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New Pension Scheme— Is it a Right Alternate of Old Pension Scheme?

Introduction

As a businessman, Satish expected to accumulate adequate money to see him through the retirement years of his life, for which, he had assumed a high-risk high-return profession to retire comfortably. On the other hand, people such as Neeraj with a government job, Meera in the corporate service sector and Reena working for a non-profit, were more content with a moderate-risk and guaranteed income structure. Interestingly, all these professionals always wondered what would happen to their income once they retired.

Both the political and the corporate systems chose to address this concern through 'pension schemes', manifested through various forms. For example:

- State support in the form of subsidized or free medical treatment; outright old-age pension amounts paid out, along with other elements depending on how much of a welfare state[i] it is.
- Pension plans offered by the employer (and matched by the employee) to build a 'retirement' corpus.
- Business profits invested in plans to yield assured returns from a corpus fund.

Prof. Vivek Rajvanshi of the Indian Institute of Management Calcutta and Menaka Rao developed this case study as the basis for class discussion rather than to illustrate the effective or ineffective running of an organization. The authors acknowledge thanks to two anonymous referees, Prof. Ankit Kumar at IIMC, and Mr. Gouri Sankar Sahoo, doctoral student at IIMC for their comments which helped to improve the case.

Most people want to supplement what they have at retirement with some form of benefits at retirement, such as pension. Most employers on the other hand, ensure that during service, employees are encouraged to build up an entitlement to a pension by the time they retire.

Such measures generally tend to create a more stable society (as well as a work-culture during employment), owing to which, citizens world over, expect it and demand it of political parties, and/or the employers. There were reasons and mitigating measures for the same:

- Generally, as people retire from service, there are reductions in working capacity of people, and therefore in their income; a pension helps to buffer some of this loss of income.
- Pension schemes provide a corpus in the form of service gratuity, earned leave payment etc. On the pensioners' demise, the dependents can avail of this corpus.
- Tax benefits contribute, as pensioners tend to get more income in hand, often with higher returns on the in their investments. This encourages regular saving by employees to fund retirement years.