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Explainers

The OPS NPS UPS Pension Debate

UNIFIED PENSION SCHEME (UPS)

The Unified Pension Scheme (UPS) launched by the government as its compromise formula is being celebrated by the godi media as the “best of both worlds”, i.e. the Old Pension Scheme (OPS) and the New Pension Scheme (NPS). But a close scrutiny reveals otherwise, but before that, a little context will help. And like in most instances, a little bit of history helps.

The OPS was a welfare state modeled pension scheme wherein the state was supposed to take care of its employees. The so-called 'pension reform' pushed by the World Bank in the 1990s was done by raising alarm on the “financial strains” of such a state-funded pension model. The neoliberal prescription for the state was to shed weight and go lean. Sovereign countries were coerced to move to contributory pension schemes. And this is what gave birth to the NPS at the turn of millenia under Atal Bihari Vajpaee.

The employees and unions have long been vocal about the inadequacies of NPS. Facing pressure from opposition parties, especially the Congress, which has advocated for the return of OPS, the BJP-led government has now devised the UPS as a middle path. However, this move seems more about political expediency than about genuine reform, with the government caving to pressure rather than addressing the systemic issues within the pension system.

What is the UPS?

The Unified Pension Scheme (UPS), introduced by the Indian government, is designed to address the shortcomings of both the Old Pension Scheme (OPS) and the New Pension Scheme (NPS). The UPS merges elements from both previous schemes into a new framework.

Key Features of the UPS:

Pension Calculation

The UPS promises a pension equivalent to 50% of the average basic pay of the last 12 months before retirement. Employees with at least 10 years of service are guaranteed a minimum pension of ₹10,000 per month. For those with fewer than 25 years of service but at least 10 years, the pension amount is proportionately calculated.

Family Pension

In the event of the employee's death, the scheme provides an assured family pension of 60% of the pension the employee was receiving before their demise.

Lump-Sum Payment

Upon superannuation, employees receive a lump-sum payment in addition to gratuity, calculated as one-tenth of the monthly emolument for every completed six months of service.

Contribution Structure

Under UPS, employees contribute 10% of their salary, while the government contributes 18.5%. This hybrid model retains a contributory aspect but introduces a guaranteed minimum pension to reduce market risks.

Adjustments

The scheme includes periodic dearness relief adjustments to help maintain the real value of pensions.

On the face of it this looks like a “reasonable compromise”, but the fundamental question remains, why compromise on the right to decent non-contributory and assured pension? The UPS aims to appease government employees who were dissatisfied with the uncertainty associated with NPS, but the question remains as to how UPS still keeps the element of uncertainty associated with the market. Lets not forget how the 2008 crisis wiped out pension funds across the globe. While it claims to avoid the “financial strain” associated with OPS, the question remains as to why have we accepted the notion of elderly pensions or entitlements a “burden”? The elderly population of India, be it from the organised or unorganised sector have woven themselves into the fabric of nation-building by dedicating their time and health to its progress and in their time of need we shirk the responsibility of providing a dignified pension by calling it a fiscal burden. Concerns persist regarding the scheme's long-term sustainability. The continued reliance on market-linked returns, despite the guaranteed minimum pension, raises questions about the scheme’s ability to provide consistent and adequate retirement security over time.

How OPS, NPS, and UPS Differ

OLD PENSION SCHEME (OPS):

The OPS provided a guaranteed pension based on 50% of the last drawn salary, fully funded by the government, with no contribution required from employees. The scheme also included a Dearness Allowance (DA) to adjust for inflation, ensuring that the pensioner's income kept pace with the cost of living. Additionally, there was an option for employees to save in the General Provident Fund, which would be repaid with interest at retirement. Upon the retiree's death, the pension would be passed on to their family. The growing neoliberal consensus of looking at social rights like pension as “burden” on the government led to the eventual replacement of the OPS by the New Pension Scheme (NPS) for new government employees starting January 1, 2004.

NEW PENSION SCHEME (NPS)

Under NPS, employers had to contribute towards their own corpus as it aimed to reduce the fiscal burden on the government by shifting some of the onus on to the employees. The NPS introduced a contributory system where both employees and the government contribute 10% of the employee's basic pay and DA into a pension fund. This fund is invested in a mix of market-linked securities. It faced significant opposition due to the unpredictability of returns. Unlike the OPS, which guarantees a fixed pension amount, the NPS’s pension depends on market performance, making it less secure. Many retirees under the NPS have found their pensions to be grossly inadequate compared to what they would have received under OPS, raising concerns about the erosion of financial security in retirement. Moreover, upon retirement, employees must mandatorily invest 40% of the accumulated corpus in an annuity to ensure a lifetime income stream, but the returns from these annuities often fall short of expectations.

So the fundamental Criticisms of NPS were as follows:

- **Market Dependency:** The NPS's reliance on market-linked returns created uncertainty, leading to retirees receiving significantly less than under OPS. Economists showed how the amount of monthly pension you would draw hypothetically taking into consideration varied market rates of returns was still significantly lower.The UPS claims to rectify this by introducing a guaranteed minimum pension, yet it still hinges on the same market dynamics, only slightly buffered by increased government contributions.

