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Plight of employees in New Pension System (NPS)



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On comparison of benefits for Pre-2004 and Post-2004 recruits, it can be seen that the monthly pension at the time of retirement itself is approximately double for Pre-2004 recruits. Total sum received at the time of retirement can be 107 Lakhs for Pre-2004 recruited person whereas only 53 Lakhs for NPS pensioner (as Gratuity is not there for NPS pensioner as on date). This huge disparity between two similar aged persons A & B joins service, 'A' happens to be in Dec-2003 and 'B' in Jan-2004, retires at the same time is not at all justifiable. 'A' always drawn 10% pay higher to 'B' throughout service due to B's contribution to NPS and suffer during old age by receiving a pension which is not inflation protected (no DA) and much less to meet the growing needs. Defence forces still continue to avail the advantage of old pension system to their new recruits as it is much more beneficial. Then where is the justice for civil servants of Central Govt happens to be under NPS. If any one is in doubt about how future things can be calculated correctly at this moment, assume that NPS started 20 years back in 01.01.1984 and 'A' joined service in Dec-1983 and 'B' in Jan-1984 and calculate pension benefits for both superannuated in Mar-2011, as all payments are known accurately (Please see Sheet 2). Then also it can be seen a huge disparity among NPS and Old pension system.

Joined as JE at the age of 32 yrs, promoted to SSE and Retire at 60 yrs							
Yr	Basic Pay Grow @ 3% p.a	Yearly Growth of DA%	BP+DA		Emplye Cntrbn 10%	Govt. Cntrbn 10%	Pension Fund Grow @ 12% p.a
2006	13500	2%	13770		1377	1377	37014
2007	13910	14.00%	15857		1586	1586	84080
2008	14330	26.00%	18056		1806	1806	142704
2009	14760	38.00%	20369		2037	2037	214579
2010	15210	50.00%	22815		2282	2282	301656
2011	15670	62.00%	25385		2539	2539	406090
2012	16150	74.00%	28101		2810	2810	530357
2013	16640	86.00%	30950		3095	3095	677194
2014	17140	98.00%	33937		3394	3394	849681
2015	17660	110.00%	37086		3709	3709	1051330
2016	42000	2%	42840		4284	4284	1292643
2017	43260	14.00%	49316		4932	4932	1580323
2018	44560	26.00%	56146		5615	5615	1920881
2019	45900	38.00%	63342		6334	6334	2321650
2020	47280	50.00%	70920		7092	7092	2790881
2021	48700	62.00%	78894		7889	7889	3337853
2022	50170	74.00%	87296		8730	8730	3973047
2023	51680	86.00%	96125		9612	9612	4708196
2024	53240	98.00%	105415		10542	10542	5556536
2025	54840	110.00%	115164		11516	11516	6532881
2026	130000	2%	132600		13260	13260	7673255
2027	133900	14.00%	152646		15265	15265	9004358
2028	137920	26.00%	173779		17378	17378	10552000
2029	142060	38.00%	196043		19604	19604	12345203
2030	146330	50.00%	219495		21950	21950	14416630
2031	150720	62.00%	244166		24417	24417	16802945
2032	155250	74.00%	270135		27014	27014	19545421
2033	159910	86.00%	297433		29743	29743	22690370

<u>Expected (Approx.) Retirement Benefits from NPS (Post 01.01.2004 Joined Employees)</u>	
Gratuity *	4164056
Insurance	100000
Leave Enc 300 days	2974326
Pens Fund Adv (10%)	2269037
Total Benefits	9507419
Total without Gratuity	5343363
Pension Annuity (40%)	9076148
Mthly Pens (8% / 12)	60508

<u>Expected (Approx.) Retirement Benefits from Old Pens system</u>	
Gratuity	4164056
Insurance	100000
Leave Enc 300 days	2974326
Commutattn (40%)	3454056
Total Benefits	10692438
Basic Pension (50%)	79955
Cmmtn Value	31982
Monthly Pension	116734

Formula of Basic Pension = 50% of Basic Pay
 Formula of Commutation = 40% of Basic Pension X 9 X 12

Case of a person joined in the year 2006 as JE in Rly at the age of 32 yrs and promoted to SSE in due course and superannuated on completion of 28 yrs service in 2033, who is covered under New Pension System (NPS) is taken for analysis. In the above calculations, 10% of Pay + DA is deducted every month from employees payment as contribution to NPS and matching 10% is contributed by Govt. A growth of 12% year-on-year of pension fund is taken for calculation of pension wealth to keep it in higher side (which is generally not occur and chances of average growth may be only 9 to 10%). Probable DA hike is taken as 12% every year is justifiable from past. In the year 2016 & 2026, 7th & 8th CPC may announce and a moderate hike of 13% of existing pay+da at that time is taken for fixing of the new basic pay as Rs.42000/- & Rs.130000/- respectively. A pension fund of approximately 226 Lakhs is formed which is higher side due to 12% growth factor. Half of the Pension Wealth (i.e. Rs. 113 lakhs) is his saving as 10% of basic pay+da is cut from the pay every month as contribution to pension fund (i.e like PF for pre-2004 recruits). Hence effectively only 10% of Pension Wealth (i.e. Rs. 22.6 lakhs) is received by the retiring person, after mandatory annuitisation of 40% of Pension Wealth (i.e. Rs. 90.8 lakhs) for getting a monthly pension on superannuation. The monthly pension in NPS is a fixed amount as approximately 8% per annum interest of the annuity (i.e. Rs. 90.8 lakhs) is distributed monthly or quarterly for a pre-defined period or till death of the subscriber as pension.

