Progress and Prospects of Pension in India[1]

I thank the HT Media Group for this opportunity to be part of this distinguished gathering of BFSI. Finance is the lifeblood of the economy. As we aspire to *Viksit Bharat* 2047, it is important that various segments of the financial sector develop commensurately to support the process. In this context, I am happy to share my thoughts on the pension segment, particularly the national pension system (NPS), reviewing the development so far and concluding by underscoring the need for wider coverage of pension going forward.

The pension assets form a major chunk of global investment, estimated around 43 percent of the total assets managed (AUM). In India, pension assets, estimated around ₹ 50 lakh crore (US$ 600 billion), are relatively modest compared to such global assets over US$ 63 trillion[2]. The largest retirement fund in India is the Employees' Provident Fund (EPF), ranks 21st by size in global pension funds ranking,[3] with Government Pension Investment, Japan ranking 1st with AUM of US$ 1.6 trillion. The National Pension System (NPS) including the Atal Pension Yojana (APY) that we in PFRDA manage, has assets of ₹ 13.8 lakh crore (US$ 162 billion).

In the past, pension was perceived to be the privilege of government employment. It is no longer so with the introduction of the NPS in 2004, first for the government employees, and then extended to private corporates including the common person in 2009, and now to children with the scheme of NPS Vatsalya in 2024.

Slower pension adoption

Anyone coming of age and joining the workforce will retire sometime. Hence financial provision for post-retirement life ought to be made when one is working, that too early in the working career to build a corpus harnessing the power of compounding that could provide adequate regular income support post-retirement. Pension products are designed for that purpose. Why then pension adoption, relative to both the size of our population and workforce, is low? There could be several reasons. Let me emphasise three of those.

[1] Address by Dr. Deepak Mohanty, Chairperson, Pension Fund Regulatory and Development Authority (PFRDA) at 17th Mint BFSI Summit and Awards, Mumbai, January 17, 2024
[2] Pension Markets in Focus 2024, published by Organisation for Economic Co-operation and Development (OECD)
[3] Willis Towers Watson 's (WTW) Think Ahead Institute and Pensions & Investments joint study, Sep 2024.

First, financial literacy and awareness. Financial literacy is a key driver in taking sound financial decision. The objective of financial education is to make citizens better prepared to manage their money and finances and attain their financial goals so as to avoid financial stress later in their lives. Elevated level of financial knowledge ultimately leads to improvement in individual's financial well-being. The challenge of financial literacy is not limited to India alone, only a third of adults surveyed across 39 countries by the Organisation for Economic Co-operation and Development (OECD) reached the minimum target score on financial literacy[4]. RBI-NCFE Financial Literacy Survey for India suggested that only 25 percent of people were thinking to make retirement savings.

The additional challenge in present times is also to improve digital financial literacy levels of citizens, as all of us are exposed to fintech for delivery of financial services. For example, NPS is fully digital, though there is a physical mode of onboarding. It is important to be aware of one's responsibility in a digital financial environment while being cognizant of the risks of digital/cyber frauds. Considering our diverse population in terms of social, economic and cultural factors, a one size fits all approach of financial literacy programme may not yield the desired results and customisation at different levels or geographies is warranted. More than content the manner of communication become important. As in the standard-curriculum, aspects of personal finance are not generally covered, it is worth the effort to improve financial literacy which is seen to contribute positively to one's financial wellbeing.

Second, the nature of our labour market. The bulk of our workforce is engaged in the unorganized and informal sectors where they do not have access to occupational pension as in the organized sector. According to India Employment Report 2024, 81 percent of our labour force was in the unorganized sector in 2022. Efforts are made by the government to provide pension to low-income households. For example, under APY, a guaranteed pension of ₹ 1,000-5,000 is available depending on one's contribution. We have enrolled 7.3 crore subscribers under APY among whom 6.2 crore are currently active. Self-initiated savings by them for old age is a necessity. In addition, government does provide some social security assistance to underprivileged and low-income individuals. But that may not be adequate without one's own savings.

[4] OECD/INFE 2023 International survey of adult financial literacy 2023

The composition of our labour force creates its own challenge to retirement planning. The rise of the gig economy and digital platforms has redefined the character of our labour force. The Social Security Code 2020 envisages social security for them. While that takes shape, such workers could enroll under NPS or APY depending on their capacity.

Third, affordability. In a contributory pension system individual earnings do matter to a long-term financial decision like pension. Currently, with per capita income of around US$ 2,500, we are a lower middle-income country, as per the World Bank classification. With sustained GDP growth, India for sure will progress to an upper middle-income country with per capita income of upwards of US$ 4,200 in the next decade. We aspire to be a high income, developed country by the middle of the century. One implication of this is that the financial ability of our population to adopt pension would continue to increase with rise in income.

