JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

A Comparative Analysis of Government Employee Retirement Pension Schemes in India: A Case Study of OPS and NPS

Dr. Abhishek kumar, Assistant Professor, Department of Commerce, Vidyant Hindu P.G. College, Lucknow, Uttar Pradesh, India

Rashmina , Junior Research Fellow, Department of Commerce, University of Lucknow, Uttar Pradesh, India.

Harikesh Yadav, Junior research fellow, Department of commerce, University of Lucknow

Abstract

Employee compensation and benefits play a crucial role in Human Resources management. Ensuring income security for salaried employees during retirement is essential, with post-retirement terminal benefits serving as a key component. Pensions after retirement play a crucial role in ensuring a consistent income and financial security. In India, employees working in government ministries and departments are categorized into either the 'Old Pension Scheme (OPS)' if they were hired before December 31, 2003, or the 'National Pension Scheme (NPS)' if their appointment occurred on or after January 1, 2004. This research provides a summary and evaluation of pension schemes designed for government employees in India after retirement.

Within the framework of the 'Old Pension Scheme (OPS)', government employees are entitled to extensive one-time terminal benefits, encompassing the encashment of earned leaves (EL), provident fund, gratuity, computation facility for pension calculation, and regular monthly pension disbursements. In contrast, the 'National Pension Scheme (NPS)' confines one-time terminal benefits to the encashment of earned leaves and gratuity, reflecting a paradigm shift in the pension structure.

The objective of this prospective study is to examine the implementation of a pension plan and assess the 'Old Pension Scheme (OPS) and National Pension Scheme (NPS)' in a comparative analysis. Post-retirement pensions are extended to former central and state government employees in India, ensuring a financial support system during their retired phase, aiming to secure their financial independence during their retirement years and mitigate potential challenges. The primary goal of introducing the defined pension was to assure retired government employees a steady monthly income, ensuring their social security in their later years.

Keywords: Retirement, Government Employees, National pension scheme, old pension scheme.

Introduction

In India, government employees are entitled to one-time terminal benefits and a retirement annuity upon reaching superannuation. Central and State government employees in India have a predetermined superannuation age, after which they are required to resign from their positions. The recruitment process for government employees is highly competitive, following a predefined system that involves thorough verification of credentials and antecedents. Each position outlines specific job responsibilities, dedicated to serving the public good. Salaries and allowances are fixed for each post level and cannot be altered. Government employees are obligated to perform their duties diligently within specified parameters, with their service subject to annual evaluations.

Government employees play a crucial role in connecting government structures and processes, as evidenced during events like the COVID-19 period. While private sectors may temporarily shut down during lockdowns, government employees continue their duties based on government instructions and guidelines. Despite constituting a relatively small percentage of the overall Indian population, government employees are among the country's largest direct taxpayers. Their lifelong commitment to serving the nation and contributing to the public good makes them eligible for a pension upon reaching the age of superannuation.

The ‘old pension scheme’ (applicable to government retirees appointed before 2004), extends to the deceased employee's spouse or qualifying family members after the retiree's death. The primary purpose of the pension is to ensure long-term economic security for retired employees and meet their basic needs. In 1999, the Government of India initiated the "OASIS" (‘Old Age Social and Income Security’) national project/commission to scrutinize policies and frameworks pertaining to the security of income in the context of advanced age. The recommendations from the ‘OASIS’ study were approved by the government, leading to the implementation of a new ‘Contribution Pension System’ for new government employees. Employees hired before 2004 remain under the old Defined Benefit System, while those hired after 2004 are enrolled in the contributory pension scheme (NPS).