On comparison of benefits for Pre-2004 and Post-2004 recruits, it can be seen that the monthly pension at the time of retirement itself is approximately double for Pre-2004 recruits. Total sum received at the time of retirement can be 107 Lakhs for Pre-2004 recruited person whereas only 53 Lakhs for NPS pensioner (as Gratuity is not there for NPS pensioner as on date). This huge disparity between two similar aged persons A & B joins service, 'A' happens to be in Dec-2003 and 'B' in Jan-2004, retires at the same time is not at all justifiable. 'A' always drawn 10% pay higher to 'B' throughout service due to B's contribution to NPS and suffer during old age by receiving a pension which is not inflation protected (no DA) and much less to meet the growing needs. Defence forces still continue to avail the advantage of old pension system to their new recruits as it is much more beneficial. Then where is the justice for civil servants of Central Govt happens to be under NPS. If any one is in doubt about how future things can be calculated correctly at this moment, assume that NPS started 20 years back in 01.01.1984 and 'A' joined service in Dec-1983 and 'B' in Jan-1984 and calculate pension benefits for both superannuated in Mar-2011, as all payments are known accurately (Please see Sheet 2). Then also it can be seen a huge disparity among NPS and Old pension system.

ANALYSIS OF POST 01.01.2004 PENSION SYSTEM (NPS) Vs PRE-2004 PENSION SYSTEM by supposing NPS started in 01.01.1984 to get a realistic comparison of Pensionary Benefits							
Joined as JE at the age of 33 yrs, promoted to SSE and Retire at 60 yrs							
Yr	Basic Pay	Yearly Growth of DA%	BP+DA		Emplye Cntrbn 10%	Govt. Cntrbn 10%	Pension Fund Grow @ 12% p.a
1984	425	170%	1148		115	115	3084
1985	450	182.00%	1269		127	127	6866
1986	1460	2%	1489		149	149	11693
1987	1520	14.00%	1733		173	173	17753
1988	1580	26.00%	1991		199	199	25235
1989	1640	38.00%	2263		226	226	34347
1990	1700	50.00%	2550		255	255	45323
1991	1760	62.00%	2851		285	285	58426
1992	1820	74.00%	3167		317	317	73949
1993	1895	86.00%	3525		352	352	92297
1994	1970	98.00%	3901		390	390	113858
1995	2045	110.00%	4295		429	429	139064
1996	6025	2%	6146		615	615	172271
1997	6200	14.00%	7068		707	707	211942
1998	6375	26.00%	8033		803	803	258967
1999	6575	38.00%	9074		907	907	314432
2000	6775	50.00%	10163		1016	1016	379481
2001	6975	62.00%	11300		1130	1130	455392
2002	7175	74.00%	12485		1248	1248	543597
2003	7375	86.00%	13718		1372	1372	645702
2004	7600	98.00%	15048		1505	1505	763635
2005	7825	110.00%	16433		1643	1643	899442
2006	19730	2%	20125		2012	2012	1061470
2007	20330	10.00%	22363		2236	2236	1248958
2008	20940	20.00%	25128		2513	2513	1466377
2009	21570	30.00%	28041		2804	2804	1717716
2010	22220	40.00%	31108		3111	3111	2007460
2011	22890	51.00%	34564		3456	3456	2341263

<u>Expected (Approx.) Retirement Benefits from NPS (Post 01.01.2004 Joined Employees)</u>	
Gratuity *	466613
Insurance	50000
Leave Enc 300 days	345639
Pens Fund Adv (10%)	234126
Total Benefits	1096378
Total without Gratuity	629765
Pension Annuity (40%)	936505
Mthly Pens (8% / 12)	6243
<u>Expected (Approx.) Retirement Benefits from Old Pens system</u>	
Gratuity	466613
Insurance	50000
Leave Enc 300 days	345639
Commutattn (40%)	494424
Total Benefits	1356676
Basic Pension (50%)	11445
Cmmtn Value	4578
Monthly Pension	12704
Formula of Basic Pension = 50% of Basic Pay Formula of Commutation = 40% of Basic Pension X 9 X 12	