Inclusive Pension System

Mains Syllabus: GS II - Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

Why in the News?

The Economic Survey 2025-26 reports that Indian pension assets amount to just 17% of GDP, compared with up to 80% in many advanced economies.

What is the status of pension coverage in India?

- **Coverage** - Currently, only around 12% of India's workforce is covered by formal pension schemes.

India took the last position out of 48 countries surveyed to measure people's pension status after retirement in the Mercer CFA Institute Global Pension Index (MCGPI) 2024.

- **Share in GDP** - The Economic Survey 2025-26 reports that Indian pension assets amount to just 17% of GDP, compared with up to 80% in many advanced economies.
- **High Coverage in Formal Sector** - Public sector and organised private sector workers are protected under multiple parallel schemes.
- **Inadequate coverage of informal workers** - In contrast, the only protection for the informal sector is voluntary adoption under the National Pension System and Atal Pension Yojana.
- These two schemes accounted for about 5.3 % of the total population in FY24.

What are the significances of expanding the inclusive pension system?

- **High Share of Informal Labour Force** - Almost 85% of the informal labour force is generating more than half of the country's GDP.
- As markets evolve and the gig economy expands, their exclusion from the pension framework is not only a policy gap but also a looming financial crisis in the making.
- **Increasing Old-age Population** - Since India's old-age dependency ratio will increase to 20% by 2050, one out of five citizens will be requiring retirement income support.
- **Societal Change** – Increasing urbanization and nuclear structuration of society necessitates a strong pension system for the social security of old age people.
- **Silver Economy** – Effective pension system will act as a pillar to the silver economy serviced by the care institutions for the old age people.

- **Increasing Medical Cost** – Pension system will help addressing the increasing cost in geriatric care.

Pension Schemes of India
• **National Pension System (NPS)** – It is a defined contribution pension and is voluntary for subscription by an individual to make contributions to his/her Individual Pension Account during the working life. • NPS is mandatory for the Central Government recruits w.e.f. 1st Jan 2004 (except armed forces) which replaced the earlier defined benefit pension. • **Unified Pension Scheme** – It has been introduced as an option under the National Pension System (NPS) for the Central Government employees covered under NPS so that they may receive an assured payout after their retirement. • It is a 'fund-based' payout system which relies on the regular and timely accumulation and investment of applicable contributions (from both the employee and the employer (the Central Government)) for grant of monthly payout to the retiree. • **NPS Vatsalya** – It is a National Pension System (NPS) scheme designed for minor Indian citizens, enabling parents or guardians to contribute towards the child's retirement savings. • **Atal Pension Yojana (APY)** – It is a voluntary pension scheme launched by the Government of India for all Citizens of India, especially the poor, the under-privileged and the workers in the unorganised sector. • **Employees' Provident Fund (EPF)** – It is a retirement savings scheme in India managed by the Employees' Provident Fund Organisation (EPFO). • **Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM)** – It is a pension scheme for unorganized sector workers with a monthly income of ₹15,000 or less and aged between 18-40 years.

What are the challenges in expanding the insurance coverage?

- **Fragmented Pension Frameworks** - Although the government has introduced social security for gig workers, funded in part by aggregators, this only addresses a fraction of the informal sector and adds another parallel scheme to an already complex web.
- **Lack of Awareness** - As a large proportion of the current pension coverage for the informal sector is voluntary, the expansion of the insurance coverage depends on the awareness of the beneficiaries.
- **Inadequate Benefits** - Many retirees in India receive low pension amounts, with a substantial portion receiving less than Rs 1,500 per month.
- **Systemic Exclusions** - The pension system faces challenges in reaching a large segment of the population, particularly those in the unorganized sector.
- **Sustainability Concerns** - Falling birth rates and increasing longevity place pressure on the sustainability of pension systems, as fewer young people are available to support a growing number of pensioners.

What needs to be done to make the pension system inclusive?

- **Structuring the System** - As in most mature economies, India needs a well-structured pension ecosystem with multiple tiers that cater to the diverse needs of the entire population.

Pension System in Developed Countries
• **Japan** – It operates a mandatory flat-rate contributory scheme for all residents between the ages 20 to 59 years, encompassing the self-employed, farmers, public and private employees, and their dependents. • **New Zealand** – It offers a universal, flat-rate public pension to residents aged 65 years and over, subject to a 10-year residency requirement and roughly 40% rely on it as their main income during old age. • **Netherlands** – It's occupational pension funds provide annual disclosures of accrued pension rights to active participants. • **United Kingdom** – It runs an opt-out pension scheme for its employees, which promotes participation by default.

- **Sensitizing the Public** - As financial literacy in India remains low, efforts at sensitisation need to start at the grass-root level.
- For example, the financial literacy policy in Australia enables the school curriculum to incorporate a component on superannuation planning.
- **Increasing Accessibility** - Sensitisation is also linked with increasing accessibility of pension products, such as in Nigeria, which has invested heavily in a digital pension infrastructure to increase the reach of its pension system.
- **Ensuring Sustainability and Liquidity** - Sustaining the financial health and liquidity of pension funds are critical to securing sufficient resources for a dignified retirement.
- **Integrating Pension and Silver Economy** – Pension funds can be utilized for supporting and building the silver economy, the benefits of which can later be harnessed in cash and kinds.

Referenes

[The Hindu| Inclusive Pension System]

SHANKAR IAS PARLIAMENT
Information is Empowering