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Micro Pension and Economic Protection in India

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ABSTRACT

The objectives of the paper is to analyse the concept and coverage of micro pension scheme for social protection of people in unorganized sector in India. Micro Pension refers to any financial arrangement to build up assets for old age income for poor people. It refer to a long term savings, by relatively low income, informal sector workers, with the objective of obtaining income security during old age. Majority of low income workers are vulnerable to old age poverty as barely 5 per cent of it has saving habit. About 67 per cent of households in India are nuclear families who need economic security at old ages when flow of income is less. About 85 percent of India's workforce is in the informal sector and a third of them earn under Rs 3,000 per month. Most of them will become destitute when they stop working. More than 85% of all rural workers in India get wages below the minimum standard of Rs 66 per day.In India the major chunk of our working population are belongs to informal sector that makes up 70-80% of its workforce. All of them engage in physical labour and are unable to work full time once they are 55 or 60 years old. India has been able to provide pension coverage to 12 % of workforce only. About 387 million workers in India which is 85% of total workforce are completely excluded from any old age pension and security. to address old age poverty of people, Invest India Micro Pension Services (IIMPS) was established as an independent agency in October 2006 by six leading development and pension sector experts to enable low income informal sector workers to build up savings for retirement in a competitive and well regulated environment. IIMPS was set up by Invest India Economic Foundation and UTI AMC and SEWA Bank own equity in it.In collaboration with its partners, IIMPS is making a modest attempt at seeking to create a window into excluded workforce from pension schemes. One in every 6 people over the age of 60 in the world lives in India. A majority of our 8 crore elderly today however do not receive a pension -- either from the government or from their employers. Micro pension scheme is most profitable when compared with public provident fund, micro finance pension and employee's provident fund.

***Key words**- Pension, Social security, Worker. Old age, Contribution.*

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INTRODUCTION

Social Security program has been playing a crucial role in developed and developing economics. Like other developed countries, India has also enacted different types of social security measures for informal sector workers. Micro Pension refers to any financial arrangement to build up assets for old age income for poor people. It refer to a long term savings, by relatively low income, informal sector workers, with the objective of obtaining income security during old age. It is a contribution scheme which is a long term voluntary saving product accumulated over a long period to yield return at a later date. It aims at providing old age economic security to people in unorganized sector which helps in channeling retirement savings, short-term savings and insurance premiums of low income individuals to regulated asset management and insurance companies. It is a new concept, perhaps the first ever such experiment in the world in providing security to elderly poor people. A majority of the working poor and low-income workers in rural India are excluded from formal pension schemes. This segment is vulnerable to old age poverty as barely 5 per cent of it has saving habit. The workers have irregular income and the savings capacity is limited and hence the retirement payout is also limited. With life expectancy increasing, people in India live for an average of 17 years after retirement. With the joint family system gradually disappearing, 67 per cent of households are nuclear families who need economic security at old ages when flow of income is less.The nuclearisation of families at all income levels means the old will have to fend for themselves. Better life expectancy will mean more old people who will need financial support. According to the estimates of Government of India, there are about 10 crore people who are above 60 years of age in 2010 and it is set to reach 25 crore by 2040 and 32 crore by 2050. About 85 percent of India's workforce is in the informal sector and a third of them earn under Rs 3,000 per month. Most of them will become destitute when they stop working. While the microfinance industry has shown rapid growth, micro pensions are still in the early stages of development.

LITERATURE REVIEW

Many researchers have conducted different studies on social security, aging, old age income security for informal sector workers, Pension scheme, financial sustainability of private pension market and the regulation on pension scheme in India and abroad. All the study finds that the various social security scheme and programme for informal sector workers to improve their living condition when they attain at the age of 60. A study on "Micro pension: Helping the poor to save for the future" by BoudewijnSterk(2011) finds that there is a strong need to provide lifelong financial security for the self-employed poor individuals living in low-income countries. With no old-age income support, the working poor are extremely vulnerable to falling into the old-age poverty trap. Social protection can be used as a tool both for the reduction of old-age related poverty and for national development. Social policies not only strengthen social cohesion but they also promote productivity, protect individuals from social risks and serve as a vital instrument for poverty reduction.A similar study by Bodie and Davis (2000), in their article entitled "The Foundations of Pension Finance"articulate the view that the ongoing increase in longevity is making retirement income a crucial aspect of lifetime revenues for each individual, while the growth of pension funding is increasing the share of pension assets in households' net worth. Studies (Caroline Dulleman and Jeanne Bruijn, 2011) have shown that certain groups among the older generation are particularly vulnerable, especially widows. Old-age provisions in the form of pensions are an effective way of reducing income poverty and other forms of poverty among older people. Regular cash transfers also increase poor older people's access to services, particularly health care. The paper by PatricJustino (2003) discusses the importance of social security policies in developing economies, using empirical evidence from India. He has also focus on the viability of implementing systems of social protection in developing countries and provides an empirical analysis of the effects of socio-economic security policies on Indian's economic performance between 1973 and 1999. More recently pension system for the informal sector in Asia by Mackeller Landis (2009) finds that expanding coverage to informal sector workers through mandatory systems is unlikely to work. Alternative, voluntary arrangements are need. However, because informal sector workers tend to have lower savings capacity and high discount rates, targeted subsidiesmight be required to encourage enrolment.

