Designing sustainable and equitable pension systems in Asia in the post crisis world

The reform experience of India : widening coverage in a sustainable and equitable way

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1. INTRODUCTION

1.1 Nearly one eighth of world's elderly population lives in India. The vast majority of this population is not covered by any formal pension scheme. Instead, they are dependent on their own lifetime savings and social transfers from their children or extended families. These informal systems of old age income security are imperfect and are becoming increasingly strained especially in the light of increasing labour mobility and improving life expectancy. People above the age of 60 years have grown at an annual rate of growth of 3.8 per cent (75.9 million in 2001 and 55.3 million in 1991) during the period 1991-2001, as against the annual growth of 1.8% for the general population. By 2012, the population of India's elderly is estimated at over 100 million and is likely to nearly double within the next two decades.

2. MANDATORY PENSION SYSTEMS

2.1 Pension Policy in India has traditionally been based on financing through employer and employee participation. As a result, the coverage has been restricted to the organized sector and a vast majority of the workforce in the unorganized sector does not have access to formal channels of old age financial support. Of the over 300 million working age Indians with incomes, less than 12 per cent are covered by some form of retirement benefit scheme. Besides the problem of limited coverage, the existing mandatory and voluntary private pension system is characterized by limitations like fragmented regulatory framework, lack of individual choice and portability and lack of uniform standards. High incidence of administrative cost and low real rate of returns characterize the existing system, which has become unsustainable.

2.2 Non-sustainability of the existing pension system is accentuated by the sharp increase in financial burden on the Government and the other employers on account of pension liabilities. The total pension liability on account of the Central Government employees has risen from 0.6% of GDP (at constant prices) in 1993-94 to 1.66% of GDP (at constant prices) in 2002-03. As a percentage of net tax revenue, the total pension liability has increased from 9.7% to 12.68% during the same period. For the sub-national (State) Governments, the compound annual growth rate in pension expenditure during the period 1995-96 to 2000-01 was 27.1 per cent. As a percentage of revenue receipts, the pension expenditure of the States has increased from 5.4% in 1990-91 to over 10 per cent in 2000-01.

3. EXISTING PENSION FRAMEWORK

3.1 The pension schemes in operation in India currently can broadly be divided into the following categories:

Scheme Covered	Employees
Central and State Government Pension Schemes (Pay-as-you-go)	26 million
Employees' Provident Fund	50 million
Employees' Pension Scheme	28 million
Special Provident Funds	2.1 million
New Pension System (NPS)	2.47 million

The current occupational pension system, including compulsory schemes offered through employers, require a combination of parametric, procedural and systemic reform. Parametric reforms could aim to increase the number and value of benefits paid to "adequate" levels. Procedural reform would aim at improving administration, operations, governance (including member rights and entitlements) and the manner in which investment decisions are taken to strengthen the security and sustainability of the programmes. Systemic reform may include questions of regulation as well as fundamental changes in the design of benefit arrangements.

Mandatory occupational programmes deliver inadequate terminal accumulations as a result of conservative investment policies, sub-optimal returns, inefficient administration, liberal pre-retirement withdrawals and poor information and service quality to subscribers. In parallel, the governance of schemes should be radically improved. Contrary to the case in many countries, India already has a well-established body of financial sector regulations and many of the key regulatory concepts are already present within its legal framework. As a result, there is sufficient capacity to rapidly evolve a robust regulatory and supervisory framework for occupational pension schemes.

The Civil Servants' Pension

3.3 The Civil Servants' Pension (CSP) is a traditional defined benefit scheme which runs on the basis of pay-as-you-go-system, for employees of Central Government who were recruited up to 31st December, 2003 and employees of State Governments recruited up to the effective date mentioned in notifications issued by those governments. CSP is an unfunded scheme and there has been no attempt at building up pension assets through contribution or any other provision.

3.4 CSP scheme is indexed to wages and inflation. A modified one rank one-wage principle applies to it wherein all retired employees of a certain rank get the same pension. Pension payments are revised periodically to reflect the growth in wages and consumer price index. Growth in pension benefits in old age is typically higher than inflation.

