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Old Pension Scheme & National Pension Scheme

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Why is in news? Making a case for the Old Pension Scheme Vs National Pension Scheme

National Pension System:

The Central Government introduced the National Pension System (NPS) with effect from January 2004 **(except for armed forces).**

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**.

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**.

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**.

Issues: The NPS however, requires employees to **deposit 10% of the basic pay**, along with the dearness allowance. There is **no General Provident Fund (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 **pay-out is uncertain**.

Old Pension Scheme or the Defined Pension Benefit Schemes:

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.

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