insecurity in the mind of old ages which are very valid.

undoubtedly, this is the matter of increasing old age insecurity as the pension fund is being invested in market, which is risky and provides no guarantee of return even after over 17 years of implementation of NPS.

So far, more than Rs 6 lakh crore has been invested in the market, according to National Securities Depository Limited's Central Record-Keeping Agency and PFRDA sources. So, the big question right now is: where is the guarantee of security of this huge corpus? And, who will be held accountable in case of this funds being swallowed by share market big bulls?

The other concern includes the sense of discrimination among the population, two different age groups in working class that are one who are appointed before 2004 and the other half after 2003. This violates Article 14 according to them. Moreover, the politicians are drawing pensions as per the old pension system whereas the working class is thrown at the mercy of the nature of market. This sense of injustice is intolerable too few of the protestors.

The 25-30 and 30-35 age groups had the most number of National Pension Scheme (NPS) subscribers in the financial year ended March 31, 2023. Those aged 25-30 and 30-35 had 59,688 and 54,931 female NPS subscribers, respectively, and 123,907 and 140,885 male subscribers, in the financial year 2022-23. The growth in India's overall population is driven by its young population.[5] Nearly 70 percent of the country's population was between the ages of 15 and 64 years old in 2020. With over 600 million people between 18 and 35 years old, India had the largest number of millennials and Gen Zs globally. India has the highest share in its population of the young working generation around 70% of its total population i.e . 1.4 billion

[5]https://www.pfrda.org.in/writereaddata/links/socio-economic%20characteristics%20of%20nps%20subscribers%20(all%20citizen%20model)df042e3b-e6a0-46f9-9a47-fc256162269d.pdf

approx. but we have people who have opened their accounts in this age group under NPS in some thousands which is quite a indicative of the failure to create awareness regarding the new pension scheme from the side of government and thus flopping the very purpose of the scheme that is to provide security at old age.

All these are the reasons why we can witness a rising call for returning back to the old pension system that is already well established and has been successful in maintain the glory of government jobs in India.

SOCIOLOGICAL AND CONSTITUTIONAL PERSPECTIVE ON THE NEED OF PENSION IN A SOCIETY

Pension plays an important role in the society. It adds a significant value in the lives of families and individuals due to its impact on various aspects of social welfare, economic stability and intergenerational relationships.

Social security and poverty alleviation: old age is the most crucial and prone to exploitation stage in one's life. So, it is very important as a society that it gives enough assurance to such population at least in term of financial security in this competitive world of capitalism where money decides your fate. Also, pension helps in checking poverty in the society.

Independence from the institution of marriage: India as a society has made marriage compulsory for everyone be it because of family pressure or peer pressure and one of the major reasoning societies gives when asked about the mandate of marriage that one needs kids to look after them in their old age. In my thinking it is a very need driven reason to get married rather than having its basis on love and care. Therefore, if given adequate amount of pension one could get out of this need driven thinking and would enjoy life more.

Check on the practice of corruption: one of the major reason that corruption in India is not merely a problem but a whole phenomenon that is so widespread and socially acceptable is the low income in government services thus if one just rely on their salary it becomes nearly impossible for them to save anything ,now in case there is no pension , it will increase the fear in the minds of employees in relation to their savings for the old age which in turn will motivate them to turn towards immoral and illegal ways to earn money which would be fatal for the society.

Gender and Social Equity: Pension systems play a crucial role in addressing gender disparities and promoting social equity. Women, who often experience interrupted careers due to caregiving responsibilities and gender inequalities in the labour market, may be particularly vulnerable to financial insecurity in old age. Gender-sensitive pension policies can help mitigate these disparities by recognizing unpaid care work, providing spousal benefits, and ensuring equitable access to pension benefits for women.

Out of the total 14.45 lakh subscribers enrolled during the last 05 years, 24% were female, 76% were male and 0.001% were transgender subscribers. The data shows that NPS is still lagging in maintaining the gender equality in the society.

Out of the total 14.45 lakh subscribers enrolled during the last 05 years, majority of subscribers were graduate (47%) and post-graduate (34%). Subscribers that are below SCC qualification are only 1%.[6] This data shows the imparity that exists in our society. This policy was supposed to benefit the poor and the needy but like every major policy this also ends up benefitting the already benefitted section of society. The NPS is so complicated but surprisingly centre expect government bus drivers, sweepers, peons, etc to have every knowledge about share market, bonds, funds, where to invest, how much to invest, every possible thing.

Article 21 of our constitution gives every person the fundamental rights to life, which also includes right to livelihood. In the case of **Olga Tellis v. Bombay Municipal Corporation**, the Hon'ble Supreme court discussed the right to livelihood as a fundamental right, and noted that depriving a person of his livelihood would make it impossible for the person to live his life. The Bombay HC stated that pension is a fundamental right to livelihood under article 21.

