

SHOULD STATES REVERT TO THE OLD PENSION SCHEME?

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Members of the National Joint Council of Action (NJCA) raise slogans at a demonstration demanding the restoration of the Old Pension Scheme, in Bhubaneswar. | Photo Credit: ANI

The [National Pension Scheme \(NPS\)](#) was launched in 2004. While the older pension scheme offered defined benefits to all government employees without any contribution on their part, the NPS requires employees to contribute a sum throughout their working years. Almost two decades after the NPS came into effect, several States are switching back to the Old Pension Scheme (OPS). Earlier this year, the Central government set up a committee under the leadership of the Finance Secretary to review the working of the NPS and evolve an approach that addresses the needs of government employees while maintaining fiscal prudence. In a conversation moderated by **Priscilla Jebaraj, Rohit Azad** and **Praveen Chakravarty** discuss whether States should return to the OPS. Edited excerpts:

Let's start with a bit of history. Why was the NPS brought in, and what were the changes made when it was implemented in 2004?

Praveen Chakravarty: It is important to understand that this change of pension scheme was a bipartisan effort. It was initiated under the Atal Bihari Vajpayee government and carried forward by the Manmohan Singh government. There was political consensus on this change.

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The important change is what it did to the fiscal situation of States. It was generally felt that the defined benefit — which was a guaranteed benefit of 50% of the last-drawn pay, subject to inflation, as the pension amount — under the OPS was fiscally costly for the States. Hence, there was a switch made to have a contribution from government servants throughout their career, which would then add up to what they would receive as pension once they retire, reducing the burden on the States. The primary bone of contention is that the NPS does not guarantee a certain amount. That's a justifiable peeve. But does that entail going back to the OPS? No.

Rohit, why are so many pensioners protesting against the NPS and demanding a return to the

OPS?

Rohit Azad: This has to do with the fact that there is no guaranteed pension. In the OPS, you had a fixed amount, which was 50% of your last salary drawn, with inflation indexed as well. So, it took care of your retired life. We calculated [the NPS benefit] for different rates of return. It gives you one-third of what you would be getting [under the OPS] if the rate of return in the market is about 6%. Even if you get a 10% return, your pension is still going to be less than what you would have got under the OPS. So, I don't think the demand per se is about non-contribution, the demand is more to do with the guaranteed pension. And I think that's a fair thing to ask for the employees because they have given 30 to 35 years of their life [to their work].

A number of States including Rajasthan, Punjab, Chhattisgarh, Jharkhand and Himachal Pradesh have decided to return to the OPS. What is their motivation?

Rohit Azad: I think they are responding to the demand of the government employees. This is a small section, but they represent at least a section of the organised labour force. Additionally, they are also prominent in policymaking. It's primarily a political response.

Praveen Chakravarty: In my view, it's an intellectually lazy response. And this is not about political partisanship. The demand to revise or restructure the NPS may be justified. But the solution is not to revert to the OPS. The solution is to restructure the NPS. The OPS is fundamentally unjust. It's not only bad economics, it's also bad politics, because if you want to take 20% of the expenditure which belongs to all the people and give it to the top 4% of households in a particular State, that is inherently a bad transfer.

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The States trying to revert to the OPS are also fiscally badly managed States — historically, lest it be construed as a comment on the current government. Their debt levels are at 40% of the GDP on average compared to the States that are really resisting this pressure — Tamil Nadu, Maharashtra, Karnataka — whose debt levels are only 20%. So, essentially, the fiscally not-so-prudent States want to burden their fiscal finances even more with this switch. And it's really only four or five States that are net contributors to the Union kitty. So, if Punjab, Himachal and Madhya Pradesh want to revert to the OPS, they don't have the money for it, which means they have to borrow from the Union. Who contributes to the Union? Tamil Nadu, Maharashtra, Gujarat and Karnataka. So, I could make the argument that the future generations of Tamilians and Maharashtrians and Kannadigas are paying for this reversion to the OPS for the elite government employees of Punjab and Himachal and Madhya Pradesh.

Rohit, do you agree that the OPS is financially unviable for States?

Rohit Azad: I don't think it's bad economics, because the numbers which are being thrown up in terms of what it would cost are exaggerated, this [idea that] 24% of the State finances is going to go for pensions. It's actually 12% if you take all the revenues into account. If you've taken the three main components of revenue of the State out and you're calculating it based on just one part of the revenue, then obviously the ratios would seem warped. As far as the ratio itself is concerned, why do we only need to rationalise the expenditure? Why don't we talk in terms of rationalising taxes? Why can we not think in terms of rationalising the denominator of this ratio, rather than targeting the numerator, which is expensive? And why pit one State against the other? Have such a policy for the country as a whole. I think employees' contribution is important. But guaranteed pension is something which I would defend.

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Look at the U.S. Their pension fund schemes lost about \$5 trillion during the 2008 crisis. So, that cohort which was retiring then, they sold their financial assets in pension schemes at a throwaway price, they didn't have an option. So, why should the employees bear the burden of what happens in the stock market?

Praveen, what do you think of guaranteed pensions as a concept?

Praveen Chakravarty: I would like to clarify a few things. First, this is actual data, which is that 20% of expenditure [not revenues] for Himachal government is spent on pension, whereas it's 12% for Tamil Nadu and 10% for Rajasthan. So, the question is, should 10% or 20% of the total pool of expenditure be spent on arguably the top two to 3% of households in that State? I think most would argue that that sounds a bit unfair.

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Second, I disagree with this whole idea that there should be one central rule from Delhi. This is what the Rajasthan Chief Minister or Himachal Chief Minister said: 'Pension is a State subject. We have the powers to decide what type of pension each of our government employees should get. Delhi, you have no right to interfere.' And that's absolutely right. I will defend that right. The only problem is, they don't have the money to meet that policy goal that they want. So, there is freedom to make the decisions, but then no finances to back those decisions. And that's the context here really. Also read | [Select Central government employees can opt for Old Pension Scheme](#)

Third, I am absolutely in favour of a minimum guarantee. If they get higher than that, if the market returns deliver higher, so be it, but I am definitely in favour of a minimum guarantee.

So, you are both saying some changes are needed, whether to the OPS or to the NPS. What suggestions on the way forward would you give to the review committee headed by the Finance Secretary?

Rohit Azad: My suggestion would actually be guaranteed pension similar to the OPS which is 50% of your last pay drawn, which is inflation indexed, but with contribution from the employees. This is not minimum, this is what they should get. So, in that sense, if you get a rate of return in the market which is higher than this, then the State can pocket it, but if it is lower than that, then the State pays for the balance.

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Praveen Chakravarty: Like I said earlier, this is a State subject. While the Centre can set up a committee — at best, it can provide some framework and guidelines and say this is the NPS — but it's still entirely contingent on the States to choose whether to opt for it or not. So, what I would have done is just leave it to the States. I believe Andhra Pradesh already has a revised NPS framework. And that is how it should work. We must let States come up with their own schemes, and different States can either borrow, adapt and choose what works best for them.

Praveen Chakravarty is a political economist and chair of the Data Analytics Group of the Congress party; Rohit Azad is an economist teaching at JNU

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