Concerns with NPS implementation

What is the issue?

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Though the NPS was a fiscally expensive solution, deviating from it imposes very large costs on the exchequer.

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How does the pension policy evolve in India?

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- The traditional civil servants pension was a defined benefit at about half the wage at retirement.
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- In the 1990s, there was an explosive trajectory of sharp growth in pension expenditures.
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- Particularly with the armed forces and the railways, pension payments were growing much faster than wage payments.
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- Thus, the Ministry of Finance and the Asian Development Bank funded a household survey through which the number of civil servants and pensioners was estimated.
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- The survey estimated that the implicit pension debt was about 65% of GDP.
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- The Ministry of Social Justice created Project OASIS in 1999.
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- Under that, a National Pension System was created, which proposed a 10% wage hike to civil servants to ensure consistent contribution of pension amount from them.
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- All recruits of the government from January 1, 2004, were to be placed into the NPS.

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- However, it was only in 2013 that the law was passed, and the Pension Fund Regulatory and Development Authority became a statutory regulator of the service providers.
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What are the concerns?

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- Unlike many pension reforms elsewhere in the world, there was no decline in pension payments to existing workers or pensioners.
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- This has made the NPS a fiscally expensive reform for the government.
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- This is because, the government is paying contributions to both new workers (with a 10% wage hike) and pensions to those hired earlier.
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- Only, when employee hired prior to January 1, 2004 was dead, the government can avoid contributing to them and derive the fiscal benefits.
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- Also, in the early days of NPS reform, the armed forces were always part of the plan.
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- The idea was that NPS implementation for armed forces would be done after the institutional structures were working for civil servants.
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- However, this was not carried through and hence demands for "one rank one pension" were erupted later by the armed forces.
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- Upon its implementation, the revenue expenditure of the government has increased further and weakened its fiscal capacity.
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- All these expenditures fall under the off-balance-sheet liabilities of the Indian state.
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What should be done to reduce off-balance sheet liabilities?

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- A bond market with voluntary buyers, along with the Public Debt

Management Agency (PDMA), should be encouraged.
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- The PDMA will engage with buyers of bonds and will bring the bond market perspective into the policy process.
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- This will reduce the concern of voluntary buyers of bonds regarding the fiscal stress of the economy in the long term.
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- In turn, it will increase the capital receipts of the government along with ensuring checks and balances on each of its policy decisions.
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Source: Business Standard

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