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Universal pension for Indians

Economic transformation calls into question whether family-based support will continue over the next century

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Many of India's growing elderly population face serious financial challenges. It is imperative that India institute a long-term strategy to strengthen the economic security of the elderly. While steps have been taken to provide pension security for some citizens, India still has a very long way to go to prepare for the future.

As a very young country and one with a long history of family support for the elderly, India has understandably focused on issues other than elderly pensions. According to National Council of Applied Economic Research's (NCAER's) India Human Development Survey (IHDS), about three quarters of the elderly now live with married children or other relatives. India is changing, however, and programmes and policies must also change. India's ageing population is expected to grow at more than double the rate of the general population. In addition, more elderly Indians, particularly women, are economically vulnerable. According to IHDS, 45% of elderly males and 75% of elderly females are currently fully dependent on others for sustenance, and the same NCAER survey shows that vulnerability is particularly high in urban areas experiencing rapid population growth. The economic transformation that is taking place in India calls into question whether the family-based system of support will continue over the next century.

Many countries are making major strides in providing basic economic security in old age. China is moving closer to a universal pension system—extending basic coverage to a quarter billion people over the last few years. Bolivia and New Zealand have already instituted universal pensions, covering virtually all older citizens, and Nepal and Thailand are also taking major steps in the direction of universal social pensions for its elderly. Is it time for India to explore universal options?

India has already taken some action. Many in the formal workforce have some pension coverage. In addition, a tiny share of informal workers is enrolled in retirement savings schemes supported by the central government. A small share of very poor elderly receives social pensions of ₹200 a month, rising to ₹500 a month after age 80. While most states supplement these amounts, the scope and depth of coverage is too often meagre. There is still no basic system of economic security—beyond families—for the vast majority of elderly Indians.

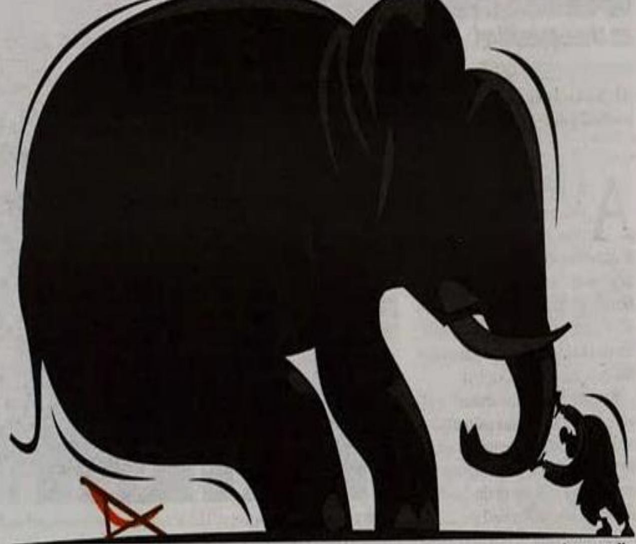
While the analysts debate policy options, almost no major public debate is taking place on this topic. The silence from political officials is deafening, possibly because the problems seem too far away to deal with now. Real problems are emerging that need public action.

What should India do? I would propose four important steps:

First, to prepare for the upcoming demographic transition, India must find the way to greatly expand retirement savings for the informal workforce. Unless many more Indians increase retirement savings very soon, future generations of elderly will be at real financial risk.

What's needed is a universal retirement savings account for informal workers: greater government financial incentives to encourage participation; better access to micro-pension financing models; flexible contribution schedules; and better financial information to educate Indians on the need for expanded retirement savings. India should set a target of encouraging 50 to 100 million informal workers to start these accounts.

Second, while instituting a more universal retirement savings system is essential, by itself it will never be more than a partial solution. Retirement savings accounts will be too small for most workers to live adequately in retirement, particularly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lower income workers and today's middle-aged workers—who either won't have the time or the resources to accumulate sizeable assets. India must therefore complement a stronger retirement savings approach with some form of a lifelong foundation of public support for all of the elderly. Given the size of India's informal workforce, payroll tax financing used by many other countries won't work, and small targeted programmes clearly won't meet the core financial needs of most of India's elderly.

What's needed is a universal (or near universal) social pension: a flat non-contributory pension for everyone over a certain age. India should build the full delivery infrastructure now, but keep monthly benefit levels very modest and start with a fairly high retirement age. It is always easier to liberalize programmes over time than it is to scale them back.

Third, India should link both of these new approaches directly to the new universal ID that is now under development. In the US, the creation of a universal social security number in the 1930s was an important reform that ultimately enabled the integration of the nation's pension, finance and taxation systems. A universal ID tied to universal pensions can be a great mechanism to help India handle its upcoming demographic transition.

Lastly, pension security takes very long term planning—by individuals and by governments. India needs to start planning to make fiscal room for these initiatives by setting mid-century budget targets for pensions for the informal workforce. In very crude terms, by 2050, modest universal social pensions will probably necessitate spending about 1% of the gross domestic product (GDP), and universal retirement savings accounts might cost an additional 1% of GDP. If India does not start to plan now for these eventualities, it will find itself in much deeper hole by 2050.

The 21st century has the makings of an "Asian Century". India's future policy and economic decisions will be a key. Can India be an important player on the international stage and still not provide basic economic support for the elderly? The time to plan—and then to act—is now.

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