

Concerns with NPS implementation

What is the issue?

\n\n

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

\n\n

How does the pension policy evolve in India?

\n\n

\n

- The traditional civil servants pension was a defined benefit at about half the wage at retirement.

\n

- In the 1990s, there was an explosive trajectory of sharp growth in pension expenditures.

\n

- Particularly with the armed forces and the railways, pension payments were growing much faster than wage payments.

\n

- 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.

\n

- The survey estimated that the implicit pension debt was about 65% of GDP.

\n

- The Ministry of Social Justice created Project OASIS in 1999.

\n

- 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.

\n

- All recruits of the government from January 1, 2004, were to be placed into the NPS.

\n

- 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.

\n

\n\n

What are the concerns?

\n\n

\n

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

\n

\n\n

What should be done to reduce off-balance sheet liabilities?

\n\n

\n

- A bond market with voluntary buyers, along with the Public Debt Management Agency (PDMA), should be encouraged.
- The PDMA will engage with buyers of bonds and will bring the bond market

perspective into the policy process.

\n

- This will reduce the concern of voluntary buyers of bonds regarding the fiscal stress of the economy in the long term.

\n

- In turn, it will increase the capital receipts of the government along with ensuring checks and balances on each of its policy decisions.

\n

\n\n

\n\n

Source: Business Standard

\n

