



## **ALL INDIA BANK RETIREES' FEDERATION (REGD.)**

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**6<sup>th</sup> Conference Slogan- Pension Updation is Right of Bank Retirees**

Ref No. 2025/0124

Date: 28.01.2026

### **Representation to DFS on Dilution of Pension through Special Allowance – Request for Immediate Corrective Action**

To  
The Secretary  
Department of Financial Services  
Ministry of Finance  
Government of India  
New Delhi

Respected Sir,

We submit this representation on behalf of the **All India Bank Retirees Federation (AIBRF)** regarding the progressive dilution of pensionary benefits through the introduction and continuous expansion of **Special Allowance excluded from pension computation**.

#### **Background**

Commencing from the **10th Bipartite Settlement**, IBA introduced **Special Allowance** initially at **7.75% of Basic Pay**, excluded for pension.

Subsequently:

- **11th Bipartite Settlement** – increased to **16.40%**
- **12th Bipartite Settlement** – increased to **26.50%**

Today, a substantial portion of wage increase is routed through a **non-pensionable component**, permanently depressing pensionable pay.

## **Adverse Impact**

Employees retiring from **1.11.2012 onwards** suffer progressively higher pension loss with each settlement. Most wage increase is given through Special Allowance, thereby **shrinking pension base while inflating apparent salary**. This defeats the very objective of defined benefit pension.

## **Violation of Defined Benefit Pension Principle**

Bank pension is a **defined benefit scheme**, based on **50% of last pay drawn**. Artificial fragmentation of wages into pensionable and non-pensionable components erodes retirement security and violates social welfare intent.

## **Supreme Court Principle Ignored**

A similar dilution was attempted under the **7th Bipartite Settlement** by computing pension on **notional pay instead of actual pay drawn**. The Hon'ble Supreme Court struck down the provision as **ultra vires ab initio**, affirming that pension cannot be diluted by artificial computation mechanisms.

The present Special Allowance structure appears to be an **indirect circumvention of the Supreme Court ruling**, defeating its spirit and intent.

## **Serious Policy Risks**

- Long-term erosion of pension sustainability
- Inter-generational discrimination among retirees
- Increased litigation exposure
- Undermining trust in statutory pension commitments

## **Our Humble Requests**

DFS is requested to:

1. **Declare Special Allowance as part of Pay for pension and terminal benefits;**
2. **Protect the 50% last pay drawn principle;**
3. **Prevent policy mechanisms that circumvent judicial rulings;**
4. **Apply corrective measures prospectively and protect accrued rights.**

**Annexure–I (Legal Principles) and Annexure–II (Numerical Illustration)** are enclosed for ready

reference.

With Respectful Regards,

**Yours Sincerely,**

A handwritten signature in black ink, appearing to read 'malas', written over a horizontal line.

**(S. C. JAIN)**  
**GENERAL SECRETARY**

- 1. The Secretary, Department of Financial Services, GOI, New Delhi**
- 2. The Chairman, Indian Banks' Association (IBA) Mumbai**
- 3. The Chief Executive, Indian Banks' Association, Mumbai**
- 4. The Senior Advisor (HR), Indian Banks' Association, Mumbai**
- 5. General Secretaries, AIBEA, AIBOC, NCBE, AIBOA, BEFI, INBOC, INBEFE NOBOW, NOBRO**

## **ANNEXURE – I**

### **Legal Principles Established by the Hon'ble Supreme Court**

**1. Pension is Deferred Wage and Property Right**

The Supreme Court has consistently held that pension is not a bounty but a **deferred wage and a property right protected under Article 300A** of the Constitution.

**2. Arbitrary Classification Among Pensioners is Unconstitutional**

Any artificial distinction among similarly placed pensioners violates **Article 14 (Equality before Law)**.

**3. Pension Must Reflect Actual Pay Drawn**

In the bank pension litigation relating to the **7th Bipartite Settlement**, the Hon'ble Supreme Court struck down the provision which calculated pension on **notional pay instead of actual pay drawn**, declaring it **ultra vires ab initio**.

**4. Indirect Circumvention of Judicial Mandate is Impermissible**

Administrative or contractual mechanisms cannot indirectly achieve what is prohibited directly by judicial pronouncement.

**5. Social Welfare Legislation Must Be Interpreted Beneficially**

Pension schemes must receive a liberal and purposive interpretation favoring retirees.

The expanding Special Allowance structure defeats these principles and warrants immediate correction.

## **ANNEXURE – II**

### **Numerical Illustration Showing Pension Loss Due to Special Allowance**

#### **Assumptions (Illustrative):**

Basic Pay at retirement = ₹1,00,000 per month

Special Allowance under 12th Settlement = **26.50% = ₹26,500**

Total Pay Drawn = ₹1,26,500

#### **Scenario A – If Special Allowance is Pensionable**

Pensionable Pay = ₹1,26,500

Basic Pension @50% = **₹63,250 per month**

#### **Scenario B – Present System (Special Allowance Excluded)**

Pensionable Pay = ₹1,00,000

Basic Pension @50% = **₹50,000 per month**

#### **Monthly Loss**

$₹63,250 - ₹50,000 = ₹13,250$  per month

#### **Annual Loss**

$₹13,250 \times 12 = ₹1,59,000$  per year

#### **Lifetime Impact (20 years)**

$₹1,59,000 \times 20 = ₹31.80$  lakhs (excluding DA compounding)

This loss further multiplies due to lower DA, commutation value, family pension and future revisions.

As Special Allowance percentage increases in every settlement, the pension erosion compounds permanently.

### ANNEXURE – III (TABULAR FORM)

#### Tabular Illustration Showing Pension Loss Due to Non-Pensionable Special Allowance

##### Assumptions:

- Pension = **50% of Pensionable Pay**
- Special Allowance under 12th Bipartite Settlement = **26.50% of Basic Pay**
- DA impact ignored for simplicity (actual loss will be much higher)

Basic Pay at Retirement (₹)	Special Allowance @26.5% (₹)	Total Pay Drawn (₹)	Pension if SA is Pensionable (50%) (₹)	Pension under Present System (₹)	Monthly Pension Loss (₹)	Annual Loss (₹)
50,000	13,250	63,250	31,625	25,000	6,625	79,500
75,000	19,875	94,875	47,438	37,500	9,938	1,19,256
1,00,000	26,500	1,26,500	63,250	50,000	13,250	1,59,000
1,25,000	33,125	1,58,125	79,063	62,500	16,563	1,98,756
1,50,000	39,750	1,89,750	94,875	75,000	19,875	2,38,500

##### Lifetime Impact Illustration (20 years retirement)

##### Basic Pay (₹) Approx. Lifetime Pension Loss (₹)

50,000	15.9 Lakhs
75,000	23.8 Lakhs
1,00,000	31.8 Lakhs
1,25,000	39.8 Lakhs
1,50,000	47.7 Lakhs

*(Excludes DA compounding, family pension impact, commutation loss and medical inflation — actual loss will be substantially higher.)*

## Key Observation

- As Special Allowance percentage increases in every settlement, **future retirees suffer exponentially higher permanent pension loss.**
- Most wage increase is being routed through a **non-pensionable component**, defeating the defined benefit pension principle.
- This effectively dilutes the **50% of last pay drawn formula**, contrary to Supreme Court principles.