25th August 2024

UNIFIED PENSION SCHEME (UPS)

HIGLIGHT

Introduction to the Unified Pension Scheme (UPS)

Objective:

- The Unified Pension Scheme (UPS) aims to provide a more comprehensive and assured pension system for employees. It was introduced as a response to the issues faced with both the Old Pension Scheme (OPS) and the National Pension System (NPS).

Implementation Date:

- The UPS will come into effect from April 1, 2025 and is applicable to all government employees who retired under the NPS since 2004.

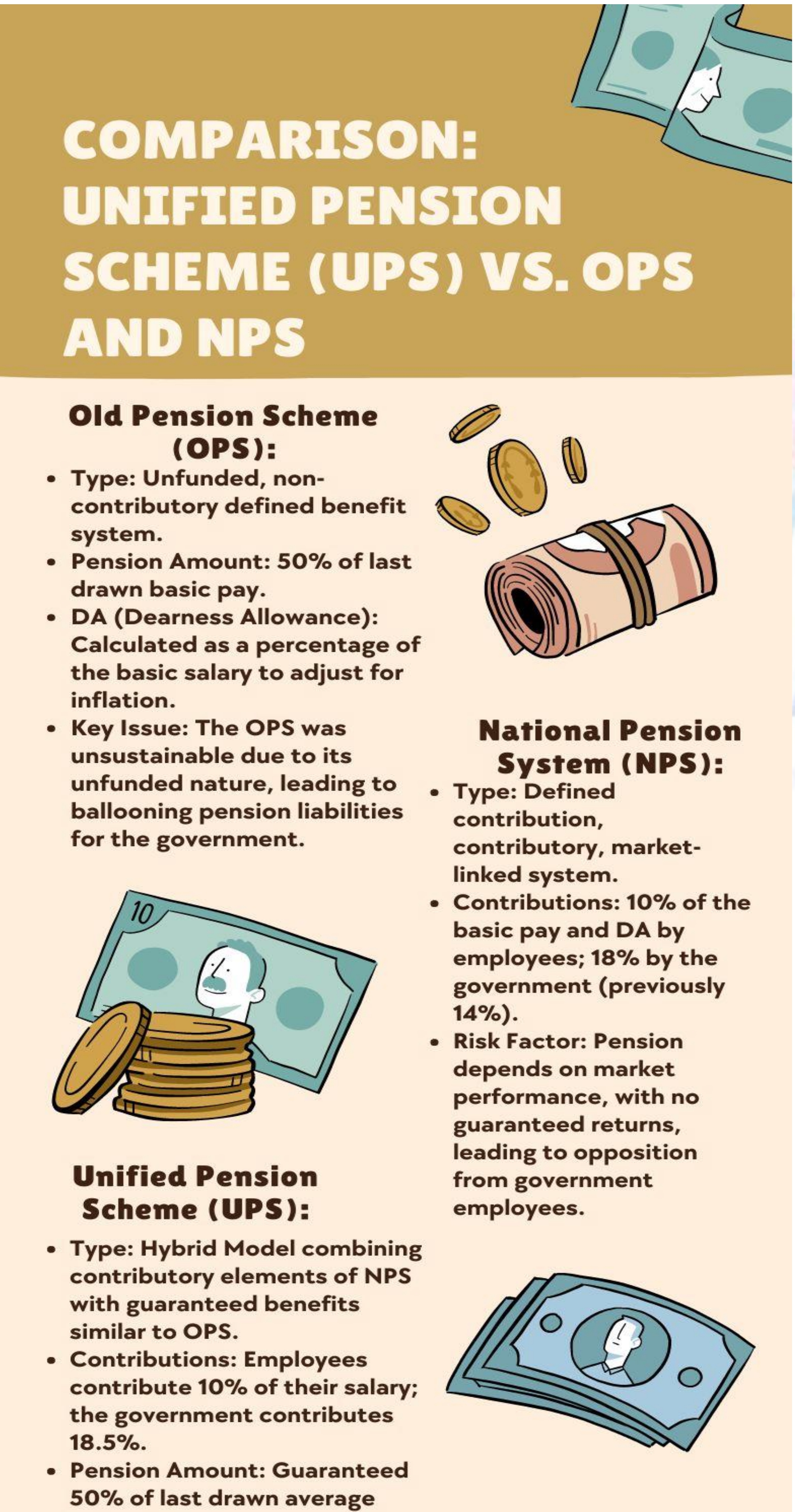
Old vs New

A look at the difference between the old and the new pension schemes

Old Pension Scheme	National Pension Scheme
The scheme guarantees a **life-long income, post-retirement**	It is a participatory scheme, where **employees contribute to their pension corpus from their salaries,** with matching contribution from the government
Government bears the expenditure incurred on the pension	The funds are invested in earmarked investment schemes through Pension Fund Managers
Under the scheme, a monthly payment is assured, where **the amount is equivalent to 50% of the last drawn salary**	**On retirement, 60% of the corpus, which is tax-free,** is withdrawn while the remaining 40% is invested in annuities, which is taxed

KEY FEATURES OF THE UNIFIED PENSION SCHEME (UPS)

1. **Assured Pension:**
   - Employees receive 50% of their average basic pay (drawn over the last 12 months before retirement) for a minimum qualifying service of 25 years.
