

A Study of Employee Response to Defined Contribution Pension Scheme and its Impact on Employees Performance

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Abstract

Defined Contribution Pension Scheme has become an important part of modern employee welfare and human resource management. In India, the National Pension System is one of the major examples of such a scheme because it is based on contributions made during working life and market-linked accumulation of retirement wealth. The present paper studies employee response to Defined Contribution Pension Scheme and its impact on employee performance. The paper is based on secondary data and published literature from 2014 to 2025. It discusses the meaning of defined contribution pension, employee response, pension awareness, financial security, motivation and work performance. The paper also highlights that employees do not respond to pension schemes only as financial products. They respond to them as signals of organizational care, fairness and long-term security. When employees understand the scheme, trust its structure and receive timely guidance from employers, their level of satisfaction and commitment improves. This can positively influence performance, attendance, loyalty and willingness to continue in service. However, weak awareness, market risk, delayed communication and uncertainty about retirement benefits may reduce confidence. The paper concludes that Defined Contribution Pension Scheme can support employee performance when it is supported by transparent communication, financial literacy and employer participation.

Keywords: *Defined Contribution Pension Scheme, National Pension System, Employee Response.*

1. Introduction

Employee welfare has always been an important area of management science. Earlier, organizations mostly looked at welfare in terms of salary, bonus, leave, medical benefits and promotion opportunities. Today, the idea has become wider. Employees also expect long-term

financial security. Pension is therefore not only a retirement benefit. It is also a part of the psychological contract between the employer and the employee. A Defined Contribution Pension Scheme is different from the traditional defined benefit pension system. In a defined benefit system, the employee normally receives a pension based on salary and years of service. In a defined contribution system, the amount contributed by the employee and employer is invested, and the final retirement benefit depends on accumulated contributions and investment returns. In India, the National Pension System is a major defined contribution pension system regulated by the Pension Fund Regulatory and Development Authority.¹

This shift has changed the way employees think about retirement. Under a contribution-based system, employees are expected to be more aware, more responsible and more involved in retirement planning. They need to understand contribution rates, investment choices, risk, returns, portability and withdrawal rules. This may create confidence among financially aware employees. At the same time, it may create fear among employees who are not comfortable with market-linked savings. From a management point of view, employee response to such schemes is important. If employees feel secure, they may work with greater peace of mind. If they feel confused or dissatisfied, it may affect morale. Pension benefits may not directly increase daily output like incentives, but they can improve stability, commitment and trust. For this reason, studying the relationship between employee response to Defined Contribution Pension Scheme and employee performance is meaningful for employers, policy makers and human resource managers.

2. Definitions of Key Terms

- ❖ **Defined Contribution Pension Scheme:** Defined Contribution Pension Scheme refers to a retirement benefit arrangement in which fixed contributions are made by the employee, employer or both. The final benefit depends on the amount contributed, investment growth and applicable withdrawal or annuity rules.
- ❖ **National Pension System:** National Pension System is a contributory pension system in India. It was introduced for Central Government employees joining service on or after 1 January 2004 and later extended to other sectors. It is market-linked and regulated by PFRDA.²

- ❖ **Employee Response:** Employee response refers to the attitude, perception, satisfaction, acceptance, awareness and confidence shown by employees towards the pension scheme.
- ❖ **Retirement Security:** Retirement security refers to the confidence that an employee will have adequate income or financial support after retirement.

