Social Security through Pension[1]

Dignitaries on the dais, distinguished guests, and members of the actuarial community. It is an honor to interact with you today at the 24th Global Conference of Actuaries. I thank Ms. Preeti Chandrashekhar, President, Institute of Actuaries of India (IAI) for this opportunity. This forum has long served as a platform for discussions on risk management, financial security, and long-term sustainability.

As we experience rapid economic and demographic shifts, discussion on pension and social security has never been more critical. The role of actuaries in shaping the future landscape of pension in India cannot be overstated, and today, I want to outline the challenges and opportunities we face, in our quest for achieving a universal pension coverage.

In the economic context of Amrit Kaal, where we are working towards becoming a developed nation by 2047, the financial security of our ageing population ought to be a key pillar of this progress. For us, this translates into "Pension for All" by 2047 – a commitment to ensuring that every citizen, whether from the formal or informal sector, has the means of a reliable retirement income. Attainment of this goal requires continuous innovation, robust governance framework and a seamless process leveraging the use of technology.

Pension Coverage Gaps

I seek some indulgence on the basic aspect of pension. Pension is a regular flow of income post one's retirement. It stays with the person through his or her life. Of course, it is a financial product; but with a distinction. It is not readily substitutable with other financial products. As professionals, you could well appreciate how difficult it is to design an annuity product? One would have to gaze into the future both in terms of longevity and uncertainties of the financial market.

The other critical issue is that of "adequacy". Is the pension amount one gets is adequate to defray at least one's living expenses? As one ages the odds of contingencies also rise, particularly health expenses. This is an issue engaging the attention of all the jurisdictions, be advance or emerging market economies. For example, in advanced countries, generally people have access to three sources of post-retirement income: basic social security, occupational pension and personal pension. Even with multiple pensions, post-retirement income is inadequate for many people.

While significant progress has been made, the pension coverage in India is inadequate, mainly because 80 percent 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 the Economic Survey 2024-25, approximately 58.4 percent of India's workforce is self-employed, and 19.8 percent is casual labor - neither of whom benefit from occupational pension schemes, unlike those in the formal sector. The eShram portal indicates that over 305 million unorganized workers are registered, highlighting a substantial coverage gap.

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[1] Address by Dr. Deepak Mohanty, Chairperson, Pension Fund Regulatory and Development Authority (PFRDA) at 24th Global Conference of Actuaries, organised by Institute of Actuaries of India, Mumbai, March 18, 2025

While programs such as that of Employees' Provident Fund Organisation (EPFO), National Pension System (NPS), Atal Pension Yojana (APY), and Pradhan Mantri Shram Yogi Mandhan (PM-SYM) are there, their coverage remains limited. The pension amounts provided are often inadequate. A significant gap is the "missing middle" — the middle class. While those who have low-income are covered by various government programs, and the wealthy can easily access private financial advice, the middle class often lacks the financial literacy and resources to plan for retirement.

There are two key learnings from this. First, to lead a dignified post-retirement life, one source of income is never adequate. Second, retirement savings should be self-initiated, that too early in one's life to harness the power of compounding.

Global trends

The challenge of pension coverage is not unique to India. According to the Organisation for Economic Co-operation and Development (OECD), the Asia-Pacific region faces similar struggles in expanding pension coverage. Coverage remains low, especially among informal workers such as the self-employed, business owners, and gig workers. Participation in contributory schemes is below 10 percent of the working age population in a number of economies.

There is a negative correlation between the informal employment and the coverage of pension systems. It has been observed that the mandated approaches are not able to expand coverage in settings where informal work dominates. Therefore, some Asia and the Pacific economies have introduced voluntary schemes for informal sector workers that provide a matching contribution and other incentives for old age savings. For example,[2]

- bundling retirement savings with short-term benefits to address the multiple needs of informal workers and with respect to old age savings: this may include life and health insurance and access to other financial products such as microfinance;
- use of auto-enrollment, auto-deductions, or auto-escalation with opt-outs;
- expansion of distribution channels to increase coverage and peer incentive effects;
- ease of contribution, in particular, use of mobile payments, platforms (e.g., WhatsApp), and convenience stores.

