



Demand for Restoring the Old Pension Scheme

For Prelims: New Pension Scheme, Old Pension Scheme, PFRDA.

For Mains: Issues with Govt Policies and Interventions.

Why in News?

Many **states are demanding to restore the Old Pension Scheme and roll back the [National Pension System \(NPS\)](#).**

- Rajasthan has said it will bring back the old pension scheme in the state from the next financial year, and Chhattisgarh is expected to follow suit.
- Governments of Kerala, Andhra Pradesh, and Assam have also formed committees regarding the old pension scheme.

What is the National Pension System?

▪ About:

- The Central Government **introduced the National Pension System (NPS) with effect from January 2004** (except for armed forces).
 - In 2018-19, to streamline the NPS and make it more attractive, the Union Cabinet approved [changes in the scheme](#) to benefit central government employees covered under NPS.
- 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.
- On introduction of NPS, the **Central Civil Services (Pension) Rules, 1972 was amended**.
- The NPS **allows subscribers (government employees) to decide where they want to invest their money by contributing regularly in a pension account** throughout their career.
- After retirement they can withdraw a part of the pension amount in a lump sum and use the rest to buy an annuity for a regular income.

▪ Implementation:

- NPS is **being implemented and regulated by PFRDA (Pension Fund Regulatory and Development Authority) in the country**.
- **National Pension System Trust (NPST)** established by PFRDA is the registered owner of all assets under NPS.

▪ Features:

- The All Citizens Model of the NPS **allows all citizens of India (including NRIs) aged between 18 - 70 years to join NPS**.
- 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 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.**
- Even **private individuals can opt for the scheme.**

What is the Old Pension Scheme or the Defined Pension Benefit Schemes?

▪ About:

- The scheme **assures life-long income, post-retirement.**
- Usually the assured amount is **equivalent to 50% of the last drawn salary.**
- The **Government bears the expenditure** incurred on the pension. The scheme was **discontinued in 2004.**

▪ Issues:

- Economists say the issue is simple -- **longer lifespans meaning more pension payout.**
 - For instance, employees retiring at 60 and having an average lifespan of nearly 80 years or more have to be paid for over two decades after superannuation.
- Moreover, in the event of the death of the pensioner, **their spouses are entitled for a portion of the pension under the OPS.** This s led to a massive pension burden on the Union and state governments.

What are the Issues with the National Pension System?

- **Under the old scheme, employees get a pension under a pre-determined formula** which is half of the last drawn salary. They also **get the benefit of the revision of Dearness Relief (DR), twice a year.** The **payout is fixed and there was no deduction from the salary.** Moreover, under the OPS, there was the **provision of the General Provident Fund (GPF).**
- The NPS however, **requires employees to deposit 10% of the basic pay, along with the dearness allowance.** There is **no GPF advantage and the amount of pension is not fixed.** The **major issue with the scheme is that it is market-linked** and return-based. In simple terms, the payout is uncertain.

What is the Pension Fund Regulatory and Development Authority?

▪ About:

- It is the **statutory Authority** established by an enactment of the Parliament, to regulate, promote and ensure orderly growth of the National Pension System (NPS).
- It works under the Department of Financial Services **under the Ministry of Finance.**

▪ Functions:

- It performs the function of appointing various intermediate agencies like Pension Fund Managers, Central Record Keeping Agency (CRA) etc.
- It develops, promotes and regulates the pension industry under the NPS and also administers the [APY \(Atal Pension Yojana\).](#)

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Who among the following can join the National Pension System (NPS)? (2017)

- (a) Resident Indian citizens only
- (b) Persons of age from 21 to 55 only
- (c) All State Government employees joining the services after the date of notification by the respective State Governments

(d) All Central Government employees including those of Armed Forces joining the services on or after 1st April, 2004

Ans (c)

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