

25th August 2024

# UNIFIED PENSION SCHEME (UPS)

## HIGHLIGHT

### 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.

## 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.

## Old vs New

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

Old Pension Scheme	National Pension Scheme
<ul style="list-style-type: none"> <li>■ The scheme guarantees a <b>life-long income, post-retirement</b></li> <li>■ <b>Government bears the expenditure</b> incurred on the pension</li> <li>■ Under the scheme, a monthly payment is assured, where the amount is equivalent to <b>50% of the last drawn salary</b></li> </ul>	<ul style="list-style-type: none"> <li>■ It is a participatory scheme, where <b>employees contribute to their pension corpus from their salaries</b>, with matching contribution from the government</li> <li>■ The funds are invested in earmarked investment schemes through Pension Fund Managers</li> <li>■ <b>On retirement, 60% of the corpus, which is tax-free</b>, is withdrawn while the remaining 40% is invested in annuities, which is taxed</li> </ul>



## COMPARISON: UNIFIED PENSION SCHEME (UPS) VS. OPS AND NPS

### Old Pension Scheme (OPS):

- **Type:** Unfunded, non-contributory defined benefit system.
- **Pension Amount:** 50% of last drawn basic pay.
- **DA (Dearness Allowance):** Calculated as a percentage of the basic salary to adjust for inflation.
- **Key Issue:** The OPS was unsustainable due to its unfunded nature, leading to ballooning pension liabilities for the government.



### Unified Pension Scheme (UPS):

- **Type:** Hybrid Model combining contributory elements of NPS with guaranteed benefits similar to OPS.
- **Contributions:** Employees contribute 10% of their salary; the government contributes 18.5%.
- **Pension Amount:** Guaranteed 50% of last drawn average



### National Pension System (NPS):

- **Type:** Defined contribution, contributory, market-linked system.
- **Contributions:** 10% of the basic pay and DA by employees; 18% by the government (previously 14%).
- **Risk Factor:** Pension depends on market performance, with no guaranteed returns, leading to opposition from government employees.



## 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.

## TIMELINE

**Pre-Independence (British Colonial Period)**

**1**  
Pension Introduction: British introduced Defined Benefit Pension Scheme for civil servants, guaranteeing a fixed percentage of salary as a pension.

**TIMELINE OF PENSION SCHEMES IN INDIA**

**Post-Independence (1947-1980s)**

**2**  
Continuation of OPS: The government retained the Old Pension Scheme (OPS), offering 50% of the last drawn salary as a pension for life, fully funded by the government.

**1990s - Economic Reforms**

**3**  
Fiscal Challenges with OPS: Economic liberalization exposed the financial strain of OPS due to growing pension liabilities and increased life expectancy.

**2003 - Introduction of NPS (Vajpayee Government)**

**4**  
NPS Introduced: The National Pension System (NPS) replaced OPS for employees joining after January 1, 2004. It introduced a Defined Contribution Scheme, where both employees and the government contributed to market-linked funds.

**2004 - Implementation of NPS**

**5**  
Mandatory for New Employees: NPS became mandatory for central government employees, with an option for private sector workers to join voluntarily.

**2014 - Opposition to NPS**

**6**  
Pushback Against NPS: Employees and some state governments expressed dissatisfaction with the NPS due to uncertainty in returns, leading some states to revert to OPS.

**2023 - NPS Review**

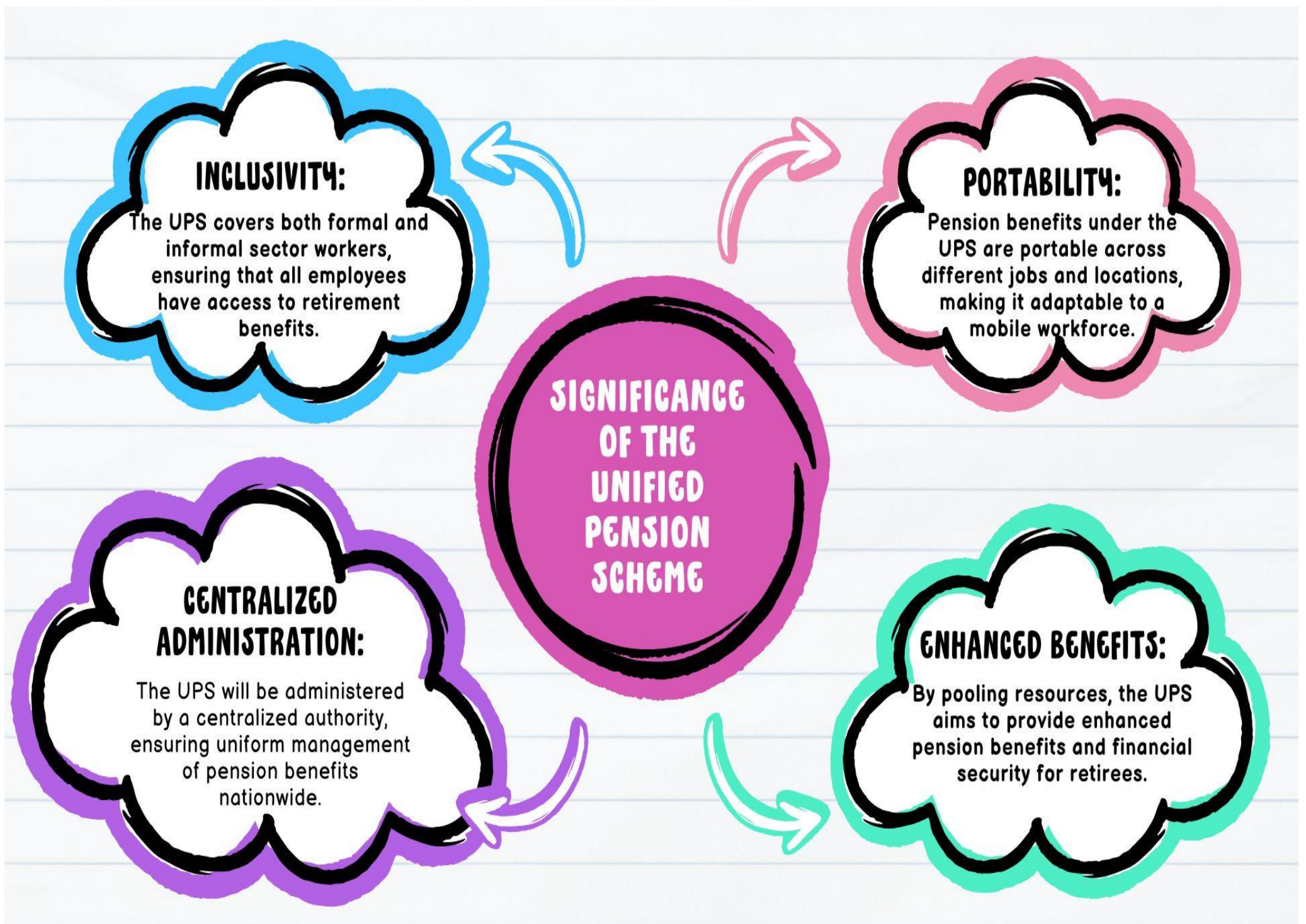
**7**  
Somanathan Committee: The government formed a committee to balance employee demands for assured pensions with fiscal responsibility.

**2024 - Introduction of UPS**

**8**  
Union Cabinet Approval: UPS approved, guaranteeing 50% of the last drawn salary, with Dearness Relief and Family Pension. It

**2024-2025 - Current Scenario**

**9**  
Employee Choice:



## 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 comprehensive pension system.**