Pension liability

3.5 In the budget documents, the Union Government gives information on annual pension payout by the Central Government as well as the State Governments. Estimate of the unfunded liability associated with the benefits under this pension scheme is, however, not computed and disseminated. Details of the budget estimates of pension for different sectors/ services of the Central and State Governments for the years 1990-91 to 2006-07 are shown below:

Pension Payments
(Rs. in billions)

Year	States	Central
1990-91	31.31	32.72
1991-92	37.16	37.48
1992-93	43.79	45.85
1993-94	51.07	52.06
1994-95	61.46	57.34
1995-96	78.13	69.28
1996-97	98.27	82.52
1997-98	115.99	113.76
1998-99	161.66	153.46
1999-00	226.79	194.46
2000-01	254.53	211.17
2001-02	281.96	218.26 4
2002-03	310.05	221.02
2003-04 (RE)	352.79	236.29
2004-05	383.70 (BE)	261.54 (RE)
2005-06	N.A.	278.17 (BE)
2006-07	N.A.	306.27 (BE)

BE: Budget Estimates RE: Revised Estimates

3.6 The main problem under CSP is that of fiscal stress. CSP was designed at a time when going by the pattern of life expectancy most of the employees who retired at the age of 60 were expected to live up to the age of 68 or so. The value of the annuity embedded in the CSP has gone up due to elongation of mortality in the recent years. The mortality characteristics of Government employees, who belong to the relatively higher income group than the average, are more or less in line with the OECD populations. The fiscal stress at the sub-national level has been more acute. Some of the State governments have not made timely payment of pension benefits. One State government chose to cut benefits by reversing recent increases in the pension benefits due to hikes in the wages of existing employees.

4. <u>EMPLOYEES PROVIDENT FUNDS & MISCELLANEOUS PROVISIONS ACT, 1952 (EPF & MP ACT, 1952)</u>

4.1 For the organized sector employees, the basic structure of pension and other retirement benefits have been outlined in the EPF&MP Act, 1952. The provisions of this Act are applicable to all defined establishments, employing more than 20 workers and cover about 50 million employees in the organized sector. This Act remained unquestioned and there were virtually no changes in the contribution, administration and benefits being provided under this Act for almost four decades. First major change occurred in 1995, with the conversion of part of defined contribution EPF Scheme to a defined benefit scheme in the form of Employees' Pension Scheme. This change in the EPF&MP Act, 1952 marked an important break from the existing policy of the Employees Provident Fund Organisation in two ways:

(a) With this amendment, the concept of a mandated annuity to the employees of private sector was introduced for the first time.

(b) It added a new pension liability (since the scheme is not fully funded) to the existing liability with regard to the civil servants of Central and State Governments. Employees Provident Fund Organization (EPFO)

4.2 The EPF & MP Act, 1952 is administered by an organization titled the Employees Provident Fund Organization (EPFO). At present, EPFO administers the following two retirement benefit schemes, which are mandatory for all employees in the organized sector, earning a monthly salary of less than Rs.6,500/- :-

(a) The Employees Provident Fund; (EPF)

(b) The Employees Pension Scheme (EPS)

4.3 All the functions/processes of EPF and EPS are handled by the EPFO, except fund management, which has been outsourced to four professional asset management companies. However, some establishments, which are under the purview of EPFO are allowed to manage their own funds. EPFO treats them as exempted funds. These exempted funds are, however, required to follow the same investment pattern as being followed by EPFO and are required to match the returns of the EPFO.

4.4 The Employees Provident Fund (EPF) Scheme is an individual account defined contribution scheme wherein both the employees and employer contribute to the fund at the rate of 12% of the employee's pay. As on 2012, total stock of assets under the control of EPFO was over Rs.3 trillion. There are number of provisions under the scheme for pre-mature withdrawal of accumulation. This pre-mature withdrawal provision is frequently used by the members of the scheme which leads to small balances at the time of their superannuation. Because of low balance in individual account of the members' old age income benefit is negligible. The EPFO scheme enjoys an 'EEE' tax structure which constitutes a major tax based subsidy.

4.5 The Employees Pension Scheme (EPS) is a defined benefit scheme, based on a contribution rate of 8.33% from the employee to which government makes an additional contribution of 1.16%. EPS was introduced in 1995, and is applicable to the workers who entered into employment after 1995. In the year 2002-03, Rs.48 billion were contributed into this scheme and the stock of assets of Rs.450 billion was under the control of the scheme. In case of death of a member the scheme provides for a pension to the spouse for his/her remaining life.

