Analysis of the financial cost of implementation of the Old Pension Scheme in Chhattisgarh and Rajasthan, including the incremental impact on re-implementation

Drishika Sinha

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Introduction

The Republic of India has a population of 138 crores, as per the official World Bank data for 2020. According to the 2022 data of the United Nations, India's population is now close to 140 crores. In a nation where we use terms like Democratic, Socialist and Sovereign, the matter of utmost importance in the nation's welfare should be the social security of its citizens. As per the published reports of the Business Standard, the estimated working population was 400.7 million as per the January 2021 data, with a count of 138 million of the elderly population. With such numbers, it is a crucial factor for the Government of India to have a necessary policy and reward for these working-class and elderly populations who have served and contributed to the economy of India for years. Such an initiative or working reward with a promise of safety is Pension.

Pensions have offered safety and security to the old age group for years, above 60 and people below the poverty line. The idea of Pension, known as the Old Pension Scheme, has been assumed to give a proportionate saving from the salary for a prolonged period so that after retirement, the person gets a specific amount from the Government every month. This would ensure utmost security to the person and the family even after retirement, as there is a constant source of revenue that the person is entitled to pay. This invoked the notion of savings in public also. However, on behalf of the Government, it was a considerable load to pay the retiring population for months and years, till they are alive, and after that to their widows too.

Moreover, the National Pension Scheme or the New Pension Scheme came under process and was implemented on January 1, 2004, for all recruits from or after NPS was implemented. The eligibility criteria for NPS is that anyone above 18 can invest for the same, depending on various scheme options. Initially, it was just for the Government recruits. Since May 1, 2009, it has been implemented for all citizens of the country, including workers from the unorganized sector, however, voluntarily. However, the benefit of the public from the policies was the main issue based on the fact that for the general public, OPS was a more beneficial and secure policy rather than investing under NPS, as introduced by the Atal Bihari Vajpayee Government of Bharatiya Janata Party (BJP). This paper aims to analyze the cost of implementation of the Old Pension Scheme in Chhattisgarh and Rajasthan and what effect this re-implementation from NPS to OPSS has on the economy and the Government.

Committee Reports on Pension Schemes

- **OASIS Committee Report**

With a growing economy and population, there was a bugging concern about the formal income of the older population and their social safety in the country. In reaction to the problems, the Ministry of Social Justice and Empowerment set up the Committee for Old Age Social and Income Security (OASIS Committee) in 1998. One of the three prime problems identified by the committee was the inability to pay the informal sector with traditional pensions. They recommended that it was mandatory for the Central Government employees and a voluntary contribution from the rest of the citizens of the nations, especially the working population, to avail of a pension at their retirement age. As per the study conducted by Tata Consultancy Services for the OASIS Committee Report, if the employment rate for Government employees does not rise after the Financial Year 1992-93, with the rising inflation in the market, the expense of the Central Government with regards to their pensions will rise from Rs. 35,690 million to Rs. 2,71,830 million in 2015. Financial alleviation programmes at that level will not help, and with the rise in demography, the outcome will be a great outflow of finance from the Centre. The only solution the committee recommended was 'self-help', where the employees accumulate their income for years of their working age through methods of contributions framed by the Central Government. As per the study, most of the Indian population lives in the informal sector, so traditional pension under official records has not been an option for them. However, after introducing the recommendation by the OASIS Committee, this number of the population can avail formal pensions for their future. They analysed that a major challenge for the scheme to come to action and be successful is to find a low-cost administering pension pattern and a method for the nationwide collection of funds with simplicity for the commons. After taking the recommendations from the ASIS Committee, the Government of India introduced a new Defined Contribution Pension System, replacing the existing Defined Benefit Pension System system. On 23rd August 2003, the Interim Pension Fund Regulatory & Development Authority (PFRDA) was established by the Government to promote, develop and regulate the pension sector in India.

- **CRIISP Report**

On passing a new pension scheme, the then BJP Government included the Government and State employees in it. It made it voluntary for the other citizens of India who come under the working age limit. However, as per the CRIISP (Committee to Review Implementation of Informal Sector Pension) Report, the scheme was very unpopular among the unorganised or informal sector labourers. Hence, to make it easier for these people to invest and contribute to their future security, the then Finance Minister, Pranab Mukherjee, introduced a new added incentive scheme, 'Swavalamban'. Under the scheme, the government will contribute Rs 1000 for each new NPS account opened during 2010-11. The contribution will be available for every new account where the annual contribution is between a minimum of Rs 1000 and a maximum of Rs 12,000. The government set aside an allocation of Rs 100 crore for the scheme. The Committee suggested that there needs to be a push factor for selling the NPS scheme in the market because, as per records, out of 17 states which implemented the scheme at that time, only 12 lakh employees enrolled for the same. It also suggested that the entry barriers for the NPS scheme should be removed, and the minimum contribution directed per person should be reduced. As the information to people about NPS was less at that point, the Committee recommended the Center appoint financial institutions to promote the New Pension Scheme. Financial institutions were to keep windows for NPS for smooth e-functioning for the public.

