



**A COMPARATIVE STUDY ON THE UNIFIED PENSION SCHEME (UPS) WITH THE OLD PENSION SCHEME (OPS) AND THE NATIONAL PENSION SYSTEM (NPS)**

**Dr. Virupaksha J D<sup>1</sup> & Dr. Naveen Kumar I M<sup>2</sup>**

*Assistant Professor of Commerce, Government First Grade College Tiptur,*

*Email-[apvirupaksha@gmail.com](mailto:apvirupaksha@gmail.com).*

*Assistant Professor of Commerce, Government First Grade College for Womens*

*Chikkabalapura. Email-[ngfgck@gmail.com](mailto:ngfgck@gmail.com).*

**Paper Received On:** 20 AUGUST 2025

**Peer Reviewed On:** 24 SEPTEMBER 2025

**Published On:** 01 OCTOBER 2025

---

**Abstract**

*This article compares three major pension arrangements that shape retirement security for India's government employees: the Old Pension Scheme (OPS), the market-linked National Pension System (NPS), and the recently notified Unified Pension Scheme (UPS) — an option introduced under the NPS architecture. The analysis examines legal design, benefit promises, contribution patterns, fiscal risks, administrative architecture, portability and choice, and distributional implications. Drawing on official notifications, regulatory descriptions, and policy documents, the paper evaluates whether UPS meaningfully reconciles the strengths of OPS and NPS and offers policy recommendations for moving toward a fiscally sustainable, equitable pension system.*

**Keywords:** OPS, NPS, UPS, Pension Reforms, Fiscal Implications, Retirement Security, Market-Linked Investments, Defined Benefit Schemes.

## **1. Introduction**

Pension design is a core element of social protection and public finance. India's pension landscape has evolved from the defined-benefit, pay-as-you-go Old Pension Scheme (OPS) to the defined-contribution, market-linked National Pension System (NPS) introduced in 2004. In 2024–2025 the Centre notified the Unified Pension Scheme (UPS), positioned as an option under the NPS framework for eligible central government employees. UPS aims to provide a more assured retirement outcome while operating within the institutional architecture

developed for NPS. This paper compares the three schemes along policy, financial, administrative and equity dimensions to assess trade-offs and policy implications. Key primary sources used include the Government of India's UPS notification and FAQs, PFRDA/NPS explanatory material and parliamentary/official documents describing OPS and the UPS notification.

## **2. Review of Literature:**

**Dr. Roopali Patil and Dr. Vani Kamath (2017) :** In this study, a researcher has made an analysis mainly differentiates the product from other pension schemes and highlights the uniqueness of the Scheme. A researcher has found that the National Pension System is a *unique pension system and offers verities of benefits to investors. The minimum processing charges of the scheme are one of the features which differentiate it from other Unit Linked Pension Plans. As the annuities are market linked and chosen by the subscribers on the basis of their risk appetite, the plan becomes distinctive. NPS is only the tax-free pension scheme in India under 80CCD of IT Act 1961.*

**Kshama B Vidhate, Ritesh Kundap (2016) :** The authors have reviewed the extent of awareness among the rural masses regarding the Social Security Schemes which were launched in India. Since awareness about these schemes is essential for their proper utilization. The respondents were enquired regarding their awareness of *Sukanya Samridhi Yojana, Pradhan Mantri Suraksha Bima Yojana, Atal Pension Yojana, and Pradhan Mantri Jeevan Jyoti Bima Yojana Schemes* which were introduced by the Government of India. It was found that maximum respondents had knowledge about these schemes and this was dependent on several variables like age, gender, literacy status, and the socio-economic class of the people.

**Edward Whitehouse,(2016) :** The researcher opined about measuring the different charges and how the increase or decrease in the administrative charges, affects the pension values. It also expressed the need for being transparent and revealing the various charges levied by different pension providers. It also comprised of the study on the levy of charges, and an international comparison of charges of different countries was given the study also comprised of various factors and problems in relation to designing the charge structure.

**Meena Chaturvedi (2015):** In this study reviews that in India from the initial days of introduction to pension, the pension fund is based on finances which are contributed by both the employer and employee. As there is no employer and employee relationship in the unorganized sector the formal channels of old age security and financial support system can be found only in the dramatized sector which comprises a very small population of the workforce.

