

STATE GOVERNMENT FINANCES

Several states may consider
switching to UPS once operational
details are available

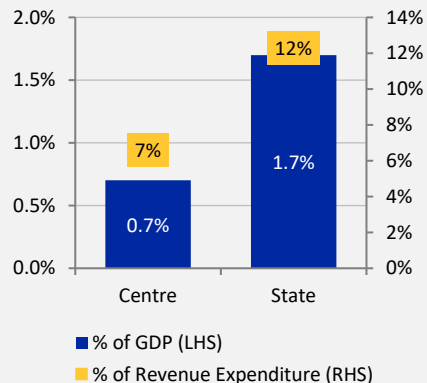
SEPTEMBER 2024





[Click to see full report](#)

Exhibit: Pension outgo of the Gol and state in FY2025 BE



The combined pension outgo of the 28 state governments is pegged at Rs. 5.7 trillion in the FY2025 Budget estimates (BE) or 1.7% of gross domestic product (GDP). This is more than double the outgo of Rs. 2.4 trillion on pensions (0.7% of GDP) expected by the Government of India (GoI) in its FY2025 BE. In this context, the funding of the pension liabilities by state governments is relatively more onerous than the burden on the Centre.

Following apprehensions expressed by some Government employees over the outcome of the New Pension Scheme (NPS) compared to the more certain pension promised under the Old Pension Scheme (OPS), four states had reverted to the OPS from NPS in recent years. Andhra Pradesh (AP) had implemented a hybrid pension model in 2023. This hybrid model, which includes contributions by the employees, assures a formula-linked guaranteed amount of pension to the state government employees, similar to the mechanism of determining pension under the OPS. Moreover, the AP pension model permits the monthly pension to exceed the guaranteed amount set by the state government. This feature is a positive for the pensioners and at the same time restricts the state's liability to the monthly contribution and the shortfall. On somewhat similar lines, the Cabinet has approved the Unified Pension Scheme (UPS), combining the features of the OPS and the NPS, although many operational details are awaited.

From the fiscal standpoint, the NPS remains the most prudent and sustainable pension system for the state/Union governments as it limits their liability to the contribution to the designated fund. However, employees would prefer the assurance offered by the UPS. Several operational details are awaited, which would aid in calculating the cost to the state governments, of switching to the UPS. Once such details are available and a fiscal estimation is possible, we expect a number of the 18 states (excluding those six states that have either reverted or planning to revert to OPS, AP and Maharashtra) currently following the NPS to consider switching to the UPS.

Exhibit: Pension outgo of the Gol and the states

Amount in Rs. Trillion	FY2005	FY2010	FY2015	FY2020	FY2025 BE	CAGR (FY2005-2025 BE)
GoI	0.2	0.6	0.9	1.8	2.4	13.9%
28 State Governments	0.4	0.8	1.8	3.4	5.7	14.6%



ICRA

Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, Head – Research & Outreach	aditin@icraindia.com	0124- 4545 385
Neetika Shridhar	Assistant Vice-President	neetika.shridhar@icraindia.com	0124 – 4545 305
Jaspreet Kaur	Senior Analyst	jaspreet.kaur@icraindia.com	0124 – 4545 853





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





© Copyright, 2024 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



ICRA

Thank You!