

A REVIEW ON INDIAN PENSION SYSTEM: PROBLEMS AND PROGNOSIS

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Abstract: This study takes a look at the Indian pension system as it is at the present time. The experience that India has had might possibly impact the policy choices made in other developing nations, particularly those that rely on the national provident fund system in a similar manner as India does. The shortcomings of different retirement benefit plans are examined; along with the various retirements benefit plans' institutional characteristics. It is argued that the current system is ineffective and cannot be maintained because of factors such as low coverage levels, poor performance of provident fund schemes as a result of investment restrictions, and financial challenges associated with the administration of unfunded public pension programs. The recent history of unsuccessful attempts to alter the system via ad hoc measures serves to further highlight the need of making fundamental and long-lasting changes. The study comes to a close with a discussion of several potential approaches for revamping the pension system in India.

Keyword: Pension, Pension Funds, Assets Allocation, Tax Benefits, Investment Preference.

1. INTRODUCTION

In India, the discussion on the reform of the pension system is becoming more heated. The on-going reforms of the financial industry have achieved great headway in the realms of banking, capital and currency markets, and they now present a chance to remodel the formerly untouchable areas such as insurance and pensions. A comprehensive program for the reorganization of the pension system has not yet been implemented, despite the fact that reform of the insurance sector is currently under way; the effects of this reform are anticipated, at least to some degree, to trickle into the private pension market. The retirement system in India is plagued by a number of different issues. Both the slow disintegration of the conventional systems that provided assistance to older people and the steady increase in the number of people in their later years draw attention to the urgent need to improve formalized systems for saving for retirement. The imperative and more proximate reasons for pension reform are also well known. These include the following: skewed coverage of the existing benefit schemes favouring organized workforce while informal employment is on the rise; worsening financial situation of government pension schemes against a background of rising system expenditure; unfair treatment of private sector workers vis-à-vis public sector employees; an under developed private annuity market; and finally, the need to increase the domestic population. Skewed coverage of the existing benefit schemes favoring organized workforce while

Workers in the organized sector, who make up just around 10% of the total workforce, are the ones who benefit most from major retirement savings programs like provident and pension funds. Ninety percent or more of the labour force operates in the informal economy, where they have no official system of economic security in retirement. As the number of the informal labour rises while the size of the official workforce remains relatively unchanged, the gap between the two continues to widen. The disjointed character of the current benefit plans is another factor pushing for pension reform. Despite its relatively small size, India's existing pension system is exceedingly complex and fragmented, distorting the country's labour market. Inequity between public and private sector employees has been exacerbated by the proliferation of occupation-based retirement plans, which vary widely in terms of plan features and benefit stipulations. Public employees are afforded significant pension arrangements, in contrast to the private sector, where workers are often dissatisfied with poor returns on their benefit systems. In recent years, there have been initiatives to alleviate these difficulties. These attempts, however, have generally been piecemeal. There has to be a more serious and unified effort to fixing the pension system in India, which is plagued by a wide

range of issues that don't always agree with one another. As an example, there is an immediate need to both expand coverage to the unorganized sector and rein in the ballooning cost of governmental pension schemes. Recent government initiatives, such as raising the retirement age for government workers, converting some provident funds into pension schemes for private workers, and introducing new means-tested social assistance schemes for the poor, have had limited success, highlighting the urgent need for a comprehensive overhaul of the current system.

2. LITERATURE SURVEY

Muller, (1999), compared and contrasted the various pension reform initiatives implemented in Poland, Hungary, and the Czech Republic, and conducted an analysis of their outcomes. "The comparison shed light onto the political economy of pension reform in the area by placing a particular emphasis on the interaction between the relevant set of political players, the respective structural environment, and the ensuing institutional choice in old age security. At the conclusion of the paper, it was determined that the difference in the institutional decision that was made about old-age security was due to the structural environment, as well as the "constellations" and directives given by important political actors.

