Endeavour to a Pensioned Society[1]

Dr. Vivek Joshi, Secretary (FS), Ministry of Finance, Government of India; Professor Ajay Singh, Dean, Indian Institute of Management Lucknow (IIML)-Noida Campus; and distinguished invitees:

I thank IIML for this valuable collaboration with us on this symposium 'Atmanirbhar Pensioned Society for a Viksit Bharat' which brings together eminent scholars and market practitioners. The content of this symposium is well curated covering: coverage and adequacy, investment and 'Environmental, Social, and Governance' (ESG), and financial literacy. These are issues germane to our endeavour to a pensioned society.

Coverage and Adequacies

It is important to take steps early in life to be financially secure to maintain one's lifestyle post-retirement and lead a life of dignity. The provision of financial security should be such as to avoid slipping into poverty by exhausting one's lifetime savings due to living longer *(longevity)*. Empirical evidence suggests that old age poverty is relatively high globally. The socio-cultural shifts in population alongwith economic developments are impacting post-retirement life of individuals. There is continued transition in occupations and family structure. For work, people are migrating to urban/metro locations and families have become linear or nuclear. Familiarisation towards retirement homes and senior living communities indicate reducing dependence on children. In this context, Pension plays a critical role in an economy. It promotes individual financial well-being, social welfare and economic stability.

The present demographic dividend that India is reaping will slowly get eroded due to increasing longevity coupled with decreasing fertility. By 2050, India's elderly population is expected to be 20% of the total population. This implies that one out of five citizens will be requiring retirement income support, either from the retirement schemes subscribed by them during employment or will have to rely on the government *(exchequer),* if not planned for.

The composition of our labour force creates its own challenge to retirement planning. As per the Ministry of Labour, around 93 percent of the labour force, about 57 crore, is in the unorganized sector where there is no-statutory provision for social security. The rise of the gig economy and digital platforms has redefined the character of our labour force. Further, there

[1] Inaugural Address by Dr. Deepak Mohanty, Chairperson, Pension Fund Regulatory and Development Authority (PFRDA) at Symposium *on **'Atmanirbhar Pensioned Society for a Viksit Bharat'*** on 22nd June, 2024 at Indian Institute of Management Lucknow (IIML), Noida Campus, June 22, 2024.

are under privileged and the poor who do not have any social security related to a regular income.

In order to address this issue, voluntary pension schemes have been additionally launched by the Government for inclusion of citizens in pensions through Atal Pension Yojana *administered by PFRDA,* PM Shram Yogi Maandhan Yojana and PM Kisan Mandhan Yojana *administered by Ministry of Labour.*[2] In the e-Shram portal[3] almost 30 crore citizens have registered. Among them more than half *(52.2%)* are employed in the agricultural sector, followed by domestic & household work *(9.6%)* and construction work *(9%).* These numbers point to the huge gap we have in pension coverage at this moment.

India ranked 45th out of 47 countries in the Mercer CFA Institute Global Pension Index-2023[4]. The Index measures the efficacy of a country's pension system on 03 parameters; our scores on these parameters were: *Adequacy (41.9), Sustainability (43) and Integrity (56.5).* The scoring denotes that our pension system is reliable but lacks in providing adequate replacement income. Reference to adequacy can be found in the ILO Convention No.102 wherein it states that 40% of past earnings may be considered as an acceptable replacement ratio after 30 years of working. However, in our case, of the total 76 lakh pensioners under Employees' Pension Scheme (EPS) of EPFO, 48.2 lakh *(64%)* draw pension less then Rs 1,500 per month and only 26,769 pensioners draw more than Rs 5,000 per month. The payouts through National Social Assistance Programme (NSAP) to around 4.80 crore beneficiaries are also in the range of Rs 500 - 800 per month.

India's total pension assets of around ₹ 49 trillion is 16% of GDP. In OECD countries, which started pension plans long ago in the form of mandatory or quasi-mandatory private pension systems, *the* pension assets were 82% of their total GDP in 2023. In emerging market economies, the size of pension assets varies widely.

Investment of Pension Assets

The assets of pension schemes are primarily invested in bonds and equities. The proportion of equity and bond in portfolios vary considerably across countries. There is, however, a greater preference for bonds, especially public sector bonds. More than half of investments in 32 out

[2] https://eshram.gov.in/social-security-welfare-schemes

[3] https://eshram.gov.in/dashboard.

[4] https://www.mercer.com/assets/global/en/shared-assets/global/attachments/pdf-2023-mercer-cfa-global-pension-index-full-report-11-09-2023.pdf

of 38 OECD countries were in bonds. In NPS too, 54% of the investments is held in government bonds, 24% in corporate bonds and 19% in equity. For Employees' Provident Fund Organisation (EPFO), 67% in government bonds, 23% in corporate bonds and 10% in equity. In some countries such as Australia, there is a greater preference for equities.

Allocation of pension towards loans, real estate, unallocated insurance contracts and private investment funds are relatively low with some exceptions such as Switzerland (24%) and Canada (12%). The Canadian Pension Plan Investment Board invests globally across 56 countries. Its total portfolio comprises of 29 infrastructure investments in toll roads, ports, utilities and digital assets across 13 countries, both developed and emerging markets.[5]

NPS which was conceived for government employees and operationalised in April 2008 has generated remarkable returns of around 9.50% compound annual growth rate (CAGR) since inception for the government sector. In the non-government sector, the permitted asset classes viz. 'Equity', 'Corporate Debt' and 'Government Securities' have delivered CAGR of 14.0%, 9.1% and 8.8% respectively since inception.