   - For employees with 10 to 25 years of service, the pension amount is proportionally reduced.
2. **Assured Minimum Pension:**
   - Employees with at least 10 years of service will receive a minimum pension of ₹10,000 per month.
3. **Assured Family Pension:**
   - In the event of the retiree's death, the family will receive 60% of the pension last drawn by the employee.
4. **Inflation Indexation:**
   - Dearness Relief (DR): Pensions, including family pensions, will be indexed to inflation using the All-India Consumer Price Index for Industrial Workers (AICPI-IW).
5. **Lump-Sum Payment at Superannuation:**
   - Upon retirement, employees will receive a lump-sum payment in addition to their gratuity. This payment will be 1/10th of the monthly emoluments (pay + DA) for every completed six months of service.



Why Was the National Pension System (NPS) Introduced?

1. **Reason for NPS Introduction**:
   - The NPS replaced the OPS on **January 1, 2004**, under the Atal Bihari Vajpayee government due to the **unsustainability of OPS**.
   - The OPS was **unfunded**, and as government pension liabilities grew exponentially, NPS was introduced to share the burden between the government and employees.
2. **Fiscal Pressures**:
   - By **2020-21**, the Centre's pension liabilities had increased **58 times** compared to 1990-91 (from ₹3,272 crore to ₹1,90,886 crore). For states, the increase was **125 times** (from ₹3,131 crore to ₹3,86,001 crore).

Issues with the National Pension System (NPS)