The limitations included lack of individual participant choice and portability, lack of uniform standards, the fragmented framework of regulations, and non – compliance with the best practices on regulations at the international level. The pension system is plagued by the high incidence of administration costs, and the low real rate of returns on contributions.

### **3. Background: Brief descriptions of the three schemes**

**Old Pension Scheme (OPS):** OPS was a defined-benefit (DB), pay-as-you-go system that guaranteed a pension formula (commonly around 50% of last pay drawn with periodic adjustments such as dearness allowance). Under OPS, pensions were liabilities of the government and were financed from current revenues rather than a prefunded corpus. OPS provided predictable retirement income but created long-term contingent liabilities for the government. OPS was replaced for new recruits by NPS beginning in 2004, though several states and some cohorts have restored OPS or taken policy decisions reflecting political preferences.

**National Pension System (NPS):** NPS is a defined-contribution (DC), market-linked retirement savings architecture regulated by the Pension Fund Regulatory and Development Authority (PFRDA). Under NPS, contributions are accumulated in an individual account, invested by regulated pension funds across asset classes, and at retirement the subscriber receives a mix of annuity (mandatory portion) and lump sum withdrawals depending on the rules in force. NPS is designed to be portable, transparent, and fiscally predictable for the government since liabilities do not accrue as open contingent claims.

**Unified Pension Scheme (UPS):** Notified on 24 January 2025 and implemented as an option within the NPS architecture, UPS introduces an alternative product meant to deliver a more assured pension outcome for eligible central government employees, while remaining part of the NPS ecosystem (i.e., managed via the NPS infrastructure and intermediaries). UPS also includes a one-time, one-way switch facility from UPS back to NPS under prescribed terms and timelines. The Government and PFRDA have released FAQs and rules to operationalize UPS.

### **4. Methodology**

This is a policy-analysis paper based on document review of governmental notifications, PFRDA/NPS material, parliamentary responses and explanatory materials published by the Ministry of Finance and Department of Financial Services. Comparative dimensions are derived from standard pension evaluation frameworks: (a) benefit design and adequacy, (b) risk allocation, (c) fiscal implications, (d) administrative feasibility and governance, and (e)

equity and distributional outcomes. Where official numeric data were not available in a single source, assertions are qualified and supported by cited official/credible secondary material.

## 5. Comparative Study

### 5.1 Benefit design and adequacy

**OPS (Defined Benefit).** OPS guaranteed a post-retirement income often indexed to pay and dearness allowances. The principal advantage is income certainty and relatively high replacement ratios for long-serving employees. This made OPS attractive from an adequacy perspective, especially for low-risk, low-financial-literacy populations. However, the promise is open-ended: pension increases and health-related expenses create growing obligations over time.

**NPS (Defined Contribution).** NPS ties retirement income to contributions plus investment returns. Adequacy depends on contribution rates, investment performance, annuity rates at retirement, and the share withdrawn as lump sum. NPS typically produces uncertain replacement ratios for a given worker unless contributions and market returns are sufficiently high. The scheme can underperform for late joiners or those with low contribution histories.

**UPS (Hybrid/Assured within NPS).** UPS aims to guarantee a minimum assured pension outcome while operating through the NPS infrastructure. The specifics (formulae, minimum thresholds, contribution matching or top-ups) are set out in the UPS rules and FAQs; operational detail matters for adequacy. UPS's strength is that it answers the demand for more predictable retirement income than NPS while avoiding the open fiscal exposure of OPS, at least in principle. Official documents present UPS as an option for eligible employees and past retirees under certain timeframes.

**Implication:** From a benefit adequacy viewpoint, OPS > UPS (if UPS achieves its assurance targets) > NPS, in terms of predictability and safety for pensioners. However, guarantee depth, eligibility and exact payment rules determine whether UPS actually closes the adequacy gap.

### 5.2 Risk allocation and incentives

**OPS transfers most longevity, market, and fiscal risk to the government.** This insulates retirees but raises moral hazard and weakens incentives for fiscal prudence.

**NPS places investment and longevity risk largely on individuals.** Market downside hurts subscribers; upside accrues to them. This creates incentives for personal saving but also distributional risk if market performance is poor or annuity markets are incomplete/expensive.