To oversee and develop India's new pension sector, the ‘Government of India’ established the ‘Pension Fund Regulatory and Development Authority (PFRDA)’ in 2003. The new contributory pension scheme, known as the National Pension Scheme, officially came into effect on January 1, 2004, following its announcement by the Government of India on December 22, 2003. ‘The Pension Fund Regulatory and Development Authority Act’ was officially notified on February 1, 2014. This Act empowers the ‘Pension Fund Regulatory and Development Authority (PFRDA)’ to oversee and regulate the National Pension Scheme (NPS), which involves subscriptions from both ‘Central and State Government employees’ in India. Additionally, the NPS encompasses employees from private organizations, spanning both the organized and unorganized sectors. The principal directive of the Pension Fund Regulatory and Development Authority (PFRDA) is to ascertain the progress and enhancement of the pension market. The fundamental functions of the PFRDA, as outlined in the Preamble, focus on promoting old age income security through the establishment, development, and regulation of pension funds to safeguard the interests of participants engaged in pension fund schemes.

Literature review

(Appiah, 2023) The pensions sector in Ghana continues to play a crucial role in the country's fiscal, economic, and social development. The commendable achievements resulting from the pension reforms initiated in the early 2010s are noteworthy. These reforms led to the establishment of the ‘three-tier pension scheme’ and the enactment of the ‘Pensions Act, 2008’ (Act 766). Primarily, the Act was put in place to define the legal framework for responsible performance by stakeholders. In this context, the study investigated and analyzed significant shortcomings in pension management, along with provisions in the Act that hinder the realization of its goals.

(S. Etim et al., 2023) The assertion is made that the contributory pension scheme positively influences the economic advancement of Nigeria.

(Aliu et al., 2023) Operators overseeing the Contributory Pension Scheme (CPS) must ensure a commitment to transparency and adherence to regulations in their daily activities to ensure the long-term sustainability of the industry. Likewise, labor unions should conduct awareness campaigns, workshops, and seminars to enlighten employees engaged in the CPS about the significance of acquiring comprehensive information about their retirement savings accounts and adhering to the rules and regulations governing the CPS.

Shukla et al., 2023. Individuals in lower and middle-income categories in India, employed across different organizations, prefer the Old Pension Scheme (OPS). They prioritize OPS due to its emphasis on financial security, social security, and assured benefits until retirement. In case of the demise of an employee, the dependents of the deceased receive financial protection in the form of a family pension, as outlined in the provisions of the old pension scheme.

Pooja (2021), The research provided a concise overview of the functioning of the NPS system, including insights into the intricacies of the plan and scheme structure. The benefit provided by the NPS plan is not beneficial to government employees and is dependent on market conditions. According to the findings of the study, there is a lack of learning data.

(Murari, 2020) Among the five NPS schemes—'CG (Central Government)', 'SG (State Government)', 'Corporate CG', 'NPS Lite, and APY'—the 'NPS Lite' plan has yielded the most significant returns. 'LIC Pension Funds Ltd and SBI' have recorded the maximum returns within the 'NPS programs' for 'central and state government employees', with 'LIC Pension Funds Ltd' holding a higher weighting than other fund managers. 'HDFC Pension Funds' has demonstrated the maximum returns in the unorganized and private sectors, although certain statistical measures favor ICICI Prudential Pension Funds. Nevertheless, LIC Pension Funds Ltd has outperformed the market in terms of Sharpe ratio and Jensen's performance indicators.

According to Hooda (2018), the NPS was originally intended for the government sector but was eventually expanded to all Indian people. It is extremely beneficial to the 'economy and capital' markets. It contributes to the country's 'GDP growth'.

According to Thulasipriya (2015), India must invest aggressively in order to maintain high levels of growth. Since the beginning of planning, investments have been emphasized as the 'primary engines of economic growth and gains' in national wealth. This study tries to forecast the investing choices of the 'salaried group of people' using a simple sample approach. The population is set at 500, and the labor is expected to be salaried. It examines only one set of investors, salaried government officials, rather than the broad range.

According to Hershey (2010), The aspirations for retirement planning are notably influenced by social factors and the impact of parental guidance. Individuals whose parents have taken steps to plan for their retirement tend to enjoy higher income levels and financial stability.

