THE IMPACT OF RISING PENSION BUDGET ON MILITARY MODERNISATION: A STUDY OF MINISTRY OF DEFENCE

A Dissertation submitted to the Panjab University, Chandigarh for the award of Master of Philosophy in Social Sciences, in Partial Fulfilment of the requirement for the Advanced Professional Programme in Public Administration (APPPA)

by

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Under the guidance

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46th ADVANCED PROFESSIONAL PROGRAMME IN PUBLIC ADMINISTRATION

(2020-21)

INDIAN INSTITUTE OF PUBLIC ADMINISTRATION

NEW DELHI

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CERTIFICATE

I have the pleasure to certify that **Brig Ajit Meelu** has pursued his research work and prepared the present dissertation titled "**The Impact of Rising Pension Budget on Military Modernisation: A Study of Ministry of Defence**" under my guidance and supervision. The dissertation is the result of his own research and to the best of my knowledge, no part of it has earlier comprised any other monograph, dissertation or book. This is being submitted to the Panjab University, Chandigarh, for the purpose of Master of Philosophy in Social Sciences in Partial fulfilment of the requirement for the Advanced Professional Programme in Public Administration of Indian Institute of Public Administration (IIPA), New Delhi.

I recommend that the dissertation of Brig Ajit Meelu **is** worthy of consideration for the award of M.Phil degree of Panjab University, Chandigarh.

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Acknowledgement

I would like to express my sincere gratitude to my guide Dr Saket Bihari for the continuous support, focused guidance, immense patience, exemplary motivation and immense knowledge for conducting this study in a very short period of time. His guidance helped me during the research and writing of this dissertation. I am indebted to him for being the best guide and mentor for my M. Phil dissertation.

I would also like to thank the IIPA as an institute for giving me this opportunity to choose a very relevant subject and providing the much needed infrastructural facilities to complete the work. I want to thank the IIPA library staff for the kind cooperation and making the required books available. I am grateful to all the experts for giving very valuable comments during the research proposal presentations which have helped me a lot in conducting this research work. I would like to thank the Course Coordinator of 46th APPPA, Dr Charru Malhotra and Dr Pawan Taneja for creating a very conducive and pleasant environment throughout the course, and also showing a very considerate attitude regarding timelines of the dissertation work. I would also to thank the APPPA officer staff for providing excellent support.

I would fail my duty if I do not thank the Department of Personnel & Training (DoP&T), the Government of India, for providing this wonderful opportunity to join the 46th APPPA course and thus widening my horizon, knowledge and understanding of public policy making, and meeting the wonderful and bright officers from various streams of Indian Group A services and Indian Armed Forces having varied and enriching experience. I shall cherish my association with all the bright minds of India.

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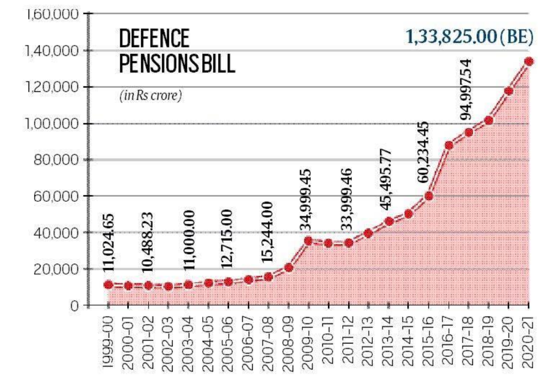
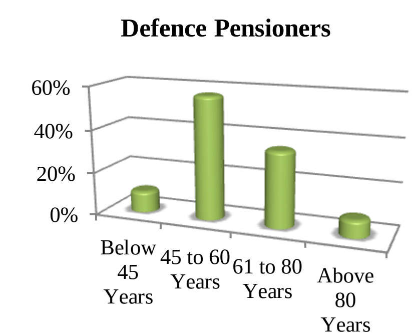
EXTENDED ABSTRACT

1. The pace at which the pension budget of Ministry of Defence is increasing, it is appreciated that it is going to be unsustainable in near future and will start affecting the growth of India's hard military capability. It accounted for 28 per cent of the MoD's total budget in 2020-21. The Growth of pension bill in last 20 years has been more than 11 times.



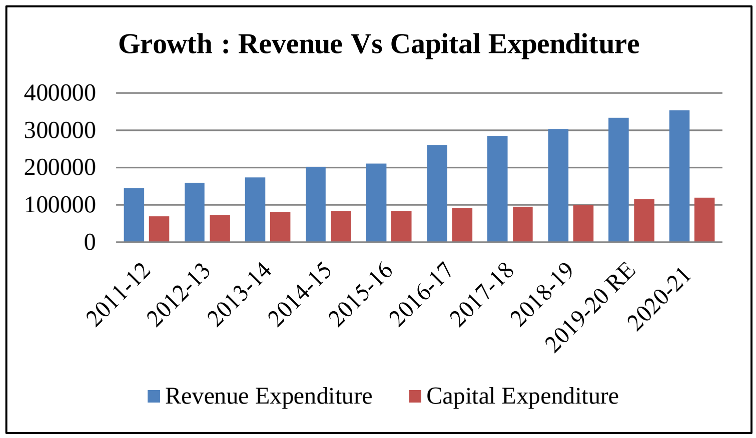
2. Number of Government of India committees and commissions recommended various options for defence pension reforms, but most of them were not implemented. Mitigation measures are urgently required because the results of whatever is done now will only start showing results after one half decades to two decades. The ever increasing pension budget will be difficult to be sustained if decisions in national interest are not taken immediately to ensure it does not adversely impact military modernisation.

3. Main reasons why the pension budget will continue to grow in the coming years are primarily due to ever-increasing pool of defence pensioners who retire at 35 to 40 years, increased life expectancy in the country, One Rank One Pension equalization every five years and pay commissions every 10 years. Besides these no

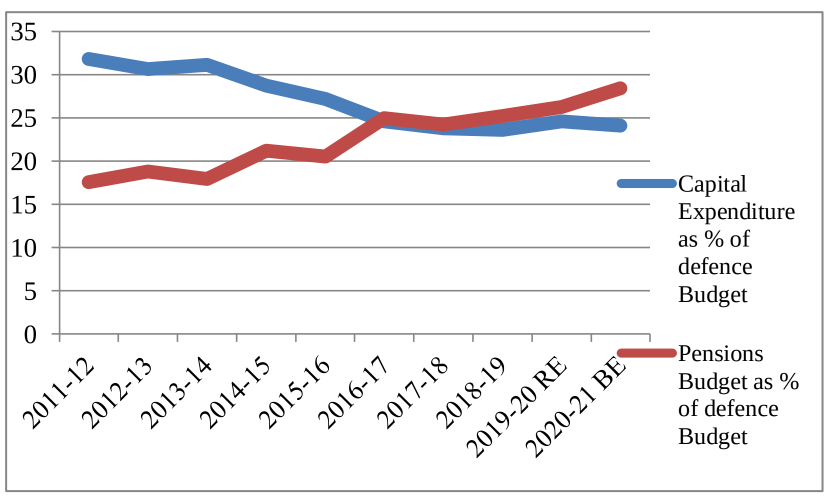


reduction in strength of the Defence forces is expected in near future due to twin threats and strategic situation in the sub-continent. Though NPS for civilian employees of MoD was started in 2004, but revenue funds are required to be invested in NPS employer share till these employees start retiring post 2034 onwards.

4. The increasing Pension Budget has started impacted modernisation of the forces as the revenue budget increase is being compensated from the capital budget meant for modernisation of defence forces of the MoD. The impact over last 10 years shows clearly that despite defence budget growing the availability of % of capital budget for modernisation of defence forces has been steadily decreasing.



5. The co-relationship between defence pensions and capital expenditure of MoD clearly shows that this impact is making less and less of funds available for modernisation and in future it will have a major impact if government does not address this critical issue immediately.



6. 5th Pay commission in 1996, The Kargil Review Committee (KRC) in 1999, Group of Ministers (GoM), in 2000, The 6th Pay Commission in 2005, Standing Committee on Defence of the 14th, 15th and 16th Lok Sabha and the 7th Pay Commission in 2016 all raised issue of rising pension budget and recommended lateral absorption models and other reforms. However, no reforms recommended were implemented by the government.

7. Study of how USA and UK are managing respective pension budgets was carried out. They have similar pension system but have carried out pension reforms over the years. The accrual budget system being followed by them ensures pensions don't impact forces modernisation.

8. The current ratio of military pensioners to serving military personnel is 1.7 to 1. In comparison, the ratio of civil pensioners to civil work force is 0.56 to 1. Reducing the ratio of pensioner to serving in the military will greatly reduce the defence pension bill. This can only be achieved if the main focus of the nation is that every person recruited is treated as national asset and it is ensured that max strength retires at 60.

9. The various options considered for this are Joint Training - Lateral Employment Model, post retirement jobs for ESM in other government departments, increasing retirement age, NPS for defence Forces and Accrual Budget of Pensions in India.

10. **The Joint training - Lateral Employment Model** in the study proposes that the personnel of Defence Forces and Central Armed Police Forces (CAPF) and Coast Guards to be treated as one national asset and employed based on organisational needs. It envisages that the uniformed forces of MoD and MHA to be considered as one. The Army and

CAPFs to be trained together and post meeting Army's requirement the strength to moved back to respective CAPF after a period of 5 years. The Joint Training - Lateral Employment Model is based on following parameters:-

(a) The Recruitment of individuals based on strength requirements remains responsibility of respective organisation.

(b) Common Basic Military Training in centralised training centres of the army.

(c) 100 per cent trained recruits join Army, Serve for a period of 5 years. During their tenure in Defence Forces, their pay and service conditions will be governed by the Defence Forces Acts and Rules.

(d) After 5 Years the personnel move back to respective organisations.

(e) The personnel on return to parent organisations will be given induction training to reorient themself with the CAPFs specific tasks.

(f) Coast Guards will have similar arrangements with the Navy.

(g) Till the time they serve with the army they draw Army emoluments and then revert to respective service emoluments and service conditions.

h) CAPFs to recruit and employ Group B and specialist manpower in the same way as being done now.

11. The feasibility analysis of the model clearly brings out that it is possible to implement the model and it will result in 27500 personnel every year from retiring at 35 years of age. This manpower will serve for 25 additional years and contribute to national wealth and reduce pension budget by 1050 crores annually at current rates.

12. **<u>Post Retirement Jobs in other Government Departments</u>**. If the existing reservation for ESM in central and state government only are considered then total of approximately 8500 retiring persons are getting absorbed in central and state government departments and therefor retire at 60 years. 84 % reserved vacancies in the central and state government are still not filled. If full quota of the reservations is filled up then this number will go up by at least 18000 more annually and reduce the pension budget by approx. 865 crores annually.

13. **<u>The Study Recommends the Model for Reduction of Pension Budget of MoD</u>**

The study recommends the following model :-

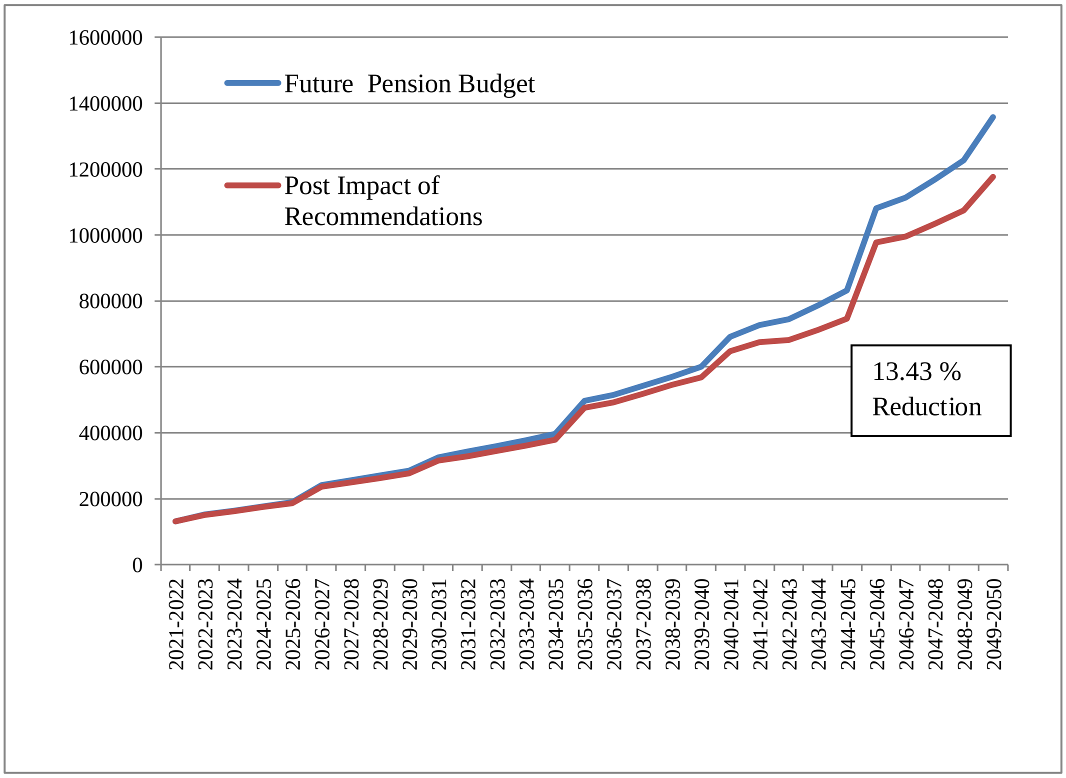
(a) Joint Training – Lateral employment model for Defence Forces and CAPFs and Coast Guards.

(b) Government of India should change the terms and conditions of personnel joining defence forces. They should include initial service with Defence Forces and post retirement service with other central and state government departments till age of 60 Years. Ordnance to ensure all ESM vacancies is filled by all central government and state government departments through Department for Ex-servicemen welfare in a coordinated manner.

(c) NPS for all non-uniformed persons in MoD.

14. **<u>Impact on Pensions Budget</u>**. The model wherein Joint training and lateral employment model, complete absorption of ESM reserve vacancies in state and central government departments, NPS for civilian MoD employees if considered is evaluated for checking the impact it will make on the future pension budgets by 2050.

15. The model was evaluated by extrapolating the defence pensions budget till 2050. Then the reduction as per proposed model was incorporated to find its impact. Reduction of 13.34 % will happen and will keep on increasing if the model proposed is accepted and implemented.



CHAPTER 1 : INTRODUCTION

1. Substantial number of defence personnel retire from the active service of the armed forces every year resulting in the substantial increase in pension bill of the Ministry of Defence. The pace at which the pension budget is increasing, it is appreciated that it is going to be unsustainable in future and will start affecting the growth of India's hard military capability. The rise in the pension expenditure has a significant effect nation's war-fighting ability.

2. The Union Budget 2020-21, allocated Rs 1,33,825 crs to the Ministry of Defence (MoD) to meet the liability of the retired defence pensioners. It accounted for 28 per cent of the MoD's total budget. The pension allocation is 4.4 per cent of the central government expenditure and 0.6 per cent of the gross domestic product (GDP). In the last 10 years, the defence pension has witnessed astounding upsurge percentage increase among the MoD's three major components i.e, the Defence Pension, MoD (Civil) and the Defence Services Estimates (DSE).

