

OLD PENSION SCHEME TO BE 4.5 TIMES COSTLIER THAN THE NEW ONE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Any move by states to shift to the old [pension](#) scheme ([OPS](#)) would raise their fiscal burden by 4.5 times their expenditure under the [NPS](#) retirement benefits, according to the Reserve bank of India estimates made in study of state government budgets.

“ Internal estimates suggest that if all the State governments revert to OPS from the National Pension System (NPS), the cumulative fiscal burden could be as high as 4.5 times that of NPS, with the additional burden reaching 0.9 per cent of GDP annually by 2060” said the report titled “ State Finances: A Study of Budgets of 2023-24” released on Monday.

These estimates assume significance as a few state governments, mostly from the opposition parties in the centre, have made electoral promises of returning to the [old pension system](#). This will add to the pension burden of older OPS retirees whose last batch is expected to retire by early 2040s and, therefore, draw pension under the OPS till the 2060s.

“To start with, the return to the Old Pension Scheme (OPS) by a few States and reports of some other States moving in the same direction

would exert a huge burden on State finances and restrict their capacity to undertake growth enhancing capital expenditures”, the report said. “ Thus, any reversion to OPS by the States will be a major step backwards, undermining the benefits of past reforms and compromising the interest of future generations”

Going forward, there is a need for scaling up fiscal capacity for uninterrupted and efficient delivery of social, economic and general services to the people and for upgrading the quality of physical and human capital, [RBI](#) said.

GST implementation has led to greater formalisation of the economy.

And it is important from the point of view of expanding the tax base, without unduly raising the tax burden. The central bank has also called for Improvement in tax administration, including data analytics to curb tax evasion, which will likely augment the fiscal capacity of the States.

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