Rajan, S. I., Perera, M., & Begum, S. (2002) "The current research intends to explore the mechanisms of a comprehensive pension and social security program for the older population in South Asian countries, drawing on the experiences of India, Sri Lanka, and Bangladesh. The current focus on research that pertains to old people in developing countries may be ascribed to the growing population of senior people in these countries as well as the deterioration of their living situations. Their deteriorating conditions are the result of the fast eroding traditional family system in the wake of rapid modernization, urbanization, and migration. While their growing numbers can be attributed to demographic transition (low fertility and higher life expectancy), their increasing numbers can be attributed to low fertility and higher life expectancy. The study is based on an evaluation of the many stages of aging, both in the past and in the present and in the future. Carry out a representative survey to investigate the range of social support options now available to senior citizens, as well as their type, scope, and degree of appropriateness. Examine the policies and initiatives that are already in place for senior citizens. "Suggestions for an extensive and all-encompassing pension, social security, and aid program for the elderly".

Bongaarts, (2004), a population of industrialized nations' pension and social security system was highlighted, as was the growth of OECD countries. In addition, an overview of the OECD's member states' progress was provided. The implications of having a "pay-as-you-go" system as well as an aging population are the primary topic of conversation. The author also stated that the pension system should be reformed owing to the anticipated rise in the amount of money spent on pensions caused by the aging population of the nation. According to the conclusions of a new study, the existing planning for public pensions in the main nations that are members of the OECD relies almost entirely on pay-as-you-go programs, which makes it unsustainable over the long term.

Goswami R., (2001), examined the pre-2001 situation of the Indian pension system in its current iteration. It is possible that the experiences of India will have an impact on the formulation of public policy in other emerging nations, particularly those nations that are similarly reliant on the national provident fund system. The author went through the various retirement benefit plans and addressed the relevance of some of them as well as the insignificance of others. The current system is said to be ineffective and unable to be maintained because of the poor performance of provident fund schemes due to investment limits and the complexity of the finances involved in managing public pension programs, as well as a low coverage level that is inadequately funded. It is argued that these factors are to blame for the system's failure. "The unsuccessful experiences with ad hoc reform measures in the recent past further underline the need for a fundamental and sustainable transformation." In its conclusion, the paper outlined policy directions for the reform of the Indian pension system.

Asher, M. G., & Shankar, S. (2007), study suggested that social entrepreneurship will be required by the financial sector, including MFIs, insurance firms, and mutual funds, in order to extend coverage of micro-pensions. The goal of such entrepreneurial activity should be to significantly cut down on total transaction costs, including the expenses of fund administration. The need for a regulator in the micro-pension industry is another point that the study makes. The Pension Fund Regulatory and Development Authority (PFRDA), which oversees total pensions, is the competent institution to regulate micro-pensions. However, it is necessary to maintain strong coordination with the EEBI, IRDA, RBI, and NABARD. In light of the unique demands posed by micro-pensions, the PFRDA need to establish a distinct division dedicated to overseeing these plans. This division's primary responsibilities should be to assist in the creation of suitable goods and delivery systems, to assist in instilling confidence, to promote professionalism, and to foster financial literacy and participation. The study of micro pensions is in its infancy at this point. It is necessary to do in-depth study on the implications of different designs and delivery methods for micro-pensions in order to determine whether or not they are financially sustainable and whether or not they have an effect on the amount of benefits received by members. It is also necessary to investigate various options for the distribution of risks among all of the involved parties. The conclusion of the paper was that there is a possibility for micro pensions to play a significant part in India's social security system, although one that is somewhat restricted in scope but potentially beneficial.

H. Sadhak, (2009), researched and examined several pension reform modules that account for the ever-shifting demographic make-up of a population. A defined benefit pension plan is one of the primary goals of welfare states. The author of the study also made the observation that a fund that invests one hundred percent of its assets in equities may be anticipated to deliver proportionally considerably better returns. It is not a good idea for an investor to put all of their money into the fund value and retirement income it provides. On the other hand, "putting the all of one's savings into debt instruments would not create sufficient walk to comfortably take care of one's retirement demands."