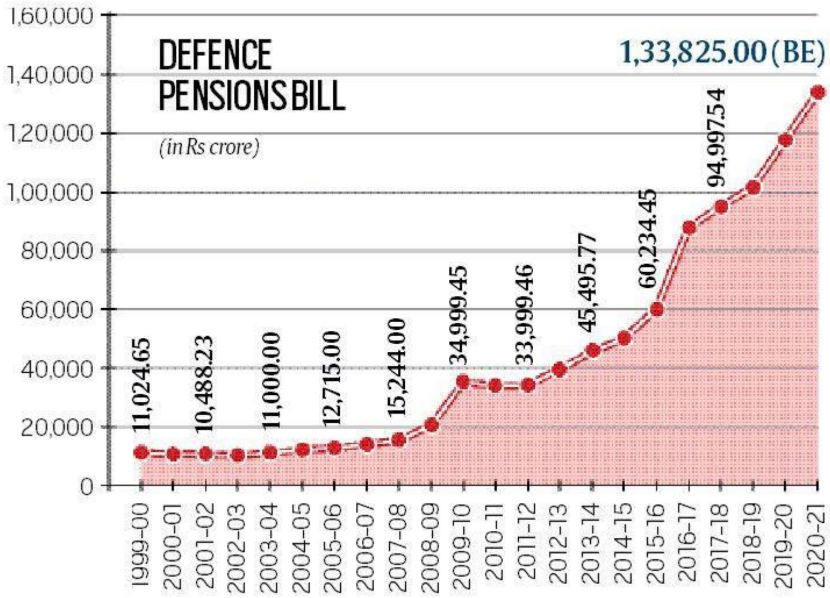


Figure 1 : Source data from Union Defence Budgets

3. MoD's pension budget caters to a number of retirement benefits, which include service pension, family pension, commutation, gratuity, leave encashment, monetary allowance for gallantry awards and arrears due to court judgements. Among these categories, pension (service pension and family pension) constitutes the bulk expenditure, accounting for 76 per cent of the total expenditure on defence pensions in 2018-19.

4. As of April 2019, pension is provided to around 3.24 million pensioners, of which 2.59 million or 80 per cent are retired military personnel or their dependants and 0.60 million or 19 per cent are defence civilians and their dependants. About 46,869 or 1.4 per cent are not classified in the above two categories though efforts are on to find the right category for these group of pensioners. It is important to note that the total headcount of pensioners is based on actual counting since 2017-18, before which only assessed number was available.

Table 1: No. of Pensioner (As on April 1, 2019)[1]

Category	Service Pensioners	Family Pensioners	Disability Pensioners	Total
Officers	54,825	19,060	9,374	83,259
PBORs	17,05,574	5,93,208	2,05,037	25,03,819
Defence Civilians	3,47,779	2,54,004	---	6,01,783
Unclassified				46,869
Total	21,08,178	8,66,272	2,14,411	32,35,730

5. Every year, a substantial number of defence personnel retire from the active service in the armed forces. Between 2011-12 and 2013-14, the number of retirees has increased from 49,827 to 57,507, an increase of 15 per cent (see Table 2). In 2013-14,

[1] IDSA Round Table on Defence Pension, February 14, 2020

among all the defence forces retirees, the Junior Commissioned Officers (JCOs) and Other Ranks (ORs) constituted nearly 97 per cent. On an average every year three categories of retirees - Sepoys, Naiks and Havildars and their equivalents – together constitute over 70 per cent of the total retirees from the armed forces.

Table 2: No. of Retirees from Defence Forces[2]

Year	Officers	JCOs/ORs	Total
2011-12	1,626	48,201	49,827
2012-13	1,643	53,446	55,089
2013-14	1,606	55,901	57,507

6. The government's pension budget is unlikely to go away anytime soon. This is because India's manpower-intensive armed forces have only increased their pension costs in the recent past, India's armed forces are the only major fighting force in the world that are increasing personnel numbers instead of reducing them due to the china and Pakistan factor. The Indian Army, with 1.3 million soldiers, is the world's second-largest, and it continued to add soldiers due to security reasons, all of whom will have to be paid pensions on retirement.

7. Number of committees on pension reforms recommended various options but most of them have not been able to address the issue. Mitigation measures are required to be taken at the earliest as the results will only start showing after one to two decades. The ever increasing pension budget will be difficult to be sustained if decisions in national interest are not taken immediately to ensure it does not impact military modernisation.

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[2] "Report of the Seventh Central Pay Commission", *Ministry of Finance*, *Government of India*, November 2015, p. 133.

8. The issues needs urgent attention since in last two years the news on mounting pension bill of MoD has been discussed in open forums and Chief of Defence Staff has also commented upon reducing it in future as it's impacting the modernisation of defence forces.

CHAPTER 2 : SETTING OF THE STUDY

Objectives

1. Keeping in view the significance of the subject, following objectives have been set up for the study:-

(a) To study the efficacy of the increasing pension budget of the Ministry of Defence.

(b) To assess the impact of increasing pension budget on military modernization.

(c) To study the factors increasing pension budget and their impact.

(d) To study the pension reforms recommended by various Government committees and commissions.

(e) To document the best practices of other major military powers in managing pensions budget.

(g) To recommend measure to address the mounting pension budget.

Research Design

2. The study will provide insights into the rising trends in pension budget of MoD and its impact on military modernization. It would entail studying the factors responsible for this and recommendations of various committees on pension reforms. To get responsive feedback on the objectives, relevant information would be garnered using both primary and secondary sources. Reports, papers and articles published in various renowned journals/newspapers will also be analyzed for better understanding of the subject. In addition, there may be a need to interact with eminent economist in the Niti Ayog / Finance Commission.

3. Various Measures to reduce the pension budget will be analysed including their impact in future.

Research Questions

4. This research will attempt to find answers to the following questions:-

(a) What impact increasing pension budget is having on the MoD budget?

(b) What are the factors contributing to the increase in the pension bill?

(d) What will be impact of Contributory Pension Scheme for Civilian employees of MoD pension budget in future?

(e) What impact increasing pension bill will have on the military modernisation?

(f) What were the pension reforms recommended by various committees and commissions? What is the Implementation status of recommendations and their effects on reduction in pension budget?

(g) How are other countries maintaining large armies meeting pension bill without affecting the military capability building?

(h) Find measures to reduce the pension bill in future?

Scope / Limitations/ Delimitation

5. The research is limited to addressing the financial impact of rising pension budget on military modernization. The military modernization requirements will not be addressed being confidential in nature. However, the Pension budget reduction measures recommended would be able to show how savings in pension budget would be available after two decade

plus for the forces modernization. The field visits could not be organized to CAPF training centers due to Covid 19 protocol issues.

6. **Method of Data Collection**.

(a) **Secondary Sources**. The sources covered quantitative and qualitative issues on the subject.

(i) Annual Reports of MoD.

(ii) Union Budget of India.

(ii) Reports of Government Committees and Commissions.

. (iv) 15Th Finance Commission Report.

(v) Research papers / articles published by various think-tanks.

(vi) News articles.

(vii) Internet.

(d) **Primary Sources**

(i) Inputs from Manohar Parrikar Institute for defence Studies and Analysis

(ii) Inputs from Niti Ayog.

(iii) Inputs from NSA secretariat

(iv) Inputs from Army HQ.

CHAPTER 3 : FACTORS EFFECTING PENSION BUDGET OF MoD

1. The defence pensions if analysed since independence provide the reasons for its growth over the decades. The system of pensions was initially started by the British in India. Post-independence the similar system was continued. The strength of the Army was small and the pension budget was a very small component as number of pensioners was very less compared to the strength of the defence forces.

2. The pension system was revised first in 1965, when the colour service was changed. In 1965, the colour service for the vast majority of PBORs was increased from seven to 10 years, mainly to support rapid expansion of the army in the aftermath of the 1962 war with China. Second time in 1976, it was increased from 10 to 17 years. This change led to almost every retiree becoming eligible for a pension, in comparison to nearly 35 per cent who were eligible for a pension before 1965.

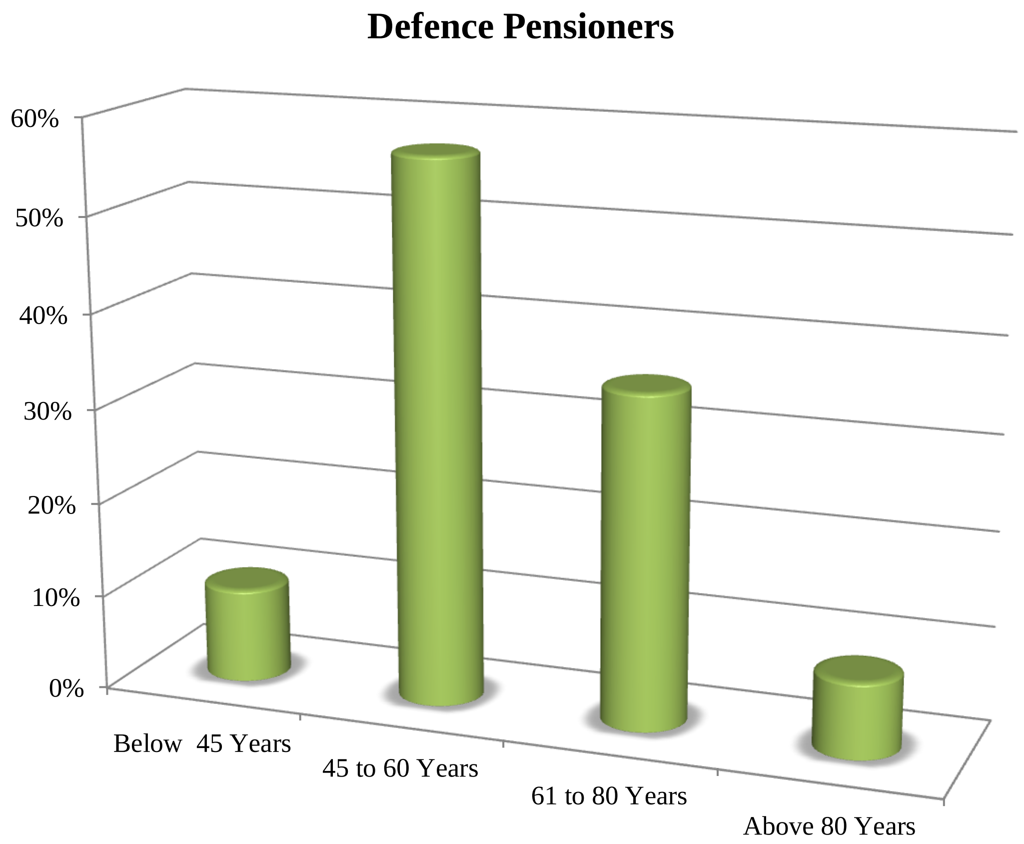
3. The Defence Pensions were reduced in 1973 when it was made 50 % of last Pay drawn from 70 % of last pay drawn. It was done by the pay commission to bring uniformity between civilian and defence pension system.

4. The implementation of the recommendations of the successive Central Pay Commissions (CPCs) also contributed constantly in increasing the pension component in the defence budget as the number of pensioners also kept increasing.

5. One Rank One Pension (OROP) scheme, implemented with effect from July 2014 caused a quantum jump in the pensions. The impact of OROP will keep making impact every 5 years with the OROP equalisation review to equate pensions. The first review of 2019 is still under consideration.

6. Since the defence forces personnel begin their career early and also retire at a relatively young age than their civilian counterparts, a greater number of retirees are 60 years of age or less (see Annexure 1 for terms of engagement and retiring age of Personnel Below Officers Rank. As of January 2014, of the total 1.86 million defence forces pensioners, 57 per cent were below 60 years, 35 per cent between 60 and 80 years, and eight per cent between 80 and 100 years (see Figure 1).

Figure 1: Age Profile of Defence Forces Pensioners (As on January 1, 2014)[3]



7. Comparison of the pension budget of MoD with other central government ministries over the past decade shows a similar growth pattern, between 284 % of central government and 393 % for defence. Interestingly, 46 % of the central government employees are with ministry of defence and it accounts for 44 % of the pension budget.

[3] "Report of the Seventh Central Pay Commission", *Ministry of Finance*, *Government of India*, November 2015, p. 400.

The MoD pensioners include approximately 5 Lakh civilians(20% of MoD pensioners) nut account for 33 % of the pension budget.

8. National Pension Scheme was implemented by the Government of India in Jan 2004 for all central government employees less Defence Forces personnel's. The Government will provide pension to pre 2004 employees as per terms of the service at the time of joining. Therefore the pension budget of central government will start reducing once post 2004 employees start retiring by 2034 onwards. However the defence pension budget will not get impacted with NPS as Defence civilians will reduce but there will be commensurate increase in the defence forces pensioners' strength.

9. The four main reasons why the pension budget will continue to grow in the coming years despite NPS for civilian employees of MOD are as following:-

(a) The fading away of the current defence civilian pensioners will be partly offset by the new addition from the current serving lot of defence civilian employees, whose held strength is 3,98,422 as against a sanctioned strength of 5,85,476 as on March 1, 2018. Even if one assumes that the current held strength of the civilian employees does not grow further, and 40-50 per cent of the serving lot are still covered under the DPS, nearly 1,60,000 to 2,00,000 will gradually but eventually join the pensioner pool till around 2035 and will continue to draw pension/family pension for the next 15-20 years (i.e., till 2050-55), and possibly more, if the current life expectancy continues to improve further. Suffice it to say that India's average life expectancy at birth, which is on a continuous rise since the early 1950s (see Table 3), is yet to reach a level seen in the developed countries.

Table 3: India's Average Life Expectancy at Birth (In Years)[4]

Period	Male	Female	Rural	Urban	Total
1951-61	41.9	40.6	---	---	---
1961-71	46.4	44.7	---	---	---
1971-81	50.9	50	---	---	---
1976-80	52.5	52.1	50.6	60.1	52.3
1981-85	55.4	55.7	53.7	62.8	55.4
1986-90	57.7	58.1	56.1	63.4	57.7
1991-95	59.7	60.9	58.9	65.9	60.3
2001-05	63.1	65.6	63.0	68.6	64.3
2006-10	64.6	67.70	64.9	69.6	66.1
2009-13	67.5	69.3	66.3	71.2	67.5
2011-15	66.9	70	67.1	71.9	68.3
2013-17	---	---	67.7	72.4	69.0

(b) All the present defence civilian employees, who are covered under the DPS, will eventually be replaced by new recruits under the National Pension Scheme (NPS), a Defined Contributory Scheme (DCS). The government's contribution to the NPS for the civilian recruits, which may be less than what it would have otherwise spent on pension if the DPS were in place, will nonetheless add to the pension budget.

(c) The implementation of the OROP scheme and the CPC recommendations in future will provide a periodic spurt in the pension budget, especially that of the defence personnel. Suffice it to say that the implementation of 6th CPC more than doubled the pension budget in just two years while OROP and 7th CPC led to an increase of 46 per cent in pension expenditure in just one year.

[4] Central Pay Commission Report, National Health Profile 2019, Economic Survey 2019-20.

(d) The most important factor that would drive a high growth in the defence pension in the coming years is the ever-increasing pool of defence pensioners. This assessment is based on a higher life expectancy that the present and future pensioners are likely to enjoy and the absolute number of service pensioners to be added to the pensioner club. The increase in the life expectancy would result in fewer pensioners moving out of the government's pension pool, while the annual addition of pensioners will keep the pool growing at a much faster pace.

11. Therefore it's important for the government to take action now to ensure the mounting pension budget is met by either adequate allocations or timely measures are taken to reduce it within the financial viability in the future.

12. Army alone is recruiting close to approximately 60000 soldiers a year since last 10 years. This is more than it recruited since independence. This increased strength is required to meet the operational requirements. However, this increased strength is going to increase people retiring post 2025 onwards and hence increasing the pension budget further. OROP has been implemented. It's every 5 years review of pensions to meet OROP scales going to further impact the budget figures.