5. <u>NEW PENSION SYSTEM (REFORM INITIATIVES)</u>

5.1 The last decade has seen a marked shift in pension policy in India through introduction of a new pension system. The High level Expert Group (HLEG) set up by the Department of Pension and Pensioners' Welfare, Ministry of Personnel, Pension and Public Grievance and the Old Age Social and Income Security (OASIS) Project commissioned by the Ministry of Social Justice and Empowerment in the year 2000-2001 were the two initial milestones on the road to pension reforms for the Government employees and the unorganized sector respectively. These efforts culminated in setting up of the Pension Fund Regulatory and Development Authority (October 2003), introduction of a New Pension System (December 2003), and introduction of the PFRDA Bill in Parliament (March 2005).

5.2 HLEG suggested a new hybrid scheme that combines contributions from employees and the Union Government on matching basis on the one hand, while committing to the employees a defined benefit as pension. The objective of the Government was to design a scheme for new entrants in Central Government service where the contribution is defined, where no extra infrastructure is sought to be created in Government and which is capable of serving other groups like State Government employees, middle class self-employed people and even those in the lower income bracket amongst the unorganized sector subsequently.

5.3 OASIS report recommended a scheme based on Individual Retirement Accounts to be opened anywhere in India. It was envisaged that Banks, Post Offices etc., could serve as "Points of Presence" (POPs) where the accounts could be opened or contributions deposited. Individual pension accounts under NPS would be administered centrally by a central recordkeeping agency (CRA) which would provide "portability" as a worker moves from one place or employment to another. Private fund managers, selected through a bidding process, would manage the funds and annuity providers would provide the pension benefit after the age of 60.

5.4 The New Pension System (NPS) which has its origin in the two reports mentioned above, was made operational through a notification dated 22nd December, 2003. It has been made mandatory for new recruits in the Central Government (except Armed Forces) from 1st January 2004. It marks a radical shift from the defined benefit system to a defined contribution regime. It is based on the principles of defining upfront the liability of Government, giving choice to subscribers, facilitating portability of labour force and ensuring transparency and fair-play in the industry. Over two million Central and State Government employees are already covered under the new pension system and contribute 10 per cent of their salary and dearness allowance towards pension with a matching contribution from the concerned Governments. Since 2004, twenty-six States have already notified a defined contribution pension system for their own new employees. Nearly US$4 billion are being managed under the NPS (2012).

In May 2009, the Government of India opened up voluntary participation in the National Pension System (NPS) to all Indian citizens. As per PFRDA data, the subscriber base under NPS as on August 2011 was over 2.4 million.

Total Subscribers Registered under NPS

Category/Sector	Number of Subscribers
Central Government	792,656
State Governments	786,066
Central Government Autonomous Bodies	41,920
NPS Lite	743,864
Corporate Sector	9,042
Unorganized Sector	53,954
Total Coverage	**2,427,502**

5.5 Under the NPS, for all subscribers including civil servants covered on a mandatory basis, as well as all other citizens that choose to open NPS accounts, there is compulsory annuitisation of at least 40 per cent of the accumulated pension wealth and the balance is payable as a lump sum. There are seven private pension fund managers licensed by PFRDA to manage voluntary NPS assets and individual subscribers are free to choose the fund manager they wish to use for managing their retirement savings. There are four broad categories of pension schemes, including a life-cycle investments based “default” scheme, offering investment options with varying ratio of equity and fixed income instruments. The choice of scheme also rests with the subscriber. Full transparency and disclosure of information regarding investments is required to be provided by the intermediaries. Portability is provided to the participants along with the option to transfer accumulations from one fund manager to another.

5.6 To bring the new pension system within a statutory regulatory jurisdiction, an ordinance was promulgated on 29 December 2004 setting up a statutory Pension

Fund Regulatory and Development Authority. Subsequently, a Bill was introduced in the Parliament to replace the ordinance. The Bill provides for establishing a statutory Authority to promote old age income security by establishing, developing and regulating pension funds and protecting the interest of subscribers to schemes of pension funds. Once the Act comes into force the Authority shall regulate all intermediaries under the new pension system including pension funds, central record keeper, points of presence, etc. It will approve the terms and conditions of the scheme, lay down norms for the management of the corpus of the pension funds including investment guidelines under such schemes. The Bill envisages that the pension supervisor will provide robust regulatory umbrella essential to sustain member-confidence and to protect the interests of the participants and to develop the pension system by inculcating saving habits for long term. The Bill also provides adequate safeguards to take care of the subscribers to the NPS and stringent penalties for contravention of the provisions of the proposed Act and the Rules and Regulations framed thereunder.