Across Asia, there are significant differences in the targeting methods. In some countries, the pension provision is universal, while in many countries, it is means-tested[3]. Some countries also use Pension-tested[4] or Age-based[5] targeting. Some also provide a social floor that offers benefits to those who have had some participation in the contributory scheme. Targeted social pensions can be seen as a complement to contributory system and directed at those most in need.

[2] Pensions in Aging Asia and The Pacific: ADB Working Paper No. 746, Oct 2024
[3] where benefit entitlements or amounts depend on income or wealth or both, e.g. S Korea, India, Malaysia etc.
[4] where formal scheme benefits exclude individuals from eligibility for social pensions, e.g. Nepal & Thailand
[5] where eligibility age is substantially above age 65, e.g. Indonesia and Myanmar

Expanding pension coverage

Efforts have been made over time to expand pension coverage to wider sections of our society. First, the Atal Pension Yojana (APY) catering to the informal sector, particularly the low-income and underprivileged sector, has an active subscriber base of 66.6 million[6] with a corpus of almost ₹ 50,000 crore. It provides guaranteed pension in the range of ₹ 1,000-5,000. In order to ensure that the APY corpus in adequately funded, there is actuarial assessment every year.

Second, since its launch in 2004, NPS has evolved into a tool accessible to all Indians, including children through the NPS Vatsalya scheme, ensuring that retirement savings can begin from an early age and continue throughout life. As of now, NPS has over 16.4 million subscribers with a corpus of ₹13.5 trillion, with 9.8 million government subscribers and 6.6 million private sector subscribers.

While progress has been made, the challenge remains in tapping into the vast potential of the private sector, including the self-employed and professionals, and small businesses. A recurring concern regarding the NPS is the unattractive annuity rates provided at the time of retirement. On exit, an NPS subscriber has necessity to annuitise at least 40 percent of her corpus. With increasing number of subscribers superannuating from NPS in the coming years, there is lot of opportunity in the NPS annuity segment. It is reasonable to expect the actuaries to design innovative products, particularly variable annuity that provides a hedge against inflation risk.

The NPS for the central government subscribers is morphing into the Unified Pension Scheme (UPS) which is a fully funded defined-contribution (DC) and defined-benefit (DB) scheme. In this scheme, the actuaries will have a major role to play in the periodic assessment of the sustainability of the scheme.

Conclusion

Our demographic landscape is undergoing a significant transformation. By 2050, the proportion of the population over 60 is projected to increase from 10.5 percent to 20.8 percent. Our old-age dependency ratio will rise, and the financial strain on the younger generation will increase. Healthcare costs for older population continue to rise, and the traditional family structure, once a support system for the elderly, is changing. In this context, an accessible and inclusive pension system becomes even more critical to manage not only old-age income but also healthcare costs. The need for financial independence through pension has never been more urgent.

To achieve "Pension for All" by 2047, we need to focus on:

- **Expanding Coverage**: Ensuring that informal sector workers are brought into the pension fold through voluntary contributory schemes with incentives.
- **Enhancing Financial Literacy**: Sensitising the middle class about the importance of early retirement savings and the power of compounding.
- **Innovating Pension Products**: Developing flexible, affordable, and adequate pension products, particularly for NPS retirees, with a focus on variable annuities to mitigate various risks.

[6] Including NPS lite

- **Leveraging Technology**: Utilizing mobile platforms, digital payments, and artificial intelligence to enhance accessibility and efficiency.

By embracing innovation, improving governance, and drawing from global experience, we can create a sustainable, and inclusive pension system that will serve every citizen. Actuaries will play an important role in designing and evaluating these systems, helping to ensure that our pensions remain adequate, fair, and fiscally sustainable.

Thank you.

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