

UNIFIED PENSION SCHEME

SECTOR UPDATE

UPS – Negative for state banks

The central government has announced the Unified Pension Scheme (UPS) with defined benefits for employees as opposed to market-linked returns under the current National Pension System (NPS). Employers' contribution will increase from 14% to 18.5%.

While the UPS is applicable to only central government employees for now, our channel checks, not to mention history, suggest that it would eventually cover state and regional banks, which are covered by bipartite settlement. We reckon the worst-case impact shall be a 32% jump in banks' contribution to pension, which is negative for state banks and Federal Bank. Contribution to employee benefits, including pension, accounts for 13–15% of banks' PBT.

Government approves UPS

The Centre on Saturday approved the UPS for central government employees effective April 1, 2025, which is a shift back to the old pension scheme (OPS), which existed before the current NPS. Under the UPS, employees would get defined benefits against market-linked returns under the current NPS. Under the UPS, employers' contribution increases by 32%—from 14% to 18.5%.

Negative for state banks and Federal Bank

Much like what has happened in past, even employee unions of banks that are under the bipartite settlement shall demand a shift to UPS given higher pre-defined benefits. State banks and regional banks such as Federal Bank are covered by the bipartite wage agreement; other private banks are not. Mathematical calculation suggests an increase of 32% (difference between 14% and 18.5%) for banks' contribution, but there has been never been a like-to-like match for bank and central government employees, with bank employees getting marginally lower benefits. Media reports suggest the UPS will cost the central government INR62.5bn for 2.3mn employees and an additional INR8bn to clear arrears, totalling INR70.5bn.

How employees benefit

The UPS guarantees a pension equivalent to 50% of the average basic pay drawn over the last 12 months before retirement. Employees with 25 years of service shall receive this full amount while those with at least 10 years of service will get a proportionate pension, with a minimum guaranteed amount of INR10,000.

Quantifying the impact

It is tough to quantify the impact till the scheme is notified. However the worst-case impact would be a surge in banks' contribution of 32%, which will likely result in impact of 4–6% on PBT of state banks. But, it is not just a one-time top-up impact. The UPS will also lead to higher normalised cost-to-income for affected banks since it is based on defined benefits. When rates fall, the banks will need a higher top-up.

How OPS, NPS and UPS differ: A lowdown

There are currently two pension schemes: i) Old Pension Scheme, which is applicable to employees that joined before 2004; and ii) National Pension System, which is applicable to employees that joined post-2004. The OPS offers defined benefits, whereas the NPS offers market-linked returns. Now the government has approved the UPS, which will give employees benefits similar to the OPS and much better than the NPS.

- A central government employee will have to contribute 10% under the UPS. This was not the case under the OPS as the Centre bore the entire amount, but this 10% was introduced under the NPS.
- There will be an assured pension amount under the UPS like under the OPS. Also, the pension amount will increase as per inflation index like under the OPS. The pension amount is not dependent on market vagaries as it is in case of the NPS
- Government contribution under the NPS was 14%. Now, under the UPS, it has been hiked to 18.5%. So, the government is taking on the extra burden.
- The main difference in the UPS is that it is both a funded and a contributory scheme, plus offers an assurance on pension amount.
- The move will benefit 2.3mn central government employees. If the states take this route as well, a total of 9mn employees could benefit, who are currently under the NPS. All BJP-led states would likely adopt the UPS soon.
- Employees have been offered the option to switch to UPS by April 1, 2025, like those who were under the NPS since 2004. Arrears will be paid to them as well.

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Exhibit 1: Pension provision for employees as % of profit before tax

INR bn	Provision for employee contribution	Profit before tax	% to PBT
<u>BOB</u>			
FY18	4	-28	NA
FY19	28	7	401%
FY20	15	-18	NA
FY21	29	56	52%
FY22	28	94	29%
FY23	31	197	16%
FY24	41	249	16%
Q1FY25	8	62	13%
<u>Canara Bank</u>			
FY18	10	-66	NA
FY19	10	-23	NA
FY20	13	-18	NA
FY21	24	37	65%
FY22	33	90	36%
FY23	26	142	18%
FY24	27	197	14%
Q1FY25	NA	53	NA
<u>PNB</u>			
FY18	29	-196	NA
FY19	9	-153	NA
FY20	6	-79	NA
FY21	12	35	35%
FY22	10	43	23%
FY23	24	43	56%
FY24	30	132	22%
Q1FY25	NA	53	NA
<u>SBI</u>			
FY18	73	-13	NA
FY19	147	16	915%
FY20	184	251	73%
FY21	206	275	75%
FY22	141	434	32%
FY23	190	672	28%
FY24	300	818	37%
Q1FY25	35	230	15%
<u>Union</u>			
FY18	4	-66	NA
FY19	2	-39	NA
FY20	4	-40	NA
FY21	15	24	62%
FY22	13	86	16%
FY23	21	121	17%
FY24	22	214	10%
Q1FY25	NA	50	NA

Source: Company, Nuvama Research

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Exhibit 2: % of total employees under new and old pension scheme as of FY24

Bank	%
BOB	
% under old pension	NA
% under new pension	NA
Canara Bank	
% under old pension	20%
% under new pension	80%
PNB	
% under old pension	22%
% under new pension	78%
SBI	
% under old pension	38%
% under new pension	62%
Union	
% under old pension	NA
% under new pension	NA

Source: Company, Nuvama Research

Exhibit 3: Total number of employees as of FY24

Total number of employees	FY24
BOB	75,515
Canara Bank	82,638
PNB	1,02,349
SBI	2,28,679
Union	75,866

Source: Company, Nuvama Research

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Abneesh Roy

Head of Research Committee

Abneesh.Roy@nuvama.com
