# India’s Pension Landscape

***Mains:*** *GS-III – Economy | Pensions*

## Why in News?

*With the context of strengthening retirement security, India’s pension system has evolved significantly over time, shaped by successive policy decisions and institutional reforms.*

## What is Pension & its architecture in India?

- **Definition** – A Pension provides a *steady monthly income* to people during *their unproductive years,* which ensures a dignified and independent life.
- Declining earnings, rise of nuclear families, migration of earning members, rising living costs and longer lifespans weaken financial security.
- **Pension Architecture** – India’s pension architecture comprises a *diverse set of schemes* designed to provide income security to different segments of the population.
- It includes various components that operate 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/or 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.

> *As of May 2026, the **FDI limit** in the pension sector is capped at 49%, but the government is working to raise this limit to 100%, in line with the insurance sector.*

## What about the detailed structure of India’s Pension System?

### Defined Benefit Pensions for Eligible Government Employees

- **Old Pension Scheme (OPS)** (1972–2003) – Government employees were entitled to a guaranteed pension based on the employee’s last drawn salary & length of qualifying service, *funded by the government* after retirement.
- **Governed by** – Central Civil Services (Pension) Rules, 1972.

- **National Pension System (NPS)** (2004 onwards) – It is a contributory, market-linked pension scheme in which *both employees & Government contribute*, where retirement benefits depend on the accumulated corpus and annuity chosen, rather than a guaranteed payout.
- **Regulated & supervised by** – Pension Fund Regulatory and Development Authority (PFRDA).
- It promotes long-term savings through a structured and portable framework, while ensuring fiscal sustainability by shifting from budget-funded pensions to shared contributions.
- Most State Governments adopted NPS for new recruits, though a few retained defined-benefit systems.

***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.*

- **Unified Pension Scheme (UPS)** (April 2025 onwards) – It is an option *under the NPS* for eligible *Central Government employees*.
- It is a contributory structure, with *contributions from both employees & Central Government*, aiming to provide assured, inflation-linked retirement income.
- Regulated by the PFRDA, it applies to serving and retired employees who have completed at least 10 years of qualifying service.
- On retirement, employees receive assured pension benefits, and in case of death after retirement, the legally wedded spouse is entitled to family pension/payout.
- **Defence Pensions** – Administered separately by the Ministry of Defence, financed through *budgetary allocations* from the Government.
- They are non-contributory, reflecting the distinct service conditions of armed forces personnel.
- It has unique features like One Rank, One Pension (OROP) & Disability pension provisions.
    - OROP (2015) – Ensures that defence personnel retiring at the same rank and service length receive equal pension, which applies irrespective of their date of retirement.

### Organised Private-Sector Pension

- **Pension coverage** – Rely on statutory, payroll-linked arrangements rather than budget-funded entitlements, mainly through the Employees' Pension Scheme (EPS) and the Corporate NPS model.
- **Employees' Pension Scheme (EPS)** (1995) – Administered by the Employees' Provident Fund Organisation (EPFO) under the EPF & Miscellaneous Provisions Act.
- *Funded by employer contributions*, a portion of the employer's EPF contribution is allocated to EPS.
- Benefits are calculated based on pensionable salary & years of service, providing superannuation, disability and family pension benefits to eligible members.
- **Corporate NPS** – Regulated by the PFRDA, both employer & employee contribute to

individual pension accounts.
- A defined-contribution system, where retirement benefits depend on the accumulated corpus rather than a fixed formula.
- It serves as a *supplementary or alternative retirement savings* option, which offers greater portability and investment choices.

### All-Citizen Contributory Pension Mechanisms

- **NPS: All Citizen Model** – It extends pension access beyond formal employment, allows voluntary enrolment within prescribed age limits, flexible contributions and choice of investment options.
- It can be subscribed to by any Indian Citizen (resident/non-resident/overseas citizen).
- **2-tier account structure** -
  - **Tier I** - Primary retirement account with certain withdrawal restrictions
  - **Tier II** - Voluntary savings account offering greater liquidity.
- It is an Individual Pension Account and cannot be opened on behalf of a third person.
- Benefits depend on the accumulated corpus, not guaranteed payouts.
- **NPS Vatsalya (2024)** – It is a contributory pension scheme, designed specifically for minors.
- Under this, parents/legal guardians can open and operate a pension account for a minor; the minor remains the sole beneficiary & subscriber of the account.
- Contributions are made until the minor attains the age of 18; after that, the account is converted into a regular NPS account and operated by the subscriber.
- **Atal Pension Yojana (APY) (2015)** – To expand pension coverage among the unorganised sector, where workers are not included under statutory social security schemes.
- It is a contributory scheme for low-income subscribers, with enrolment facilitated through banks and post offices.
- Subscribers can choose a fixed monthly pension ranging from Rs. 1,000 to Rs. 5,000, payable from the age of 60 years.
- The required contribution is predetermined based on the selected pension level and the subscriber's age at entry.