Research Problem

The primary financial support for retired government employees is derived from one-time retirement benefits and a monthly pension. This monthly pension serves as a reliable and guaranteed source of income, enabling retired individuals to lead fulfilling lives independently. Additionally, exerts a notable influence in impacting the country's per capita income. The shift from the existing old pension system to a new scheme, founded on monthly contributions and annuity plans influenced by market dynamics, has eliminated the previously defined and sponsored benefits for employees. Beyond the National Pension Scheme, which aims to promote economic stability and financial independence in old age, the 'Government of India' initiated the OASIS project to investigate guidelines pertaining to financial stability, for the elderly, considering limited financial resources. However, the recommendations in the report have disrupted the established pattern, and the proposed pension plan lacks complete security. This research aims to enhance our understanding of the 'Pension Scheme' and assess its influence on financial stress and employees' motivation.

Objectives:

The primary objectives of this study are as follows:

- Investigate the pension arrangements for retired government employees, analyzing the existing pension plans, specifically the National Pension Scheme and the Old Pension plan.
- Conduct a comprehensive examination of NPS porting, ascertaining whether the latest scheme effectively achieves the goal of providing 'income security' in old age and genuinely safeguards the rights of retired workers.

Methodology of Research:

The nature of this research investigation is descriptive, relying exclusively on 'secondary data' obtained from diverse origins, such as Pension Fund Regulation reports, 'NPS Trust', relevant websites, papers, and studies. To fulfill the objectives of the study, a percentage derived from reports was utilized. The research involves a comparison of payout trends between old pension systems and the National Pension Scheme, with an evaluation of NPS management using PFRDA/NSDL reports. While the study is conceptual, it is firmly grounded in factual information, current Government of India regulations, and data sourced from publications, national sources, and government publications.

Overview

A pension, referred to as a retirement benefit fund, constitutes a savings plan where an employee allocates a portion of their annual income to a specific savings scheme. The primary objective of this approach is to ensure a reliable income stream post the conclusion of one's service period. Historically, pension funding in India has hinged on contributions from both companies and employees. However, the accessibility of employee pension plans has been limited to the organized sector, leaving a significant portion of the population unprotected (Bai, 2017). Merely '12% of the employed population in India is covered by retirement benefit schemes' in any form, indicating that 88% of individuals lack access to any retirement provisions. Employees are recognized as valuable assets in any organization, and providing appropriate compensation for employee contentment is crucial. A content workforce contributes to the smooth and efficient operation of the business, leading to increased productivity. A robust employment remuneration structure and a well-structured pension plan contribute to job satisfaction and a positive work attitude. Consequently, this study was conducted to assess the National Pension System (NPS), a crucial consideration for individuals contemplating entry into the government sector and shaping their work attitudes. To comprehend the implementation of the NPS vis-à-vis the OPS (Old Pension System), an analysis of the report by 'Sh. D. Swarup, Chairman of the Pension Fund Regulatory and Development Authority (PFRDA)' on Social Security Needs, has been undertaken. The senior citizen demographic in India is growing and has currently reached nearly eighty million people, comprising 0.12% of the worldwide aging population. This demographic is increasing @ 3.8% annually, in contrast to the overall population growth rate of 1.8%. The majority of this demographic lacks coverage under any formal old-age income security system, relying entirely on personal earnings and assistance provided by offspring or other relatives. This reliance on an informal old-age income support system is fundamentally flawed and poses challenges to future development.

The impediments to instituting a universally applicable state pension scheme upon attaining retirement age, namely unemployment and poverty, have been noteworthy. As a result, there has been a push for the organized sector to embrace a pension initiative sustained by contributions from both employers and employees. Nevertheless, this approach has manifested a notable bias, disproportionately excluding a substantial portion of the workforce engaged in the unorganized sector.

India's national pension policy operates on the basis of contributions from both employers and employees. Consequently, its reach has been confined to the organized and government sectors, as a significant portion of the unorganized labor force remains hesitant to embrace this formal avenue for old-age financial assistance. Empirical findings illuminate that a mere 12% of India's gainfully employed populace is embraced within the ambit of any semblance of retirement benefit scheme. Beyond the circumscription of this coverage, the extant pension system reveals deficiencies characterized by a fragmented regulatory framework, inadequate individual autonomy, and the conspicuous absence of universally applicable standards. The inherent frailty of the prevailing pension architecture is further compounded by the substantial augmentation of the government's fiscal obligations stemming from escalating pension liabilities. Evidently, during the 1990s, the aggregate pension liability for personnel under the aegis of the Central Government witnessed an annual escalation of more than 21%, while their counterparts in state governments incurred a discernibly higher annual rate of 27%.