3. Review of Literature

3.1.Sane (2014) examined the direction of India's National Pension System and discussed the policy issues linked with its design and implementation. The study pointed out that a pension system can succeed only when it is transparent, low-cost and easy to understand. The paper is useful because it shows that pension design is not only a financial issue but also a governance issue. When rules are complex, employees may not respond positively even if the scheme has long-term benefits. The study also highlights the need for continuous policy support so that employees can develop confidence in the pension framework.³

3.2.Bodhgire (2021) studied the National Pension Scheme in India with reference to its functioning and the performance of pension fund managers. The study observed that many government employees were still not fully aware of the benefits and operations of the scheme. This finding is important for the present paper because employee response depends heavily on awareness. If employees do not understand the scheme properly, they may treat it as a deduction from salary rather than as a long-term retirement investment. The study further indicates that lack of awareness may reduce employee satisfaction even when the scheme has useful features. It also suggests that proper communication from employers and pension authorities can improve acceptance of the scheme.⁴

3.3.Shabana, Nimy, Jhoney Rani and Sumayya (2024) analyzed the perception and satisfaction of National Pension Scheme subscribers in Kerala. The study focused on government employees and examined factors such as age, awareness and satisfaction. The findings indicate that pension satisfaction is closely connected with employee understanding and trust. The study also suggests that communication and financial literacy can improve acceptance of NPS among employees. It shows that employees who are more informed about pension benefits

are likely to respond more positively to the scheme. The study also brings attention to the role of age and service period in shaping employee expectations from pension benefits. This makes the study useful for understanding how pension perception differs among employees at different stages of their career.⁵

3.4.Das, Datta and Tiwari (2024) studied the effect of market risk on the New Pension System and government responsibility. Their work highlighted a central concern of defined contribution systems: the final pension corpus is influenced by market movements. This risk can affect employee confidence, especially among employees who prefer a predictable pension. The study is relevant because it connects financial risk with employee perception and long-term security.⁶

4. Problem Statement

Defined Contribution Pension Scheme has changed the retirement benefit structure for many employees. The shift from guaranteed pension to contribution-based pension has created a new situation in which employees must understand contributions, investment risk and future retirement income. However, many employees are not fully aware of the scheme, its benefits and its limitations. Some employees see it as a disciplined saving mechanism, while others see it as uncertain because the final benefit depends on investment performance. This mixed response creates a management problem. Employees who trust the scheme may feel more secure and committed. Employees who do not understand the scheme may feel anxious or dissatisfied. Such feelings can influence work attitude, motivation and performance. Therefore, there is a need to study how employees respond to Defined Contribution Pension Scheme and how this response affects their performance at the workplace.

5. Objective of the Paper

The objective of the paper is to study employee response to Defined Contribution Pension Scheme and examine its possible impact on employee performance. The paper also aims to understand how pension awareness, trust, satisfaction and retirement security influence employee motivation, commitment and work behaviour. It further attempts to identify challenges in employee acceptance of contribution-based pension schemes and suggest practical measures for improving employee confidence.

6. Employee Response to Defined Contribution Pension Scheme

Employee response to Defined Contribution Pension Scheme is shaped by several factors.

- The first factor is awareness. If employees know how the scheme works, they are more likely to accept it. If they do not understand the contribution structure, investment pattern and withdrawal rules, they may feel that the scheme is complicated.
- The second factor is trust. Pension is a long-term benefit. Employees contribute for many years and expect security after retirement. Therefore, trust in the regulatory authority, employer, fund manager and recordkeeping system is very important. Even a small communication gap can create doubt.
- The third factor is perceived fairness. Employees compare the Defined Contribution Pension Scheme with the old pension system. In many cases, employees feel that the old system gave greater certainty. Defined contribution schemes give portability and market-linked growth, but they also shift part of the risk to the employee. This may create resistance among employees who prefer assured benefits.
- The fourth factor is financial literacy. Employees who understand basic investment concepts are more comfortable with market-linked pension. They can appreciate long-term compounding, asset allocation and retirement planning. On the other hand, employees with low financial literacy may focus only on short-term deductions from salary.

Employee response is therefore not uniform. Younger employees may see the scheme as flexible and portable. Senior employees may worry about adequacy of retirement income. Employees in secure jobs may expect stronger employer support. Employees in private organizations may appreciate portability. This variation shows that a single communication approach is not enough.