### Non-Contributory Social Pension

- **Definition** – These are tax-funded pensions that provide basic income support to elderly individuals in informal employment who lack retirement savings.
- They act as a social safety net to prevent destitution.
- **National Social Assistance Programme (NSAP)** – It is implemented across rural and urban areas to provide social assistance to eligible beneficiaries.
- It provides financial assistance to the economically vulnerable individuals, with States/UTs encouraged to add top-ups of at least an equivalent amount to the assistance provided by the Central Government.
- As of Aug 2025, state top-ups range from Rs. 50 to Rs. 3,800/month, resulting in average monthly pensions of about Rs. 1,000.
- **State-Level Social Pension Schemes** – The State Governments implement independent/supplementary social pension schemes to expand coverage and enhance

benefits for groups like the elderly, widows, and persons with disabilities.
- **Examples** - Madhu Babu Pension Yojana (Odisha), Aasara Pension Scheme (Telangana), Mukhyamantri Vridhjan Pension Yojana (Bihar).

## What does wide pension coverage in India mean?

- **Expansion in Pension Coverage** – India's Pension coverage has expanded over the past decade, supported by regulatory reforms & digital platforms, with rising enrolment across major Government-backed schemes.
- **NPS** – Enrolments exceeded 2.17 crore subscribers as of March 2026.
- **APY** – 8.96 crore enrolments by March 2026, reflecting strong growth among informal workers.
- **EPS** – 7.98 crore members by April 2026, showing expansion in formal sector employment.
- **Social pensions (non-contributory)** – As of April 2026, Central NSAP covers more than 2.92 crore beneficiaries & States cover 1.41 crore beneficiaries.
- **Defined-benefit pensions** – Paid to Central Government employees, include more than 34 Lakhs Defence and 14 Lakhs Railways pensioners.

## What about the Performance & Policy Reforms of the Pension Sector in India?

- India's pension system has also witnessed sustained asset growth, stable investment outcomes and strengthening institutional capacity.
- **Assets Under Management (AUM)** – As of March 2026, under NPS is Rs. 15.95 lakh crore, APY is Rs. 51,400 crore.

***Assets Under Management (AUM)*** *– Refers to the total market value of assets managed by a financial institution for its clients at a given time. These assets can include equities, bonds, cash, mutual funds, real estate, and alternative investments.*

- **Policy Reforms under PFRDA**
  - Refined investment & compliance guidelines.
  - Strengthening supervision and monitoring mechanisms.
  - Launch of new frameworks like UPS.
- **Balanced Life Cycle Fund (2024)** – Under the *Auto Choice option* of NPS.
- It allows subscribers to maintain 50% equity exposure until age 45 (earlier 35), supports long-term growth during early working years while ensuring a gradual risk reduction thereafter.
- Measures to expand coverage beyond organised employment include
  - Strengthening outreach & enrolment under the APY,
  - Simplified account opening via banks/post offices.
  - Digital infrastructure to widen voluntary NPS access.
- **Labour Code Provisions (2025)** – The Code on Social Security, 2020, enables pension-linked benefits for gig and platform workers, creating scope for future expansion.

## What lies ahead?

- India’s pension system has evolved into a multi-pillar framework that includes
  - Contributory Government and private-sector schemes,
  - Voluntary citizen participation and
  - Non-contributory social pensions.
- As demographic transition accelerates, retirement income security becomes vital for long-term stability & wider coverage, prudent asset management and efficient service delivery are also essential.
- Ongoing policy reforms and institutional evolution aim to strengthen inclusivity and sustainability, supporting old-age income security in the years ahead.

## Reference

PIB | India’s Pension Landscape

