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A Study on National Pension Scheme for Government Employees and Challenges

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Abstract

The national pension system is plagued by several issues. The progressive decline of traditional old-age support systems, along with a growth in the elderly population, highlights the need for reinforcing formal channels of retirement savings. The reasons for pension reform are also well known: skewed coverage of existing benefit plans favouring the organised workforce while informal employment is increasing; deteriorating financial conditions of government pension plans against a backdrop of rising system expenditure; unfair treatment of private sector workers relative to public sector employees; an underdeveloped private annuity market; and thus, a need to raise the domestic rate of savings through pension reform.

Keywords: National pension scheme, Challenges, Investment pattern.

1. Introduction

India has an estimated population of 138 crore. Labor force is estimated at 56.3 crore and out of which 53.5 crore were in employment. Only, 5.9 crore employed in the formal sector are access to social security. The Budget for the year 2001-2002 pointed out that pension liability of central and state government will not be sustainable in future and there is need to review the existing pension system. As a result, high level expert group was formed to suggest a future road for pension liability. The entire pension liability of central government employees rose from 6% of GDP (at constant price) in 1993 to 1.60% of GDP (at constant rice) in 2002-03, with expenditure or pension liability rising from 5206 crore in 1993-94 to 23158

crore in 2003-04. Pay-as-you-go defined benefit plans were the primary pension system for government employees before establishment of NPS in January 2004. Numerous other organizations, including the military, railroads, coal miners, Assam Tea Plantation, and others, had their separate pension programmes. Together, these programmes could be regarded as the occupational pension categories that fall within Pillar II. The EPFO's provident fund was mostly chosen by the private corporate sector. However, it may be suggested that low-income EPFO members do have a pension component. There were approximately 69.2 lakh retirees and an estimated 26 crore EPFO members as of March 2021; however, only 4.6 crore of those members were actively contributing.

A comprehensive Pillar I does not exist. However, there are a few specific programmes that could be considered for Pillar I, such as the Indira Gandhi National Old Age Pension Scheme (IGNOAPS), which provides a pension of Rs. 200 per month to BPL individuals 60 years of age or older under the National Social Assistance Programme (NSAP). There were roughly 4.2 crore beneficiaries who were covered by the NSAP. Around 1.0 crore people are provident fund beneficiaries in the life insurance sector, whereas 27 lakh people are provident fund beneficiaries in mutual funds, and about 20 lakh people are coal miners. Up until recently, there was not enough coverage under Pillars I and II to guarantee adequate old-age income security.

1.2 National Pension Scheme

National pension scheme was introduced in the Budget 2003-04 after considering the recommendation of OASIS report and HLEG report for new entrants to government service. In India, significant reform has been made in the sphere of banking, capital market, currency market and insurance sector. An opportunity lies to revamp the Indian pension market; which will offer social security to large number of citizens (Mohanty, 2022). It is also noticed that traditional old age support system has collapsed and percentage of elderly population has increased in total population, which has resulted to strengthen the formal channels of retirement saving. All state and federal governments, except two, use the NPS. 2009 saw the opening of it to all citizens, regardless of job. So, everyone between the ages of 18 and 70 is eligible to register an NPS account. In 2011, NPS had previously been available to corporations. As a result, firms can use EPFO or NPS for their staff (Mohanty, 2022). Non-resident Indians (NRIs) and

Indians who reside abroad (OCIs) are also eligible to participate in the NPS. The fact that NPS is accessible to everyone in its current form is irrelevant. While corporations have often used EPFO, they now have the choice to transition to NPS, even with their existing subscribers' legacy funds. More and more businesses are converting to NPS, still provide their employees with the choice of sticking with EPFO or NPS.

2. Review of literature.

Patel U. (1997) in the research paper titled, **“Aspects of Pension Fund Reform: Lessons for India,”** highlighted the changes in Indian Pension scheme. The purpose of this paper to examine the macro-economic parameter which leads to develop an adequate pension plan system in India. It also highlights the role of Life insurance sector in context of pension schemes. In last, it is concluded that pension fund system helps to increase the growth of institutional savings for longer period and also leads to development of healthy financial markets in India.