5.7 In accordance with Parliamentary conventions in India, on introduction in the Lower House the Bill was referred to the Parliamentary Standing Committee on Finance. The Committee, having considered the evidence and clarifications placed before it, opined that "...the reform process in the pension sector involving the setting up of the PFRDA as a statutory regulatory body for managing the NPS is an urgent necessity mainly on account of burgeoning fiscal stress of pension payments on the Central and State revenues and the need to provide a viable alternative to the populace at large to save for old age income security". The Committee approved the PFRDA Bill for enactment subject to certain modifications, which are under consideration of the Government.

5.8 The Bill is, however, yet to be taken up for further consideration by Parliament. Meanwhile, PFRDA has already established a robust institutional framework to enable mandatory and voluntary subscribers to participate in the NPS. Broad-based success with voluntary coverage among informal sector workers, and India's ability to rapidly achieve a mass-market status for the NPS, will hinge critically on effective implementation, planning and management by PFRDA.

6. VOLUNTARY PENSION SCHEMES

6.1 There are some voluntary pension schemes available for general public but these schemes cover a very small pie of the total population. Two of the important voluntary schemes in operation currently are listed below:

6.1.1 Personal/ Group Pension Plans

Life Insurance Companies and Mutual funds are offering these plans. These are essentially Defined Contributions Schemes. Personal Pension Plans and Group Pension Products offered by the life insurers are being supervised by the Insurance Regulatory and Development Authority (IRDA). Schemes offered by the Mutual Funds are regulated/supervised by the Security Exchange Board of India (SEBI). Tax benefits up to a specific amount are being offered to investors buying these pension plans. Total coverage under these pension plans is about 1.6 million.

6.1.2 Public Provident Fund

This is also a defined contribution scheme. The Government is managing this scheme. A fixed rate of return is being offered under the scheme. In addition, tax benefits are being offered for making investment in the Public Provident Fund account. The Government is managing this scheme and there is no separate Authority to supervise it. Coverage under the Public Provident Fund is about 3.5 million.

7. PENSION MARKET IN INDIA

7.1 The existing system of pensions which leaves more than 88 per cent of Indian workforce uncovered is unlikely to act as a social security umbrella for the ageing Indians. Even for those that the system covers, the defined benefit is strictly not guaranteed as the DB schemes are unfunded or under-funded schemes. Improvement in healthcare facilities leading to increase in life expectancy, evolution of nuclear family systems and rising expectations due to increase in per capita income, education etc. are some of the factors likely to compound the problem in future. The new pension system, based on defined contribution and funded liability is a significant step in the direction of addressing this problem. Spread of NPS is seen by many as the direction in which the pension reforms need to move to find a viable and sustainable solution to the problem of old-age income security because they feel that neither the existing system nor any anti-poverty drive by the Government is likely to solve the problem.

7.2 The spread of the new pension scheme would be possible only through a combined effort of the public sector as well as the private sector. The private players who have hitherto played only a marginal role in the field are anxious to have a reliable estimate of the likely size of the market before venturing into it. Preliminary research shows that pension plans offer a lucrative business opportunity to many players, as this area is widely unexploited till now.

7.3 In the year 2001, Government of India appointed a group of experts to study the various aspects of extending an organized system of pension to the unorganised sector. The group submitted its report in October 2001. According to this report, the pension market (which includes pensions, provident funds and other small savings schemes) would grow to about Rs.4064 billion by 2025. The growth would largely be due to normal growth of economy in terms of growth in income and population and does not consider the significant increase in coverage that would arise because of reforms in the insurance and pension sectors.