**UPS attempts a middle path.** By operating within NPS but offering an assured pension, UPS reallocates some market/longevity risk back toward the state or toward structured guarantees

written into the product (which may be delivered via higher contributions, pooled buffers within NPS, or insurer/annuity markets). If guarantees are backed explicitly by the government, UPS mimics OPS risk allocation. If guarantees are hedged within the NPS ecosystem (with explicit pre-funding and parametric rules), risk can be managed more sustainably. The policy design therefore matters crucially: whether UPS creates contingent liabilities or is strictly budget-neutral. The official UPS notification describes it as an option and provides modalities; the extent to which it creates contingent fiscal exposure remains a central analytic question.

### 5.3 Fiscal implications

**OPS entails large and rising contingent liabilities.** Past budget estimates have shown substantial pension expenditures attributable to OPS retirees — a significant pressure on state and central budgets. Prefunded or partially funded schemes are generally preferable for fiscal sustainability.

**NPS is fiscally predictable for new recruits.** Contributions are recorded and liabilities are limited to any employer contribution; the government’s long-term pension burden does not grow as open, undefined claims.

**UPS’s fiscal profile is ambiguous and depends on operational details.** If UPS involves state-backed minimum guarantees without commensurate pre-funding or higher contributions, it could reintroduce hidden contingent liabilities. If UPS operates as a guaranteed product funded through higher employee and/or employer contributions or ring-fenced buffers within NPS, fiscal risk can be contained. The Ministry’s UPS materials and the PFRDA rules outline the scheme’s structure and the one-time switch rules; analysts must monitor budgetary disclosures to assess net fiscal impact

### 5.4 Administrative architecture, governance and costs

**NPS institutional architecture (PFRDA, CRAs, PoPs, PFMs) is well established.** This modular design supports transparency, recordkeeping, and competition among pension fund managers. Administrative costs under NPS have been relatively low due to unbundling, though CRA and other fees exist.

**OPS required large administrative machinery for pension disbursement and ongoing indexation, often handled by treasuries.** Because payouts are direct liabilities, administrative complexity is moderate but linked to payroll and pension databases.

**UPS leverages NPS architecture, which is an operational advantage.** Implementing UPS via NPS intermediaries reduces transitional friction; however, costs of guarantee management, annuity procurement and possible insurer coordination add new administrative tasks. Recent

PFRDA adjustments to CRA charges and the UPS operational rules indicate authorities are updating operational modalities.

### **5.5 Portability, choice and political economy**

**Portability.** NPS was designed for portability across jobs and states, a major strength for a mobile workforce. OPS is generally less portable (state government schemes vary and portability across jurisdictions is limited). UPS, being implemented within NPS, preserves portability features for subscribers who opt in, improving equity for employees who move across jurisdictions.

**Choice and political economy.** The demand for OPS revival has been strongly political in several states, where restoration of OPS has been part of electoral manifestos. UPS appears to be a policy response to political pressures by offering more assurance while retaining NPS architecture; politically, it can be framed as a compromise between electoral commitments and fiscal realities. The one-time switch windows and transitional provisions also reflect sensitivity to political pressures and the need to manage cohort impacts.

### **6. Implementation issues and open questions**

**Guarantee funding:** How will UPS guarantees be funded? Will there be higher contributions, sovereign backstops, or pooled buffers? The sustainability of UPS depends on explicit answers.

**Treatment of past NPS subscribers and retirees:** The government has specified deadlines and one-way switch options; the design of transitional rules affects fairness and fiscal cost.

**Annuity markets and costs:** Even with an assured pension, annuity procurement at retirement depends on market prices — if annuity providers charge high fees, the guaranteed pension may be costly to secure. Policy may need to foster competitive annuity markets or allow socialization of some risks.

**Inter-governmental coordination:** States have varied histories with OPS/NPS; if states adopt UPS or wish to restore OPS, federal–state coordination on portability, actuarial accounting and fiscal transfers becomes essential

### **7. Policy recommendations**

Based on the comparative analysis, the following recommendations aim to reconcile adequacy, equity and fiscal sustainability:

**Transparent funding rules for UPS guarantees.** Any minimum pension or guaranteed outcome must be accompanied by legally specified funding sources (higher employer/employee contributions, dedicated reserve funds, or explicit budgetary appropriation) and actuarial estimates published annually.

