Universal Pension Scheme under EPFO 3.0 Reforms Proposes a Flexible Target Retirement Sum Framework for Universal Retirement Security

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Recent Developments:

- **The Union Government** is developing a **new contributory Universal Pension Scheme** under the **EPFO 3.0 reforms** to provide a **flexible retirement savings framework** for **formal, informal, gig and platform workers**.
- The proposed scheme is centred on the concept of a **Target Retirement Sum (TRS)** and is expected to operate through **individual pension accounts** instead of the traditional defined-benefit pension model.
- The proposal forms part of the Government's broader objective of achieving **Universal Social Protection** and expanding social security coverage under the **Code on Social Security, 2020**. According to the **International Labour Organization (ILO)**, India's social security coverage has increased significantly in recent years, strengthening the policy push towards universal pension coverage.

Background:

Need for a Universal Pension Framework:

- **India's social security system** remains fragmented because different retirement schemes cover different categories of workers.
- **EPFO** and the **Employees' Pension Scheme (EPS), 1995** primarily cover organised sector employees, whereas a large share of **informal workers, gig workers and self-employed persons** remain outside comprehensive pension coverage.
- According to the **Periodic Labour Force Survey (PLFS)**, nearly **90% of India's workforce** is employed in the informal sector, making retirement income security a major public policy challenge.
- The **Code on Social Security, 2020** created a legal framework for extending social security benefits to **gig and platform workers**, creating the foundation for broader pension reforms.
- **EPFO 3.0 reforms** aim to modernise retirement savings through **digital infrastructure, simplified services, flexible contribution mechanisms and wider coverage**.

Target Retirement Sum (TRS) Pension Scheme:

Concept:

- The proposed scheme is a **Defined Contribution Pension System**, where every subscriber maintains an **individual pension account**.
- Instead of guaranteeing a fixed monthly pension, the scheme focuses on helping subscribers accumulate a **Target Retirement Sum (TRS)** before retirement.

Target Retirement Sum (TRS):

- **TRS** represents the retirement corpus required to achieve a subscriber's desired post-retirement income.
- The required corpus will be estimated using multiple variables, including:
- **Desired retirement income**, **expected retirement age**, **periodic contributions**, **investment returns**.
- Members will be allowed to revise their retirement goals as their financial circumstances change.

Retirement Options at 60 Years:

- The accumulated corpus may be:
- Converted into a **regular annuity** based on prevailing annuity rates; or
- Withdrawn through a **Systematic Withdrawal Plan (SWP)** according to the subscriber's preference.
- The proposal combines the **long-term savings approach of EPF** with the **income security objective of pension planning**.

Major Features of the Proposed Pension Scheme:

Defined Contribution Framework:

- Pension benefits will depend upon the **total accumulated retirement corpus** rather than a predetermined pension amount.
- Contributions will be invested mainly in **long-term Government-backed securities**, with interest credited annually to individual pension accounts.

Digital Target Retirement Planning:

- The **EPFO digital platform** will:
- Calculate the corpus required to achieve the chosen **TRS**.
- Estimate the required periodic contribution.
- Monitor progress towards retirement goals.
- Permit revision of retirement targets whenever necessary.
- Subscribers will receive personalised dashboards displaying **total contributions, accumulated corpus, target achievement and projected retirement benefits**.

Multiple Contribution Sources:

- The scheme introduces a **multi-source contribution model**.
- Contributions may originate from:
- **Employees and employers**, **Government co-contributions for low-income workers**, **aggregators for gig and platform workers**, **Corporate Social Responsibility (CSR) funds**, **NGOs and other third-party contributors**.
- The flexible contribution architecture particularly benefits workers with **irregular or seasonal incomes**.

Flexible Pension Withdrawals:

- Subscribers may choose:
- **Regular annuity**.
- **Systematic Withdrawal Plan (SWP)**.
- Higher withdrawals during the initial retirement years.
- Lower withdrawals while allowing the remaining corpus to continue earning returns.
- The proposal departs from traditional pension systems that generally mandate compulsory annuity purchase.

Inflation-Adjusted Retirement Planning:

- Digital pension simulation tools will estimate retirement outcomes based on:
- **Age**, **retirement age**, **corpus size**, **interest rates**, **voluntary contributions**, **contribution frequency**.