7.4 The group projected the post-reform scenario as under:-

Contributions (In Rs. bn)

Schemes	2010	2015	2020	2025
Funded schemes of which voluntary contribution	461 8.5% (39)	696 9.3% (64)	1023 10.1% (103)	1498 11.0% (164)
GPF	133	201	295	430
PPF	84	127	186	272
Individual Pension	183	306	513	756
Group Pension	708	824	968	1108
Total contribution	1569	2154	2985	4064

7.5 However, a more conservative estimate is that the pension market will be worth about Rs.1808 billion by 2025.

8. NATIONAL DATA SURVEY – INDIAN MARKET

8.1 A unique countrywide survey of unorganized sector was recently got conducted by the Department of Economic Affairs, Ministry of Finance, Government of India, with focus on the
Government of India's objective of achieving high voluntary pension coverage among unorganised sector workers, including lower and low-level income workers. The Survey was conducted as a part of the Asian Development Bank Technical Assistance project. A sample size of 41940, consisting of 21060 rural and 20880 urban households was taken. The Survey was conducted with the following objectives in mind:

§ To identify nature and potential market size (Service Provider)

§ Accurate prediction of demand to ensure matching market response (CRA)

§ To understand preferences and perception of contributors regarding investment choices (PFMs)

8.2 Some of the key findings of the Survey are:

§ People are not saving enough to support themselves at retirement and may as a result fall into poverty in old age

§ Joint and extended family support in retirement will continue to reduce

§ Government's capacity to support the indigent aged in the future will continue to be limited

§ Longevity is extending – there is need to save more for self-support in retirement years

8.3 According to the Survey, structure of the Indian Workforce at a glance is as under:

	(millions)
Total workforce	424.6
Urban workforce	97.7
Rural workforce	326.9
Total earners (85.6%)	363.4
Urban earners (92.4%)	90.4
Rural earners (83.5%)	273.0
Total unpaid family workers	61.2
Urban unpaid family workers	7.3
Rural unpaid family workers	53.9

There are 307 million unorganized sector workers (including salaried workers in small firms) in India at present of which about 40 million are having taxable income and have the capacity to buy annuity. The survey indicates an immediate potential market penetration of about 20 million out of this group, based on the following criteria:

§ Capacity to redirect discretionary expenditure

§ High interest in the pension concept shown by the respondents

§ Age of potential contributors

The report focuses on the unorganised sector, but it is expected that once the new pension system is introduced, others will also join this scheme so that the actual, immediate market size is likely to be much larger.

The 2004-05 survey indicated three broad potential markets for the NPS:

1. Unorganised sector workers with a capacity to make regular pension contributions and who are interested in voluntarily saving for their old age. These workers are highly concentrated in three groups – traditional and mechanised farmers, small retailers and self-employed persons including self-employed professionals;

2. Persons in salaried employment who are excluded from formal pension

and provident fund arrangements including EPFO schemes by virtue of working in firms with less than 20 employees; and

3. Government and private sector salaried employees who are covered by mandatory pension and provident fund arrangements but are not confident that their present retirement benefits will provide an adequate income replacement and are interested in voluntarily contributing to a supplementary retirement savings programme.

9. THE MAIN CHALLENGES AHEAD

9.1 Introduction of the New Pension System for new recruits of the Central Government/ State Governments is a positive step in the direction of reforming the pension sector in India. The road ahead has many challenges, which need to be tackled effectively for the system to spread wide enough to cover the unorganized sector, agriculture workers, temporary and casual workers and self-employed persons.

9.2 The level of financial literacy and preponderance of rural aged make the task daunting. Sex ratio of the workforce and economic status of women pose special problems in the design of pension systems. Designing an effective, efficient and accessible system, which caters to the requirement of a heterogeneous work force, nearly 88 per cent of which is not covered by any pension or old age security scheme, is the immediate priority of those concerned with pension reform process in India. The challenges of translating the design into reality will arise thereafter and, will take a while to be overcome.

9.3 The new pension system is an attempt to move away from the defined benefit pension plans to defined contribution based schemes. But this change is applicable only to the new recruits. The problem of financing the pension liability of those already under unfunded or partially funded schemes is likely to cause fiscal stress for the next two or three decades. Some parametric changes will, therefore, become necessary for effective and efficient discharge of this liability. Thus, apart from spread of the new pension scheme, introduction of parametric changes in the existing defined benefit mandatory pension systems is equally necessary for reducing the fiscal stress. Attempts to estimate the future pension liability arising out of the existing unfunded pension plans are at a nascent stage in India. Recently, some private researchers have tried to undertake a limited exercise in respect of the defined civil service pension scheme. One such study puts the implicit pension debt liability of the Central and State Governments arising out of three components of civil servants pensions at Rs.20034 billion or 64.51 per cent of GDP. While the methodology and/or the results can be questioned, the magnitude of the problem that this estimate suggests cannot be ignored. The enormity of the problem becomes even more apparent when this liability is compared with the explicit internal public debt of Government of India, which is 84.86% of GDP (2004-05).

