

## UNIFIED PENSION SCHEME: ECONOMY

**NEWS:** PFRDA notifies UPS new rules: Govt employees must opt by June 30

### WHAT'S IN THE NEWS?

The **Unified Pension Scheme (UPS)**, introduced for Central Government employees, offers assured pensions and family benefits, with contributions from both employees and the government. It aims to provide financial security, replacing the National Pension System (NPS) and addressing concerns about employee contributions and pension sustainability.

### Unified Pension Scheme (UPS)

- **Introduction:**
  - The **Pension Fund Regulatory and Development Authority (PFRDA)** has notified the operationalisation of the **Unified Pension Scheme (UPS)** for **Central Government employees** who are covered under the **National Pension System (NPS)**.
  - This new scheme aims to provide a more structured pension system for government employees and ensure that pensions remain sustainable.
- **Assured Pension:**
  - Under the UPS, an **assured pension** is guaranteed, which is **50% of the employee's average basic pay** drawn over the **last 12 months** before superannuation (retirement).
  - This applies for a **minimum qualifying service of 25 years** to receive the full pension.
- **Assured Minimum Pension:**
  - Employees who superannuate after **at least 10 years of service** will be entitled to an **assured minimum pension** of **₹10,000 per month**. This ensures a basic level of financial security after retirement.
- **Assured Family Pension:**
  - In the event of the retiree's death, the **immediate family** of the retiree (typically the spouse and children) will be entitled to **60% of the last drawn pension**.
  - This provision ensures that the retiree's family continues to receive financial support after the retiree's death.
- **Inflation Indexation:**

- To safeguard the value of the pension against inflation, the pension amounts will be adjusted regularly using the **All India Consumer Price Index for Industrial Workers (Dearness Relief)**. This ensures that pensioners' purchasing power remains stable.
- **Lumpsum Payment at Superannuation:**
  - Upon retirement, **subscribers** to the UPS will receive a **lumpsum payment**, which will supplement their regular pension. This lump sum acts as an additional financial cushion for retirees.
- **Contributory Nature of the Scheme:**
  - Like the **National Pension System (NPS)**, the UPS is a **contributory scheme**, meaning it is funded by contributions from both the **employee** and the **government**.
    - **Employee Contribution:** The employee contributes **10% of their basic pay plus Dearness Allowance (DA)**.
    - **Government Contribution:** The government contributes **18.5%** of the employee's basic pay and DA.

#### **Eligibility Criteria for UPS:**

- **Existing Employees:**
  - The scheme applies to **employees in service as of April 1, 2025**, who are currently covered under the **National Pension System (NPS)**.
- **New Recruits:**
  - The UPS will apply to individuals joining **Central Government services** on or after **April 1, 2025**.
- **Retired Employees:**
  - Employees who were under NPS and have **superannuated**, voluntarily retired, or retired under **Fundamental Rules 56(j)** on or before **March 31, 2025** will also be eligible for the UPS.
- **Deceased Subscribers:**
  - If the subscriber passed away before opting for the UPS, their **legally wedded spouse** is eligible to receive the benefits under the scheme.

#### **Implementation Timeline:**

- The **operationalisation** of the **Unified Pension Scheme (UPS)** will commence from **April 1, 2025**. The regulations are set to take effect from this date.

## National Pension System (NPS) Overview:

- **Introduction of NPS:**
  - The **National Pension System (NPS)** was introduced by the **Central Government** to replace the **Old Pension Scheme (OPS)**, which was unfunded and led to ballooning pension liabilities for the government.
  - NPS is a **market-linked** contribution scheme, which began on **January 1, 2004**, to make pension provisions financially sustainable.
- **Need for NPS:**
  - The OPS was unfunded and had no dedicated **corpus for pensions**, which caused the government's pension liabilities to rise significantly.
  - From **₹3,272 crore** in **1990-91**, the government's pension liabilities rose to **₹1,90,886 crore** by **2020-21**, highlighting the unsustainable nature of OPS.
- **Working of NPS:**
  - Unlike the OPS, the **NPS** does not offer an **assured pension** and is instead based on a **defined contribution** system.
  - The employee contributes **10%** of their **basic pay** and **DA**, while the **government contributes 14%**. This shared contribution is invested in market-linked schemes managed by various pension fund managers.
  - The individual can choose from different **pension fund managers** and **investment options**, giving them the flexibility to decide the growth of their pension corpus.

## Opposition to NPS and Introduction of UPS:

- **Criticism of NPS:**
  - Employees under the **NPS** faced lower guaranteed returns compared to the **OPS**, and they also had to contribute to their pension, unlike the OPS where there were no employee contributions and higher guaranteed returns.
- **Committee for Reforms:**
  - Amid growing calls for a return to the **Old Pension Scheme (OPS)**, the Union government set up a **committee in 2023** led by **T V Somanathan** to review the issues surrounding NPS.
- **Unified Pension Scheme (UPS):**
  - Based on the committee's recommendations, the **Unified Pension Scheme (UPS)** has been introduced to blend the benefits of OPS with some of the

features of NPS. The UPS aims to address concerns about employee contributions while maintaining financial sustainability.

### Comparing various Pension Schemes

**Conclusion:**

- The **Unified Pension Scheme (UPS)** is a step towards providing government employees with a more secure pension while ensuring the sustainability of the pension system.

Feature	Unified Pension Scheme (UPS)	New Pension Scheme (NPS)	Old Pension Scheme (OPS)
<b>Type of Scheme</b>	Hybrid (Assured pension + contribution-based)	Contribution-based	Defined benefit (assured pension)
<b>Applicability</b>	Central govt. employees; State government has option to adopt	Central and state government employees (except armed forces)	Central and state government employees before April 1, 2004.
<b>Pension Guarantee</b>	Minimum pension guaranteed	No assured pension; depends on market returns	50% of last drawn salary as pension guaranteed
<b>Employee Contribution</b>	10% of salary; govt. contributes 18.5%.	10% of salary; 14% by the government for central employees.	No contribution from employees (fully funded by govt)
<b>Inflation Adjustment</b>	Yes (dearness relief linked to inflation index)	No guaranteed inflation adjustment	Yes (DA revisions based on inflation)
<b>Withdrawal Options</b>	Lumpsum + monthly pension	60% lumpsum, 40% annuity	No lumpsum withdrawal, only pension
<b>Family Pension</b>	60% of pension amount to dependents	Not guaranteed but depends on chosen annuity plan	50% of pension amount given as family pension

- By introducing **assured pension**, **minimum pension**, and **family pension** provisions, the UPS offers a better financial safety net compared to the NPS, while still maintaining the contributory aspect of the scheme.
- With **inflation indexation** and a **lumpsum payment** at superannuation, UPS seeks to provide employees with a comprehensive and financially stable retirement plan.

**Source: [https://www.business-standard.com/finance/personal-finance/pfrda-notifies-regulations-for-operationalisation-of-unified-pension-scheme-125032100337\\_1.html](https://www.business-standard.com/finance/personal-finance/pfrda-notifies-regulations-for-operationalisation-of-unified-pension-scheme-125032100337_1.html)**