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Premium

Andhra's Guaranteed Pension Scheme model catches the attention of Centre

In Jagan model: Best of security from old scheme, more of returns from new one

Written by [P Vaidyanathan Iyer](#)
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EXPLAINSPEAKING


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Under GPS, employees can get a guaranteed pension of 33% of their last drawn salary if they contribute 10% of their basic salary every month which is matched by a 10% contribution by the state government (Express File Photo by Gurmeet Singh)

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WITH at least four Opposition-ruled states reverting to the Old Pension Scheme which offers defined benefits, and the BJP-Sena (Shinde) coalition in Maharashtra not averse to it, senior officials in the Union government are seeing merit in the demands of employees who joined service post January 2004, and are part of the New Pension System where their contributions are defined, but benefits depend on the market.

While no proposal is on the Union Finance Minister's table yet, there are discussions about a new model, which has been proposed by the YSR Jagan Mohan Reddy in Andhra Pradesh. What has attracted officials in the Union government about this model is it combines the elements of both the OPS (defined benefit) and the NPS (defined contribution). In doing so, it seeks 'defined contribution' from employees every month and offers two options of 'defined benefit'.

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the Andhra government has conservatively under-estimated the rate of return on the

So, what is the Jagananna government model? It is attractively called the 'Guaranteed Pension Scheme' or the GPS. Employees can get a guaranteed pension of 33 per cent of their last drawn salary if they contribute 10 per cent of their salary every month which is matched by a 10 per cent contribution by the state government. They can get a guaranteed pension of 40 per cent of their last drawn salary, if they are willing to contribute a higher 14 per cent of their salary every month, which will be matched by 14 per cent government contribution.

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Officials in the state government said the Union Finance Ministry has been sounded out about this model. No formal approval has been sought, since it is not required to. But officials in the Union government said the model "is interesting", but it needs to be studied in detail.

The Andhra government may be offering many freebies covering every stakeholder community, but it is clear on its assessment of the OPS – that it is not feasible, and it cannot be implemented. In fact, its calculations show that the state's budget outflow on account of pension and salaries would be Rs 76,590 crore in 2023, and more than

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On the NPS, which the Andhra government refers to as the Contributory Pension Scheme (CPS), it paints a dismal picture of what the employees will get as pension. With bank deposit rates in India exhibiting a declining trend and government yields in Western economies continuously dropping, it claims that employees will draw only 20 per cent of their last drawn salary as monthly pension. Comparing the pension payout under its proposed guaranteed scheme with the CPS, the state further claims its GPS would offer a 70 per cent higher monthly pension.

EXPLAINED

Why this model resonates

That the old pension scheme is fiscally unsustainable is a fact; parties are not too sure if its good politics either. That's where the Jagan model is finding resonance: it acknowledges states can't get back to the old, and yet takes a bold leap that a guarantee, even if not 50 per cent of salary, may be possible.

Officials in the Union government and the Pension Fund Regulatory and Development Authority pointed out that the return under NPS is about 9.5 per cent or so, and that the average monthly pension for government employees under the NPS could be at least 40 per cent of their last drawn salary. "Yes, it may not be 50 per cent guaranteed, but this can be addressed innovatively," said an official, who did not wish to be named.

The innovation, officials said, could come in the form of the Central government making up for the 10 per cent gap between the returns under NPS and the earlier defined benefit pension scheme or the OPS. "This is a possible solution," said the

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contribution by the government under the new pension scheme.

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For instance, the Central government had, with effect from April 1, 2019, hiked its contribution towards pension to 14 per cent of their basic salary from 10 per cent. The contribution by employees remained at 10 per cent only. This was, however, resented by those who joined the government between January 2004 and March 2019 since their pension corpus would not grow as much as for those who joined the government from and after April 1, 2019.

Officials in the Union government said, the Centre can further hike its part of the contribution to the pension fund such that the end benefits come to around 50 per cent of the last drawn salary, assuming returns from NPS of about 9-10 per cent over a 30-year period. "This is all loud thinking now," said another official, and could catch the political leadership's attention close to the [Lok Sabha](#) polls.

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