Article 41 of the Indian constitution puts a responsibility upon the government to make arrangements for public assistance in case of old age, sickness, disablement, etc. Article 46 requires the government to take special care in promoting the economic interest of weaker sections of people. Thus court said that, constitutionally government must come up with suitable laws that protect the life and property of senior citizens, and to treat them with respect and dignity.

ECONOMICS OF NPS

Illustration *of how your pension will be calculated under NPS, once you decide to open an account under it.*

NPS gives you tax benefits plus an option to choose between two account types namely tier 1 and tier 2 account. Here we will look at calculations under tier 1 account. Under such account you have the flexibility of choosing whether u want to invest yearly or monthly. Central government, state government, corporate, self-employed or any employee can invest under this account. Pension fund managers manages your money. When you open your NPS account, you choose where you want to invest. You get 3 options: equity,

[6]https://www.pfrda.org.in/writereaddata/links/socio-economic%20characteristics%20of%20nps%20subscribers%20(all%20citizen%20model)df042e3b-e6a0-46f9-9a47-fc256162269d.pdf

corporate bonds, government securities. You get auto choice option as well if you don't want to access active choice during investing. So, when you will retire at the age of 60, then at that time you will get the option that how much money you want to take in a lump sum and how much money you like to take in monthly pension with a restriction of withdrawing only 60% of the amount in a lump sum at the most. After taking the lump sum amount, the remaining amount will be provided to an insurance company which according to its different plans decide your monthly pension based on the annuity rate.

Calculations according to the NPS calculator[7] provided by the NPS trust assuming the following data.

Monthly contribution: 9000/-

Total years of contribution: 30

Expected return on investment: 10%

Amount you would like to purchase annuity for: 50%

Default annuity rate is 6%

Total investment comes 32,40,000/-

Total corpus: 2,05,13,928/-

Lump sum amount you receive is 1 crore approx.

And your pension corpus or monthly pension would be 51,286/- (depends on different plans by different companies).

Illustration 2

Mr. X is a 24-year-old central government employee. He subscribes for NPS and decides to contribute Rs. 2000 every month towards the scheme. NPS matures when the subscriber turns 60 years of age. Therefore, total years of contribution becomes 36. And expects a ROI of 9% per annum. In the same line, he would like to purchase an annuity for 50% and expects 7% rate of return on the annuity. Hence,

Total investment: 8,64,000/-

Total corpus generated: 65,08,958/-

[7] https://npstrust.org.in/nps-calculator

Lump sum value: 32,54,479/-

Annuity value: 32,54,479/-

Expected monthly pension: 18,984/-

GLOBAL PERSPECTIVE

The ILO study makes specific recommendations on how countries can increase the percentage of protected workers and improve benefits for everyone.

The ILO says that all countries should adopt the goal of extending coverage to all members of the population. Other desirable goals include instituting schemes that protect not only against poverty in old age, but also against disability and benefits for the family in case the wage earner dies; adjustment of retirement income to take account of inflation and a general rise in living standards; development of additional voluntary provisions for retirement income.

According to Mercer CFA Institute Global Pension Index 2023 report [8]India's retirement income system comprises an earnings-related employee pension scheme, a DC employee provident fund (EPFO) and supplementary employer-managed pension schemes that are largely DC in nature.

Government schemes have been launched as part of the universal social security program aimed at benefiting the unorganized sector. The overall index value for the Indian system could be increased by:

• Introducing a minimum level of support for the poorest aged individuals

• Increasing coverage of pension arrangements for the unorganized working class

• Introducing a minimum access age so that benefits are preserved for retirement purposes

• Improving the regulatory requirements for the private pension system The Indian index value increased from 44.4 in 2022 to 45.9 in 2023, primarily due to an improvement in the adequacy sub-index.

CONCLUSION

Change is the only constant. But change should not be that drastic that it starts affecting people's lives for the bad. Both OPS and NPS are very different from each other, one is a defined pension scheme whereas the other one is the contributory pension scheme. OPS used to cover every government employee whereas

[8] https://www.mercer.com/insights/investments/market-outlook-and-trends/mercer-cfa-global-pension-index/

NPS in its spirit wants to include every sector of working population however the data suggests it is failing as a scheme because of the lack of awareness and laid-back attitude of the government. This scheme should start including politicians as well for retaining its non-discriminatory nature. Two illustrations were given above on how NPS would generate result. The results were surprisingly very drastic from each other. changing just one variable changes the result to some other extent only and therefore the apprehensions in the mind of people regarding NPS seems valid as it is extremely vulnerable to the market rates therefore government, as suggested by foreign reports as well, should keep a provision of providing a minimum pension in case market rates fall below expectations. Also as suggested by ILO government should take a step up in promoting NPS as currently very few percentages of population have subscribed NPS account which needs to go up. Once all this is made sure we can see a positive change in society as far as old age and family relations are considered.

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