Pension Reforms in India

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Demographics

- Total Workforce : > 400 million

- Covered by Pension : < 13 %

- Uncovered by Pension : Nearly 350 million

- Traditional family support for old age declining; 60% of households already nuclear

Demographics

- 80 million elderly today

- Expected to double in 25 years

- 1.8% vs. 3.8%

- Life expectancy 17 years at age 60

Fiscal Compulsion

- > Rs 90,000 crore

- CAGR 21% : Federal employees
  27% : States' employees

- > 13% of tax revenue

Survey

- People not saving enough

- Family support declining rapidly

- Longevity improving

- Government's capacity to support the indigent aged will continue to be limited

Policy Response

- OASIS (2000)

- IRA; DC; Voluntary

- HLEG (2001)

- DC-cum-DB

- Government Decision (2003)
  - --Defined contribution
  - --Mandatory for new recruits
  - --Voluntary for others

Objectives of Pension Reforms

- Eliminating the risk of rapidly falling living standards of citizens post retirement

- Narrower goal of fiscal sustainability of civil service pensions

System Design

COMPULSION	NPS ARCHITECTURE	DESIGN OUTCOME
350m; 3.3 sq m	Scalability	Extensive use of IT
Small transaction sizes; modest a/c balances	Low fees & charges	Competitive bidding; use of existing institutional infrastructure; direct selling model
Low literacy; even lower financial literacy; lack of risk appetite	Simplicity	Few & standard choices; default option; equity exposure limited to 50%
Changes in jobs & locations	Portability	IRA; Central record keeping
Define liability upfront; fully funded	Sustainability	Defined contribution; no defined benefit

Empowering the individual

The power to:

- Decide the extent & frequency of contributions

- Choose amongst several fund managers

- Allocate savings amongst various asset classes

- Avail of auto-choice

- Switch without entry/exit loads

- Decide the timing of exit

Safety Features

- Financial intermediaries regulated

- Capital requirement; un-bundled architecture; restrictions on cross holdings

- Audit /Risk management committees

- TRUST model

- Investment norms

- Online access

Some Statistics

- Central Government plus almost all State Governments

- 25,00,000 employees; AUM > Rs 25,000 crore

- 3 Fund managers for civil servants, 6 Fund managers for other citizens

- Most banks as PoPs

- ROR: Varied from 10.52% to 14.82% (8% in GPF)

Challenges

- Low level of financial literacy

- Preponderance of rural aged

- Sex ratio of rural work-force and poor economic status of women

- No surplus income to save for retirement /unpaid workers

- Lack of a comprehensive national pension policy.

Issues for Discussion

- Shouldn't Government treat organised & unorganised sectors equally?

- Should there be preferential tax treatment for retirement savings?

- Should agency system be allowed?

- How to promote NPS?

- Should organised sector work force be given the choice to shift to NPS?

Thank you.