CHAPTER 4 : IMPACT OF PENSION BUDGET ON MILITARY MODERNIZATION

1. The defence ministry's Rs 1.33 lakh crore allocation for pensions was 28 per cent of the total budget. Over the past decade, defence pensions have seen the fastest growth in percentage terms of any component in the budget, outstripping even the growth in what the government spends on buying military hardware. The obvious solution, to hike the defence budget, seems unlikely in the present pandemic- and lockdown-induced downturn where the economy is projected to contract by 10.3 per cent this year. This growth in the pension bill can be traced back to a single decision taken in November 2015, the government announced the implementation of OROP (One Rank, One Pension), which mandated equal pensions for equal ranks, irrespective of the date of retirement. Military analysts appreciate it as the major caused the most egregious harm to the defence budget. The pension bill has more than doubled from Rs 55,000 crore in 2015 to Rs 1.25 lakh crore in 2020-21. India has 3.2 million pensioners and dependents and only 1.6 million ex-servicemen. Pension outlays, as the last defence budget showed, are now increasing faster than the component for buying new military hardware like warships, planes and tanks. The government has pressed the pause button on its OROP promise of revising defence pensions every five years. The 2019 revision of pension scales, which would have seen it fork out an additional Rs 8,000-10,000 crore each year, has been put on hold by the government.

2. The share of capital expenditure in India's defence budget (inclusive of pensions) saw a sharp, secular decline of almost eight percentage points, to below 24% over the decade to 2019, despite a persistent state of tension with Pakistan and a Chinese threat that never really faded.

3. A slow reversal of the trend seems underway now, amid renewed concerns over the level of the country's defence preparedness and arms and arsenal – Capital Expenditure turned out to be 24.6% of defence expenditure in 2020; indications are that the budgetted Capital Expenditure level of 24.1% in 2021 would at least be maintained, despite acute fiscal constraints.

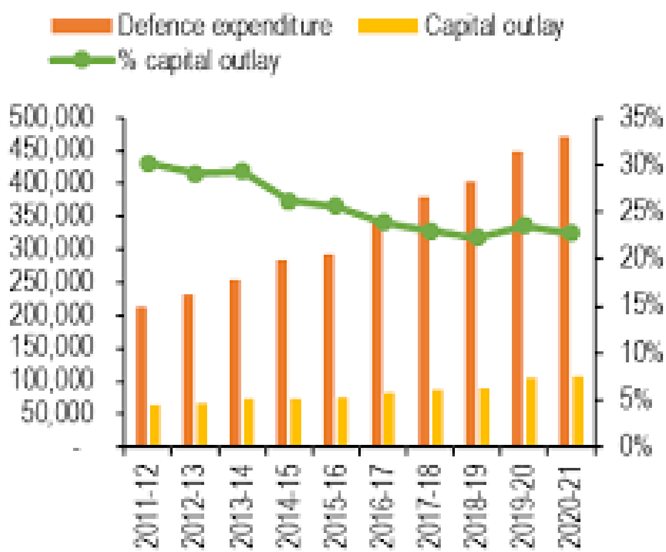


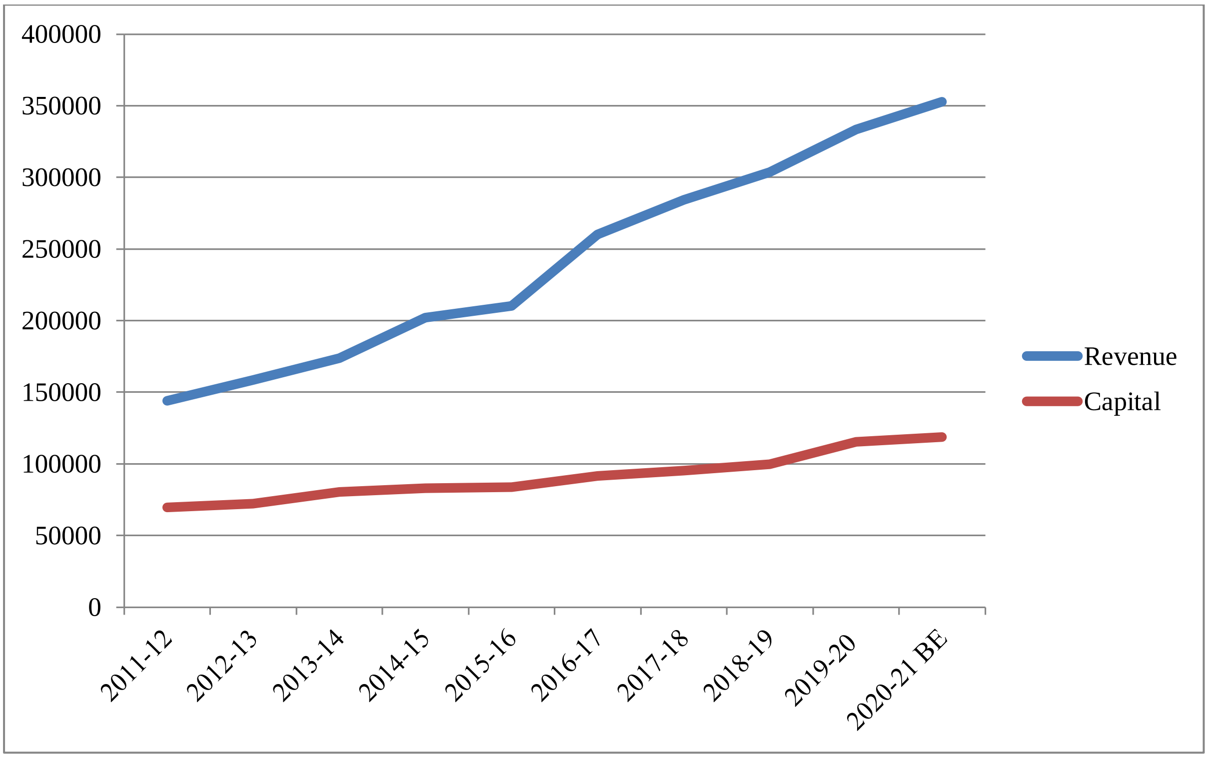
Figure 1 : Defence expenditure and Capital Outlay

4. The one-rank-one-pension scheme has further inflated the already-high revenue expenditure on defence since 2016, accelerating the capital expenditure decline. While overall defence spending rose by over 132%, in absolute term, between 2011 and 2020 to Rs 4.52 lakh crore, the capital expenditure rose by just 79% to Rs 1.11 lakh crore, according to the provisional data sourced from the Controller General of Accounts and Budget documents. In fact, between 2016 and 2020, the defence pension bill almost doubled from Rs 60,238 crore to Rs 1,17,810 crore, beating capital expenditure for defence services for a fourth straight year.

5. The increased revenue expenditure has crimped government's ability to boost capital expenditure and undermined efforts towards defence modernisation. The chief of defence staff Bipin Rawat termed the surge in outlay for defence pension "unsustainable". The actual defence spending could be higher by a fifth or so over what the Budget papers show. Budget heads on paramilitary forces (under the ministry of home affairs), border roads, coast guard and parts of the spending on nuclear energy (which are for nuclear weapons) and space could

actually be counted among defence expenditure. Still, India spends relatively less of its public expenditure or gross domestic product (GDP) on defence, compared with many other countries, including Pakistan, the US, Russia or Israel. while the overall defence spending level, including the pension bill, has dropped from 2.5% of nominal GDP in 2011 to 2.2% in 2020, the decline in the Capital Expenditure is more dramatic even on a much lower base — from 0.8% of GDP to 0.5% over the past decade.

Figure 2: Revenue and capital expenditure: MoD 2011 - 2021[5]



6. In last three decades, Budgeted defence spending has declined, against the size of the GDP. Even excluding pensions, defence expenditure had hovered around 2.5% of GDP during the fifteen years to 2005. The share of overall defence spending in the government's budgetary expenditure has risen marginally from 16.3% in 2011 to 16.8% 2020.

[5] Data from 15th Finance Commission Report

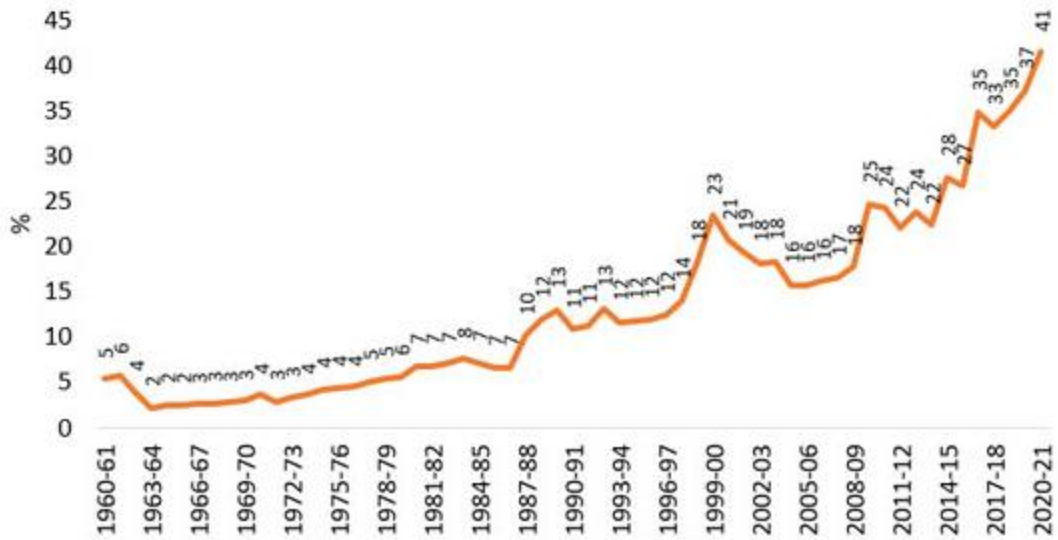
7. Following the tension with China along the Line of Actual Control, the government has expedited procurement of several weapons, which may cause a temporary blip in the share of capital spending in the overall defence expenditure 2021 . Armed forces are working on over 100 emergency procurement contracts — with a maximum ceiling of Rs 500 crore each. This procurement is set to be much higher than the Rs 11,000 crore worth of contracts signed after the Uri terror attack in 2016. "While it is true that given India's vast unsettled borders, the manpower cost will remain a big item of defence expenditure, it is also a fact that the rise in manpower cost has come at a significant cost to modernisation and operations and maintenance. Needless to reiterate, rationalising the manpower cost will go a long way in improving the combat capability of the defence forces and help obtain the proverbial bang for the buck."[6]

8. Report points out that 71% (or Rs 1,83,905 crore) of the rise in overall defence spending between 2012 and 2021 (Budget estimate) is due to the combined increase in pay and allowance of existing staff and pension (the contribution of pension alone has been 37%, or Rs 96,256 crore). On the other hand, capital acquisition has contributed only 13% (Rs 34,012 crore) to the overall increase and R&D 4% (Rs 9,434 crore). It's noteworthy that the share of capital expenditure in defence spending rose by a percentage point in 2020 from a year before to 24.6%, partly due to a more than doubling of expenses on certain equipment for the Air Force . However, it was more an exception than a norm in the past decade. To be sure, the defence expenditure, compiled here from the numbers specified in Budget documents across three broad heads –allocations for the ministry of defence (civil); defence services and defence pension–doesn't capture all the defence-related spending that are incurred outside the officially-stated allocation for the defence ministry. Also, there are no publicly-available data on a range of areas, including select strategic programmes with

[6] "Bang for Buck: India's Defence Expenditure in Wider Perspective" by Laxman Kumar Behera, research fellow at the Manohar Parrikar Institute for Defence Studies and Analyses,

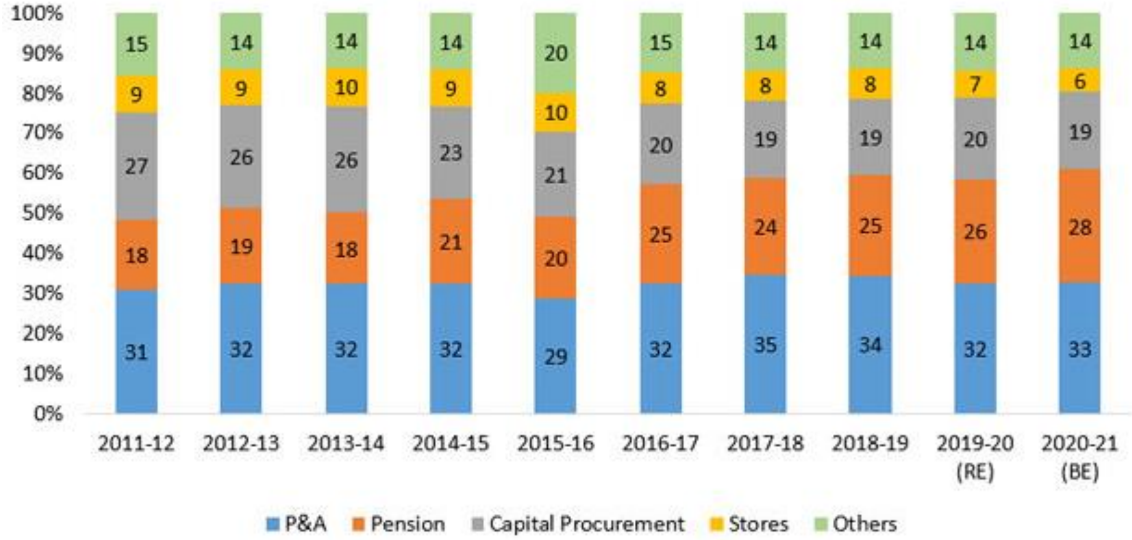
security dimensions or expenditure on intelligence gatherings by non-defence agencies, which are viewed as defence spending in some other countries.

Figure 3 : Defence pensions as % of DSE : 2060 - 2021



9. The changing pattern among the key components of MoD's expenditure: Pay and Allowances (P&A), Pension, Stores, Capital Procurement and other heads of expenditure. As can be seen, the share of the defence pension has increased the most, and together with P&A accounts for 61 per cent of the MoD's total budget in 2020-21, up from 49 per cent in 2011-12. More significantly, nearly the entire increase in the pension's share has come at the cost of the capital procurement, which together with Stores has dwindled by 11 percentage points from 36 per cent in 2011-12 to 25 per cent in 2020-21. In other words, the fast rise in the pension expenditure has a significant crowding out effect on the stores and modernisation, two major components that determine nation's war-fighting ability. Needless to say, this does not augur well for India's defence preparedness.

Figure 4: Changing Pattern of MoD's Expenditure



Sources: Figures compiled from Union Budgets and Defence Services Estimates

<u>Analysis of Defence Expenditure</u>

11 Defence expenditure has, over time, been characterised by a higher share of revenue expenditure, huge pension bills and lower capital expenditure with high dependence on import of defence equipment. It has become imperative to review the structure of defence expenditure in order to ensure greater predictability and stability in the flow of adequate funds for its capital needs and to find ways to reduce growth in revenue expenditure, especially rising pension outlays.

12. The Ministry of Defence (MoD) has the highest allocation among all Union ministries. Over the last ten years, the defence budget has shown a trend growth rate of 9.6 per cent. Within this, revenue expenditure has grown at 11 per cent and capital expenditure at only 6.1 per cent (Table 1). The higher growth of revenue expenditure is mainly on account of rising outlays on defence pension, which has increased at the rate of 15.7 per cent.