7. Impact of Defined Contribution Pension Scheme on Employee Performance

The impact of pension schemes on employee performance is indirect but important. Pension does not immediately increase output in the way a performance bonus may do. Still, it influences the employee's sense of security. A secure employee is often more focused, stable and committed. When employees believe that the organization is contributing to their long-

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term welfare, they may develop a stronger emotional bond with the employer. This can improve organizational commitment. Such employees are more likely to remain loyal, avoid unnecessary absenteeism and participate sincerely in organizational work. Pension benefits can also reduce anxiety about old age, especially for employees who do not have other retirement savings. Defined Contribution Pension Scheme can also improve performance through disciplined financial behaviour. Regular contribution creates a saving habit. When employees see their retirement corpus growing, they may feel more responsible about their career and future. This sense of responsibility can reflect in professional behaviour. However, the scheme may also create negative reactions if it is poorly communicated. If employees feel that the pension amount is uncertain, they may become dissatisfied. If they compare it unfavourably with a guaranteed pension system, morale may decline. In such situations, the scheme may not support performance. Therefore, the impact of Defined Contribution Pension Scheme depends on how it is introduced, explained and supported.

8. Statistical Overview of Pension Growth in India

The growth of NPS and APY shows that contribution-based pension coverage has expanded in India. This growth indicates wider acceptance of pension-linked savings, although employee-level awareness still needs improvement. The table below presents selected official figures related to subscriber base and assets under management. The table shows two broad points. First, pension assets have grown steadily. Second, the subscriber base has also widened, which means more individuals are entering formal retirement savings. This is encouraging for social security and financial planning. Yet growth in numbers alone does not guarantee employee satisfaction. Employees must also understand the scheme and trust its long-term value.⁷

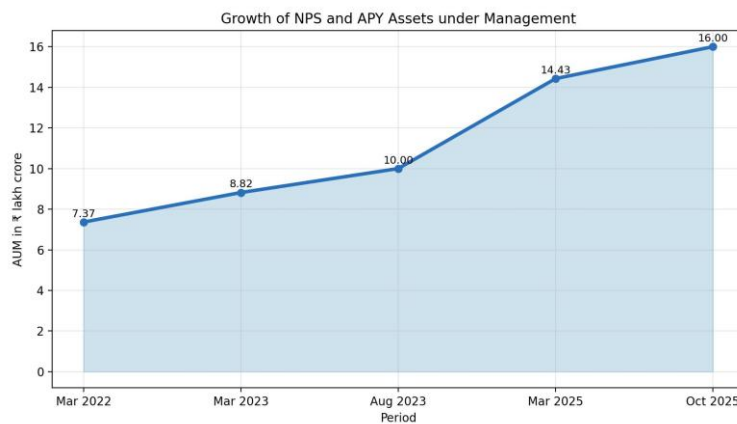
Table 1: Growth Indicators of NPS and APY

Sr. No.	Period	Subscriber Base	Assets under Management	Remark
1	March 2022	5.2021 crore	Rs. 7.36592 lakh crore	Year-end NPS and APY schemes
2	March 2023	6.2481 crore	Rs. 8.82 lakh crore	As reported in March 2023
3	August 2023	More than 6.62 crore	Rs. 10.00 lakh crore	Major AUM milestone
4	March 2025	Private sector NPS subscribers crossed 1.65 crore	Rs. 14.43 lakh crore	AUM for NPS and APY combined
5	October 2025	More than 9 crore	More than Rs. 16.00 lakh crore	Combined subscriber and AUM milestone

Source: Ministry of Finance, Press Information Bureau releases dated 8 April 2022, 10 March 2023, 1 September 2023, 22 April 2025 and 9 October 2025.