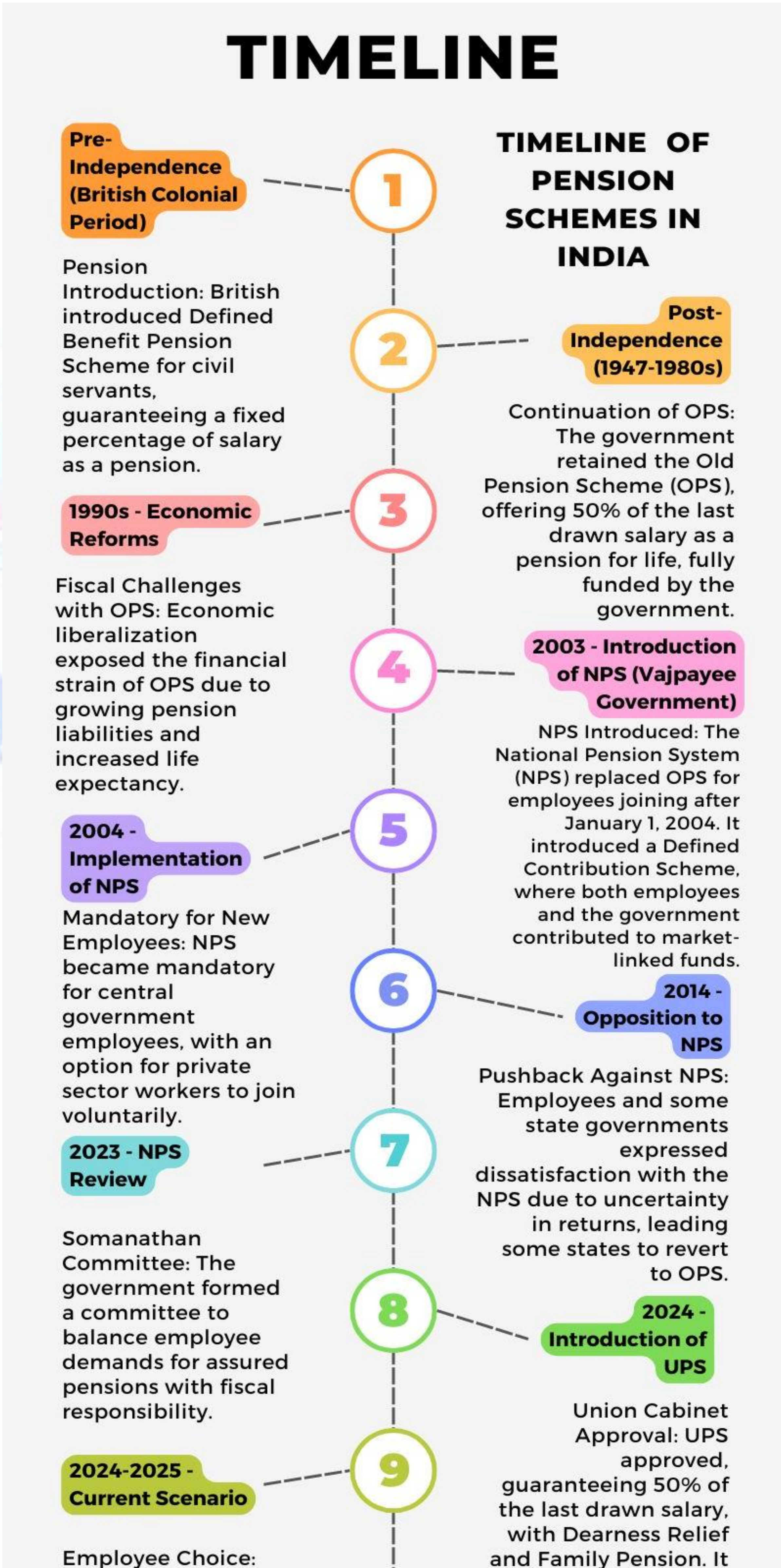
1. **Lack of Assured Returns**:
   - The NPS did not offer **guaranteed returns**, making it dependent on market fluctuations.
   - Employees had to contribute towards their pensions, which was not the case under the OPS, leading to **dissatisfaction**.
2. **Market-Linked Risk**:
   - Under the NPS, employees had to select from various pension fund managers, with risk profiles ranging

