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The Expenditure on Pension

Why in news?

Expenditure on pension has emerged as one of the major components of the Committed Expenditure of the Centre and states in recent years.

What is the picture of pension expenditure?

- **Centre** - According to data available with the Comptroller and Auditor General of India (CAG), the Centre's total committed expenditure accounted for 37% of its total revenue expenditure in 2019-20.
- The committed expenditure of the Union Government consists of 67% on interest payment and servicing of debt.
- The remaining 19% and 14% expenditure constituted the expenditure on pensions and salary and wages respectively.
- This shows that the expenditure on pensions is more than the expenditure on salaries and wages.

According to the CAG report, the Centre's pension bill was 132% of its expenditure on salary and wages in 2019-20.

- **States** - The pension bill exceeded the salary and wages expenditure across three states - Gujarat, Karnataka and West Bengal in 2019-20.
- The data shows that the combined pension bill of 30 states and Union Territories was 61.82% of their combined expenditure on salary and wages.
- States such as Rajasthan and Chhattisgarh have already reverted to the **Old Pension Scheme**.

What is committed expenditure?

- Committed expenditure means expenditure for which firm purchase orders/ work orders have been placed and includes the bills pending for payment.
- Key components of the government's committed expenditure
 - Expenditure on pension
 - Expenditure on salary and wages and interest payment
 - Servicing of debt
- If the committed expenditure is higher, it means that the government has lesser flexibility to determine the purpose for which revenue expenditure is to be incurred.

What was the Old Pension Scheme?

- Pension to government employees at the Centre as well as states was fixed at **50% of the last drawn basic pay**.
- The Old Pension Scheme promises an assured or defined benefit to the retiree and was hence described as a '**Defined Benefit Scheme**'.

Short-term gains

- **For state governments** - They save money since they will not have to put the 10% matching contribution towards employee pension funds.
- **For employees** - It will result in higher take-home salaries, since they too will not set aside 10% of their basic pay and dearness allowance towards pension funds.

Concerns with the OPS

- **Pension liability remained unfunded** - There was no corpus specifically for pension, which would grow continuously and could be dipped into for payments.
- **Inter-generational equity issues** - In the 'pay-as-you-go' scheme, the present generation had to bear the continuously rising burden of pensioners.
- **Unsustainable** - The pension liabilities would keep climbing since pensioners' benefits increased every year.
- Better health facilities would increase life expectancy, and increased longevity would mean extended payouts.
- **Limitation on States' tax revenue** - Overall, pension payments by states eat away a quarter of their own tax revenues.
- If wages and salaries of state government employees are added to this bill, states are left with hardly anything from their own tax receipts.

What was planned to address this situation?

- In 1998, the government set up an expert committee named **Project Old Age and Income Security (OASIS)** led by **Surendra Dave**.
- Its primary objective was targeted at unorganised sector workers who had no old age income security.
- Taking the 1991 Census numbers, the committee noted that less than 11% of the estimated total working population, had some post-retirement income security.
- **The New Pension Scheme (NPS)** is a pension cum investment scheme that was notified in 2003 based on the proposal of the Project OASIS report.
- It is being administered and regulated by Pension Fund Regulatory and Development Authority (PFRDA).
- NPS can be broadly classified into two categories - Government Sector and Private Sector.
- All the employees of Central Autonomous Bodies (except for armed forces) who have joined on or after January 1, 2004 are **mandatorily** covered under Government sector of NPS.
- For others, it is customised and voluntary.
- **Tier 1 (Mandatory contributions)** - The defined contribution comprised **10%** of the

basic salary and dearness allowance by the employee and a matching contribution by the government.

- In January 2019, the government increased its contribution to **14%** of the basic salary and dearness allowance.
- Individuals can choose from a range of schemes from low risk to high risk, and pension fund managers promoted by public sector banks and financial institutions, as well as private companies.

| | Old Pension Scheme (OPS) | New Pension Scheme (NPS) |
|--|--|--|
| Coverage | Organised sector employees through EPS, and government employees | Available to all subscribers, in unorganized sector |
| Eligibility Requirement | Minimum term of employment (typically 10-20 years) | None |
| Portability across job changes | None for government employees. Limited portability for those covered under EPS. | Portable |
| Type of account | Pooled | Individual pension account (IPA) |
| Type of pension | Defined benefit | Defined Contribution |
| For government employees | The government pays 50% of the average of last 10 months pay. There is no contribution by the employee or the government into a fund but this is paid out of the Consolidated Fund of India. | Government and the employee will each pay into the scheme. |
| For those not employed by the government | For those covered by EPS, the employer pays 8.33% of Basic-DA to the EPS and the government pays 1.16%. | No contribution from the employer. The employee selects a particular scheme. |
| Fund management | Provident Fund Trust | Six fund managers |
| Regulation | None | PFRDA |

References

1. [The Indian Express | Pension bill exceeded salary & wages spending](#)
2. [The Indian Express | Concerns with Old Pension Scheme](#)



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