Issue with the scheme

When we say that the Government introduces policies for the welfare of its citizens, in this case, the policy of the New Pension Scheme turns out to be more inclined towards the ease of the Government. The Old Pension Scheme, as per the Congress Government, was highly accepted by the government employees especially, as pension was fixed at 50 per cent of the last basic salary drawn by an employee along with other benefits and incentives. In most states, the employees also receive an assured amount under OPS regardless of how much they have contributed to one's pension during the service. This was a significant drain on the State's revenue collection. Hence the BJP government in 2004 implemented the New Pension Policy or the National Pension Policy, which was a contribution-based pension system.

The NPS is based on investment returns and accumulations on the corpus amount, as per the chosen deposit options by the employee. The scheme acts on a monthly contribution basis, which will return the employee a lump sum pension amount and annuity amount after retirement, as per the investments. Under NPS, the Government employees have to deposit 10 per cent of their basic salary plus dearness allowance (DA) for receiving the pension after retirement, on which the employer deposits an added 14 per cent.

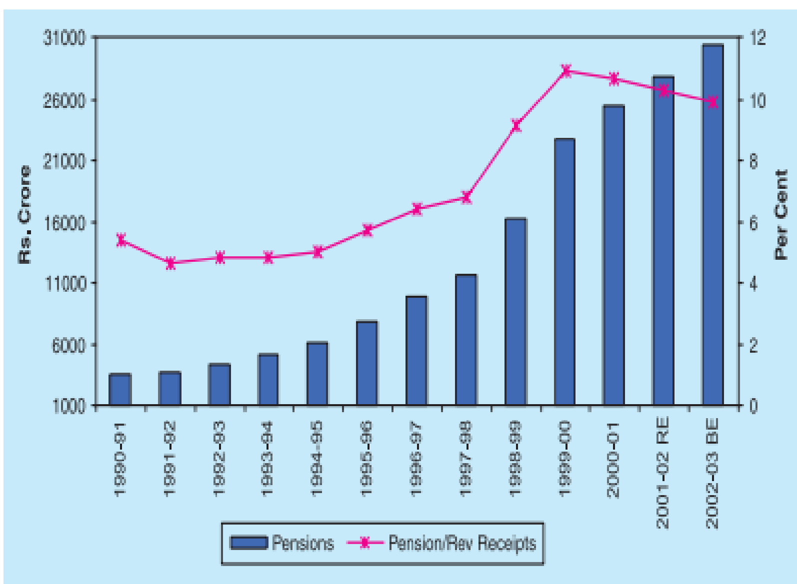
Basis	***Old Pension Scheme***	***New Pension Scheme***
Nature of the scheme	Defined for all Government and state employees, without contributions	Left to individuals choice, voluntary contribution and return basis
Employee Contribution	No contribution	10 % of salary + DA (For Tier I) As per the investment- saving choice (For Tier II)
Nature of return	Definite amount each month	No assured return on monthly basis
Amount of return	50% of the last salary (monthly pension)	Market driven, employee has the choice of funds (depends on Tier I or Tier II type account)
Amount of Commutation	Allowed upto 40%	Nil
Regulations	No specific body	Pension Fund Regulatory and Development Authority (PFRDA)

However, the government employees have been objecting to this. Finally, the Rajasthan Congress led, Ashok Gehlot announced the switch from NPS to OPS for the Government employees, while presenting the State Budget for the Fiscal Year 2022-23. As per the switch, all Government employees appointed on and after 1 January 2004 would be entitled to receive pensions under the similar process of the pre 2004 period. Soon after, the Government of Jharkhand agreed on the same terms with Ashok Gehlot, promising the conversion to OPS. Under NPS, the employee's savings would be invested in the stock market and the returns on retirement would depend on that accumulated amount, on which 100 percent withdrawal is only possible if the amount at retirement is equal to or less than 5 lakhs. In the Old Pension Scheme, the entire pension was a burden on the Government. A fixed return was guaranteed to those employees for their contributions to the General Provident Fund, which they have been depositing throughout their working days. The Government used to pay 50 percent of the last drawn salary as pension plus DA; if the person expires, the dependent family member would also get a certain proportion of that pension. This sounded more convenient to the public employees, because there was no market investment on their behalf, just returns. However under NPS, their investments and funds go to private companies , from which they can draw 60 percent of their fund, depending on the type of account (Tier I or Tier II) they choose and the rest 40 percent comes under an annual fund that provides the beneficiary with a monthly pension. Although under the Tier I type account, a change was implemented on 10 December 2018, under which the NPS was regarded as a total tax free scheme and the 40 per cent annual fund was also declared tax free, hence the entire corpus was exempted from tax. However there was no tax free provision for Tier II NPS account type.

