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Old Pension Scheme, New Pension Scheme

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Why is in news? RBI says any reversion to OPS from NPS by States would be fiscally unsustainable

Reserve Bank of India has said that **any reversion** to the Old Pension Scheme (OPS) from the New Pension Scheme (NPS) by the States would be fiscally unsustainable, though it **may result in an immediate fall in their pension outgo**.

It also said that at a time when most of the countries are moving towards defined contribution plans, reverting to OPS by the Indian States will be a major step backward, undermining the benefits of past fiscal reforms.

The RBI released a study report "**Fiscal Cost of Reverting to the Old Pension Scheme by the Indian States - An Assessment".**

It analysed the NPS contribution data of State government employees to estimate the likely fiscal costs that could arise if all State governments revert to the OPS. In this report, the RBI said a short-run reduction in States' pension outgo on account of reverting to the OPS would be eclipsed by the huge rise in future unfunded pension liabilities in the long run.

Pension burden in case of OPS will outpace the NPS contribution for most of the States by the 2030s, RBI added. Report claims, that under OPS, the estimated actual pension burden will increase by around 4.5 times the estimated pension outgo under the NPS, with the additional OPS burden rising to 0.9 percent of GDP annually by 2060.

Old Pension Scheme (OPS):

OPS offers **pension to government employees** on the basis of their **last drawn salary**. 50% of the last drawn salary.

The attraction of the Old Pension Scheme lay in its promise of an assured or 'defined' benefit to the retiree. It was hence described as a **'Defined Benefit Scheme'**.

Eg., if a government employee's basic monthly salary at the time of retirement was Rs 10,000, she would be assured of a pension of Rs 5,000.

Also, like the salaries of government employees, the monthly pay-outs of pensioners **also increased with hikes in dearness allowance** or DA announced by the government for serving employees.

The OPS was **discontinued by the Central government in 2003**.

New Pension Scheme (NPS):

As a substitute of OPS, the NPS was introduced by the Central government in **April, 2004**.

This pension programme is **open to employees from the public, private and even the unorganised sectors except those from the armed forces.**

The scheme encourages people to **invest in a pension account at regular intervals** during the course of their employment.

After retirement, the subscribers can take out a certain percentage of the corpus.

The beneficiary receives the remaining amount as a monthly pension, post retirement.

Nodal agency: Pension Fund Regulatory and Development Authority (PFRDA)

Eligibility: Any Indian citizen between 18 and 60 years can join NPS. NRIs (Non-Residential Indians) are also eligible to apply for NPS.