**Prefunding and buffer mechanisms.** Establish a UPS reserve mechanism within the NPS trust/structure to smooth market cycles and reduce reliance on ex post budgetary bailouts. Clear rules on buffer drawdowns and replenishment should be codified.

**Strengthen annuity markets and reduce costs.** Encourage competitive annuity suppliers, consider facilitating group annuity procurement by the NPS trust to lower costs, or allow phased drawdown-plus-annuity hybrids that preserve income while managing costs.

**Maintain portability and transparency.** UPS should preserve NPS portability and recordkeeping standards (PRAN, CRAs). All UPS-related charges, intermediation fees and projected replacement ratios should be disclosed to employees at joining.

**Phased transitional arrangements.** For past NPS subscribers and retirees, allow informed, time-bound choices with clear actuarial illustrations. The government should avoid open-ended retrospective liabilities and ensure any switching window is accompanied by full disclosure of costs and benefits.

**Publish regular actuarial/fiscal reports.** Require annual actuarial valuations for UPS liabilities under varying market scenarios and publish these to inform parliamentary oversight and public debate.

## **8. Conclusion**

UPS represents a significant policy development: by situating an assurance product within the established NPS ecosystem, the government has attempted to reconcile public demands for predictable pensions with the administrative and fiscal discipline associated with NPS. Whether UPS succeeds in delivering adequate retirement incomes without reintroducing open fiscal liabilities will depend on the concrete funding, governance and guarantee mechanisms adopted in implementation. The policy trade-offs are classic: predictability and adequacy versus fiscal sustainability and intergenerational equity. Transparent funding rules, prefunding buffers, stronger annuity markets and rigorous public reporting are essential to ensure UPS strengthens retirement security without undermining fiscal stability.

## **Bibliography**

- Press Information Bureau (PIB). Unified Pension Scheme (UPS) notification.*  
*Department of Financial Services, Ministry of Finance – UPS FAQs and rules.*  
*Pension Fund Regulatory and Development Authority (PFRDA) – NPS architecture.*  
*Parliamentary documents on OPS and UPS.*  
*State-level OPS/NPS policy materials.*  
*Government Orders (GO)s collected from NPS Department Government of Karnataka.*  
*Vaidyanathan. (2004). "Pension Business in India. Management Review Journal - IIM Bangalore , 1-22.*

- Sinha, S. (2004). *Group superannuation schemes in India*.
- Sinha, S. (2004). *Group superannuation schemes in India*.
- Bhattacharya, P. (2005). *Implications of an Aging Population in India Challenges and opportunities* .  
*Institute of Chartered Financial Analyst of India* .
- Hinz, R. P., & G.V, N. R. (2005). *Approach to the Regulation of Private Pension Funds in India - Application of International best practice* . *Invest India Economic Foundation*.
- Pande, A. (2006). *Lessons from the behavioural dimension for the design of new pension system in India* . *Hindu Business Line*.
- Poisons, H. K. (2007). *Financial Market Implications of India's Pension Reform*. *International Monetary Fund Working Paper* .
- Neeti hooda & Dr. Kuldip Singh Chhikara, (2018) “National Pension System- the way forward towards pragmatic approach to sustainable investment system”. *E ISSN 2348 –1269, PRINT ISSN 2349-5138*.
- Rajinder Kaur and Sawinder kaur (2018) “Growth and Pattern of National Pension Scheme in India”. *Indian Management studies journal* 22 (2018) P. No. 221-232.
- Dr. Vani Kamath and Dr. Roopali Patil, (2017) “Cost Benefit Analysis of National Pension Scheme”.
- Kshama B Vidhate, Ritesh Kundap (2016) : *Awareness about Newly Launched Social Security Schemes among Rural Population in India*.
- Meena Chaturvedi (2015) : *Pension Reform Initiative in India* . *PFRDA Govt. of India*.

**Websites:**

<https://npstrust.org.in/>

<https://www.pfrda.org.in/>

<https://www.csdsindia.com>