Webster E. (1997) conducted a study on the topic, **“Householder attitudes towards retirement incomes,”** highlighted the measurement of attitude towards retirement plans and schemes. For data collection, Telephone survey is done by taking the responses from 1200 households across Australia. Throughout this study, it is found that most of the people aware about retirement plans and schemes. Hence, it is observed that there is no significant difference regarding retirement plans across generations. Most of the youngsters rely on Superannuation schemes rather than on government pensions. In last, it is concluded that higher employment rate, income levels lead to raise the level of household savings.

Ughulu et al. (2023) in the paper, “Pension reform act 2014 and the future of public service prospective seniors: A prognostic Analysis” looked into how the Pension Reform Act of 2014 affects potential seniors who are now working in public service in their later years. From the analysis, it was discovered that timely pension deduction payments, pension fund investments, and other measure had been implemented by the government to fulfill the goals of the Act. According to the study, it was found that the Act's appropriate implementation will have a favourable impact on the future of seniors considering public service.

3. Objectives of the study.

- To know the challenges faced by the government employees with regard to National Pension Scheme.
- To identify the factors that will drive the National Pension Scheme.
- The first objective was to focus on the difficulties that government employees have faced in implementing and operating the National Pension Scheme. Statements were chosen from literature and reports for this purpose, and respondents' opinions were measured using a five-point Likert scale.
- The Second objective was to identify the important aspects that will improve the overall structure of the National Pension Scheme. The study used a five-point Likert scale to assess the degree of agreement.

4. Analysis of the study.

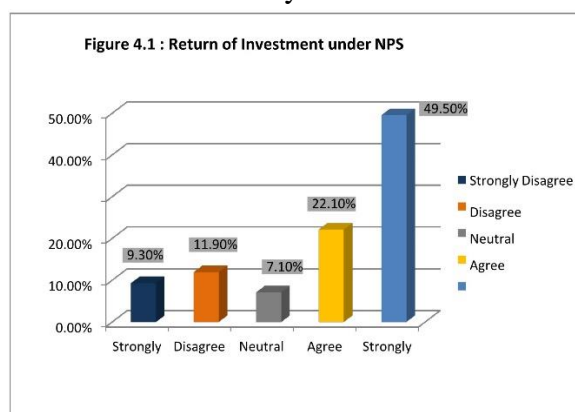
Objective 1: To know the challenges faced by the government employees with respect to National Pension Scheme

Analytical tables 4.24 to 4.34 portray the responses of 420 government employees pertaining to the given 15 statements.

Table 4.1 Return of Investment under NPS

	Response Frequency	Response (%)	Valid (%)	Cumulative (%)
Strongly Disagree	39	9.3	9.3	9.3
Disagree	50	11.9	11.9	21.2
Neutral	30	7.1	7.1	28.3
Agree	93	22.1	22.1	50.5
Strongly Agree	208	49.5	49.5	100.0
Total	420	100.0	100.0	

Data Source: Primary data



From the above table explore that, it can be inferred that out of 208 (49.5 per cent) government employees strongly agreed towards the problem—Investments under NPS may offer lower returns as compared to old pension scheme. 93 (22.1 per cent) respondents agreed with this problem. Further, only 30 (7.1 per cent) employees were in the situation of neutral with regard to this problem. And, 50 (11.9 per cent) employees disagreed and only 39 (9.3 per cent) employees strongly disagreed with the aforesaid problem.

Objective 2: To identify the factors that will drive the National Pension Scheme

To achieve this objective, a questionnaire is framed through review of literature and pilot survey. 16 statements was developed on 5 point likert scale (strongly disagree to strongly agree) and government employees were asked to give rate on scale on the basis of importance of the variable.

