Pension Policy: Why is Pension Proving a Burden for Governments in India?

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Abstract- Planning personal finance is one of the important parts of everyone's life and especially when we talk about retirement it is an event that requires needful security. More so than it has become vital for survival and as there are several schemes prevailing for the same, it seems quite doable. It is essential to make the right decisions while getting retired as there is a nefarious number of schemes in the market that one can choose from and get benefited from. Also, it is getting quite burdensome for the government to avail pensioners. This paper deals with positions of before and after taxation on pensioners as per normal rule and section 115 BAC rule. It also dwells on the management and planning aspect of pensions, their risk vulnerability, and their evaluation. It also shares some progressive ways to make it affordable for the exchequer to provide a basic pension cover and be able to provide pensions to a wider section of the workforce.

Indexed Terms- Government, Pension, Salary, Taxation.

I. INTRODUCTION

The pension has been an important measure of employee welfare. It has been a way for a model employer to attract the best talent to the organization. Earlier it was adopted in public services. In recent years, the pension due to the employees have been treated by the governments, irrespective of the political party as an unbearable burden. That is why the old pension scheme was replaced in 2004 by the new pension scheme, in which the amount of pension depends on the risk of volatility of an investment in the stock market. And now preparations seem to be on for complete abolition of pension as well.

II. STATUS

According to CRISIL's warning in 2015, the pension burden in India was 2.2% of GDP 2015 which is currently assumed to be 3-3.4 and is projected to be 4.1% in 2030 [1]. For the central government, it is budgeted as 4% of the annual budget for 2022-23. [2] Although it appears to be a small part of GDP, the governments feel the burden by seeing it as part of their budget and in proportion to the salary. Further, India has also been criticized for the excessive orientation of the pension system to the organized sector, particularly the public services. They need to be extended more and more to the private and informal sectors also. But in the private sector, the government does not bear the burden.

With pension assets exceeding $56 trillion worldwide, most prosperous nations have more than their gross domestic product (GDP). [3] In developed countries, the average assets under the management of pension funds are over 100% of GDP. In India, they stand at 14% of GDP. India's poor penetration of pension funds points to a lack of interest in retirement planning. Herein lies the opportunity for individuals planning to retire, including gig workers, and for building infrastructure in the country. There is a need for public-private partnership: The government can offer a flexible payment and withdrawal option to encourage more workers in the unorganized sector. This can also work for farm laborers who have no social security. [4]

III. THE RATIONALE

How does the literature on the Indian culture approach this issue? This has to be understood by reading together two Sanskrit (*sutras*) maxims:

- 5-9. ‘Yugasya serv nimn prayojanam sarvesham vidheyaman.’ [The minimum requirements of age should be guaranteed to all.]
- 5-11. ‘Serv nimnamanavardhanam samaj jeev lakshanam.’ [Increasing the minimum standard of living of the people is an indication of the vitality of society.] [5]

The Royal Commission on Civil Establishments, in 1881, first awarded pension benefits to government employees. The Government of India Acts of 1919 and 1935 made further provisions. [6] The pension system was introduced in 1952 [7] in independent India under the Employees' Provident Funds Scheme with the expectation that after retirement the government would ensure a progressive guarantee of minimum requirements (contained in both these maxims) and it happened so also. The average age at that time was 32 years which is now 70 years. But the old pension policy was implemented wrongly from the very beginning and today it is proving to be a burden. The arrangement in the pension policy has been that an employee should be given as a pension every month half the amount of his salary (Basic pay + DA) just before his retirement. But in reality, this half amount becomes not only half but three fourth of the previous salary. Let's look at an example:

Suppose an employee receives ₹ 200,000 per month just before retirement, out of which he gets 60%, i.e., ₹ 120,000 after deducting about 30% tax and PF, personal insurance, group insurance, etc. After retirement, he gets half the amount, i.e., ₹ 100,000, out of which only tax is to be deducted, that too assuming the tax amount approximately

(A) ₹ 10, 000 under the New Tax Regime (section 115 BAC), then he gets a net ₹ 90,000; or less preferably,

(B) ₹ 14,000 as per normal rates, then he gets a net ₹ 86000. (pl. see the box for accurate details)

In both cases, he gets not half of his salary but about 70-75% of his salary. After that, different types of concessions are given to senior citizens. Adjusting them too, one gets even after retirement about 85-90% of one’s former salary, whereas in this age group the expenses of education, upbringing, etc. of children are negligible though medical expenses rise to some extent. Surely such a pension policy was bound to prove to be a burden sooner or later.

But whether the solution lies in linking the pension to the highly volatile stock market or removing it altogether! On the one hand, today the government talks about giving pension and PF under six different schemes to all senior citizens including lawyers, journalists, farmers, street vendors, etc., under the progressive guarantee of minimum requirements as a measure of social security and, on the other hand, it is considering all the retirement benefits including pension to employees an unbearable burden on public coffers. Such confusing and contradictory thinking is not right.