Old Pension Scheme (Pre-2004)

The 'Old Pension Scheme', also recognized as a 'Defined Pension Benefit Scheme', is a form of retirement benefit provided by the government. Retiring employees under OPS receive 50% of their last basic wage along with a dearness allowance. Notably, OPS employees are not obligated to contribute to their pension. The assurance of a post-retirement pension, including a family pension, served as an incentive for government employment. However, the financial structure of OPS proved unsustainable for governments, lacking a dedicated fund or savings for pension commitments and imposing a fiscal burden. Given the heightened life expectancy and financial constraints, the BJP-led NDA government, in December 2003, terminated the Defined Pension Benefit Scheme. The new pension plan was implemented on April 1, 2004, exclusively for government appointments made before 2004. This shift aimed to address the financial challenges posed by OPS and establish a more sustainable pension system in light of evolving demographic and fiscal considerations.

National Pension Scheme (Effective After 2004)

Established on October 10, 2003, by the 'Government of India', the 'Pension Fund Regulatory and Development Authority (PFRDA)' was instituted to oversee the nation's pension fund. Subsequently, on January 1, 2004, the 'National Pension System (NPS)' was introduced, aiming to extend retirement savings coverage to all residents. The NPS strives to instill awareness about retirement savings and implement pension reforms. Government employees participating in the 'NPS contribute 10% of their base pay', 'while employers can contribute up to 14%' since April 1, 2019, an increase from the previous 10%. This scheme is applicable to government personnel hired after 2004 and other organized employees in the private sector. Moreover, employees in the private sector have the option to voluntarily enroll in the NPS. To further encourage savings in the unorganized sector, the Central Government introduced the "Swavalamban Scheme" in the 'Union Budget of 2010-11', a 'co-contributory pension program'. The NPS operates as a contributory scheme, with contributions from both employees (10%) and employers (10%, or 14% for Central Government employees). At the point of retirement, 40% of the accumulated fund is dedicated to an annuity plan, chosen based on terms and periods. A tax-free withdrawal of only 60% is permitted, and the annuity is provided by a registered insurance entity, dependent on the chosen plan and terms.

Examining India's Transition from OPS to NPS

According to the research findings, the Old Pension Scheme (OPS) imposes a considerable financial burden on the Government of India (GOI). The design of the OPS considered life expectancy, anticipating that the majority of retiring workers would survive until the age of 68 and beyond. However, due to recent increases in life expectancy, the annuity value provided in the Old Pension System has risen over time. The overall mortality rate of government employees earning above the norm aligns roughly with that of OECD populations. The financial strain is particularly pronounced at the sub-head level, leading to some state governments struggling to make timely payments of pensions and other benefits. Implementing the 'National Pension Scheme (NPS)' in organized and government sectors is seen as a solution to alleviate fiscal pressures. The OPS, previously directly administered by the government, is now overseen, alongside other private organized sectors, by a trust—specifically, the 'Pension Fund Regulatory and Development Authority (PFRDA)'—following the establishment of the NPS. The Old

Pension Scheme (OPS) in India, prevalent before the introduction of the 'New Pension Scheme (NPS) in 2004', was a defined benefit pension plan primarily applicable to government employees. Under the OPS, the pension amount was predetermined based on factors such as the length of service and the average salary withdrawn during the last few years of employment. This scheme offered a guaranteed pension amount, ensuring financial security for retired government employees. One notable characteristic of the OPS was its non-contributory nature for employees; they were not required to make regular contributions towards their pension fund. Instead, the entire financial burden was borne by the government, making it an attractive yet economically challenging scheme. The OPS was considered a lifelong commitment, ensuring a fixed pension amount for the entirety of the retiree's life.

