CHAPTER 3

PENSION PROVISIONS FOR EMPLOYEES OF CENTRAL / STATE GOVT. AND PUBLIC SECTOR
3. PENSION PROVISIONS FOR CENTRAL / STATE GOVERNMENT AND PUBLIC SECTOR EMPLOYEES

3.1 INTRODUCTION

The Indian pension system was largely inherited as a legacy from the British. In the pre-independence era, providing pension to government employees was one of the most important talent attraction and retention tools.

The Civil Service Pension System in India covers salaried employees of the Central and State governments and the Union Territories. The government and its enterprises are the biggest employers in India with 70% of organized sector as opposed to only 30% in the private sector. Employees of aided institutions and local bodies receive retirement benefits similar to the employees of the Central and State government.
3.2 RETIREMENT BENEFITS FOR CENTRAL GOVERNMENT EMPLOYEES

(Joined before 1.1.2004)

Central government employees who have joined before January 1, 2004 are entitled to the following retirement benefits:

- A defined benefit pension plan
- Commutation of Pension
- A lump sum Gratuity
- The General Provident Fund
- Deposit Linked Insurance Revised Scheme
- Leave Encashment

3.2.1 DEFINED BENEFIT PENSION PLAN

The retirement benefits are payable to the employee on retirement / death. The present age of retirement is 60 years. The government is planning to extend the retirement age of all Central government employees by 2 years – from 60 to 62 years. The Department of Personnel Training (DOPT) took an in-principle decision in this regard and is likely to implement the same soon¹.

¹ Financial express 12.5.2012
The most significant retirement benefit for government employees was the defined benefit pension plan which is unfunded and paid in the form of monthly annuity out of the current revenues in the government’s budget.

**Eligibility:**

A qualifying government servant became eligible to a monthly pension on superannuation after completing continuous service of not less than 10 years and those retiring voluntarily are eligible after completing 20 years of continuous service. The maximum duration of qualifying service is 33 years.

**Emoluments:**

The amount of pension was calculated as 50% of the average basic pay (Basic Pay + Grade Pay) drawn during the last ten months of the service or last basic pay drawn whichever is beneficial w.e.f. 1.1.2006. Prior to 1.1.2006, for a qualifying service of less than 33 years, the amount of pension was proportionate to the actual qualifying service broken into completed half-year periods.

The scheme was indexed to current inflation. The recurring changes in dearness allowance also influences the pension amount every six months. Since the government’s pension plan is not
portable, an employee was not eligible if he or she leaves government service before completing twenty years of service. The characteristics of the Central government pension scheme are exhibited in Table 5.

Table 5: CHARACTERISTICS OF GOVERNMENT PENSION SCHEME

<table>
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<th>Plan</th>
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<td>Defined Benefit</td>
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| Eligibility             | On superannuation - 10 years  
Voluntary retirement – 20 years  
Maximum qualifying service is 33 years |
| Contribution            | Unfunded              |
| Emoluments              | 50% of the average basic pay (Basic Pay + Grade Pay) drawn during the last ten months of the service or last basic pay drawn whichever is beneficial. |
| Annuity Payout          | Monthly               |
| Pension amount          | Minimum pension presently is Rs. 3500 per month. Maximum limit on pension is 50% of the highest pay in the Government of India (presently Rs. 45,000) per month. Pension is payable up to and including the date of death |
| Pension Calculation     | For example, if total qualifying service is 30 years and 4 months (i.e. 61 half-year periods), pension will be calculated as under:-  
\[ \text{Pension amount} = \frac{R}{2}X\frac{61}{66} \]  
where R represents average reckonable emoluments for last 10 months of qualifying service or the last pay drawn as opted by the government servant. |
| Formula                 |                       |
| Commutation             | Maximum commutation not exceeding 40%. The commuted portion will be restored on the expiry of 15 years. |

2 Government Pension Portal – www.pensionersportal.gov.in
3.2.2 COMMUTATION OF PENSION

A Central government employee has the facility to commute a portion of his/her pension not exceeding 40%, into a lump sum payment w.e.f. 1.1.1996. The monthly pension will stand reduced by the portion commuted and the commuted portion will be restored on the expiry of the date of receipt of the commuted value of pensions. However, the Dearness Allowance (DA) was calculated\(^3\) on the basis of original pension (i.e. without reduction of commuted portion)

3.2.3 LUMP SUM GRATUITY

The gratuity, as governed by the Payment of Gratuity Act of 1972, was payable to a permanent government employee as a token of successful completion of service tenure. A lump sum was payable on his retirement or was paid to the family members in the event of his death while in service. The minimum eligibility to receive gratuity was 5 years of qualifying service. There were three types of gratuities; i) Retirement Gratuity; ii) Death Gratuity iii) Service Gratuity.