Table 1: Analysis of Total Defence Expenditure (Revenue and Capital) (Rs. crore)[7]

Financial Year	Defence revenue expenditure	As % of GDP	As % of revenue expenditure of Union Govt.	Defence capital expenditure	As % of GDP	As % of capital expenditure of Union Govt.	Total defence expenditure(revenue + capital)	As % of GDP	As % of total expenditure of Union Govt.
2011-12	144147	1.65	12.6	69526	0.80	43.8	213673	2.45	16.4
2012-13	158545	1.59	12.8	72097	0.73	43.2	230642	2.32	16.4
2013-14	173912	1.55	12.7	80222	0.71	42.7	254134	2.26	16.3
2014-15	201929	1.62	13.8	83076	0.67	42.2	285005	2.29	17.1
2015-16	210306	1.53	13.7	83614	0.61	33.0	293920	2.13	16.4
2016-17	260067	1.69	15.4	91484	0.59	32.1	351551	2.28	17.8
2017-18	284273	1.66	15.1	95431	0.56	36.3	379704	2.22	17.7
2018-19	303657	1.60	15.1	99802	0.53	32.4	403459	2.13	17.4
2019-20 RE	333449	1.63	14.2	115371	0.56	33.1	448820	2.20	16.6
2020-21	352823	1.57	13.4	118555	0.53	28.8	471378	2.10	15.5
TGR(%) (2011-21)	11.0			6.1			9.6		

13 Although as a proportion of gross domestic product (GDP), total defence expenditure has decreased between 2011-12 and 2018-19 (from 2.5 per cent to 2.1 per cent), the proportion of total defence expenditure in total Union Government expenditure has increased from 16.4 per cent to 17.4 per cent during the same period. This is also in the background of a decline in total Union Government expenditure from 14.9 per cent of GDP in 2011-12 to 12.2 per cent of GDP in 2018-19. The increase is largely accounted for by defence revenue expenditure which rose from 12.6 per cent of the Union Government's revenue expenditure in 2011-12 to 15.1 per cent in 2018- 19 on account of higher outgo on salaries and pensions, with the implementation of revised pay scales following the recommendations of the Seventh Central Pay Commission. On the other hand, the share of defence capital expenditure in the total capital expenditure of the Union Government has declined from 43.8 per cent to 32.4 per cent during the same period.

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[7] XV Finance Commission Report

Review of Defence Capital Outlay

14 Defence capital outlay includes expenditure on the purchase of defence equipment, weaponry, aircraft, naval ships, land and the cost of construction of roads and bridges in border areas. Capital outlay on defence in 2020-21 (BE) is Rs. 1.14 lakh crore, which accounts for 24.1 per cent of the total defence budget (including defence pension). This indicates a decline since 2011-12, when the capital outlay was 31.8 per cent of total defence budget. Similarly, between 2011-12 and 2018-19, capital outlay as a proportion of total Union Government expenditure declined from 5.2 per cent to 4.1 per cent, and as a proportion of GDP from 0.8 per cent to 0.5 per cent. (Table 2).

Table 2: Capital Outlay of Defence Services (Rs. crore)[8]

Financial Year	BE	Actual	Annual growth (%)	Actual as % of BE	Capital outlay as % of GDP	Capital outlay as % of total Union expenditure	Capital Outlay as % of total defence expenditure
2011-12	69199	67902	9.4	98.1	0.8	5.2	31.8
2012-13	79579	70499	3.8	88.6	0.7	5.0	30.6
2013-14	86741	79125	12.2	91.2	0.7	5.1	31.1
2014-15	94588	81887	3.5	86.6	0.7	4.9	28.7
2015-16	94588	79958	-2.4	84.5	0.6	4.5	27.2
2016-17	86340	86371	8.0	100.0	0.6	4.4	24.6
2017-18	86529	90445	4.7	104.5	0.5	4.2	23.8
2018-19	94011	95231	5.3	101.3	0.5	4.1	23.6
2019-20 RE	103394	110394 (RE)	15.9	106.8	0.5	4.1	24.6
2020-21 BE	113734	113734 (BE)	3.0	-	0.5	3.7	24.1
Trend Growth Rate 2011 -21		5.7 %					

[8] XV Finance Commission Report

15 A key feature of defence capital expenditure is the dependence on imports. According to the Stockholm International Peace Research Institute, India was the fourth-largest importer of defence goods and services in 2018. Imports of military hardware result in the country losing out on the multiplier effects on the economy as well as on spin-offs in terms of technical and scientific inventions and innovations, which domestic production will result in. Furthermore, the dependence on foreign suppliers for military hardware not only entails huge expenditure on imports, but also makes national security vulnerable to vagaries of supply during emergencies. There has been a recent thrust for indigenous production of defence equipment but it needs to be matched with predictability and stability in the flow of adequate resources for capital investment as part of overall strategy of defence modernisation.

Expenditure on Pensions

16 Defence pensions cover payment of service pension, gratuity, family pension, disability pension, commuted value of pension and leave encashment for retired personnel of the three services and also employees of ordnance factories. Defence pension, as a proportion of total defence allocation, has risen from 17.6 per cent to 28.4 per cent between 2011-12 to 2020-21 (BE). It has grown at trend growth rate of 15.7 per cent in the last ten years (2011-2021) against 9.6 per cent growth in the entire defence sector. As a proportion of GDP, it increased from 0.4 per cent to 0.6 per cent and as a proportion of revenue expenditure of the Union Government expenditure from 3.3 to 5.1 per cent (Table.3).

Table 3: Defence Pension Expenditure[9]

Financial Year	Defence pension (in Rs. crore)	Percentage of defence expenditure*	Percentage of GDP	Percentage of revenue expenditure of Union Government
2011-12	37569	17.58	0.43	3.3
2012-13	43368	18.80	0.44	3.5
2013-14	45500	17.901	0.41	3.3
2014-15	60450	21.21	0.48	4.1
2015-16	60238	20.49	0.44	3.9
2016-17	87826	24.98	0.57	5.2
2017-18	92000	24.23	0.54	4.9
2018-19	101775	25.23	0.54	5.1
2019-20 RE	117810	26.25	0.58	5.0
2020-21 BE	133825	28.39	0.60	5.1
TGR %(2011-21)	15.7			

17. From 2016-17 onwards, consequent to the implementation of the Seventh Central Pay Commission award and the One Rank One Pension (OROP) scheme for defence services employees, ***the defence pension expenditure has started growing at a faster rate than the capital outlay on defence services. As the overall resources were limited, this increase in defence pension expenditure impacts the availability of funds for defence modernisation.*** The fact stands out due to increasing shortfall in capital funds shortfall (Table 4).

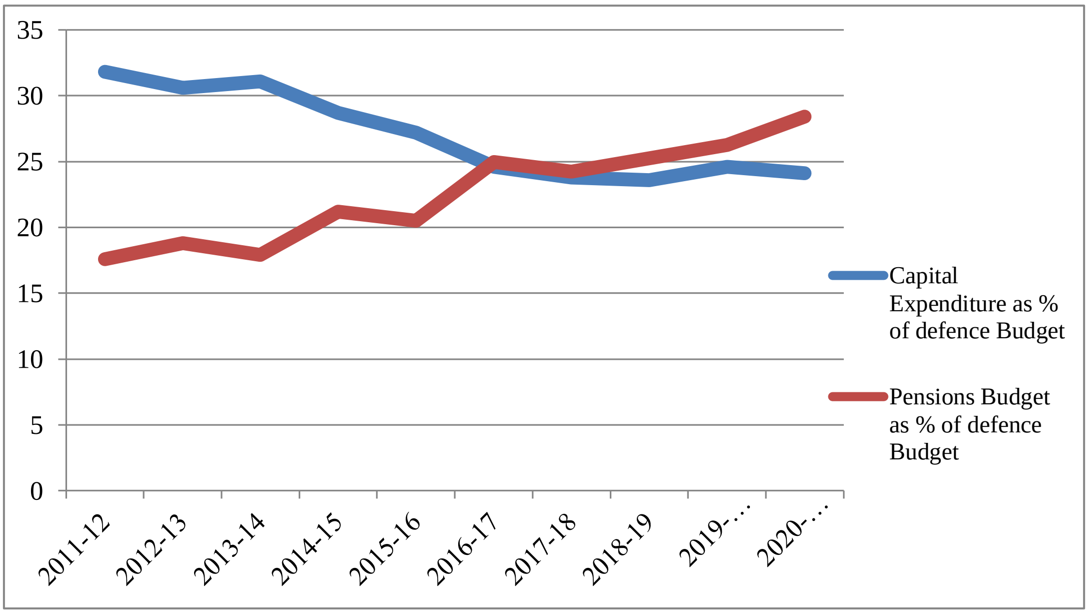
[9] XV Finance Commission Report

Table 4: Projection and Allocation of Funds for Capital Expenditure in Defence Services[10]

Year	Projection	Allocation	Shortfall
2016-17	121930	78587	43343
2017-18	132872	86488	46384
2018-19	172203	93982	78221
2019-20	170904	110394 (RE)	60510
2020-21	175702	113734 (BE)	61968
Total	773611	483185	290426
Shortfall	154722	96637	58085

18. Welfare of ESM is a government function and needs to be addressed in manner that it in the long term does not impact the capability and modernisation of its defence forces. The option with the government is to either increase the Defence Budget to ensure the requirement of forces is met wrt force modernisation in the fast changing strategic and tactical actions in the sub-continent with two front threat becoming more and more open or take actions to ensure that this trend of reduced Capital funds are overcome by reducing the revenue expenditure on pensions. This is possible only if actions are taken now.

Figure 5 : Defence Budget : Capital Expenditure Vs Pension Budget

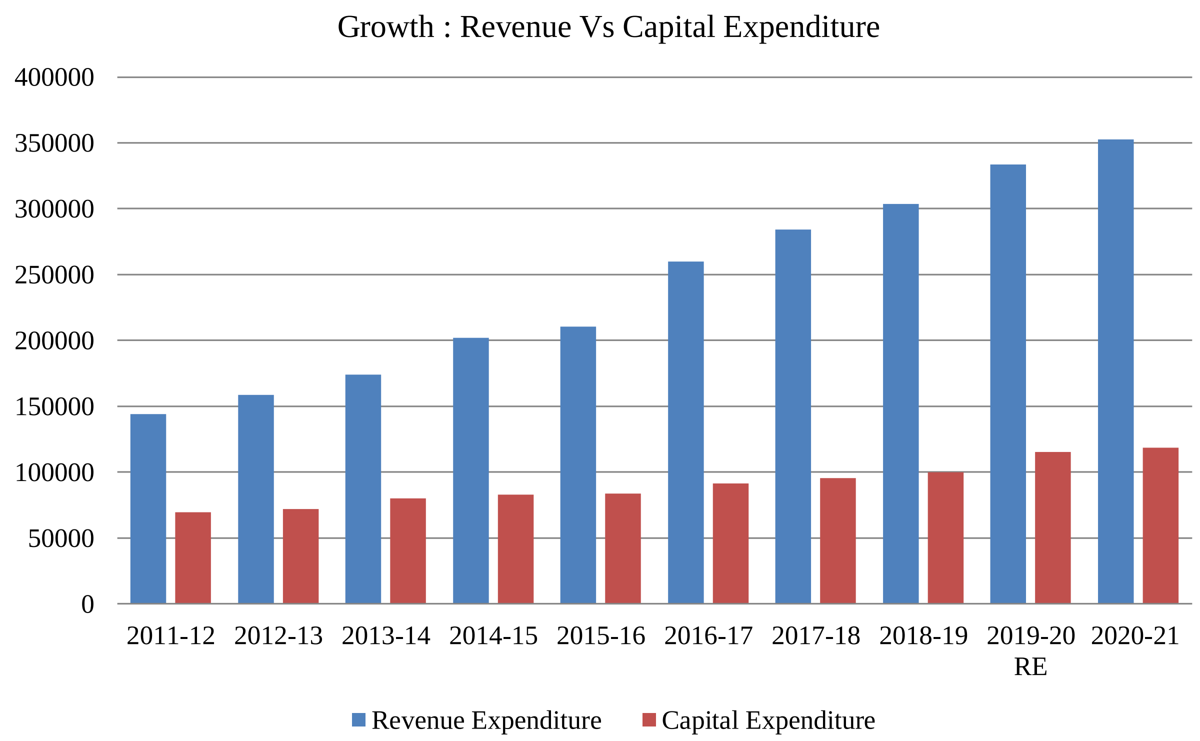


[10] MoD's Base Paper dated 16 July 2020 and ID note dated 25 August, 2020 submitted to FC-XV

19. The pension budget is going to increase with each fiscal year with additional troops joining the retirees list and with OROP 5 year review, DA and pay commissions the trend is for exponential increase in future.

20 The fact that 28.4 per cent of the defence budget goes to pensions and there is revenue-capital ratio of 75:25 is alarming because it has deleterious impact on modernisation. In an increasingly challenging geopolitical environment, this is a grave security concern and one that has been known to India's security establishment for decades. It calls for political intervention at the highest level. These issues pose serious threats towards maintaining military effectiveness in the long run.

Figure 6 : Revenue and Capital Expenditure 2011 - 21[11]



[11] 15th Finance Commission Report

CHAPTER 5 : PENSION REFORMS RECOMMENDATED BY VARIOUS GOVERNMENT COMMITTEE AND COMMISSIONS

1. Defence pension has been an issue of intense discussion for a long time; however, no reforms have actually happened. Over the decades several committees and government-appointed commissions have looked into the matter and submitted their recommendations. Some of the salient reforms suggested by these committees/commissions are covered in succeeding paragraphs.

Kargil Review Committee.

2. The Kargil Review Committee (KRC) was set up in 1999 under the chairmanship of late K. Subrahmanyam. It was amongst the first few expert bodies that had raised the issue of addressing the defence pension, especially that of the Army due to rising revenue expenditure and reducing capital for modernisation. It had noted that "The Army pension bill has risen exponentially since the 1960s and is becoming an increasing burden on the national exchequer." The main context of the committee's discussion on pension was, however, the unfavourable age profile of the Indian Army. Emphasising that "The army must be young and fit at all times",

3. The committee had advised for a drastic reduction of the colour service to a period of seven to 10 years from 17 years, which had been the policy since 1976.[6] The reduction in colour service, argued the committee, would not only improve the age profile of the army but also reduce the pension cost. While advising such a drastic step, the committee was also mindful of the consequences, especially those related to the career aspects of the personnel released after a few years of service in the armed forces.

4. To allay concerns and provide an assured career to the army personnel, the committee had made an equally drastic suggestion, as per which the manpower requirement of the army would be met through the para-military forces which would "undertake recruitment on the basis of certain common national military standards and then send those selected for training and absorption in the Army for a period of colour service before reverting to their parent para-military formations."[7] This indirect mode of recruitment for Army's manpower needs was suggested to overcome the objection of the para-military forces which, as noted by the committee, have their own "ethos and traditions" and maybe chary of lateral induction of retired personnel who have been directly recruited and employed by the Army. More than 20 years after KRC made its recommendation; a view is yet to be taken by the government.

5. **Status.** The recommendation was not implemented. The Reasons for non-acceptance of the recommendation are the concerns of the PMF which are as under :-

(a) The Army personnel are maintaining one rank above CAPFs personnel with respect to pay thus; pay fixation will create disparity within similar ranks. Pay fixation under MACP Scheme is also different in Army (8, 16 & 24 years) and CAPFs (10, 20 & 30 years).

(b) Difficulty in maintaining younger age profile of CAPFs due to older age profile of lateral inductees.

(c) Difficulty in fixing seniority of lateral inductees vis-à-vis CAPFs personnel.

(d) The role of Defence Forces (safeguarding the Country against external aggression) is different from that of the CAPFs (Internal Security, Anti Naxal Operations, Law & Order duties etc.)