If we consider National Pension Scheme (NPS) it is an initiative taken by the central government for the social security of an individual. This scheme is open to all whether they are Public, Private, or in organized sectors, except those working in the armed forces. This scheme is beneficial for those who have a low-risk appetite and want to plan their retirement early. A portion of this scheme is invested in equities. And returns from it are much higher in comparison to the traditional tax-saving investment. It offers returns of around 9% to 12% if one is not satisfied with its fund manager, it can be changed according to the need. [8] Contributions for Tier I account to the subscribers are Rs 6000 yearly and Rs 500 for one time. And for tier II accounts the contribution is Rs 2000 yearly and Rs 250 one time. One cannot withdraw the entire amount at a time from the NPS after retirement. The remaining part is used to buy an annuity which can be used as a regular income. [9] From the total contribution made the holder can withdraw up to 25% as prematurely as applicable only for specific circumstances. One can withdraw 3 times in the intervals of 5 years of the entire tenure. This applies to Tier I accounts only. [10] NPS is better when the service tenure is 30 years because it is based on a long-term investment ideology. But when the service is short, the corpus will be low and it will not be sufficient for the survival of retirees. [11]

IV. SIMPLIFIED ESTIMATES

ANNUAL SALARY JUST BEFORE RETIREMENT	PENSION AFTER RETIREMENT
Basic Salary (1,56,250p.m.*12) 18,75,000 DA@28% of salary (43750*12) 5,25,000	50% of Monthly Income 1,00,000 Gross total Pension @ 100000p.m 12,00,000 (Assuming net other income)
@200000 p.m. 24,00,000 (Assuming not any other income/investment/earning like interest, dividend, etc.)	A) Income Tax at normal rates Less: Income Tax 1,70,000 (10000+100000+60000) + HEC@4% 6,800 1,76,800
Less: Income Tax 5,32,500 (Tax liability 12,500+100000+420000) +HEC@4% on Tax Liability 21,280 Total Tax 5,53,780	Net Annual Income 10,23,200 i.e., Net monthly income from pension 85,267
Net Income 18,46,220	
Less: Deduction for PF 1,87,500 (@10%of Basic) Amount of DA Arrear 42,500 Sent to PF 2,30,000 16,16,220	B) Income tax as per the new tax Regime Section (115 BAC) Gross total Pension @ 100000p.m 12,00,000 Less: Income Tax 1,15,000 (12,500+25,000+37500+40,000) +HEC @4% 4,600 1,19,600
Less: Contribution Group Insurance, Individual Insurance, Health Insurance (net of deduction under sections 80 C, 80 D, 80 DD, etc.) 1,76,220 Net Income of the year 14,40,000	Net Income of the year 10,80,400
NET MONTHLY INCOME 1,20,000	NET MONTHLY INCOME 90,033 (As per 115 BAC)

V. SUGGESTIONS

Instead of completely abolishing pensions or relying on the risk of market uncertainty under the new pension scheme, it would be better to give pensions to employees, officers, and public representatives recruited after 2004 based on years of service instead of half pay. That is, in lieu of every completed year of service, one percent of the salary (up to the maximum limit of 35%) per month should be ensured as a pension per month. This will prove to be equivalent to 50% of the salary along with other facilities. This will also reduce the burden on the government exchequer. Even if the old pension system is completely adopted, this burden will be limited to 20-25% of the expenditure on salary.

As such, one percent of the salary (up to a maximum of 35 percent) should be ensured to the employee as a pension per month in lieu of each completed year of service. Along with other concessions, this will be equivalent to 50% of the salary. This will also reduce the burden on the government exchequer. Even if the old pension system is fully adopted, the burden will be limited to 20-25 percent of the salary expenditure. If he gets retirement from the same service after thirty consecutive years with a final monthly salary of Rs.50,000, his monthly pension will be 50000*30/100 = Rs.15,000.

But if he changes jobs three times: in the first service he completes nine years and gets the final monthly salary of Rs. 40,000; in the second service he gets the final monthly salary of Rs. 50,000 just before completing twelve years, and in the third service he gets the final monthly salary of Rs. 70,000 just before completing ten years; then his monthly pension will be: 40000*9/100+50000*12/100+70000*10/100 = 3600+6000+7000 = Rs. 16,600.

While implementing this policy in the army and other forces (where retirement is relatively earlier), it would be appropriate to increase the percentage from one percent to 1.5 percent (up to a maximum limit of 35%). In this way, after retiring from the defence in 10 years soldier and his dependents will be eligible for a monthly pension of 15% of the monthly salary + DA at the time just before retirement. If he joins a civilian job after four years and works for 20 years before retirement, he along with his family will be eligible for a monthly pension of 20% of the last drawn monthly civilian salary in addition to 15% of the last drawn monthly salary as a soldier.

The pension of public representatives will also be equal to that of normal employees as 1% per completed year of service, keeping the maximum limit of 35%. Then more than one pension would not make any sense.

And when it comes to the Stock market exposure to pension funds under the new pension scheme should not be more than 50%.

CONCLUSION

This research helps understand the previous pension structure, the current pension structure, pros and cons of both the structures and techniques and structures to improvise on the same so that it becomes more sustainable and doesn't burden the exchequer too much.

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