Table 4.2 Frequency Table

S.No.	Statements	SD	D	N	A	SA
1	NPS Scheme must have forward looking Investment Practices	15 (3.6)	39 (9.3)	17 (4.0)	135 (32.1)	214 (51.0)
2	Putting check on Redressal of Governance in the context of Pension Intermediaries	28 (6.7)	10 (2.4)	08 (1.9)	266 (63.3)	108 (25.7)
3	Strengthen Education role of Pension Authority for understanding Performance Report so that it can be used to select Pension Fund in an Informed manner	09 (2.1)	09 (2.1)	32 (7.6)	186 (44.3)	184 (43.8)
4	Committing to the Employee a Defined Benefit as a Pension	07 (1.7)	07 (1.7)	80 (19.0)	138 (32.9)	188 (44.8)
5	Pension Authority should disseminate a single page of Performance Comparison between all the Funds	07 (1.7)	08 (1.9)	55 (13.1)	234 (55.7)	116 (27.6)
6	Professionally Managed or Assurance	29 (6.9)	02 (0.5)	24 (5.7)	145 (34.5)	220 (52.4)
7	Pension Authority should release Performance data of Pension Funds in all major newspaper	09 (2.1)	11 (2.6)	21 (5.0)	189 (45.0)	190 (45.2)
8	Strict Enforcement Missionary for putting check on Violation of Investment Guidelines	16 (3.8)	22 (5.2)	47 (11.2)	215 (51.2)	120 (28.6)
9	Pension Authority must ensure the Pension Fund Managers to maintain Adequate Collateral to support the Safe Income	08 (1.9)	06 (1.4)	57 (13.6)	252 (60.0)	97 (23.1)
10	Putting check on Trading Mechanism which are not in the best interest of Individuals	22 (5.2)	11 (2.6)	32 (7.6)	180 (42.9)	175 (41.7)
11	Identification of sources of Risk associated with Pension Funds	29 (6.9)	05 (1.2)	34 (8.1)	112 (26.7)	240 (57.1)
12	Pension Authority should have to maintain Adequate Collateral with IPA to in order to ensure Solvency in the event of the under Performance	10 (2.4)	05 (1.2)	83 (19.8)	227 (54.0)	95 (22.6)
13	Accountability and Transparency of Pension Investments	29 (6.9)	05 (1.2)	37 (8.8)	122 (29.0)	227 (54.0)
14	Pension Authority should have the Disclosure of Information by Pension Fund on Daily Basis	04 (1.0)	11 (2.6)	43 (10.2)	192 (45.7)	170 (40.5)
15	Ethically Selection, Retention and Realisation of Investment	29 (6.9)	05 (1.2)	34 (8.1)	158 (37.6)	194 (46.2)
16	Monitor the calculation the Transfer of Fund associated with Relative Return Guarantee	07 (1.7)	11 (2.6)	15 (3.6)	264 (62.9)	121 (28.8)

Data Source: Primary data

From the above table depict that 349 (83.1%) of the 420 respondents agreed with the assertion –NPS must have forward-looking investment practices. The pension authority must agree to provide a defined benefit as a pension to the employee. Approximately 90 percent of respondents agreed with statement 3 to strengthen the educational role of pension authority for understanding performance reports so that it can be used to select pension funds in an informed manner. Further, the table shows that 252 respondents agreed with the statement that pension authorities must ensure that pension fund managers maintain adequate collateral

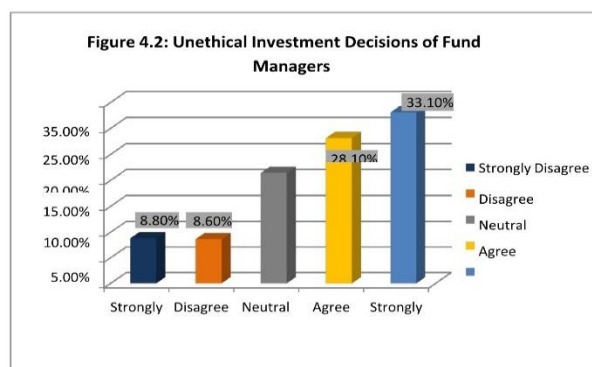
to support safe income. The analysis also reveals that only 33 respondents disagreed with statement 10, 'Putting a check on a trading mechanism which is not in the best interest of individuals. In addition, exploratory and confirmatory factor analyses have been used in order to identify and analyse the factors that will drive the National Pension Scheme.