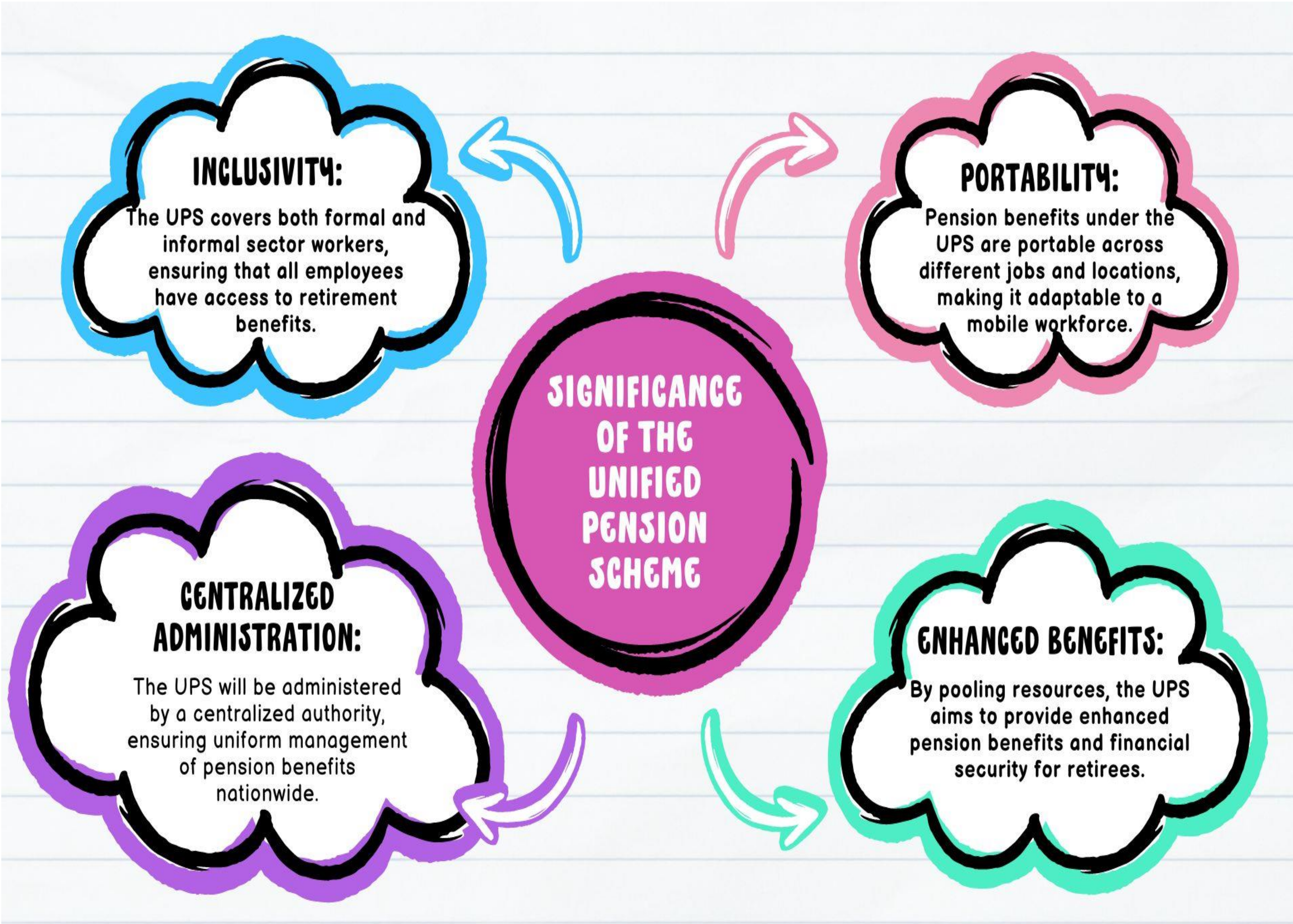
Transition to the Unified Pension Scheme (UPS)

1. **Committee Recommendations**:
   - In **2023**, Prime Minister **Narendra Modi** constituted a committee led by **Cabinet Secretary T.V. Somanathan** to review the NPS and address the demands of employees for guaranteed returns.
   - The committee's recommendations led to the creation of the **Unified Pension Scheme (UPS)**.
2. **Voluntary Switch**:
   - NPS retirees have the option to **switch to UPS**, and **arrears** will be adjusted against what they have already drawn under NPS. However, it is anticipated that **99% of employees** will choose to switch to UPS due to its superior benefits.
3. **Fiscal Impact**:
   - The transition will cost the government **₹6,250 crore** in the first year, with **₹800 crore** set aside for the payment of arrears to NPS retirees.

Fiscal Implications of the UPS

1. **Initial Costs**:
   - In the first year of UPS implementation, the government's expenditure will be **₹6,250 crore**, including arrears adjustments for NPS retirees.





Challenges of Implementing the UPS

1. **Complex Transition Process**:
   - Merging multiple pension schemes into one unified system requires **careful planning** to ensure that existing beneficiaries are not disadvantaged.
2. **Funding and Sustainability**:
   - Ensuring the **long-term financial viability** of UPS will require setting **appropriate contribution rates**, **government support**, and developing **investment strategies**.

Conclusion

The **Unified Pension Scheme (UPS)** seeks to combine the best elements of the **Old Pension Scheme (OPS)** and the **National Pension System (NPS)**, ensuring **guaranteed pensions**, **inflation protection**, and **financial security** for government employees. Its hybrid model offers fiscal sustainability while addressing the concerns of employees regarding market uncertainties. The UPS is expected to create a **more inclusive and**