(e) It will affect the promotional prospects of CAPFs personnel which are already facing stagnation, as the Army personnel will always be senior to CAPFs personnel by virtue of younger age at entry level and better promotional prospects in the Army. Thus, it will lead to large scale disgruntlement and demoralization amongst CAPFs personnel.

(f) Creation of new cadre/sub cadre may bring discontentment in CAPF troops and will also create complications viz. Charter of duties, deployment, identification of post including promotional post, inter-se-seniority and difficulty in maintaining command & control.

Group of Ministers

6. The Group of Ministers (GoM), was set up in 2000 to examine the KRC's recommendations, had also made observations on lateral entry - that have an implication on the defence pension. Like the KRC, the GoM had also unambiguously voiced its concerns about the unfavourable age profile of the defence forces, noting that "there are problems relating to aspects of retirement age and command profiles in the armed forces." The expert body had also reasoned that "[i]n order to ensure that the armed forces are at their fighting best at all times, there is a need to ensure a younger profile of the Services." In other words, the GoM, like the KRC, had argued for a reduced number of colour service. Had this recommendation of the GoM been implemented in true letter and spirit, this would have had an impact on the pension as the reduction of the colour service below the pensionable service (of 15 years) would have led many to retire without a pension, like it was before 1976.

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7. Though the GoM in its report did not refer to the KRC's indirect mode of recruitment, but it did refer to lateral entry as part of the solution for reduction of colour service, which in turn would have an impact on the pension burden. Considering the complexities involved in lateral entry from armed forces to other organisation, the GoM recommend the constitution of a high-powered committee to look into the "terms of engagement of soldiers, lateral entry into other organisations and resettlement policies."

8. **Status**. No committee was constituted for the purpose as recommended by the Group of ministers.

Standing Committee on Defence

9. The Standing Committee on Defence of the 14th Lok Sabha took up the GoM recommendations including on the reduction of colour service and provisions for lateral entry into the para military force for detailed examination. Though the committee did not come out with anything new, it nevertheless brought to fore the "contentious and intractable" issues that have prevented any further progress. Some of the key issues highlighted by the committee relate to:-

(a) Fixing the inter-se seniority of the transferees vis-à-vis original inductees of the Central Para Military Forces (CPMFs) without adversely affecting the latter's promotion prospects.

(b) Disparities in the pay and allowances and perks of the CPMF, now known as Central Armed Police Force (CAPF), and Army transferees.

(c) Issue of reservation for backward classes, women and state-wise quota vis-à-vis no quota system in the armed forces.

(d) Adverse impact on the age profile of the CPMF due to lateral entry from the defence forces.

Central Pay Commission

11. The CPC, since its third report onwards, has been dealing with the pay, pension and other benefits of the armed forces. Of the five CPC reports that have examined the pay and perks of the armed forces, at least three commissions have made specific recommendations with a view to contain the burgeoning defence pension. Following are the 5^{th}, 6^{th} and 7th CPC recommendations that have a bearing upon defence pension.

12. **5th Central Pay Commission.**

(a) The commission's manpower-related recommendations were based on a detailed study conducted by the Institute for Defence Studies and Analyses (IDSA), now Manohar Parrikar IDSA, and interactions with three service chiefs, retired service chiefs and other experts. The highlight of the recommendation was restructuring of the armed forces with a 30 per cent reduction in manpower strength in a decade. It is worth noting that though pension was not the focus of the 5th CPC, it was nonetheless linked to the commission's major recommendations as any downsizing of the armed forces will automatically bring down the future pension liability. The commission also made a number of other recommendations that have a relation with the pension. This include

(i) The reduction of colour service

(ii) Lateral induction into both defence and non-defence sectors.

(iii) Withdrawal of the armed forces from the non-core functions and massive "civilianisation of posts in static, rear and administrate support organisations and workshops in the three services." The latter recommendation assumes significance considering that the cost of a civilian employee (both while in service and also post-retirement) is less in comparison to a combatant.

(b) **Status**. Not implemented. Ministry of Home[12] mentioned that it may not be in the best interests to recommend direct lateral transfer of all personnel required by CPOs from the Armed Forces and it may also not be possible to provide matching vacancies for all retired service personnel. However, there may be certain advantages in inducting higher percentage of personnel from the Armed Forces. We therefore recommend increase in the percentage of reservation in Group and 'D' posts in CPOs to 25% and recommend lateral transfer to this extent. If the induction is available after 7 years' service instead of the present scheme under which it is available after completion of terms of engagement, the response may be better. We also suggest that pay may be protected (since no pension will be admissible) and service rendered may be counted. With regard to reservation in Group A posts in CPOs, we suggest that 25% of the posts of Assistant. Commandants in CPOs should also be filled in the same manner and pay and seniority may be similarly protected. Therefore percentage of reservation at this level may also be increased from the existing 10% to 25%. This may particularly be made available to Short Service Commissioned officers.

13. **7th Central Pay Commission.** The 7th CPC presented its report to the government in November 2015. In a first, the commission made a direct reference to the NPS as a possible option to contain defence pension liability. Referring to the increase in pension liability, the commission had observed that in the context of Defence forces personnel, the annual addition of large number to the pool of retirees, the general increase in longevity, as also the proposed introduction of the One Rank One Pension scheme, will together lead to a huge increase in government's liability towards defence

[12] 16th Standing Committee on Defence

pension." It, therefore, suggested that the government may "explore the possibility of laying down a Defined Contribution Scheme for Defence forces personnel where the employee makes a contribution and a suitable amount is contributed by the government so that a sizeable corpus is built up." On the issue of lateral entry into the CAPFs, the commission had examined it from the perspective of annual number of retirees in the defence forces, the ability to absorb them by the CAPFs and the hindrances in the implementation of the scheme which has been in discussion for a long time. In view of these, the commission recommended that:

(a) The primary focus on lateral entry into the CAPFs should be on personnel retiring from the ranks of Sepoys or their equivalents as opposed to personnel from others ranks.

(b) Sepoys after completion of seven years in the armed forces may be given an option to move to the CAPF with seniority and pay being protected.

(c) Those joining CAPF after seven years of service in armed forces may be given one-time lump sum amount amounting to 10.5 times the last pay drawn. After joining the CAPF they would continue till the retirement age and be covered under the NPS.

(d) The vacancies of Constables in the CAPFs may be filled from Sepoys leaving after seven years.

(b) **Status**. No recommendation implemented.

CHAPTER 6 : THE BEST PRACTICES OF OTHER MAJOR MILITARY POWERS IN MANAGING PENSION BUDGET

1. Pension is an integral part of the armed forces' terms of engagement. It is widely viewed as an old-age income support for the services rendered by the military personnel for the nation's security. Defence pension is mostly a defined benefit scheme, though other systems are also followed by some countries. Considering that the armed forces personnel retire at a relatively younger age, the pension liability endures for a fairly long period, putting pressure on the government's budget. To maintain a fine balance between the need for retirement benefits for the defence personnel and the affordability of the pension expenditure, countries often devise their own system to decide who is eligible for pension, how much pension one gets and for what duration.

2. A comparison of the defence pension systems in India, the United States (US) and the United Kingdom (UK) is analysed for Indian policymakers about the systems devised and initiatives taken in the US and the UK in managing the defence pension and the possible lessons it may hold for India. The issue assumes importance as the India's defence pension reforms from several quarters including the Chief of Defence Staff (CDS) who recently made a persuasive argument for controlling India's ballooning expenditure on defence pension.

India

3. With approximately 1.4 million personnel on active duty, India has the second-largest standing defence force in the world after China. The terms of engagement of the personnel are such that, in the normal course, no one is discharged or retires from service without earning a pension. Currently there are 3,235,370 defence pensioners, and approximately 55,000 pensioners are added every year.

4. Pension to the Indian armed forces personnel is governed by several rules, regulations and notifications issued from time to time to improve the pensionary entitlements. Apart from the improvements brought about in pursuance of the recommendations of the central pay commissions constituted by the government every 10 years, two important developments since 1980 have had a major impact on pension entitlements not only of the defence pensioners but also that of the civilians, adding to the overall pension bill of the government.

(a) The Supreme Court judgment of December 1980, in DS Nakra & others vs. Union of India, laid down the law that the past pensioners cannot be excluded from the purview of any improvements the government makes in the pension structure of its current employees. Consequently, pension of all past pensioners had to be revised by application of the so-called 'liberalised pension formula' which had earlier been introduced by the government for those retiring on or after March 31, 1979.

(b) The government introduced the one-rank-one-pension (OROP) scheme in November 2015, which envisages equalisation, to be undertaken every five years, of pension of all past pensioners with the pension of those retiring subsequently from the same rank and with the same length of service. The first equalisation was carried out with effect from July 1, 2014, but the next equalisation due on July 1, 2019 is held up because of some complications in implementation, which are being examined by a committee constituted by the Ministry of Defence (MoD) in June 2019.

5. As on today, there are about 40 types of pension, which are mainly sanctioned by the field offices of the Defence Accounts Department for the army, navy and air force, respectively. Pension is largely disbursed by the Defence Pension Disbursement Offices

(DPDOs), which function under MoD's administrative control, and also by the commercial banks. The main types of pension and their salient features are as follows:

(a) Service Pension, in most cases, is granted at the rate of 50 per cent of reckonable emoluments last drawn, subject to a minimum of Rs. 9,000 per month (p.m.). The minimum qualifying service to earn a pension is 20 years in case of Commissioned Officers and 15 years in the case of other ranks.

(b) Ordinary Family Pension is granted at the rate of 30 per cent of reckonable emoluments last drawn, subject to a minimum of Rs. 9,000 p.m. (in case of natural death of the individual).

(c) Special Family Pension is granted at a uniform rate of 60 per cent of reckonable emoluments last drawn by the deceased (in case the death is attributable to military service).

(d) Liberalised Family Pension is granted at the rate of 100 per cent of the reckonable emoluments last drawn by the deceased to the families of personnel killed in war, counter-insurgency operations, and encounter with terrorists, etc.

(e) Disability Pension is granted at the prescribed rates, depending on the percentage of disability.

(f) War Injury Pension consists of the service element, which is equal to the service pension, and the war injury element, which is related to the reckonable emoluments last drawn and the percentage of disability. Personnel who are retained in service despite the disability suffered because of the war injury also have the option to draw a lump sum compensation in lieu of the war injury element foregoing it at the time of subsequent retirement.

6. Because of the armed forces' unique terms of engagement and successive improvements made in the pension entitlements, the pension budget has shown a sharp increase over the years. Between 2005-06 and 2020-21, it has increased more than 10 times (accounting for nearly 30 per cent of the MoD's budget for 2020-21). This growth is far more rapid than the pace of increase in the overall budget and the capital outlay (see Table 1).

Table 1. Defence Budget, Pension Budget and Capital Outlay

Year	MoD's Budget (Rs Billion)	Defence Pension (Rs Billion)	Pension as % of MoD's Budget	Capital Outlay (Rs Billion)	Capital Outlay as % of MoD's Budget
2005-06	969.52	124.52	13	343.75	35
2010-11	1,757.72	250.00	14	600.00	34
2015-16	3,100.80	545.00	18	858.94	28
2020-21	4,713.78	1,338.25	28	1,137.34	24

Note: Defence pension is inclusive of civilian defence pensioners
Source: Compiled from Demands for Grant (relevant years)

7. The growth in the pension outlay has raised some concerns because of its increasing share in the MoD's budget which seems to have impacted, albeit indirectly, the capital outlay of the defence services. There is, thus, a case for exploring ways in which the pension budget could be contained to free more resources for modernisation and other operational requirements.

United States

8. The US has by far the largest outlay for the military pension in the world. In the financial year (FY) 2018, its expenditure on defence pension was $59 billion, representing 10 per cent of the total expenditure of the Department of Defence (DOD). The pension was given to nearly 2.32 million pensioners. During 2008-2018, the pension expenditure has increased by 29 per cent, in comparison to a seven per cent increase in the number of pensioners.

9. To administer defence pension, the DOD runs three schemes, one each for the active duty retirees, reservist retirees and retirees with disability. Each scheme has its own eligibility criteria and formula for calculating pension. Except for the disabled retirees who may be eligible for pension irrespective of number of years in service, the eligibility for pension for others is minimum 20 years of reckonable service. The pensionable service of 20 years is relatively high in comparison to a minimum eight-year service obligation from any member joining the military. The pension is calculated from the date of joining the service and the pay base at the time of retirement. The amount paid monthly is adjusted for inflation.

10. **Four Methods for Pension Calculation**. The US has had several reforms undertaken since the 1980s in its pension schemes. The calculation of defence pension methods has undergone several changes. There are four methods for calculation of pension for the active duty retirees:

(a) **Final Basic Pay** (FBP). FBP is applicable to those who joined the military before September 8, 1980. The pension is calculated by multiplying three factors: years of service, a multiplier of 2.5 per cent, and last monthly pay received. This method guarantees a pension equivalent to 50 per cent of the last basic pay for 20 years of services.

(b) '**High-Three' method.** It is applicable to those who joined the military between September 8, 1980 and January 1, 2018. The calculation formula is the same as in the FBP method except that the pay base in 'High-Three' is the average of the highest 36 months of the basic pay instead of last monthly pay. Redux Method was introduced in the late 1980s as part of reforms to lessen pension liability. However, due to unpopularity, its compulsory applicability was scrapped for new entrants, with members already covered given a choice to either embrace the "High-Three' or remain within the Redux with an immediate cash payment of $30,000.

(c) The BRS was introduced in 2016. It is compulsorily applicable to all military personnel who joined service on or after January 1, 2018. The method combines the features of defined benefit and defined contrition schemes, with certain additional incentives. The defined contribution element was introduced to provide income support to over 80 per cent of personnel who do not get a pension because they leave the armed forces without completing the minimum pensionable service of 20 years. For the defined benefit element, the calculation is the same as in 'High-Three' except that the multiplier is reduced from 2.5 per cent to two per cent, leading to a minimum pension of 40 per cent of last pay average, opposed to a minimum 50 per cent in the FBP. As regards to the defined contribution element, each service member in the BRS is automatically enrolled in an interest-bearing Thrift Savings Plan (TSP), which is akin to India's National Pension Scheme (NPS). The enrollment requires the member to contribute a part of his basic pay, with a matching contribution between 1-5 per cent from the government. Apart from the above, the BRS offers a lump sum withdrawal of a part of pension, and a continuation pay as a mid-career retention incentive. The latter is paid to personnel who are into their 8-12th year of service and are willing to sign up for three more years.

11. **Disability Pension**. The military personnel discharged from service due to disability rated as 30 per cent or more are eligible for pension, regardless of years of service. For disability pension, a member can choose one of the two options. One, the longevity formula in which the pension is calculated by multiplying the years of service by a multiplier (2.5 per cent or two per cent depending on his/her date of entry into the military) and pay base (basic pay or High-Three, as applicable). Two, the disability formula by which pension is computed by multiplying the pay base by the DoD-determined disability percentage. The disability pension is capped at a maximum of 75 per cent of the basic pay and members are not eligible to receive the lump sum payment which is applicable in the BRS. Disability pension is also taxable with few exceptions for combat-related injury and certain other legacy factors.

12. **Accrual Budgeting** In 1986 the US military pension budgeting was moved from cash-based accounting to accrual accounting. The changed accounting system requires the US DoD to annually budget an amount needed for paying pension for the current lot of the serving military personnel when they retire. The provisioned amount is saved in an interest-bearing fund from which the pension is paid to all retirees. The accrual system is an important tool for the policymakers to comprehend not only the pension liability of a serving soldier but also the likely cost of any policy change pertaining to military end-strength, basic pay and pension formula. Suffice it to say, due to accrual accounting the US Government has a fair idea of its total financial

commitment towards all present and future pensioners. As of FY 2017, the present value of its said financial commitment was $1,748 billion, based on, inter alia, the average life expectancy of retired armed forces personnel in various age groups.