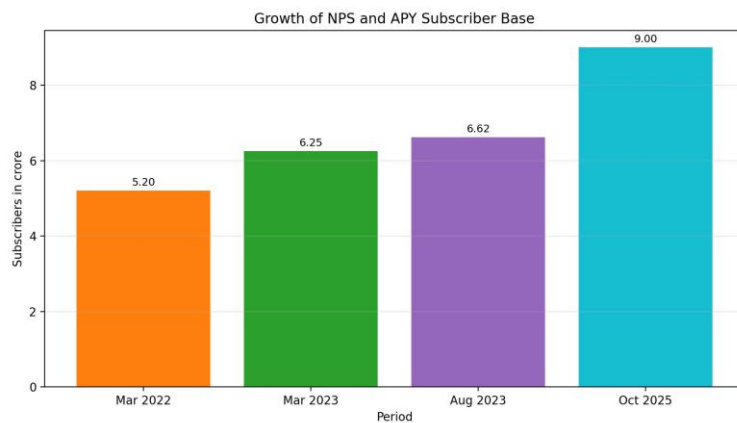
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Figure 1: Growth of NPS and APY Assets under Management



Source: Ministry of Finance, Government of India releases dated 9 October 2025.

Figure 2: Growth of NPS and APY Subscriber Base



Source: Ministry of Finance, Government of India releases dated 9 October 2025.

9. Research Methodology

9.1 Type of Data

The present paper totally relies on secondary data.

9.2 Type of Research

The research type for the present paper is descriptive and analytical.

9.3 Period of Research

The period of study is from 2014 to 2025.

9.4 Research Gap

A review of available literature shows that many studies have examined the structure, growth and investment performance of NPS. Some studies have also discussed subscriber perception and satisfaction. However, limited attention has been given to the relationship between employee response to Defined Contribution Pension Scheme and employee performance. Most studies treat pension as a financial product, while fewer studies study it as a human resource and performance-related factor. This paper attempts to address this gap by linking pension response with motivation, security, commitment and workplace behaviour.

10. Recommendations

- It is recommended that organizations should conduct regular pension awareness sessions for employees. These sessions should explain contribution rules, investment options, withdrawal conditions, tax benefits and annuity requirements in simple language.
- It is recommended that employers should not treat pension communication as a one-time activity. Employees need repeated guidance because pension rules and personal financial needs change over time.
- It is recommended that human resource departments should provide personalized pension counselling, especially for employees who are close to retirement. Such support can reduce anxiety and improve confidence.
- It is recommended that pension statements should be made easy to understand. Employees should be able to see their contribution, employer contribution, accumulated corpus and expected retirement benefit clearly.

11. Conclusion

Defined Contribution Pension Scheme has become an important part of the modern retirement framework. It represents a shift from guaranteed benefits to contribution-based and market-linked retirement planning. This shift has both advantages and challenges. It gives employees portability, transparency and long-term investment opportunities. At the same time, it requires awareness, patience and acceptance of market-linked outcomes. The present paper

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shows that employee response to Defined Contribution Pension Scheme is influenced by awareness, trust, communication, financial literacy and perceived fairness. Employees who understand the scheme are more likely to accept it positively. They see it as a long-term financial support. Employees who do not understand it may consider it a burden or an uncertain deduction from salary. The impact on employee performance is indirect but meaningful. A pension scheme cannot replace leadership, salary, work environment or recognition. Still, it can strengthen the employee's sense of security. When employees feel that their future is protected, they can work with greater stability and confidence. This can improve commitment, reduce insecurity and support better performance. The paper also highlights that the success of Defined Contribution Pension Scheme depends not only on policy design but also on implementation at the organizational level. Human resource managers have a major role. They must explain the scheme, resolve doubts, provide timely updates and create a culture of retirement planning. A good pension scheme becomes more effective when employees understand it. In conclusion, Defined Contribution Pension Scheme can positively influence employee performance when it is supported by clear communication, strong governance, financial literacy and employer involvement. For management science, the scheme should be studied not only as a retirement product but also as a part of employee welfare, motivation and long-term organizational commitment.

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