9.4 Empirical evidence collected through a survey conducted by the Asian Development Bank suggests that India is in transition from old age support systems based on the family to a new reality where for the generation of workers now aged 40, the balance between family support and self-support in retirement is likely to fall heavily in the latter direction. It is, therefore, essential that policymakers correctly anticipate the course of the transition so that adequate counter measures are in place at the appropriate time. ADB data also indicates that without guidance, encouragement and support most Indian workers will not save sufficiently for their old age and the capacity of the State and the labour market to face the challenges is likely to become even more limited than is the case now. Recognizing the fact that pension reforms are an urgent social priority, policymakers in India are working hard to evolve pension systems, which are not only capable of meeting the present challenges but are able to adapt and restructure overtime to meet unforeseen developments in future.

9.5 A major challenge of the New Pension System is to provide the individual subscriber with an adequate retirement income. Public sector pension schemes involve 'policy risk' inasmuch as the
Government of the day may not be able to accommodate required pension outlays leading to delays in pension payments or defaults in some cases. On the other hand, private pension schemes are less subject to this 'policy risk' because Governments are less prone to confiscate private property but DC funds do involve capital-market risk during the accumulations phase when contributions and returns on investment build up in the fund. The risk is that the pension funds' performance may be insufficient to give reasonable retirement income to the pension subscribers.

9.6 Traditionally, coverage in India has been obtained by mandating participation and contributions coupled with tax incentives and guaranteed returns on retirement savings. The voluntary nature of the proposed NPS along with poor financial literacy and the attitude of the households towards financial savings, risk and retirement planning, also pose a challenge to achieving optimum coverage of NPS. Creating awareness about these reforms and gaining the confidence of the people to encourage them to be a part of this movement is the single most important challenge faced by policymakers today.

9.7 Even as the PFRDA attempts to increase voluntary coverage with the NPS, a large proportion of unorganised sector workers (perhaps as many as half) may not be in a position for the foreseeable future to self-provide for retirement and the NPS will therefore be an ineffective policy tool in dealing with their old age poverty challenges. These workers include the lifetime poor who may not be able to save anything for their old age, and unpaid workers who have no cash incomes to support pension contributions. Equally, the NPS will be unable to address the retirement savings needs of informal sector workers who are presently nearing retirement or those who are already aged 60 or above. For each of these groups, the government would need to design and implement effective social assistance policies and programmes that adequately support them in their old age.

9.8 The absence of a meaningful and efficiently delivered old age pension benefit continues to impose a significant social transfer burden on younger low income workers. The ability of poorer households to support the elderly is an issue that requires closer analysis and urgent policy attention. The presence of an aged member in households may cause all persons in the household to be in measured poverty. This would in turn further depress the capacity of low income earners to save for their own retirement. In this eventuality, therefore, lifting aged persons out of poverty through fiscal transfers may offer the possibility of lifting the entire household out of poverty.

9.9 Although the NPS may not be a universal solution to India's pension coverage gap, its success can dramatically reduce the size of the workforce that must rely on a combination of fiscal and social transfers to combat old age poverty. Equally, the underlying design considerations that form the basis of the NPS architecture may present a useful benchmark to assess the efficacy of other existing retirement arrangements, as well as a basis for their reform.

9.10 In this direction, the government and the PFRDA are already using the NPS framework to drill down the income distribution with conditional cash transfers aimed at encouraging voluntary enrolments and disciplined retirement savings by low income workers. Such transfers are a useful policy tool also to lift the value of their terminal savings. Emerging evidence suggests that this strategy will improve voluntary NPS enrolments by the working poor. A significant communication and public education effort will be required to support policy and regulatory efforts to produce optimum, regular savings for old age by a population that largely faces modest intermittent incomes.