Sanyal, A., Gayithri, K., & Erappa, S. (2011), reviewed both the national pension plan as well as a study of the auto choice option that is available in the new pension system. The shift in population shows that there may be an imbalance in the investment structure between the different asset classes in the future. The conclusion of the descriptive article was that pension reform in India has a long way to go before it can satisfy the interests of both the employer and the employee.

Sane, R., and Thomas, S. (2014), conducted an in-depth analysis of the myriad of potential routes for carrying out the new pension plan in light of his goals. The author discovered that there are a few areas in which the new pension plan has been deviating, such as the absence of an investing system, the low transparency of the system, and the absence of emphasis on the management of maintaining assets. The author discovers that there are other versions of the plan. The author arrives at the conclusion that these voids may be filled via regulatory action, and that the PFRDA may also be provided with the required legislative powers in order to monitor the institutions of the new pension plan. Both of these conclusions are supported by the evidence presented in the text. A regulator of this sort might assist to restore people's trust in the system by ensuring that the best interests of individuals enrolling in new pension plans are given first priority. This could help people believe in the system again.

Unnikrishnan, V. and Imai, K.S., (2018), We looked at how the Indira Gandhi National Old Age Pension Scheme (IGNOAPS) affected both short-term and long-term household welfare indicators, such as the amount of money spent on consumption. Using the household longitudinal data based on the Indian Human Development Survey in 2004-05 and 2011-12, author applied the Propensity Score Matching (PSM) to build a counterfactual group and have used the fixed effects model to eliminate time-invariant unobservable characteristics to estimate the effect of IGNOAPS on household welfare. The author chose to utilize the instrumental variable model in order to solve the problem of endogeneity. Author concluded by demonstrating that IGNOAPS improves family poverty by boosting consumption spending, food and non-food expenditure.

3. RESEARCH METHODOLOGY

Research gap

As summarized in review of literature, it can be said that extensive research work has been done to study the pension schemes of various countries such as India. Literature review has also included studies which gave an analysis of pension plans of India on the basis of age, assets allocations and tax benefit independently. But no study was found which focuses on the comparative analysis of pension schemes of two countries India. Thus due to inaccessibility of any research work done in this area, this paper focuses on the comparative analysis of pension schemes of two countries India.

Objectives

1. To compare the pension schemes of India on the basis of retirement age applicable for pensioners.
2. To compare the allocation of invested amount by pensioners in various classes of assets in India.
3. To compare the tax benefits received by the pensioners from the pension schemes of India.

Sources of Data Collection:

When comparing the two nations' pension systems, secondary sources of data are consulted in order to conduct the analysis. These sources of data include information obtained from the OECD study titled "Pension at Glance 2017: OECD and G20 Indicators OECD 2017." The paper presents an analysis of the many different pensions systems that are in place around the world for the year 2016. As a result, this report is taken into account as a trustworthy source of information for the present study, and it is used in the analysis.