- **Contributory Requirement:** The shift from a state-funded pension under OPS to a contributory system under NPS, and now UPS, continues to place the burden on employees to secure their retirement, reflecting the government's reluctance to fully commit to pension security as a fundamental right.

- **Unified Pension Scheme (UPS):** Under pressure from Union and opposition, the government was forced to review the NPS, but only in a cosmetic and tactical manner, leaving the fundamentals as problematic as the NPS. The Unified Pension Scheme (UPS) claims to amalgamate elements from both OPS and NPS into a hybrid model. It continues with the contributory approach of NPS, tries to ally some of the anxieties with the lollipop of some of the guarantees associated with OPS, and also keeps a chunk of the pension floating on market volatility.

FUNDAMENTAL ISSUES WITH UPS

- **Continued Reliance on Contributions**: The UPS, like the NPS, remains a contributory scheme, perpetuating the logic that employees must fund their own pensions rather than the state providing it as a right. This approach ignores broader questions of social security and the state's role in ensuring a dignified retirement for all.

- **Continued Exposure to Market:** The UPS incorporates market-based returns, which means that your pension could still be affected by market volatility, similar to NPS.

- **Lower guaranteed pension:** While in most of godi media is only parroting the government's and market's lines that the UPS offers more security than the NPS, fact is that it still might not match the full guaranteed benefits of the OPS, particularly if market conditions are unfavourable.

- **Neglect of the Informal Sector:** The UPS, like its predecessors, focuses exclusively on government employees, who constitute only about 6% of the workforce. Meanwhile, the informal sector, which accounts for nearly 93% of the workforce and also contributes to the economy through indirect taxes, remains largely ignored. This glaring omission reflects a systemic bias towards the organized sector while conceptualising pension, leaving the vast majority of workers without any meaningful old age security.

- **It works against employees from oppressed caste backgrounds:** The full benefits of UPS are applicable only if an employee completes 25 years of service (unlike 20 years in OPS). This is against the interests of employees from ST ST and OBC backgrounds as these groups generally enter service at the age of 40 due to hardships and age relaxations and can only complete 20 years of service by the retirement age of 60, thus not qualifying for the full benefits of this pension scheme.

- **Complex structure:** Transitioning employees from NPS to UPS is likely to be fraught with administrative challenges, leading to potential discrepancies and confusion in pension calculations. Also Variations in the implementation of UPS across different states could lead to significant disparities in pension benefits.

What are we missing in this debate?

There are certain larger subjects and concerns that the OPS-NPS-UPS debate completely ignores. That is the subject of universal non-contributory pension which can provide post-retirement benefits not only to the small percentage of workers in the organised sector but also to the millions employed in the unorganized sector which makes up the majority of the workforce. For minimum wage workers in this sector, who are only entitled to a meager ₹200 per month under the Indira Gandhi National Old Age Pension Scheme (IGNOAPS), the UPS offers no relief. Thus, the UPS not only fails to resolve the issues inherent in both the NPS and OPS but also does nothing to support the unorganized sector leaving the most vulnerable segments of society without adequate support as India faces the challenges of an aging population. This is disconcerting particularly because of India's rapidly aging population with the elderly expected to comprise over 20% of the population by 2050, and the number of those aged 80 and above projected to increase by around 279% between 2022 and 2050. Despite this, more than 40% of the elderly in India belong to the poorest wealth quintile, and many, especially women, live without any income, severely impacting their quality of life and access to healthcare.

This is not a question of “financial viability„!

When questioned about the illogic of market based contributory pension and of ignoring the question of universal pension, the government has the usual refrain of “financial unviability”. They say the OPS or the idea of pension in the unorganised sector are ideas that will put an “unrealistic burden” on revenues. But as senior economist Prabhat Patnaik reminds us, on such occasions, it is important to remind us that “a government must raise revenues to meet its social obligations rather than reneging on its social obligations on the plea of inadequate revenues.” These should be matters of principle rather than economic viability. We ought to ask as to why lakhs of crores worth of write-offs, concessions, hair cuts and tax rebates to the corporates and wilful defaulters appear to be “incentives” and beneficial to the economy, while to care for the old seem to be a “burden”. The grotesque inversion of morality that such logic reeks of needs to be countered head on.

As far as the question of resources is concerned, where there is a political will, there is always a way. India has one of the lowest tax-GDP ratios and also the tax system is skewed such that it weighs heavily on the poor through indirect taxes. We are living in an India where today corporate taxes are lower than personal income tax; where despite the grotesquely widening gap between the super rich and the rest, we refuse to adequately tax the ultra rich. Those with 1000 crores and above in fact increased by a whopping 76% in five years, and the crony friends of the government are splurging. A progressive taxation, a just and necessary wealth tax can generate enough resources for an adequate pension.

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