And here lies the issue with the scheme introduced by the Government and the public, where the entire amount is not withdrawable when needed under Tier I. Above all, tax is deducted from their own savings, which they have been invested for years with the intent to provide themselves with an old age social and financial security after retirement. So the employees investing under Tier I cannot withdraw when needed, whereas it is mandated to pay every year. And those investing under Tier II will not gain tax benefits, hence losing their savings.Under the new scheme, as no fixed returns are assured, there have been employees under NPS who have been receiving pensions of Rs. 700 to Rs. 900, whereas on similar terms, the minimum assured pension under the old scheme under Congress Government was Rs. 9000. Since the very implementation, the public has been protesting against the scheme, and it has gradually become a national issue on the side of the working class, both government and private, for whom their finances are at stake and their future security at risk. After Rajasthan and Jharkhand, Madhya Pradesh CM has also made the issue an agenda for his MP 2023 elections, assuring a change from the National Pension Scheme back to the Old Pension Scheme in MP.

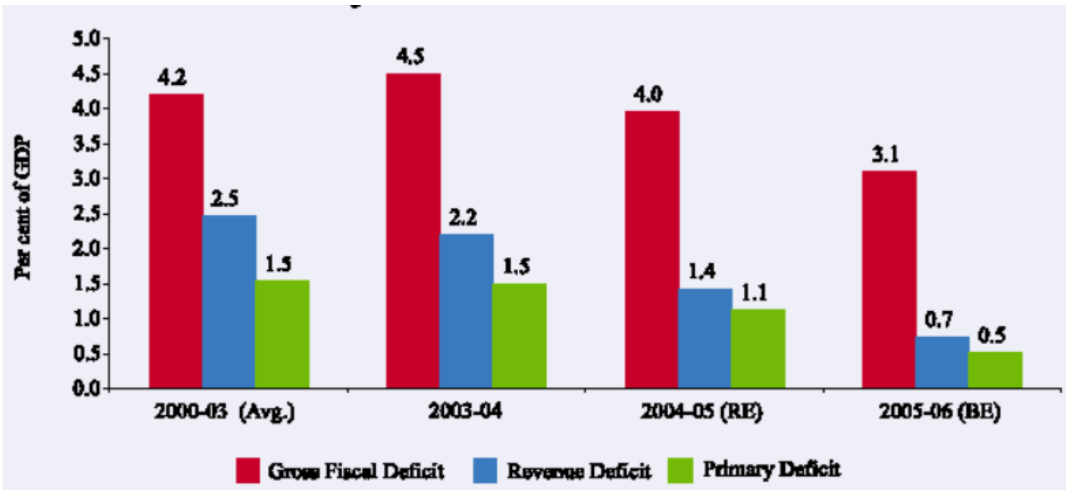
Problems with re-implementation

In 2003, when the discussion was brought up at the Lok Sabha and on 1st January 2004, the Central Government of the then ruling party of Atal Bihari Vajpayee, the Ministry of Finance and the Ministry of Labour and Employment implemented the New Pension Scheme nationwide, one of the ideas behind this was to invoke to the notion of savings and investment in the public, through which both the Government employees and the private working staff would be benefitted. The tax exemptions were an incentive to push them towards long-term savings in the economy. According to the report published by the Reserve Bank of India on State Finances- A Study of the Budgets of 2002-03' the trend graph of finances spent on pensions in India shows a very high rise, which was a risk to the country's fiscal expenditure.



However, after the implication of the 2004 Policy Scheme, as per the reports of the Reserve Bank of India, the Revenue Deficit and Gross Fiscal Deficit are budgeted to decline by 44.0 per cent and 11.0 per cent, respectively, during 2005-06 over the previous year.

In the graph below, we can see the trend of the Revenue Deficit and Gross fiscal Deficit for the year 2003-4, 2004-05 and 2005-06. It can be observed that as per the objective of the introduction of NPS, the trend has been falling for deficits.



Today what the governments of Rajasthan and Jharkhand have agreed to will not only pull back the economy in the long run but will put the later generations into long-term fiscal debt. The conversion from the Old Pension Scheme to the New Pension scheme was a major move to push the savings-investment graph towards its upward trend. Reports by the Union Budget and Economic Survey say that 2003-04. A major change was noticed in the savings rate of households and private corporations through the NPS scheme. Including household savings, there has been a rise of 13% in savings with its due effects on the GDP of India. Reports by the Reserve Bank of India and studies by economists predict the promise by the Congress government and the initiative Ashok Gehlot took to be a major regressive move for India's economy, which will only drain the nation's finances on a large scale. As per the reports of the Reserve Bank of India on the state expenses, the total pension bill for the Fiscal Year 2021-22 was more than 4 lakh crores. More than 78 lakh employees in India come under the New Pension Scheme policy. Conversion from NPS to OPS will mean that these employees will not be depositing 10 per cent of their salary to the pension fund. However, when they retire, the Government will have to pay all these employees their pension amount from the state funding.