Data Analysis & Interpretation

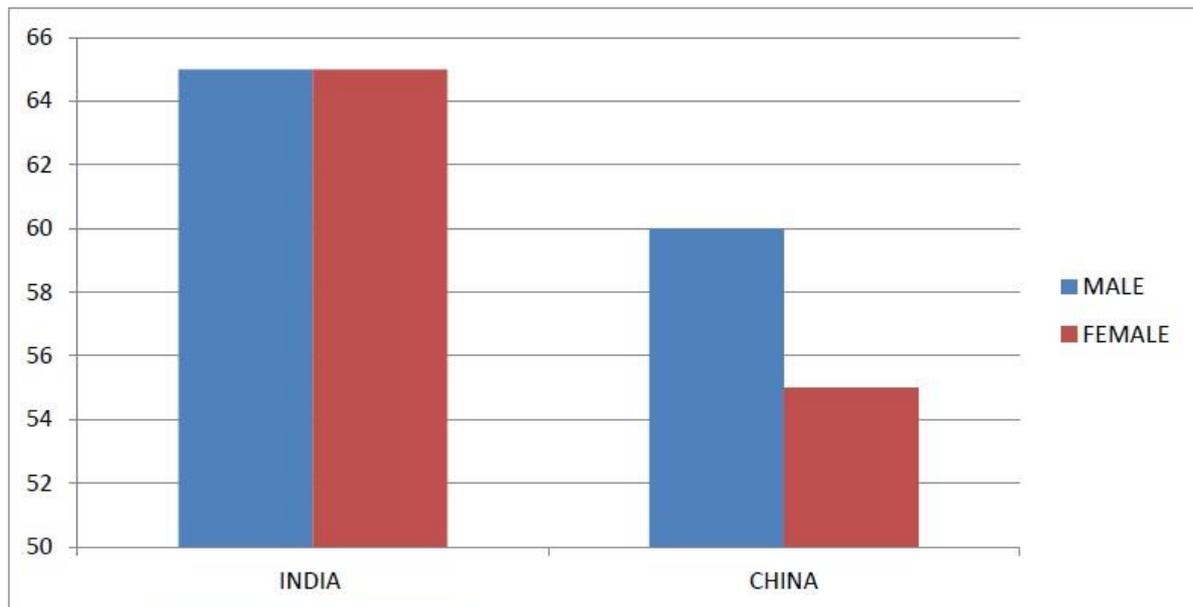
India is not just a neighbouring country but also the most populous nation on the planet. In this research, an effort was made to draw comparisons between the retirement systems of these two nations. The New Pension Scheme (tier-1) of India and the National Social Security Fund of India are taken into consideration for the purpose of evaluating the tax advantages that both nations get from their respective pension programs. While the tier-1 type of the New Pension Scheme of India and the National Social Security Fund of India are analysed for the purpose of the study's comparison of investment criteria for India and China, the tier-2 type of those two schemes is not. The following table 1 gives a thorough perspective for comparing different pension systems of India based on a variety of criteria, such as the age at which one may retire, the assets allocated, and the tax advantages.

On the basis of Retirement Age of Pensioners

In both the countries, India, the retirement age of pensioners is categorized according to their gender i.e. Male & Female. The average retirement age in India is same i.e. 65 years for Male and Female. While in China the retirement age for male is 60 years while, for females the retirement age is based on their job such as white collar job and blue collar job. Thus the retirement age for female is 50 years for those who are in blue collar jobs and 55 years for those who are in white collar jobs. Following graph 1.1 is showing the comparison of retirement age applicable for pensioners of India & China.

Graph 1: Retirement Age for Male and Female of India and China 2016

The above graph 1.1 shows that in India, both male and female will retire at the same age whereas in China the age of retirement is early i.e. 60 years for male and 55 years or 50 years in case of females. Thus it can be interpreted that in China, people are retiring at an early age comparing to India and applicable to receive pension amount from the NSSF.

