Widening the pension coverage in India

What is the issue?

\n\n

\n
- The RBI committee on household finance (Ramadorai Committee) has commented on the low pension participation of Indian households.
\n
- This calls for an assessment of the pension schemes in India and adopting suitable options to increase the pension coverage.
\n

\n\n

What is low coverage?

\n\n

\n
- India provides for three main kinds of pension schemes:
\n

\n\n

\n
1. NPS(National Pension Scheme) which is mandatory for civil servants.
\n
2. EPFO (Employees' Provident Fund Organisation) which is mandatory for employees in firms of 20 or more people.
\n
3. IGNOAPS (Indira Gandhi National Old Age Pension Scheme) for the destitute elderly.
\n

\n\n

\n
- Low pension coverage points to the citizens who do not have access to any of these programmes.
\n
- They are left to themselves to find ways to finance consumption in old age.
\n

\n\n

How is India's savings culture?

\n\n

\n
- Addressing the low pension coverage problem should focus on two questions.
\n
- One, are people not making any savings (or) two, are they not saving through the pension schemes.
\n
- It is to be noted that absence of a pension account does not necessarily mean that a person has no savings to finance consumption in old age.
\n
- However, in the Indian context the reality is that **people do not have enough savings** on the first hand.
\n
- Besides, as per the Ramadorai Committee report, households that do have savings, **over-invest in physical assets** in general.
\n

\n\n

What are the options to address this?

\n\n

\n
- Pension schemes that are compulsory or are universally provided by the state through tax revenues are **mandatory savings**.
\n
- On the other hand pension coverage incentivised through tax breaks in addition to mandatory programmes are **voluntary savings.**
\n
- Low financial savings and suboptimal investments are the reality with poor households in India.
\n
- There is thus naturally an increased demand for mandatory savings in the NPS to increase pension participation.
\n
- However, it is difficult to enforce this in a country like India where large informal sector is the large picture.
\n
- Thus, promoting voluntary savings becomes the option best suited for India.
\n

\n\n

What is the way forward?

\n\n

\n

- The Ramadorai Committee as well as the PFRDA committees have suggested **increasing the incentives of distributors** (and fund managers).
\n
- This is to incentivise people to join the National Pension System (NPS).
\n
- However, this should be coupled with **state support** like state subsidies in the form of cash transfers for the really poor.
\n
- Simultaneously, mandatory **NPS** can also be considered by providing for **lower contribution rate** than the present 20 per cent.
\n
- This could cover firms with less than 20 employees and the self-employed class.
\n
- Also, addressing **funding issues** and providing **flexible options** to shift between schemes as per individual needs can help increase the pension coverage.
\n
- Questions of **tax parity** between the various schemes need to be resolved so that one is not unfairly penalised.
\n
- A comprehensive approach to the problem and co-ordinating the best options available, could go a long way in streamlining the savings culture and pension coverage in India.
\n

\n\n

\n\n

Source: Business Standard

\n