As at end- March 2024, 65% of NPS investments in corporate bond, nearly ₹ 1.8 trillion, was subscribed with issuers classified as infrastructure companies.

Sustainable Finance

The vision of India achieving net-zero emissions by 2070 is a significant commitment towards sustainable development and climate action. Achieving this goal would require concerted efforts from all stakeholders. Considering NPS contributions as long-term funds, preparatory initiatives have been takend in NPS. The investment guidelines permit investments in sovereign green bonds *(₹ 300 crore invested)* and pension funds have been advised to consider ESG factors while undertaking their investments. NPS investments in terms of CRISIL's framework for ESG categorisation of issuers show that *39% are in issuers classified as Strong, 37% are in Adequate, 21% are in Leadership and only 1% is Below Average*. More than 88% of corporate bond investments in NPS qualify the CRISIL's ESG framework and in case of equity out of the 95 ESG compliant scrips of Nifty 100 ESG Index, pension funds hold investments in 83 such scrips, 88% in value terms.

[5] https://www.cppinvestments.com/

Sustainable investing is important and transiting from being the 3rd largest greenhouse gas emitter to net-zero by 2070, casts huge responsibilities on institutional investors like NPS that mobilises long-term savings for productive purposes. This will require substantial investments in renewable energy and in green infrastructure, so as to have a sustainable transition to cleaner energy sources without hurdling growth. A harmonised list for green investments alongwith categorisation for long-term investments would facilitate investment flows in a focussed manner.

Over time, NPS investments could be expected to get aligned to achieve net-zero emissions commitment of 2070 and in the process disclosing carbon *(greenhouse gas)* emissions associated with NPS investments, may become an imperative. We intend to enhance ESG disclosure by our pension funds.

Gender Balance

Women are in greater need of a pension, given the dominant nature of their current employment and the fact that their longevity is higher. Efforts are being made to improve the socio-economic status of women from family nurturing or caregiving to gender equality in all spheres of life. Financial inclusion of womenfolk has attained global recognition.

Implementation of various women centric schemes and encouraging women self-help groups (SHG) to undertake economic activity are other initiatives being taken for narrowing the gender inequalities. These measures are necessitated as female workers constitute 36% of our workforce which is 10% lower than the global median of 46%. The average earnings of women workers were 48% less than their male counterparts in 1993-94, which improved to 28% in 2018-19 but again declined to 35% in 2020-21 following the pandemic. The OECD average gender wage gap is 12%. [6]

On an average, 66% of women's work in India is unpaid, compared to12% for men. Women spend 10 times more hours on unpaid work as compared to men *(5.6 hrs. to 52 min. in a day).*[7]

[6] https://www.ilo.org/newdelhi/info/public/fs/WCMS_857392/lang--en/index.htm
https://data.oecd.org/earnwage/gender-wage-gap.htm
[7] https://www3.weforum.org/docs/WEF_GGGR_2017.pdf
https://read.oecd-ilibrary.org/social-issues-migration-health/the-pursuit-of-gender-equality/gender-inequality-in-unpaid-work_9789264281318-18-en#page2

Thanks to SHG movement, coverage of women in APY is much higher (47%) compared to NPS (30%). Concerted efforts are needed such as gift a pension to your spouse to improve gender coverage.

Financial Literacy

Financial Literacy is a great enabler in taking sound financial decision. The level of financial literacy remains low not only in our country but globally too. 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 in their lives. Elevated levels of financial knowledge ultimately lead to improvement in individual's financial well-being. The challenge of financial literacy is not restricted to India alone, on a scale of 100 points the global average of adult financial literacy is 60 points for 29 countries of which 20 are OECD countries. The additional challenge in present times is to improve digital financial literacy levels of citizens, as all of us are exposed to fintech for delivery of financial services, so that we are careful about the the risks of digital/cyber frauds.[8]

Considering on diverse population of India 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.

There is an urgent need to improve the financial literacy standards of citizens. In this context, National Centre for Financial Education (NCFE) has been jointly promoted by all the financial regulators, RBI, SEBI, IRDAI and PFRDA to implement programmes for enhancing financial awareness and empower citizens. RBI NCFE Financial Literacy Survey for India suggested that only 25 percent of people are thinking to make retirement savings. 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.

Conclusion

With the share of aged population rising globally, a key concern is on the fiscal impact of population ageing and making arrangements for funding old-age income security. In our context, the aim should be towards a retirement income system with full coverage of workers which is both financially and socially sustainable.

[8] https://www.oecd.org/publications/oecd-infe-2023-international-survey-of-adult-financial-literacy-56003a32-en.htm

It is interesting to note that OECD countries which had established pension systems much earlier are addressing this challenge by encouraging greater participation and enhanced contribution towards retirement savings, and also promoting employment and employability of older workers to address labour shortages across many sectors and occupations.

In our context, the Code of Social Security 2020 which replaced the nine central acts including EPF Act, 1952 and Unorganized Workers Social Security Act, 2008 is expected to bring in the much-desired changes to expand coverage. Many countries have also tried auto enrolment of workers to pension schemes to increase coverage.

To conclude, there is a need to strive collectively so that the elderly citizens of our country are enabled to lead a dignified life. In this direction, pension becomes necessary for all.

Thank you.