United Kingdom

13. UK has the least number of defence pensioners. At the end of March 2019, it had 548,780 pensioners including 112,192 war pensioners. In 2018-19, its total expenditure on pension was nearly £5.5 billion, representing 14 per cent of the MoD's total spending in that year. In the last 10 years since 2009-10, the pension expenditure (excluding war pension) has increased by 23 per cent from £4.5 billion.

14. UK follows accrual accounting for the purpose of pension. The government-appointed actuary annually evaluates total liabilities, the contribution of the employer and funding support required from the parliament. At the end of March 2019, the total pension liability of present and future pension amounted to £195.3 billion. Like the US, the pension liability of the UK is also based on, inter alia, the average life expectancy (at age 60 and 65) of current and future pensioners. At the end of March 2018, the life expectancy at age 65 of the current pensioners is 21.9 years for male members and 23.5 years for female members. It is important to note that these expectancy figures are 3.1 years (or 2.4 years) higher than the average life expectancy of the UK's total male (or female) population.

15. UK's defence pension is defined benefit scheme. Currently, it is managed by three broad schemes: and War Pension Scheme (WPS). While the former is designed to provide income support for voluntary and regular retirement, the latter two are primary tools to compensate for disability and death caused by service.

(a) **Armed Forces Pension Scheme** (AFPS). AFPS is the main pension scheme for the UK's armed forces personnel. Depending largely on the date of joining, the AFPS is divided into three categories: AFPS 1975, AFPS 2005 and AFPS 2015, which are also part of the UK government's continuous efforts to ensure the pension remains affordable and sustainable and also fair to scheme members and the taxpayer. Table 2 summarises some of the key features of these categories. There is significant change in the way pension is calculated in relation to salary and also major changes in normal pension/retirement age.

Table 2: Key Features of AFPS[13]

Feature	AFPS 1975	AFPS 2005	AFPS 2015
Minimum Qualifying Service for Pension (Years)	2	2	2
Pension Calculation Linked to	Pensionable Earning (for senior officers); Final Rank & Length of Service (for others)	1/70th of Final Pensionable Earnings	Career Average Revalued Earning @1/47th of pensionable earnings of each year
Immediate Pension (qualifying service)	16 years for officers; 22 years for others	N.A.	N.A.
Maximum Pension (At Age)	34 years for Officers; 37 years for Other Ranks	40 years for both	No maximum
Early Departure Payment (EDP) (qualifying service and/or age)	N.A.	18 year of service and at least 40 years of age	20 year of service and at least 40 years of age
Retirement Age (Years)	55	55	60
Deferred / Preserved Pension (Age)	60/65	65	State pension age (68)
Resettlement Grant (As of April 2018)	£15,813 (Officers); £10,808 (Other Ranks)	£11,101	£11,101

[13] **"Armed Forces Pension: Guidance"**, *UK Ministry of Defence*.

(b) WPS is a kind of disability pension scheme that compensates for injury, illness and death caused or made worse by the service in the armed forces from the beginning of World War I to April 5, 2005. It is a ‘no-fault’ and tax-free scheme. The scheme allows two types of awards depending on the nature of disability: a lump sum payment for disability of less than 20 per cent and a regular pension paid for disability of more than 20 per cent. Rates of war pension and related allowances are set by the government on an annual basis. For 2020, the war pension varies from £168 per month for 20 per cent disability to £839 per month for 100 per cent disability. As of March 2019, 112,192 members, including 14,626 war widow(er)s, were in receipt of a war pension. Total amount spent on them amounts to £697.3 million in 2018-19.

(c) **Armed Forces Compensation Scheme** (AFCS). AFSC replaced the WPS as the principal compensation scheme for injury, illness and death caused by the service, on or after April 6, 2005. There are two types of compensation awards under the scheme: a tax free lump sum payment for pain and suffering; and a tax-free, index-linked monthly Guaranteed Income Payment (GIP). The lump sum payment, depending on the nature of injury, varies from £1,200 to £570,000. The GIP is awarded to those who are discharged with grievous injury. Various factors including the member’s future income earning capability is taken into consideration. GIP is meant to supplement any other earnings including pension, though the latter is taken into consideration for the former’s calculation.

16. **Analysis of three Countries Pensions Systems.**

(a) Defence pensions, including the disability element, are in one way or the other linked with the pay last drawn and length of service, with the latter also determining eligibility to receive pension and other benefits. In the US and the UK, there is no system of (OROP) i.e, periodic revision of pension (other than the inflation-linked increase) of the past pensioners or equalisation of pension of past and present pensioners.

(b) In the US and the UK, affordability is a significant factor in determining the quantum of pensionary benefits to be paid to the service personnel. This has led to occasional pension reforms, with each reform attempting to lessen the government's financial liability.

(c) In India normally all service personnel retire with a pension, a significant proportion of those who join service in the other two countries retire without earning a regular monthly pension. In the US, nearly 80 per cent of the service personnel retire without a pension. However, both these countries have several schemes to compensate them with lump sum payments or by facilitating their employment in the government and non-government sectors, which seems to have worked well because of the socio-economic conditions of those countries.

(d) The accrual system followed by the US and the UK and the resultant detailed annual statistical analysis have helped them not only in keeping a track of the current and future pension liabilities but also in making an accurate assessment of the financial consequences of any policy changes in the manpower strength of the armed forces and the salary and pension packages for them.

(e) Innovative steps have been taken by the US and the UK to manage the pension liability. In the US, for example, the amount provisioned in the budget is saved in an interest-bearing fund from which the pension is paid to all retirees. In the UK, pay-out of regular pension does not start immediately on retirement but after attaining the age, which is now linked to the state pension age of 68 years.

17. **Point for Consideration for India.** The points for pension reforms which can be considered from the experiences of the other two countries are as follows:-.

(a) Adoption of accrual accounting and transfer of funds to an entity which could manage them and pay regular pension.

(b) Evolving a system under which not everyone retires with a pension, without compromising on the morale of the service personnel.

(c) Those leaving before a specified age, paying a lump sum early departure payment with the regular pension being preserved till the rank-related retirement age.

(d) Exploring the possibility of accommodating the service personnel for longer durations within the armed forces and other departments (and public/private sector) with the pension liability being deferred till their final retirement.

CHAPTER 7 : MEASURES TO RATIONALISE PENSION BUDGET

1. The current ratio of military pensioners to serving military personnel is 1.7 to 1. In comparison, the ratio of civil pensioners to civil work force is 0.56 to 1. Reducing the ratio of pensioner to serving in the military will greatly reduce the defence pension bill. This requires major political decision as it requires whole of the government approach and decisions which are inter ministries.

2. The MoD Military pension's is a complex issue which gained attention of the successive governments over the last two decades plus. Large number of measures has been recommended to address the issue of mounting military pension budget. However, the implementation of the recommendations has not taken place, this has resulted in the stage where the pension component of the budget is going to be the biggest component and will surpass the salaries and is already impacting the availability of capital head for the modernization of the forces.

3. The person recruited by the government should be considered a national asset and endeavor should be to ensure he serves till 60 years of age. Huge amount of money is spent in training a recruit to become a soldier; this investment cannot be allowed to go wasted by making him retire at 35 years of age when he still has 25 years to contribute that too when he is experienced and willing.

4. Various options to reduce the pension budget need to be considered and a model worked out whereby its implementation results in reduction of pension budget in an appreciable manner. The main focus has to be to that every person is treated as national asset

and to ensure that max strength retires at 60. The various options considered for this are as under :-

(a) Joint Training - Lateral Employment Model.

(b) Jobs post retirement in other government departments.

(c) Increasing retirement age.

(d) NPS for defence Forces.

(e) Accrual Budget of Pensions.

Joint training - Lateral Employment Model

3. It's a variation to the lateral absorption model recommended by the commissions and committees of the Government of India which were not implemented due to various reasons. The Joint training - Lateral Employment Model proposes that the personnel of **Defence Forces** and **Central Armed Police Forces** (**CAPF) and Coast Guards** to be treated as one national asset and employed based on organisational needs.

4. The **Central Armed Police Forces** (**CAPF)** refers to uniform nomenclature of five security forces in India under the authority of the Ministry of Home Affairs. Their role is to defend the national interest mainly against the internal threats. These include following forces:-

(a) **Border Security Force** (BSF). The primary role of the Border Security Force is to guard the Indo-Pakistan and Indo-Bangladesh borders, it is deployed both on the international border and the LOC. The BSF also has active roles during times of war. It has 257,363 personnel in 186 battalions.

(b) **<u>Central Reserve Police Force</u>** (CRPF). The Central Reserve Police Force is the largest of the Central Armed Police Forces units with 313,678 personnel in 245 battalions.

(c) **<u>Central Industrial Security Force</u>** (CISF). One of the largest industrial security forces in the world, the Central Industrial Security Force provides security to various Public Sector Undertakings (PSUs) and other critical infrastructure installations, major airports across the country and provides security during elections and other internal security duties and VVIP protection. It has a total strength of about 144,418 personnel in 132 battalions

(d) **<u>Indo-Tibetan Border Police</u>** (ITBP). The Indo-Tibetan Border Police is deployed for guarding duties on the Indo-China border from Karakoram Pass in Ladakh to Diphu Pass in Arunachal Pradesh. It has 89,432 personnel in 62 battalions.

(e) **<u>Sashastra Seema Bal</u>** (SSB). SSB role is to guard the Indo-Nepal and Indo-Bhutan borders. It has 76,337 personnel and 67 battalions

4. **<u>Coast Guards</u>**. It's a ministry of defence force for maritime law enforcement and search and maritime rescue operations with jurisdiction over its territorial waters and exclusive economic Zone. It has 15714 personal and 197 vessels and 44 aircrafts.

5. Central Armed Police Forces are organized with the primary role of border guarding for BSF, ITBP, SSB; Security of sensitive establishments by CISF, Assisting Police to tackle Law & Order, Counter-Terrorist Operations, Counter Naxal Operations by CRPF, NSG. Apart from the primary role, all CAPFs are involved in assisting Police in Law & Order situations and also Army in Counter-Terrorist Operations. BSF & CRPF have assisted the

army during external aggression in the past. CAPFs work along with both Army & Police in different roles assigned to them. The CAPFs operate along with the army in peace time and under army during operations.

5. The primary role of the CAPFs stands out to be of border guarding and assisting state police forces in counter terrorist /Naxal operations, election duties and guarding industrial complexes.

6. The border management task, security of industrial complexes, Counter terrorist operations/Naxal operations and other tasks are being carried out by defence forces also in a very professional manner. Defence Service Corps an organisation providing security to all MoD complexes including high value strategic assets is an organisation manned by 100 Per cent retired army personnel's. So prima facia the task of CAPFs can be easily executed by soldiers trained in the army duties.

7. This Joint training - Lateral Employment Model being proposed is different than the ones recommended by various commissions and committees earlier as those were not implemented due to various reasons given by CAPFs are as under:-

(a) The Army personnel are maintaining one rank above CAPFs personnel with respect to pay thus; pay fixation will create disparity within similar ranks. Pay fixation under MACP Scheme is also different in Army (8, 16 & 24 years) and CAPFs (10, 20 & 30 years).

(b) Difficulty in maintaining younger age profile of CAPFs due to older age profile of lateral inductees.

(c) Difficulty in fixing seniority of lateral inductees vis-à-vis CAPFs personnel.

(d) The role of Defence Forces (safeguarding the Country against external aggression) is different from that of the CAPFs (Internal Security, Anti Naxal Operations, Law & Order duties etc.)

(e) It will affect the promotional prospects of CAPFs personnel which are already facing stagnation, as the Army personnel will always be senior to CAPFs personnel by virtue of younger age at entry level and better promotional prospects in the Army. Thus, it will lead to large scale disgruntlement and demoralization amongst CAPFs personnel.

(f) Creation of new cadre/sub cadre may bring discontentment in CAPF troops and will also create complications viz. Charter of duties, deployment, identification of post including promotional post, inter-seniority and difficulty in maintaining command & control.

8. Therefore, the model needs to be developed in a manner that it meets the requirements of the Army with respect to young profile of soldiers and concerns of CAPFs as stated above. The primary aim of developing such model is to achieve reduction in Pension budget of Government of India wrt the defence forces.

9. The Joint training - Lateral Employment Model envisages that the uniformed forces of MoD and MHA to be considered as one. The Army and CAPFs to be trained together and post meeting Army's requirement the strength to moved back to respective CAPF after a period of 5 years.

10. The Joint Training - Lateral Employment Model is based on following parameters:-

(a) The Recruitment of individuals based on strength requirements remains responsibility of respective organisation.

(b) Common Basic Military Training in centralised training centres of the army.

(c) 100 per cent trained recruits join Army, Serve for a period of 5 years. During their tenure in Defence Forces, their pay and service conditions will be governed by the Defence Forces Acts and Rules.

(d) After 5 Years the personnel move back to respective organisations.

(e) The personnel on return to parent organisations will be given induction training to reorient themself with the CAPFs specific tasks.

(f) Coast Guards will have similar arrangements with the Navy.

(g) Till the time they serve with the army they draw Army emoluments and then revert to respective service emoluments and service conditions.

h) CAPFs to recruit and employ Group B and specialist manpower in the same way as being done now.

11. The issues which were raised by the CAPFs through MHA on the subject of lateral absorption proposal after the pay commission were as follows:-

(a) Induction of military trained personnel in CAPFs in large number may not be advisable considering the role of CAPFs in maintaining democratic set up of the country.

(b) The training, ethos and culture of Armed Forces are very different compared to CAPFs and the skills may not be transferable.

(c) In the Army Majors command the Company where as in CAPFs the Assistant Commandants (equal to Captain in Army) are the Company Commanders. On return in CAPFs, after 3-5 years in Army, the person (Captain) will be promoted to the rank of Deputy Commandant without any or much experience of Company Commander which is must for an officer to develop as a proficient CAPFs officer.

(d) As far as benefits to the organisations on implementation of the proposed concept is concerned, Armed Forces may gain by inducting lower age profile personnel but it would be at the cost of CAPFs as it would be difficult to re-train him for CAPFs duties.

(e) The idea of joint recruitment by MoD & MHA does not seem feasible as Army and CAPFs have very different service conditions in terms of rank, pay and pension. There could be a plethora court cases dealing with the service conditions of such personnel.

12. The proposed model addresses all the issues raised by CAPFs as under :-

(a) All the persons inducted into CAPFs will be with 5 years of military experience, they will undergo orientation training to respective organisations. The democratic set up of the country is maintained by the defence forces as by the CAPFs, so this point has no standing.

(b) The basic training, ethos and values of armed forces is better if not equal to that of CAPFs and the personnel's will carry better values and ethos. As far as training of CAPFs are concerned, the troops adapt to minor changes in standard of training requirements very easily during orientation training.

(c) The Command of a Company in army or CAPFs involves administrative skills which are learnt equally well by young officers. 5 Year trained army officer when moved to CAPF can easily command a company.

(d) The proposed model the CAPFs will have a young profile of troops coming from the Army, reorientation for a 5 year service personnel is not an issue.

(f) The recruitment proposed is by respective organisations, the training is combined which will ensure the standards achieved are common and CAPFs are manned by better trained soldiers.

(g) There will be better synergy between Forces on the borders and LC where they fight together.