10. THE NEXT STAGE OF INDIA'S PENSION REFORM

10.1 A fundamental issue in improving existing retirement programmes is the absence of a comprehensive national pension policy. In this scenario, there is need to define a policy-based benchmark by which the performance of existing occupational schemes can be evaluated. For example, several current occupational schemes fail to deliver an “adequate” retirement income. Yet, subscribers are unable to demand a different outcome simply because there is no clear definition of “adequacy.” There is no statement of the policy objectives of India’s pension system or of the specific responsibilities of administrators and trustees of both compulsory and voluntary programmes in targeting or ensuring adequate retirement income security for Indian workers.

10.2 In this context, the government should aim to develop an inclusive and equitable national pension policy that provides equal opportunities and identical rights to all citizens, regardless of their employment status, to achieve a dignified retirement in a secure and well regulated environment. This policy should enable individual portability across jobs and locations, as well as across a range of pension programmes. The design and performance of existing and new pension programmes, as well as the underlying actions of regulators, administrators and trustees, should be guided by this proposed national pension policy. The process of designing this national pension policy should be preceded by a comprehensive review of existing arrangements as well as a broad-based survey of labour markets. Although several regulatory and supervisory deficiencies can be addressed without undertaking such a sweeping review, the effectiveness of the "system" to deliver adequate and sustainable pensions cannot be fully assessed in its absence.

10.3 The national pension policy should identify the government's objectives and goals, including:

1. the value of retirement income it seeks to provide and the per cent of income it expects the pension system to generate for individuals in retirement (expressed, for example, as a flat amount relative to the poverty line and/or as a percentage of salary),

2. the level of coverage it seeks to attain (expressed in terms of the percentage of the organized and unorganised sector workforce),

3. the relative extent to which pension provision is to rely on the compulsory and voluntary employer-sponsored pension schemes, individual savings and investment, and other government programmes, and

4. the means of financing pension provision, including for persons who will be unable to participate in contributory retirement programmes.

10.4 An important first step towards a unified and inclusive pension policy framework for formal and informal sector workers was taken in 2004 when the government decided to bring new government employees into the NPS. There is considerable consensus already that the NPS is well suited to serve as a genuinely national pension system as it protects subscriber-interests through an incentive compatible architecture and a dedicated regulator, promotes ease of access, provides flexible and attractive investment options and low transaction costs. This initiative of using the NPS a policy tool to implement civil service pension reforms, can be further broad-based and strengthened by similarly extending the NPS to salaried private sector employees covered by legislated pension and provident fund arrangements on a mandatory basis, as well as to salaried workers participating in voluntary, employer sponsored superannuation and provident fund arrangements.

10.5 At an institutional level, existing pension and retirement saving programmes should be mandated to outsource scheme-administration and the management of individual subscriber-records to the Central Recordkeeping Agency (CRA) regulated by the PFRDA. Similarly, the management of aggregated, voluntary and compulsory retirement contributions by salaried workers should be managed by PFRDA regulated pension fund managers. Salaried workers should be able to use their employers or PFRDA regulated Points of Presence (POPs) to access information on their retirement account balances as well as periodic account statements. Through this strategy, salaried employees in large private or public sector firms would begin to enjoy the same portability rights, as well as product and fund manager choices that are already available to civil servants and Indian citizens participating in the NPS. As a result, salaried workers will be able to switch employers or locations, or move from formal to informal or self-employment without any administrative overhead related to their individual retirement accounts.

10.6 Policy implementation may be phased-in by providing such employees with an initial voluntary option to switch their existing retirement savings from publicly or privately managed, DC pension, provident fund and superannuation plans to NPS products. These employees may be provided also with a right to continue using the existing funds management services of EPFO or other pension and PF administrators. The task of enforcing mandatory contributions by both employees and employers should continue to rest with the EPFO and other pension and PF administrators. There are obvious social equity benefits of this policy option as it would provide India's formal and informal sector workers with a uniform and well regulated retirement savings arrangement, and identical rights and choices to maximise their retirement incomes.

10.7 The implementation of a larger reform will need to be carefully staged so that the government, the PFRDA and pension sector stakeholders can effectively adopt and implement the reform. Special attention should be paid to stakeholders, upon whom much of the success or failure of the reforms will rest – especially with respect to schemes that are established on a voluntary basis. These stakeholders include financial institutions and other service providers that may assist employers in managing their schemes and scheme assets, as well as the employers themselves and their employees. An effective communication and education campaign would be required to inform and educate salaried workers regarding new product options, as well as their rights and responsibilities as subscribers to market-linked retirement products with variable returns.