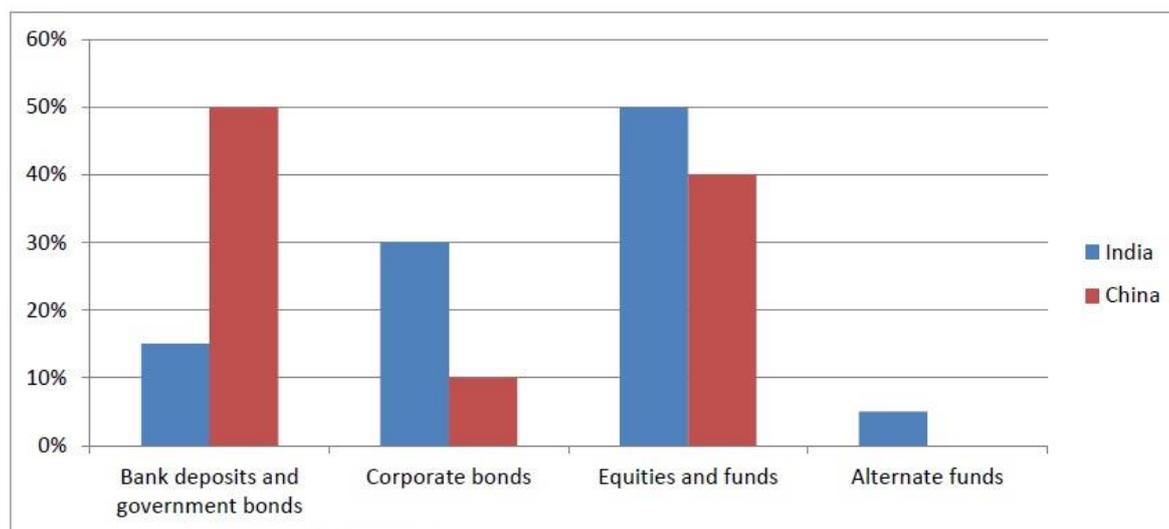


On the basis of Assets Allocation

According to Tier-1 of the New Pension Scheme of India, an individual who invests in pension schemes is only permitted to withdraw 20% of the contribution before the age of 60 years. The remaining 80% of the contribution is required to be invested in annuities by the investor. Tier-2 is a voluntary addition that functions similarly to a savings account in that the amount can be withdrawn whenever the beneficiary requires it.

On the other hand, in the National Social Security Fund, the complete contribution made by the investor is eligible for investments in annuities, the kind of which the investor chooses based on the level of risk they are comfortable with. Investing in the pension plan may be done in one of two ways: directly in assets (such bank deposits and government bonds), or with the assistance of licensed investment managers who have been vetted and authorized by the Ministry of Human Resources Social Security Fund. In the context of the National Social Security Fund (NSSF), the terms "low risk," "comparatively low risk," and "high risk, high return investment" relates, respectively, to "low risk," "comparatively low risk," and "high risk, high return investment."

On the other hand, there is a tax exemption available for employers in China in the amount of 4% of earnings if the business in question offers enterprise annuity plans to its employees. However, employees do not get any extra tax advantage in exchange for their contributions to the company. In recent years, China has undergone significant reforms to its tax system, and the government has begun using a variety of tax structures that are widespread in other nations that are also prominent participants in international commerce. However, the tax system in China is still unable to deliver benefits to the people of its nation, which indicates that there is a need for a tax system that provides benefits to a person when he or she is in their senior years.

Graph 2: Assets Allocation of Investment in India and China 2016

4. CONCLUSION

The purpose of this study was to analyse and contrast the pension systems of two nations, namely India and China, taking into account factors such as the retirement age, the distribution of assets, and the tax advantages. It has been discovered that both nations have adopted distinct policies with regard to the provision of benefits and pensions to their respective populations in one way or another. In India, the age of retirement is the same for both men and women, however in China the age of retirement is much younger. As a result, Chinese citizens become eligible for pensions at younger ages than their Indian counterparts, which may help them preserve the type of life they had envisioned for themselves. On the other hand, in India pensioners are eligible for tax deductions on their self-contribution amount as well as on the amount contributed by their employer under section 80C. However, in China there are several taxes imposed on an individual with a variety of benefits; however, there is no additional tax relief available for pensioners. This demonstrates that individuals in India are self-motivated to contribute to pension funds owing to the availability of tax advantages, but those in China do not have such a motive available to them. We can draw the conclusion that the people of both countries are benefiting in some way from the pension systems that are currently in place. On the other hand, it has been noted that both nations need to work on improving their pension systems for the sake of their respective populations. They could do this by gaining experience from the pension plans of the other countries or by gaining experience from the successes and failures of their own projects linked to pension systems.

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