However, the OPS faced several challenges, contributing to its reform. The increasing life expectancy of retirees led to a higher financial burden on the government. The pension liabilities for both central and state government personnel grew substantially, with an annual increase of more than 21% and 27%, respectively, during the 1990s. To address these challenges and move towards a more sustainable model, the NPS was introduced, marking a shift towards a defined contribution system. The NPS allowed both government and private sector employees to contribute towards their pension, offering them flexibility in choosing investment options.

The OPS, while providing a secure retirement income, posed financial challenges to the government due to its non-contributory nature and the changing demographic landscape. The shift to the NPS aimed to create a more market-driven and sustainable pension system, reflecting the evolving needs of the workforce and the economic realities of the time

Conclusion

As outlined in the report, the implementation of the 'National Pension Scheme (NPS)' is aimed at ensuring 'social security' for elderly individuals, providing income security, and extending social security benefits to both organized and unorganized private sector employees, as well as elderly citizens. The government has expanded old-age pension and other sector-specific pensions to enhance the overall social well-being of the elderly population. Government employees receive pension benefits based on their employment status, and individuals are entitled to a pension after retirement savings. To assess the pension burden comprehensively, the government is consolidating all pension programs. In contrast, the NPS serves as a tool for economic and capital market expansion, contributing to institutional capital accumulation. The adoption of NPS has significantly impacted India's debt market, leading in terms of investment, especially since its launch. While the NPS is available to all citizens for retirement savings, it introduces disparities within government sector personnel. Those who joined before 2004 qualify for a guaranteed pension system (OPS) without contribution, whereas those joining after 2004 are part of a contributory program (NPS). However, the intended reduction in financial stress is not fully realized and transforms into a 'monthly financial burden'. Under the NPS, the government is required to contribute 10% for state government employees and 14% for central government employees, converting a one-time financial obligation into recurring expenses. The market-driven NPS, as indicated by recent return reports (2019-22), demonstrates a slowed growth trend, especially during unexpected events like the Covid-19 pandemic. Consequently, the current pension reforms are deemed inappropriate for government personnel, and there is a call for swift rationalization along the lines of the 'Old Pension Scheme'. The government is urged to halt misleading directives while simultaneously exploring the feasibility of implementing necessary adjustments.

Reference

- Shukla, P., Mishra, D., Dwivedi, Rawat, & Rai. (2023). A Comparative Study of Old Pension Scheme and National Pension Scheme. *SATRAACHEE*, *40*(28), 214–225.
- Varatharajan Pooja & Ms. Malaimagal (2021) A Critical Study on National Pension Scheme and its Applicability
- Neeti Hooda1 & Dr. Kuldip Singh Chhikara (December-2018) in their empirical in depth study as "NPS"Pension Reform in India – A Social Security Need (D. Swarup, Chairman, PFRDA).
- Thulasipriya, B. (2015). A study on the investment preference of government employees on various investment avenues. International Journal of Management Research and Social Science (IJMRSS,), 2(1), 9-16.

- Hershey, Henkens, and van Dalen (2010) determined that parental effects and social influences have a significant impact on retirement planning goal clarity
- Aliu, O. A., Abdul-Hamid, M. A., Suleiman, S., & Olanrewaju, S. M. (2023, August 11). TRANSPARENCY, COMPLIANCE AND SUSTAINABILITY OF CONTRIBUTORY PENSION SCHEME IN NIGERIA. *Gusau Journal of Accounting and Finance*, *4*(1), 135–150. https://doi.org/10.57233/gujaf.v4i1.204
- S. Etim, O. Umoren, & Asuquo Udo. (2023, April 1). Influence of Contributory Pension Scheme on Economic Development in Nigeria. *AKSU Journal of Administration and Corporate Governance*, *3*(1).
- murari. (2020, December 21). *Risk-adjusted performance evaluation of pension fund managers under social security schemes (National Pension System) of India*. Journal of Sustainable Finance & Investment. https://doi.org/10.1080/20430795.2020.1857635
- Appiah, P. O. (2023, February 21). The National Pensions Act, 2008 (Act 766) and Challeges of Pension Fund Administration in Ghana. *Feb-Mar 2023*, *32*, 1–12. https://doi.org/10.55529/jls.32.1.12

Website

https://www.pfrda.org.in.