Widening the pension coverage in India

What is the issue?

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

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- India provides for three main kinds of pension schemes:
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1. NPS(National Pension Scheme) which is mandatory for civil servants.
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2. EPFO (Employees' Provident Fund Organisation) which is mandatory for employees in firms of 20 or more people.
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3. IGNOAPS (Indira Gandhi National Old Age Pension Scheme) for the destitute elderly.
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- Low pension coverage points to the citizens who do not have access to any of these programmes.
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- They are left to themselves to find ways to finance consumption in old age.
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How is India's savings culture?

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- Addressing the low pension coverage problem should focus on two questions.
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- One, are people not making any savings (or) two, are they not saving through the pension schemes.
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- 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.
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- However, in the Indian context the reality is that **people do not have enough savings** on the first hand.
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- Besides, as per the Ramadorai Committee report, households that do have savings, **over-invest in physical assets** in general.
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What are the options to address this?

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

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

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