Changing financial behaviour

The financial behavior of the retail investors in India is going through a phase of rapid transition. Financial attitude seems to be changing. Components of household gross financial assets indicate that in a decade between 2013-14 and 2023-24, the share of cash and bank deposits has declined from 62 percent to 44 percent and that of bond and equity has risen from 2 percent to 8 percent. Financial saving for social security such as in insurance and pension has shown a steady increase from 32 percent to 38 percent.

The pension sector that PFRDA regulates, covering NPS and APY, has investment of ₹ 13.8 lakh crore, out of which infrastructure investments is about ₹ 2 lakh crore and equity investment is about ₹ 2.6 lakh crore. As our income levels rise and with the growing participation in these schemes, this sector is poised for growth as in advance countries such as in OECD countries, pension assets average about 87 percent of their total GDP.

When it comes to wealth accumulation, diversification becomes very important and a balanced approach is required as per the age, need and risk appetite of the individual. In this context, NPS becomes a very good tool for disciplined saving as well as balanced investment so as to accumulate a good amount of wealth during the working lifetime of an individual. It has a robust regulatory framework and established architecture where every function is managed by professionals. It is fully digital, very flexible and offers a wide range of choices for the investors as per their need and risk appetite.

Progress of NPS

NPS provides both active and auto choice for investing one's own corpus. The financially sophisticated individuals can go for active choice under NPS where they can choose upto 75 percent allocation into equity and upto 100 percent in debt. The investors who do not want to actively involve in fund allocation may make auto choices or life cycle funds where the investment allocation automatically changes as per the age of the subscriber. There are four type of auto choices giving a predetermined mix of equity and debt matching the requirement of varied investors – conservative Lifecycle (LC25), Moderate Lifecycle (LC50), aggressive Lifecycle (LC75) and recently introduced Balanced Lifecycle (BLC) fund.

In addition, NPS has offered very attractive returns of about 13.2 percent per annum in equity since its inception. NPS scheme for government employees, with a conservative mix of more debt and less equity, has given a return of 9.5 percent per annum since inception.

It is tax efficient: both the accumulation and corpus are exempt from from income tax. For corporate subscribers, 14 percent of salary contributed to NPS is exempt from income tax, both for the employer and employee under the new tax regime. Of course, under the old tax regime there is an additional deduction of contribution upto ₹ 50,000.

NPS Vatsalya introduced in September 2024 is accepted well with 86,000 subscribers so far. It can be seamlessly ported to workplace pension on the child coming of age and joining the workforce, thereby providing continuity to one's retirement savings account. Thus, it has become a family product. Now any member of the family from infancy to 70-years old can join NPS. As the vesting period is enlarged, one could harness the power of compounding to accumulate substantial corpus ensuring adequate pension on one's retirement.

The subscriber numbers under NPS are growing rapidly with an active subscriber base of 1.6 crore, However, the NPS subscribers under the private sector, both corporate and individual, at 64 lakh suggest ample scope for further expansion. While NPS has made pension accessible for all. There is a need for greater adoption, appreciating the need for post-retirement financial security. It is important to bear in mind the imperatives of our demographics and economic trajectory.

Conclusion

India currently is the fastest growing large economy in the world. At the same time, it also is projected to age rapidly. Currently, every tenth person is over the age of 60 years, by the middle of this century, every fifth Indian is expected to be over 60 years of age. Further, the old-age dependency ratio is expected to increase from 18 percent in 2020 to 30 percent in 2050 exerting pressure not only on our younger generation but also on our overall financial resources.[5]

Longevity of present and future generations of Indian would be much higher. The longevity of women is more than men, underscoring the need for better gender balance in pension coverage. NPS subscriber data for the private sector including individuals suggests that only one-quarter are women. Living longer implies that one needs money for a longer period to take care of oneself when one is not able to work to earn for oneself. The retirement phase becomes more challenging because of the rise in medical expenses, increasing nuclear family structure and limited access to formal credit facilities. Thus, with every passing year after superannuation, one gets exposed to financial risks unless adequate provision has been made to take care of retirement.

The issue of pension coverage, adequacy and sustainability is not limited to us. It is a global challenge in the face of ageing that countries are grappling with. NPS has emerged as a well-regulated, digitally enabled, low cost, pension scheme for all with competitive returns. We at PFRDA are committed to protecting the interests of subscribers and fostering trust in the pension ecosystem through continuous improvements in security, transparency and operational efficiency.

Once again, I thank the Hindustan Times group for inviting me to interact with you.

Thank you.

[5] Aging Well in Asia: Asian Development Policy Report 2024.