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

  --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

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