India started its Pension Reforms in the year 1998, and after Project Oasis came into action. After reading through the reports, the former Finance Minister, Yashwant Sinha, commented that at this rate of population rise, the Government of India would be spending more on pensions than salaries and wages. It is not always that the state government has a surplus in revenue. In that case, the Central Government would be the only resort left for funds. The National Institute of Public Finance and Policy also agrees that the Government's obligation would be huge due to the longevity of human life, looking at the developing HDI values.

The Rajasthan Government's word towards his state will benefit the state employees, as there would be no deductions from their salary towards NPS, so they would be left with extra finances at the end of their month. However, the state will be in deficit when this population retires, as the sources of expenditure would be more than the sources of income. In the upcoming years, if the income generated from the oil fields in Rajasthan and the coal mines in Jharkhand stop earning the revenue they are generating now, i.e. Rs. 3601.07 crores of oil revenue in the Fiscal Year 2021-22 and the estimated Rs. Eighteen thousand eight hundred eighty-nine crores from the coal mines till the year 2024, the states will be in a deficit of a huge amount of finance. Per reports, Rajasthan uses 56 per cent of its earnings to pay salaries and pensions of 5.5 lakhs of its employees. If the OPS is implemented, Rajasthan will draw itself towards a huge financial mess, which would be a financial debt to the future of Rajasthan's youth and the economy. Jharkhand, willing to follow Rajasthan, would follow in the same footsteps of financial downfall.

Political implementation

Elections have always been a crucial time for any democracy when the different political parties develop and re-work their set agendas to gain votes. Public issues become tools for leading voters on the ballot, and this New Pension Scheme issue has been a national issue for almost two decades. When Ashok Gehlot used the re-installation of OPS as a tool while presenting the State Budget for the Fiscal Year 2022-23, he just did not put forward a change proposition in the public policy. However, he instilled the idea that the Indian National Congress is willing to listen and stand by the problems of the commons and hence if they gain votes during the upcoming elections, Congress will work to implement the same. Apart from Rajasthan and Chattisgarh, exact words have been told to the public by other Congress-ruled states. Madhya Pradesh Congress chief Kamal Nath, keeping on the agenda the Assembly Polls of 2023, promised the same outlook towards solving one prime issue of the commoners regarding pension and their social and financial security if the public would vote for them to gain position.

While the BJP Government implemented the NPS scheme in 2004, keeping in mind the prospects of India and tried unloading the extra burden on its finances, so they could invest and develop the nation from other dimensions, the public, especially the Government employees, did not take the idea of saving for own as a positive notion. And it is not just Congress. Akhilesh Yadav's Samajwadi Party made similar promises during the various Assembly Poll rallies held around the state of Uttar Pradesh to re-implement the OPS, with the support of several employees with affected salaries and DAs. Aam Aadmi Party (AAP) has promised to revert to OPS for the state of Himachal Pradesh, stating that they wish to give Himachal Pradesh a corruption-free Government where the public need not get involved in the difficulties and premiums of NPS to the Government and will get their returns as they used to pre 2004. Jharkhand Mukti Morcha says that the policies the BJP Government has implemented are of no good as it has just created confusion for the working class, with no definite results and hence termed it as a 'tension'. BJP has been getting constant backlashes for these agendas set by these political parties and the use of NPS to win the trust of the public for the Assembly Poll elections.

Conclusion

The various policies that different state governments have been implementing in their states have been taking a toll on the funds of the Central Government. Whether the 'free electricity policy by

AAP, conversion from NPS to OPS, or demands from Punjab and Himachal Pradesh regarding the same, their steps to win elections in their states are costing the Central Government and the security of the future generations. Politically speaking, if more states decide to return to the Old Pension Scheme, whichever party wins the Assembly Polls by wooing the audience will have to face tough times fulfilling their promises. If the promise of OPS conversion is fulfilled, there would be a queue of public demands and policies which cannot be funded due to the financial debt and burden it will bring on the winning Government and the economy, causing long-term fiscal instability to the economy, affecting the commons. The privileged class might not be under much stress; however, for the common public of India, the benefits that the Government could provide them would be at stake, along with the risk of losing a huge part of savings and investments that are directed by policies like NPS, which helps in capital formation in the nation along with development on India. Congress, in its agenda, made it very clear that it was interested in the welfare of the state employees. However, by doing so, the economy might land into huge debt and risk.

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