\(^3\) Government Pension Portal– www.pensionersportal.gov.in
Retirement gratuity was calculated at the rate of \( \frac{1}{4} \) of a month’s Basic pay plus Dearness Allowance drawn before retirement for each completed six monthly period of qualifying service. The retirement gratuity was 16 ½ times of the basic pay, subject to a maximum of Rs. 10 lakhs.

Death gratuity was found to be a onetime lump sum benefit payable to the widow / widower or the nominee of the permanent government employee in case of death while in service. The maximum limit was Rs. 10 lakhs w.e.f. 1.1.2006.

Service Gratuity (and not pension) was provided to a retiring government servant only if the total qualifying service is less than 10 years. The amount payable was half a month’s basic pay last drawn for each completed 6 monthly period of qualifying service. There was no minimum or maximum monetary limit on the quantum. This was paid over and above the retirement gratuity.

### 3.2.4 GENERAL PROVIDENT FUND (GPF)

According to the General Provident Fund (Central Services) Rules, 1960\(^4\) all permanent and temporary government employees after a continuous service of one year were found to be eligible to

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\(^4\) Central Services Rules 1960, Department of Pensions and Pensioner’s Welfare, Government of India
subscribe to the fund which was a defined contribution plan with a minimum 6% contribution from the employee and no matching contribution from the government. Rate of interest on GPF accumulations with effect from 1.4.2009 was 8% compounded annually and the rate of interest varied according to notifications from the government. Advances and withdrawals could make out of the general provident fund for specified purposes such as housing, medical, educational or marriage expenses, etc.

3.2.5 CONTRIBUTORY PROVIDENT FUND

This scheme applies to non-pensionable Central government employees under the Contributory Provident Fund Rules (India), 1962. The employee contributes 10% of his basic pay with matching contributions from the government. Rate of interest with effect from 1.4.2009 was 8% compounded annually. The Rules provide for advances/ withdrawals from the contributory provident fund for specific purposes.

3.2.6 DEPOSIT LINKED INSURANCE REVISED SCHEME

Under the General Provident Fund rules, in the event of death, the subscriber was paid an additional amount equal to the average balance in the account during the last 3 years, subject to a
ceiling of Rs.60,000/- A minimum qualifying service for this benefit is 5 years at the time of death.

3.2.7 LEAVE ENCASHERMENT

Encashment of leave was another retirement benefit granted to employees. Encashment of Earned Leave / Half Pay Leave to the credit of the employee at the time of retirement, was admissible up to a maximum of 300 days.

3.2.8 CENTRAL GOVERNMENT EMPLOYEES GROUP INSURANCE SCHEME (CGEGIS)

An employee paid portion of monthly contributions to a Saving Fund which accrues interest. The insurance cover benefit under this scheme was available to the family in the event of death of the subscriber. No interest was payable on account of delayed payments under this Scheme.

In total, the replacement rate for government employees from all of the above retirement benefits has been forecasted to reach 100%.
3.3 RETIREMENT BENEFITS FOR STATE GOVERNMENT EMPLOYEES

The retirement benefit scheme applicable to State Government employees was by and large along similar lines as Central Government employees. After the 6th Pay Commission State government employees were estimated at approximately 14 lakhs and pensioners about 17 lakhs. State government employees who joined before November 1, 2005 are entitled to the following retirement benefits:

- A Defined Benefit Pension Plan
- Commutation of Pension
- A lump sum Gratuity
- The General Provident Fund
- Leave Encashment

The employees who joined on or after 1.11.2005 were eligible for a Defined Contributory Pension Scheme (DCPS). The government decided that the existing pension scheme\(^5\) and the existing General Provident Fund scheme would not be applicable to such employees. According to the scheme the employee contributes

\(^5\) Maharashtra Civil Services [Pension] Rules, 1984
10% of the basic pay + dearness pay + dearness allowance and the State government makes a matching contribution to it.

The contribution of the employees as well as the government is managed by the State Record Keeping Agency (SRKA). SRKA maintain the accounts and other related records of the DCPS members.

The State government also provides a family pension. Apart from this, the State government provides non-pensionary benefits such as leave encashment for a maximum of 300 days and transfer travelling allowance.

### 3.4 RETIREMENT BENEFITS FOR PUBLIC SECTOR EMPLOYEES

The provident fund is applicable to all public sector undertakings which include insurance companies, banks, oil companies, electricity boards, etc. The Government introduced its pension scheme for insurance and bank employees in 1993. The insurance companies had given an option to their employees to become a member of the scheme as follows:
1. The member can authorize the trust of the Provident Fund to transfer the entire contribution of the company (viz. insurance company, banks, etc.) to their provident fund along with the interest accrued thereon to the credit of the fund.

2. The member can elect to forgo his right to pension

The public sector undertakings had constituted their own pension funds for members who had opted in and are paying pension to such retired employees out of the fund.