- Members will receive **inflation-adjusted retirement projections**, improving long-term financial planning.

Coverage and Inclusion:

Expansion of Social Security Coverage:

- The proposed framework intends to include:
- **Gig workers**, **platform workers**, **building and construction workers**, **informal sector workers**, **existing EPFO subscribers**, **employees currently outside EPS coverage**.
- The Government expects nearly **2.5 crore gig workers and construction workers** to be brought under the social security framework over the next five years.

One-to-Many Universal Account Number (UAN):

- A single **Universal Account Number (UAN)** will be capable of linking with **multiple employers and digital platforms**.
- Separate contribution records will be maintained for every employment relationship, supporting workers engaged in multiple jobs simultaneously.

Family and Survivor Protection:

Family Benefit Fund:

- The proposal includes a **Family Benefit Fund** managed on **actuarial principles**.
- The fund is expected to provide:
- **Survivor pension for spouses**, **benefits for children**, **financial support for orphaned dependents**.
- The mechanism strengthens the overall social protection architecture beyond old-age income security.

Significance of the Proposed Scheme:

Strengthening India's Social Security Architecture:

- Expands pension coverage to **millions of informal and gig workers**.
- Encourages **voluntary long-term retirement savings**.
- Provides greater flexibility in retirement planning and pension withdrawals.
- Utilises **EPFO's expanding digital infrastructure** for efficient service delivery.
- Supports implementation of the **Code on Social Security, 2020**.
- Reduces **old-age income insecurity** among workers outside the organised sector.
- Advances India's objective of achieving **Universal Social Protection** in line with international commitments.

Challenges:

Implementation Challenges:

- Ensuring sustained contributions from workers with **irregular incomes**.
- Maintaining **adequate investment returns** while protecting retirement savings.
- Achieving high levels of **financial literacy** among informal workers.
- Designing sustainable **Government co-contribution mechanisms**.
- Building robust **digital infrastructure** capable of managing multiple contributors and employments.
- Balancing flexibility with the objective of preserving adequate retirement savings.

Comparison with Existing Employees' Pension Scheme (EPS):

EPS vs Proposed TRS Scheme:

- **EPS** follows a **Defined Benefit** model subject to eligibility conditions, whereas the proposed scheme follows a **Defined Contribution** model.
- **EPS** provides pension based on statutory formulae, whereas the proposed scheme focuses on achieving a subscriber-selected **Target Retirement Sum**.
- The proposed scheme provides greater flexibility in **contributions, retirement planning and withdrawal options** than the existing EPS framework.

Way Forward:

Measures for Effective Implementation:

- Integrate the scheme with the **Code on Social Security, 2020** for seamless universal coverage.
- Strengthen digital governance through **EPFO 3.0**.
- Promote **financial awareness** among informal and gig workers.
- Ensure transparent investment management with strong regulatory oversight.
- Develop sustainable fiscal mechanisms for targeted Government support to vulnerable workers.

Value Addition for UPSC:

Constitutional Provisions:

- **Article 41 —** Right to work, education and public assistance in cases of unemployment, old age, sickness and disablement (Directive Principles of State Policy).
- **Article 43 —** Promotion of living wages and decent conditions of work.

Important Legislations:

- **Employees' Provident Funds and Miscellaneous Provisions Act, 1952**
- **Employees' Pension Scheme (EPS), 1995**
- **Code on Social Security, 2020**

Related Institutions:

- **Employees' Provident Fund Organisation (EPFO)**
- **Ministry of Labour and Employment**
- **Pension Fund Regulatory and Development Authority (PFRDA)**

Related Government Initiatives:

- **EPFO 3.0 Digital Reforms**
- **Universal Account Number (UAN)**
- **e-Shram Portal**
- **PM-SYM (Pradhan Mantri Shram Yogi Maandhan)**
- **National Pension System (NPS)**
- **Atal Pension Yojana (APY)**

UPSC Mains Value Addition:

- The proposed **Target Retirement Sum (TRS)** model reflects a gradual transition from a **defined-benefit** to a **defined-contribution** approach, improving **portability, flexibility and inclusiveness**, while supporting India's long-term objective of **Universal Social Protection** and formalisation of the labour market