Based on the findings of frequency distribution table 4.24, it can be inferred that out of 208 (49.5 per cent) government employees strongly agreed towards the problem –Investments under NPS may offer lower returns as compared to old pension scheme. 93 (22.1 per cent) respondents agreed with this problem. Further, only 30 (7.1 per cent) employees were in the situation of neutral with regard to this problem. And, 50 (11.9 per cent) employees disagreed and only 39 (9.3 per cent) employees strongly disagreed with the aforesaid problem.

Table 4.3 Unethical Investment Decisions of Fund Managers

	Response Frequency	Response (%)	Valid (%)	Cumulative (%)
Strongly Disagree	37	8.8	8.8	8.8
Disagree	36	8.6	8.6	17.4
Neutral	90	21.4	21.4	38.8
Agree	118	28.1	28.1	66.9
Strongly Agree	139	33.1	33.1	100.0
Total	420	100.0	100.0	

Data Source: Primary Data



From the above table highlighted that out of 139 (33.1 per cent), employees strongly agreed towards the problem –Fund managers may involve unethical investment decisions. 118 (28.1 per cent) respondents agreed with this problem. Further, 90 (21.4 per cent) respondents were in the situation of neutral with regard to this problem. And, 79 (17.4 per cent) employees were not agreed with the aforesaid problem.

5. Findings of the study.

1. The reliability of all statements used in the questionnaire is checked through Cronbach's Alpha and its value is measured 0.967 which describes the good reliability of the scale used.
2. It is found that majority of the respondents 208 (49.5%) out of 420 respondents, strongly agreed towards the statement, —Investments under NPS may offer lower returns as compared to old pension scheme.
3. It has been observed that most of the respondents 139 (33.1%) agreed to the problem, —Fund managers may involve unethical investment decisions
4. From the results, it is pleasing to observe that very few number of the respondents agreed with this statement, —My overall attitude towards NPS is not satisfactory.
5. Communalities of the statements were determined to check the common variance lies in a particular variable. All the statements have communalities value above than 0.7 which depicts a good measurement to explain the variance present among the variables.
6. Hence, by using Varimax rotation method, four factors are extracted whose eigen values are more than one, such as:- **NPS Investment Practices**:- The first factor with eigen value 6.097 and explained 29.911% variance . In other words, New Pension Scheme can

be made more attractive if strategies are designed around this factor. The employees are more concerned about investment practices and multiple options made them too available for investment. For the construct NPS Investment Practices, the CFI is .997, GFI is .993 and AGFI is .980. The values of all the 3 fit indices are greater than 0.9 which seems results significant. RMSEA is .033 and P close is .663 all are excellent.

7. **Information, Standardisation and Dissemination**: The second factor with eigen value 3.658 and explained 21.564% variance. In this, pension authority should give the full disclosure of information by pension fund on daily basis so that more employees are enrolled under New Pension Scheme. For the construct Information, Standardization and Dissemination, the CFI is .997, GFI is .993 and AGFI is .967. The values of all the 3 fit indices are greater than 0.9 which seems results significant. RMSEA is .067 and P close is .253, all are excellent.

6. Suggestions of the study.

- The report maintain by the agency would be placed in public domain.
- There should be strict capital account control exists in India. No permission is given with regard to investment in international securities.
- International diversification should be used to decrease investment risk to the greatest degree feasible.
- A proper or sound technical plan of action should be adopted so that provisions across the sectors or country ideally implemented by taking into account of fiscal and financial sector constraints.
- The system of NPS must give due

consideration to socio and economic changes in a dynamic environment.

- The contribution towards Provident fund should be made on voluntary basis only. And, GPF scheme should be merged with Tier 2 account.
- There must be need to maintain comprehensive information or data with regard to category wise composition of both employees and pension holders.

7. Conclusion

Employees must specify their retirement goals and pick pension plans that will enable them to amass a terminal corpus that will enable them to realise these ambitions. The importance of tax incentives provided by the government to boost enrolment in pension plans and stimulate larger contributions to them is unambiguously shown by the employer pension plan research carried out by KPMG in India. Additionally, greater focus may be placed on facilitating employee education on pension planning and achieving equity in the tax benefits of pension plans. The survey's participants anticipate that the pension system will be open, equitable, dependable, and sufficient.

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