13. The Joint training - Lateral Employment Model ensures that the CAPFs ownership is guarded as under :-

(a) Recruitment will be done for CAPFs and the personnel will be shifted to Defence Forces for training and service for 5 years. On completion, the personnel will return to respective CAPFs. The officer cadre would be like short service commission officers for 5 years of training and service in Defence Forces and thereafter they join respective organisations. During their tenure in Defence Forces, their pay and service conditions will be governed by the Defence Forces Acts and Rules.

(b) On return to CAPFs, the pay and seniority will be protected as all personnel will be from same cadre and seniority. The personnel on return to parent organisation will also be given induction training to imbibe the CAPFs ethos.

(c) The Defence Forces will gain by way of keeping the lower age profile of their personnel and the CAPFs will gain by way of experienced/ trained manpower on the expense of little higher age profile which actually does not affect their functioning.

(d) The government will gain as the manpower so served in the Defence Forces will be covered under New Pension Scheme as against the personnel serving in

Defence Forces are still covered under the Old Conventional Pension Scheme. This will reduce the pension liability of the Government.

14. **<u>Feasibility Analysis of the Model</u>**.

(a) The total strength of Indian Army is 12.61 Lakh soldiers. The Strength of CAPFs is 9.99 Lakh. The average age of retiring soldiers in the army is 35 to 40 whereas in the CAPFs its 60.

(b) The total strength recruited and trained by the Army over the last 10 years as per MoD annual report is as under:-

Table 1: Recruitment by Army 2009 - 2019

Year	Officers	Personnel Below officer Rank
2009-10	1687	40554
2010-11	2195	61,269
2011-12	1316	63,258
2012-13	3029	54,186
2013-14	2074	51,911
2014-15	1987	66,976
2015-16	1961	67,954
2016-17	1773	52,447
2017-18	1858	71,804
2018-19	2005	60,026
Average	**2,000**	**60,000**

(c) The training capacity of training institutions with the Army is larger than the strength being trained. It caters for all surge requirements.

(d) **Officers**.

(i) The average recruitment by the CAPFs Group A officers over a period of last five years is as under :-

Table 3 : Officer Recruitment by CAPFs 2015 -2020

CAPF	**Officers**
BSF	65
CRPF	114
ITBP	58
CISF	53
SSB	48
Total	**350**

(ii) The total recruitment of officers in CAPFs is less than the officers joining the Indian Army as **Short Service Commission**. The complete strength can be easily absorbed in place of short service commission and then moved to respective CAPFs after 5 years' service with the army. This will ensure that on an average 350 officers will reduce from annual retirement.

(e) **Other Ranks**.

(i) The Number of persons retiring from the defence forces in a year is approx 60000. This data by RSBs/ZSBs is on Half Yearly basis which is cumulative in nature and irrespective of Year of Retirement'. It would be pertinent to mention that retired person may or may not register himself with RSBs/ZSBs in the same year. However, data received from RSBs/ZSBs is at Table 5.

Table 5 : Persons Retiring from the Defence Forces[14]

S. No. RSB/ZSB								
1. Andhra Pradesh	993	320	1365	760	18151	1605	1197	3019
2. Arunachal Pradesh	33	34	28	40	23	30	31	38
3. Assam	1522	1892	1154	310	313	360	1627	934
4. Bihar	4749	4377	4510	4766	3148	3586	1183	2729
5. Chattisgarh	146	185	258	172	163	149	218	186
6. Goa	33	32	48	54	32	37	60	48
7. Gujarat	1057	953	1148	901	878	808	1221	1253
8. Himachal Pradesh	2234	2218	2326	1132	1215	2183	1406	1458
9. Haryana	5035	5150	5265	5383	5503	5626	5751	5880
10. Jammu & Kashmir	1504	1701	2276	1369	1369	1517	2203	2709
11. Jharkhand	618	564	600	412	524	517	704	712
12. Karnataka	1671	1681	1417	1611	1338	1086	1899	1681
13. Kerala	2078	2347	2476	2040	1694	1801	4470	1731
14. Madhya Pradesh	1358	778	1253	638	786	830	1144	865
15. Maharashtra	3875	4400	1231	2490	1933	2824	2426	3989
16. Manipur	262	176	411	28	74	83	99	78
17. Meghalaya	2	35	43	2	16	34	20	49
18. Mizoram	71	84	59	42	375	557	72	78
19. Nagaland	70	75	80	70	85	90	85	75
20. Orissa	1070	1337	2725	1571	199	1234	1368	1015
21. Punjab	6500	6208	6287	5752	5504	5790	6991	7216
22. Rajasthan	1717	6461	4469	3336	3079	3936	2537	2734
23. Sikkim	5	4	12	8	25	5	21	24
24. Tamil Nadu	3293	3376	3418	2649	2575	2660	2880	3035
25. Telangana	439	464	553	346	5811	2342	1261	999
26. Tripura	49	77	74	43	40	38	40	61
27. Uttar Pradesh	5943	3961	1842	6368	8304	16825	23043	10943
28. Uttaranchal	786	3045	1822	2365	791	614	1367	711
29. West Bengal	2645	2632	2904	2269	2511	2533	2789	3173
30. A & N Islands	22	39	36	30	20	31	14	34
31. Chandigarh	288	323	264	228	180	171	196	260
32. Delhi	504	1173	1123	1197	1314	1137	2033	1238
33. Puducherry	42	63	57	39	48	30	43	58
	50614	**56165**	**51534**	**48421**	**68021**	**61069**	**70399**	**59013**

(ii) Of the nearly 60,000 armed forces personnel retiring or released from active service every year, most of them are in comparatively younger age bracket of 35 to 45 years. The component of personnel's from CAPF which are required to be employed with the army is basically the strength which retires between 17 to 20 years of service. This strength is approximately 50 percent of the strength retiring every year i.e approx. 27000.

(iii) The recruitment of the persons by the CAPFs is more than 27000 per year. It averages around 40000 excluding surge requirements of new raisings.

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[14] Census data of Ex-Servicemen from Rajya Sainik Board and Zila Sainik Board. Jun 2019

This will ensure that new recruits for specific requirement of CAPFs are also available to them once the army requirement is met.

(iv) The capacity and capability thus exist for the joint training and lateral employment model for the uniformed personnel.

15. **Impact on Pension Budget**. The joint training and lateral employment model impact on defence pensions will start after 17 years of implementation and continue to reduce the increase in pension budget.

(a) **Officers**. The model will result in reduction of approx. 350 officers retiring. This will result in reduction of pension bill by approx. 50 crores per year on present scales.

(b) **Other Ranks**. The model will ensure that approx. 27000 soldiers plus 1000 sailors retiring will reduce every year resulting in a reduction in pension bill at present rates by 1000 Crores annually.

(c) The total impact over a period will be appreciable considering increase in pension due to DA and Pay Commissions and OROP.

Jobs Post Retirement in other Government Departments

16. The strength of Ex Service Men in India state wise with the age profile which can be employed is as under :-

Table 6 : The total strength of Ex-servicemen state-wise in India, as on 30.06.2019

State/UT/RSBs	EX-SERVICEMEN			
	ARMY	AF	NAVY	TOTAL
1. Andhra Pradesh	54916	6836	5884	67636
2. Arunachal Pradesh	623	0	0	623
3. Assam	32587	2311	705	35603
4. Bihar	86138	17574	10858	114570

5. Chattisgarh	6036	358	296	6690
6. Goa	1190	220	910	2320
7. Gujarat	23503	4639	1045	29187
8. Himachal Pradesh	111006	2391	3982	117379
9. Haryana	257404	18940	14266	290610
10. Jammu & Kashmir	80128	807	665	81600
11. Jharkhand	22339	2168	1457	25964
12. Karnataka	69568	11320	2825	83713
13. Kerala	139702	23357	13979	177038
14. Madhya Pradesh	47660	2013	1520	51193
15. Maharashtra	154180	12838	15035	182053
16. Manipur	7198	121	79	7398
17. Meghalaya	3023	92	58	3173
18. Mizoram	6019	34	28	6081
19. Nagaland	2610	15	9	2634
20. Odisha	35850	6626	3222	45698
21. Punjab	289462	12112	7035	308609
22. Rajasthan	177584	8388	5361	191333
23. Sikkim	1080	1	10	1091
24. Tamil Nadu	114021	12165	3792	129978
25. Tripura	2044	107	43	2194
26. Telangana	22381	9039	1587	33007
27. Uttar Pradesh	316065	40433	24787	381285
28. Uttarakhand	125170	2783	3053	131006
29. West Bengal	74556	14014	5250	93820
30. A & N Islands	467	57	143	667
31. Chandigarh	6826	2773	392	9991
32. Delhi	44408	9598	5293	59299
33. Pondicherry	1278	399	103	1780
Total	**2317022**	**224529**	**133672**	**2675223**

17. This overall figure will keep increasing as approximately 60,000 personnel's retire every year and add to these figures. These many jobs however will not be available; therefore the focus initially should be made from the persons retiring before 45 years of age to be stopped by following Joint Training and lateral employment model.

18. The strength of the army which retire later as havaldars or junior commissioned officers which can be absorbed in other government departments. This is already an on-going reservation for ESM, however, its implementation is poor. The data of various vacancies (only Central Government) is given below which clearly elucidate the shortfall in recruitment of 84 % in ESM reserved vacancies as in Table 6.

Table 6 : Filled Rate against Reserved Quota for Ex-Servicemen (June 30, 2019)[15]

Name of Organisation	Classification of Posts	Overall Strength (No.)	Reserved Quota for ESM (%)	Reserved Quota for ESM (No.)	Posts Filled by ESM	
					No.	%
Central Govt. Departments	Group 'C'	15,45,478	10	154548	6173	0.4
	Group 'D'	4,009	20		3	0.07
Central Public Sector Undertakings	Group 'C'	4,73,266	14.5	68624	4965	1.05
	Group 'D'	1,51,276	24.5	37063	695	0.46
Public Sector Banks	Group 'C'	2,89,505	14.5	70929	22935	7.92
	Group 'D'	1,21,973	24.5	17686	28150	23.08
Central Armed Police Forces	Group 'A'	8,634	10	863	64	0.74
	Group 'B'	56,830	10	5683	579	1.02
	Group 'C'	8,83,860	10	88386	4938	0.56
	Group 'D'	0	20		0	0
Total	Group 'A'	8,634			64	0.74
	Group 'B'	56,830			579	1.02
	Group 'C'	31,92,109			39011	1.22
	Group 'D'	2,77,258			28848	10.4
Grand Total		35,34,831		4,27,830	68502	1.94

[15] "Re-Employment of Ex-Servicemen", Unstarred Question No. 2735, *Lok Sabha*, Answered on December 04, 2019.

19. The government by ordnance must make it mandatory for ESM retiring to join the available reserved jobs for ESM. Even if CAPFs are taken out of this reservation list still 3,32,898 vacancies exist in central government out of which only 62,921 are filled. If these jobs are filled by soldiers retiring at the age of 45 years then over a period of 10 year by filling 26500 per year. Thus a cycle of absorbing upto 25000 annually will be achieved by 2033 onwards. This will result in reducing the increase in annual new retiring person's pension by almost 40 %.

20. Similarly there are Job Vacancies for ESM reserved in state governments. The Vacancies which are reserved by various state governments for Ex Service men table 7.

Table 7 : ESM vacancies reserved in state Governments[16]

	Reservation in State Govt (in %)			
State/UT	**Gp'A'**	**Gp'B'**	**Gp'C'**	**Gp'D'**
1. ANDHRA PRADESH	0	0	2	2
2.ARUNACHAL PRADESH	0	0	10	20
3.ASSAM	0	0	2	2
4.BIHAR	0	0	0	0
5.CHATTISGARH	0	0	10	20
6.DELHI	0	0	10	20
7.GOA	0	0	2	2
8.GUJARAT	1	1	10	20
9.HARYANA	5	5	14	14
10.HIMACHAL PRADESH	15	15	15	15
11.JAMMU & KASHMIR	0	0	6	6
12.JHARKHAND	0	0	0	0
13.KARNATAKA	10	10	10	10
14.KERALA	0	0	0	0
15.MADHYA PRADESH	0	0	10	20
16.MAHARASHTRA	0	0	15	15
17.MANIPUR	0	2	3	5
18.MEGHALAYA	0	0	0	0
19.MIZORAM	0	0	10	20
20.NAGALAND	0	0	5	5
21.ORISSA	0	3	3	3
22.PUNJAB	13	13	13	13
23.RAJASTHAN	0	0	12.5	15
24.SIKKIM	0	0	2	2
25.TAMIL NADU	0	0	5	10
26.TRIPURA	0	0	2	2
27.UTTRAKHAND	8	8	5	5
28.UTTAR PRADESH	0	0	5	5
29.WEST BENGAL	0	0	5	10
30.A & N ISLANDS	0	0	1	1
31.CHANDIGARH (UT)	13	13	13	13
32.PUDUCHERRY	0	0	10	20

[16] Thirty Third Report : Standing Committee on Defence (2016-2017)

21. There is large scope to absorb ESM into state government jobs also. Reserved vacancies exist as per percentage above in the table. However, the number getting recruited in state governments is less than the existing vacancies.

22. The Ministry of Defence data on the names of the departments of Government/ Quasi-Government/Public Sector Organisations in which employment has already been provided to Ex-Servicemen and also to furnish year wise and department wise information about the number of job that have been provided to Ex-Servicemen in the last ten years. The Ministry in its reply to the Standing Committee on defence (16th Lok Sabha) submitted in Table 8.

Table 8 : ESM provided Jobs 2005 - 2015[17]

Registration and Placement of Ex-Servicemen for the last 10 years is as under:						
S. No.	**Year**	**Registration of ESM**	**Central Government**	**State Government**	**Private Sector**	**Total**
1	2005	41974	5043	2094	2808	9945
2	2006	42095	3792	5310	3496	12598
3	2007	39688	4952	3632	4304	12888
4	2008	60895	4675	3501	3330	11506
5	2009	33996	6394	3950	3525	13869
6	2010	26747	4602	2787	3281	10670
7	2011	21615	2481	5464	4830	12775
8	2012	26518	2693	4523	5495	12711
9	2013	34364	4850	3767	3460	12077
10	2014	39616	3926	5608	4105	13637
11	2015	37852	3891	4702	4199	12792

23. Total of approximately 8500 retiring persons are getting absorbed in central and state government departments and hence are retiring at 60 years. If full quota of the reservations is filled up them this number will go up by at least 18000 more and reduce the pension budget by approx. 865 crores annually. The government need to pass an order for strict implementation of ESM vacancies in recruitment.

[17] Data from Ministry of Defence to Standing Committee on defence (16th Lok Sabha)

<u>Increasing Retirement Age</u>

24. One of the options for the short-term solution to keep the pension budget frozen at the same level is to increase the retirement age of serving military personnel and stop the rise in number of pensioners. The life expectancy of the Indian males over last 70 years has increased by 27 years. The table below shows the male life expectancy in India since independence:-

Period	Male (Life Expectancy in years)
1951-61	41.9
1961-71	46.4
1971-81	50.9
1976-80	52.5
1981-85	55.4
1986-90	57.7
1991-95	59.7
2001-05	63.1
2006-10	64.6
2009-13	67.5
2011-15	66.9
2013-17	69.0

26. The retirement age of all the ranks in the army can be increased by 2 years. It will increase the period of service for all. Its impact on the pension budget is going to be roughly as under

(a) Officers - 1800 x 12 x 1.25 = 270 cr

(b) OR - 55000x12x0.40 = 2640 cr.

