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India's Pension Landscape

Expanding Coverage, Ensuring Sustainability

India's pension landscape is rapidly evolving from a limited government-backed system to a diversified, contributory and technology-driven framework focused on financial security in old age. Driven by rising life expectancy and changing employment patterns, pension expansion has become a key policy priority. The growing success of the National Pension System (NPS) and Atal Pension Yojana (APY) reflects this shift, with NPS crossing 2.17 crore subscribers and APY reaching 8.96 crore enrolments as of March 31, 2026. Together, they have also emerged as major contributors to long-term asset creation, with NPS assets touching Rs. 15.95 lakh crore and APY assets Rs. 51.4 thousand crore. Backed by digital reforms and improved governance, India's pension ecosystem is becoming more inclusive, efficient and citizen-centric.

What is Pension?

A Pension provides a steady monthly income to people during their unproductive years. Declining earnings, rise of nuclear families, migration of earning members, rising living costs and longer lifespans weaken financial security. Pensions ensure a dignified and independent life.

Pension Architecture in India

India's pension architecture operates under distinct funding mechanisms, eligibility criteria and benefit structures.

- **Defined benefit pension systems** for eligible Government employees, which guarantee a fixed post-retirement income.
- **Contributory pension arrangements** where individuals or/and employers contribute to retirement savings.
- **Statutory payroll-linked schemes** for organised private-sector workers that mandate employer and employee contributions.
- **Tax-funded social assistance pensions**, which support elderly, widowed and vulnerable individuals with limited or no formal income sources.

From CCS to UPS: Evolution of Government Pension Schemes

Prior to January 1, 2004, Central Government employees were covered under a defined-benefit, DA Indexed pension system. It was governed by the Central Civil Services (Pension) Rules, 1972, commonly known as the OPS. Under this system, government employees were entitled to a guaranteed pension funded by the government after retirement. The pension was determined on the basis of the employee's last drawn salary and length of qualifying service. State Government employees were covered under their respective State Pension Rules, which were broadly modelled on these provisions.

From January 1, 2004, the Government of India discontinued OPS for new entrants and introduced the NPS. It is a defined-contribution framework in which both employees and the Government contribute. NPS is regulated and supervised by the Pension Fund Regulatory and Development Authority (PFRDA). The retirement benefits depend on the accumulated corpus and annuitisation rather than a guaranteed payout. The scheme encourages long-term retirement savings through a structured and portable pension system. It also supports fiscal sustainability by moving towards a contributory pension framework. Most State Governments subsequently adopted the NPS for new recruits, although a few continued with defined-benefit arrangements.

> **Did you Know?**
> Accumulated Pension Corpus refers to the monetary value of the pension investments. These are accumulated in the pension account of a subscriber under the NPS.

More recently, Unified Pension Scheme (UPS) came into effect from April 1, 2025. It is an option under the National Pension System (NPS) for eligible Central Government employees covered under NPS and choose this option under NPS. The scheme follows a contributory structure, with contributions from both employees and the Government of India. The UPS aims to provide assured and inflation-linked retirement income. It also addresses concerns related to longevity and income predictability. It is regulated by the PFRDA and is applicable to both serving and retired employees subject to specific conditions. To be eligible for benefits under UPS, an employee must have completed at least 10 years of qualifying service. In case of death of the employee after retirement, the legally wedded spouse is eligible for family pension/payout under UPS.

While both NPS and UPS have the objective of providing payout/pension, they have structural differences. For instance, under UPS, the Government contributes 10% (of Basic Pay + Dearness Allowance) along with an additional 8.5% to a pool corpus. Whereas NPS provides a 14% direct government contribution in the individual NPS account. Additionally, UPS offers an assured payout/pension subject to conditions, while NPS does not guarantee any assured payouts and depends upon market returns.

The UPS also ensures a minimum ass[illegible] payout/pension of Rs. 10,000 per month for eligible employees with at least 10 years of service, which is not available under NPS. Dearness Relief is also provided in UPS but not in NPS. This is similar to Dearness Allowance (DA) given to serving employees. In case of death after retirement, the legally wedded spouse, at the time of retirement, is entitled to 60% of the payout/ pension as family payout/pension. Whereas NPS benefits depend on the market returns and annuity selected.

In addition, the UPS provides a lump sum amount at the time of retirement, calculated as 10% of monthly emoluments (Basic Pay + DA) for every completed six months of qualifying service. This is paid in addition to the pension benefits.

Key features of the UPS Include:

(a) Provision of a minimum assured payout/pension after retirement to employee and thereafter family payout/ pension to legally wedded spouse; and

(b) Pension/payout amount that is linked to the employee's years of service and last drawn salary.

These provisions aim to provide greater income certainty and stability after retirement.

Overall, the system reflects a gradual shift from OPS to NPS, with UPS functioning as an optional alternative within this framework.

Defence Pensions: Separate Defined-Benefit Structure

Administered separately by the Ministry of Defence, defence pensions are financed through budgetary allocations from the Government. Reflecting the distinct service conditions and career structure of armed forces personnel, it is non contributory in nature. It has unique features like One Rank One Pension (OROP) and Disability pension provisions. OROP (2015) ensures defence personnel retiring at the same rank and service length receive equal pension. This applies irrespective of their date of retirement.

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Vacancies in this issue

Organised Private-Sector Pension Framework

Pension coverage for organised private-sector employees is built around statutory, payroll-linked arrangements rather than budget-funded entitlements. It operates primarily through two mechanisms namely the EPS and the corporate model of the NPS.

Employees' Pension Scheme (EPS)

The EPS is administered by the Employees' Provident Fund Organisation (EPFO) under the Employees' Provident Funds and Miscellaneous Provisions Act. It forms the statutory foundation of pension coverage for organised private-sector workers. Introduced in 1995, it applies to employees in establishments covered under the EPF law and is funded through contributions. A portion of the employer's EPF contribution is allocated to EPS and

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