27. The extension of service of all personnel's will result in reducing the pension bill by roughly 3000 Crores per year. It is a short term tool to reduce increase in pension budget for two years and make funds available for capital expenditure.

NPS For Defence Forces

28. NPS for defence Forces was not implemented due to early retirement of personnel's before 60 years of service. NPS model for the defence forces will have to be different and sustainable with OROP provisions in it. It will be a very complex system which will have to cater for pension to a soldier who retires at 35 years of age after 17 years of service and his actual retirement wrt other government departments is 25 years later. Government will contribute 10% of his basic plus DA for 25 years into NPS of the other employees. Plus the OROP provision will be difficult to be incorporated.

29. Presently no such NPS formulae have been worked out.

Accrual Budgeting

30. Akin to US and UK military pension budgeting India should also move from cash-based accounting to accrual accounting. The changed accounting system requires the Government to annually budget an amount needed for paying pension for the current lot of the serving military personnel when they retire. The provisioned amount is saved in an interest-bearing fund from which the pension is paid to all retirees. The accrual system is an important tool for the policymakers to comprehend not only the pension liability of a serving soldier but also the likely cost of any policy change pertaining to military end-strength, basic pay and pension formula. Due to accrual accounting the Government has a fair idea of its total financial commitment towards all present and future pensioners.

31. The Accrual Budgeting System though is very effective for future control over pension budget, but it will require additional budget to cater for the pension requirements of serving persons. It will add 50 % additional requirement on revenue in the salary head now for payment into interest bearing fund where funds will be maintained.

32. During discussion on this with the Niti Ayog it was informed that the country is not geared up as of now for accrual budget; however after few years it may be possible as it requires very good accounting management policies and execution

Recommended Overall Model for Reduction of Pension Budget of MoD

33. The study recommends the following model :-

(a) Joint Training – Lateral employment model for Defence Forces and CAPFs and Coast Guards.

(b) Government of India should change the terms and conditions of personnel joining defence forces. They should include initial service with Defence Forces and post retirement service with other central and state government departments till age of 60 Years. Ordnance to ensure all ESM vacancies is filled by all central government and state government departments through Department for Ex-servicemen welfare in a coordinated manner.

(c) NPS for all non-uniformed persons in MoD.

34. **Impact on Pensions Budget**. The model wherein Joint training and lateral employment model, complete absorption of ESM reserve vacancies in state and central government departments, NPS for civilian MoD employees if considered is evaluated for checking the impact it will make on the future pension budgets by 2050.

35. Extrapolating the Pension Budget figures with 4 to 6 Percent DA, 20 % increase in Pay Commissions and 5 year OROP equalization were only considered while calculating the future figures.

36. **Pensions Budget 2001 till 2021.** The Table 9 below shows the Pension Budget from 2001 till 2021. Remarks show reasons for appreciable increase during the financial year.

Table 9 : Pension Budget 2001 - 2021

Year	Budget	Increase/Decrease	Remarks
2001-2002	10488	-	
2003-2004	11000	511.77	
2005-2006	12715	1215	
2007-2008	15244	2529	
2009-2010	34999	19755	Pay Commission
2011-2012	37569	2570	
2013-2014	45496	7927	
2015-2016	60234	14738	OROP
2016-2017	87826	27592	Pay Commission
2017-2018	92000	4174	
2018-2019	101775	9775	
2019-2020	133000	32225	
2020-2021	118493	- 6507	Due to OROP arrear not given in 2019- 2020

37. **Pension Budget till 2050**. The pension budget till 2050 has been extrapolated to understand how it will increase in next 30 years. Then these figures are taken as the base figures to find out the impact of the recommended model to reducing pension budget. The period upto 2050 has been taken because impact of recommendations is going to start later and it is assumed that the decision to implement the recommendations is taken in 2022.

Table 10 : Appreciated Pension Budget 2021 - 2050

Year	previous year	Increase DA(4-6%)	Increase due to Additional retirees	OROP	Pay Commission (20 %)	Total Pension Budget
2021-2022	118493	9500	3000			130993
2022-2023	130993	7900	3000	10000		151890
2023-2024	151890	9000	3200			164100
2024-2025	164100	9800	3300			177200
2025-2026	177200	10000	3300			190500
2026-2027	190500	10000	3400		38000	241900
2027-2028	241900	9500	4200			255600
2028-2029	255600	10500	4300			270400
2029-2030	270400	11000	4400			285890
2030-2031	285890	11500	4500	24000		325900
2031-2032	325900	12000	4800			342700
2032-2033	342700	12500	4900			360100
2033-2034	360100	13000	5000			378100
2034-2035	378100	13500	5200			396800
2035-2036	396800	15000	5500		80000	497300
2036-2037	497300	10000	7000			514300
2037-2038	514300	20000	7400			541700
2038-2039	541700	21000	7600			570300
2039-2040	570300	22000	8000			600300
2040-2041	600300	23000	8200	60000		691500
2041-2042	691500	27000	8500			727000
2042-2043	727000	28000	8800			744600
2043-2044	744600	32000	9400			786000
2044-2045	786000	36000	9500			831500
2045-2046	831500	40000	9700		200000	1081200
2046-2047	1081200	22000	10000			1113200
2047-2048	1113200	45000	10500			1168700
2048-2049	1168700	47000	11000			1226700
2049-2050	1226700	48000	11500	80000		1357200

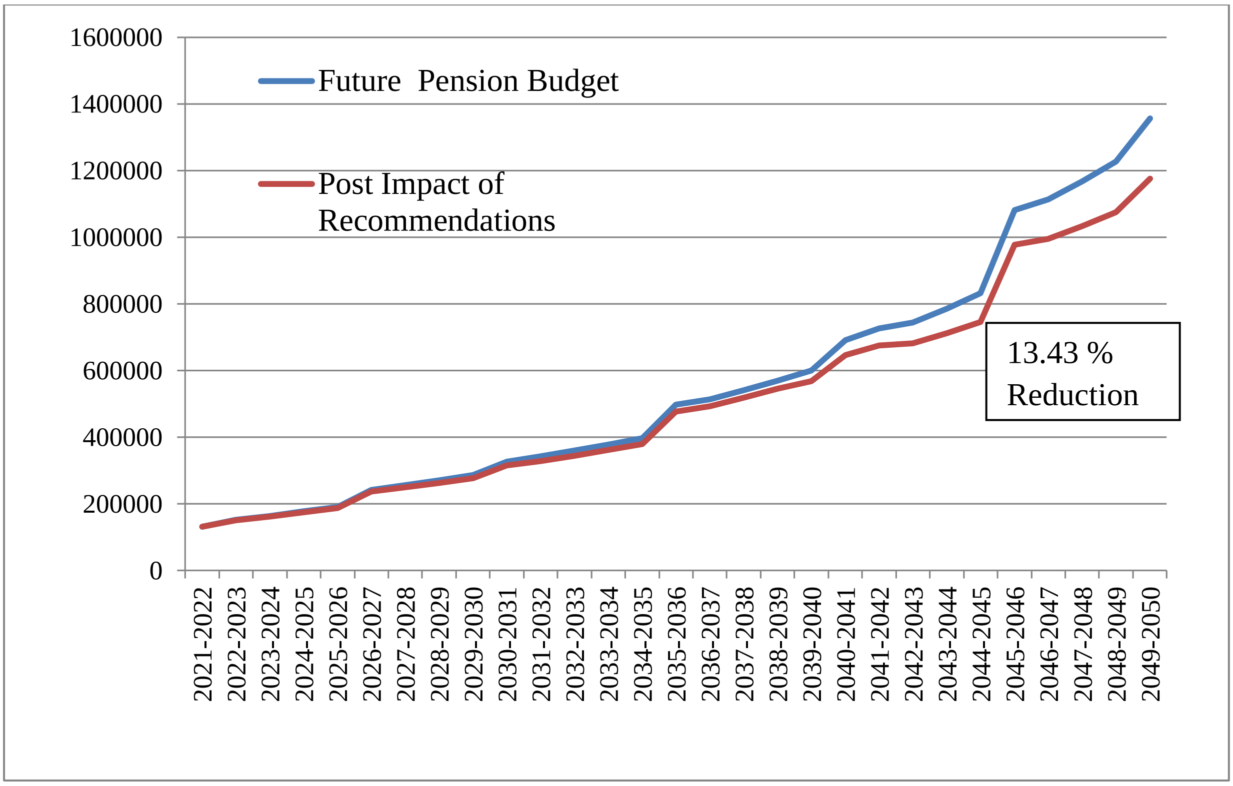
31. The pension budget appreciated after recommendations are incorporated and reduced from the figures of Pension budget calculated in Table 10 till 2050.

Table 11 : Reduction in pension Budget Post Implementation of recommendations

Year	Total Pension Budget	Impact of NPS	Officers CAPF SSC	Lateral Employ ment with CAPFs	State and Central governmen ts jobs	Total Pension	% Change
2021-2022	130993					130993	-
2022-2023	151890				865	151025	0.5
2023-2024	164100				1750	162350	1.0
2024-2025	177200				2700	174500	1.5
2025-2026	190500				3700	186800	1.9
2026-2027	241900				5540	236360	2.3
2027-2028	255600				6250	249350	2.4
2028-2029	270400				7500	262900	2.7
2029-2030	285890				8900	276990	3.1
2030-2031	325900				10300	315600	3.2
2031-2032	342700				13800	328900	4.0
2032-2033	360100				15500	344600	4.3
2033-2034	378100				16120	361980	4.2
2034-2035	396800	100			17000	379700	4.3
2035-2036	497300	300			20300	476700	4.1
2036-2037	514300	450			21200	492650	4.2
2037-2038	541700	570			22400	518730	4.2
2038-2039	570300	700			23500	546100	4.2
2039-2040	600300	850		6500	25000	567950	5.3
2040-2041	691500	1000		13500	29900	647100	6.4
2041-2042	727000	1250		21000	31100	674750	7.3
2042-2043	744600	1550	170	29000	32650	681230	8.5
2043-2044	786000	1800	360	37300	34300	712240	9.4
2044-2045	831500	2100	620	46500	36350	745930	10.3
2045-2046	1081200	3000	1000	56000	43600	977600	9.6
2046-2047	1113200	3800	1300	67000	45800	995300	10.6
2047-2048	1168700	4800	1600	80000	48000	1034300	11.5
2048-2049	1226700	6000	2000	93000	51000	1074700	14.1
2049-2050	1357200	7500	2800	125300	54500	1176100	13.3

32. From the extrapolated figures based on policies wrt present pension the decisions if taken by government will start showing results wrt reduction in pension bill of MoD by 2050. Reduction of 13.34 % will happen and will keep on increasing if the model proposed is accepted and implemented. The number of retiring persons will become less than those who would be reaching life expectancy age. The impact of this is expected to be around 5 percent by 2030. This has however not be taken into account.

Figure-1 : Defence pension : Impact of Recommended Model



CHAPTER 7 : RECOMMENDATIONS TO MoD ON PENSION BUDGET

1. The detailed understanding of the pension budget of MoD including factors which have resulted in its increase over the years, measures government has taken till now to address it and the recommendations of various commissions and committees show that a lot needs to be done for the pension component of the MoD budget. Strong measures are required to arrest the ever increasing pension component and arrest its impact on military modernization by ensuring that the revenue: capital expenditure ratio improves in favour of capital expenditure.

2. The study on the subject suggests following recommendations for the Government of India /Ministry of Defence :-

(a) Every Person recruited by the government in any ministry should be considered as national asset and made to retire at the age of 60. The pensionary benefits should start once the individual has superannuated from the Service at 60 years of age.

(b) All the uniformed forces of the Central Government i.e, Defence Forces and Central Armed Police Forces should be treated as one wrt Human resource employment.

(c) Adopt Joint Training – Lateral Employment Model, to ensure 27000 personal of CAPFs are employed with the defence forces for 5 years and then moved back for employment with parent CAPF. It will result in 27000 less soldiers retiring every year from the defence forces.

(d) Home ministry revenue budget will reduce as complete training cost including establishment of Ministry of Defence will be used for basic training the CAPF.

(e) Enforce all central government and state governments to fill all vacancies reserved for ESM. It will result in close to 28000 personnel's get recruited by various government departments annually.

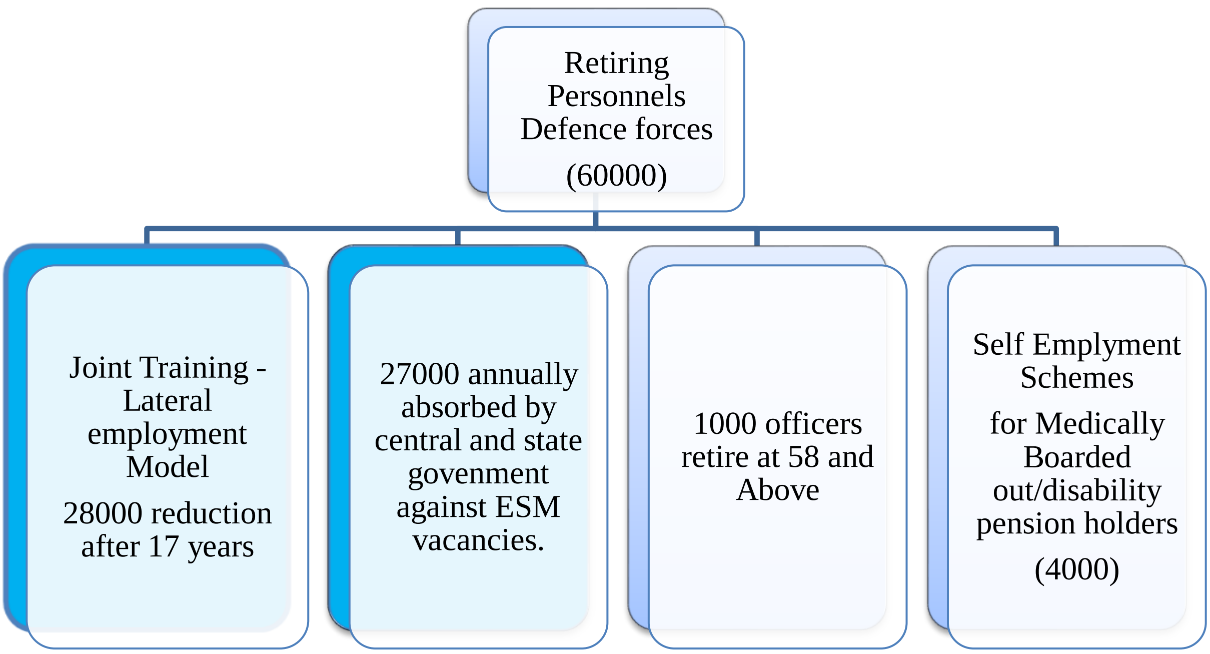
(f) Explore the possibility of similar model between Navy and Coast Guards.

(g) Increase the colour service of all ranks by 2 years to ensure increase in pension budget momentarily stops and additional funds for two years are available for capital expenditure.

(h) Shift to accrual budget for MoD pensions.

3. If the above measures are accepted by the government then the Recommended Model of pension reforms will be as follows:-

Figure 1 : Recommended Model of Pension Reforms



4. The transfer and absorption of Armed Forces personnel after the end of their military service into government organizations and departments where their unique skills, training, discipline and strengths can be optimally used, despite recommendations of the Parliament and Pay Commission, has been mostly ignored by successive Governments, mainly on account of want bureaucratic commitment in MOD, and sustained obstruction by IPS bureaucrats in MHA. Strong Political intervention is now required to ensure this asset of the nation is employed till 60 years and saving in pension budget improve the capital funds in MoD budget for modernisation of the Defence Forces.

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