INVEST INDIA MICRO PENSION SERVICES (IIMPS)

With this backdrop and to address old age poverty of people, Invest India Micro Pension Services (IIMPS) was established as an independent agency in October 2006 by six leading development and pension sector experts to enable low income informal sector workers to build up savings for retirement in a competitive and well regulated environment. IIMPS was set up by Invest India Economic Foundation and UTI AMC and SEWA Bank own equity in it.In collaboration with its partners, IIMPS is making a modest attempt at seeking to create a window into this universe. It has developed a proprietary Micro Pension to deliver individual pension and insurance services to the poor and also link its pan-India partnership network. Through this model, IIMPS is building a transparent social security marketplace using its scalable technology platform to enable millions of low income workers with modest savings to access low cost pension and insurance products. It is also working with some government departments in design and turn-key implementation of co-contributory pension and insurance schemes targeting the poor. In this way, IIMPS seeks to support targeted policy formulation, regulatory response and business investments aimed at effectively bridging India's financial inclusion gap. IIMPS is focused on assisting and enabling the working poor in South Asia to achieve old age income security and a dignified retirement through thrift and self-help. It has pioneered the delivery of pension and long term savings products to the working poor and is already helping over 200,000 low income workers in roughly 100 districts of 10 states to save for their old age through a proprietary "micro-pension" model. IIMPS uses its specialized Micro-Pension administration and recordkeeping software platform for issuing portable, individual micro-pension accounts to individual subscribers, recording and tracking financial transactions of each customer over time and for targeted, direct delivery of pension benefits and conditional cash transfers linked to old age savings to the working poor. IIMPS also offers technical assistance, administration, implementation planning and integrated turn-key implementation management services based on its micro-pension model to governments, multilateral donors and entities that deliver financial services to the poor. IIMPS enrolls and services low income workers for micro-pensions through a range of channel partnerships with leading MFIs, cooperatives, banks, NGOs, worker unions and other such entities that already deliver financial or other services to the poor. IIMPS partners include SBI, BASIX, Janalakshmi, SEWA, Government of Rajasthan, etc.

NEED OF MICRO PENSION

1. One in every 6 people over the age of 60 in the world lives in India. A majority of our 8 crore elderly today however do not receive a pension -- either from the government or from their employers. Traditionally, most of us have depended on the joint family system and support from our children when we stop working. But today, our children are often forced to migrate when they start earning and as a result, nearly 2 in every 3 households is a nuclear household in India. Therefore, we can no longer depend on family support in our old age.
2. The aged of today have no choice but to depend on their own lifetime savings to survive for nearly 20 years if they stop working at age 60. And if they have not saved enough during their working lives by then, they face the grave risk of outliving their savings and of facing poverty at a period of their lives when they may be physically unable to work. This is even more true for those engaged in manual work including farmers, head-loaders, rickshaw-pullers, weavers, construction workers and farm labour.
3. The plight of our current aged is partly driven by our labour market structures. Of the 36 crore paid workers in India today, only the 11% organised sector workers, including government servants and salaried employees in large private firms, enjoy pension rights and benefits.
4. However, most of India's workforce is employed in the unorganised sector and has been traditionally excluded from formal pension and provident fund arrangements. These include self-employed workers like farmers, farm labourers, self-employed women, contract and casual labour and small retailers. If these workers do not have access to any formal pension scheme, many of them will have no option but to continue to work throughout their lives.

In a world of imperfect markets, demand side factors create more organic solutions to meet the everyday financial needs of people. India has a rich history of experimenting with such solutions. For the Indian government and the Reserve Bank of India (RBI), attempting to leverage organic solutions to create more inclusive financial systems that meet the needs of citizens has often found its way into mainstream policy making. Micro pension scheme has been successful in Rajasthan, Kerala, Tamil Nadu, Gujarat and it was implemented in 2009-10 in Ganjam district of Orissa. More than 13000 workersin unorganized sector of Ganjam district have accepted micro pension schemes. In 2011, micro pension scheme is implemented in Puri and Mayurbhanj districts of Orissa with the financial and technical help of NABARDand other agencies. In this context, the present paper aims at analyzing and investigating the need, prospects, willingness to pay and distributional aspects of Micro pension scheme in Orissa.

DEMOGRAPHIC STRUCTURE AND OLD AGE PEOPLE IN INDIA

A significant change has been taking place in the demographic structure of various countries. Their populations have been aging. Till recently it was thought to be a problem of the developed countries but it is now a concern of the developing countries as well. India is also experiencing a demographic transition leading to lower total fertility rate, increased life expectancy and consequent increase in the proportion of the old agepopulation is the most important reason underpinning the increasing relevance of social security in India. The demographic and related trends in India is as follows. (Asher 2007)

1. Total employment in the Indian economy: 457 million, Unorganised sector: 395 million (86% of workforce), Organised sector: 28 million (14%) [NCEUS, 2005]. More than 85% of all rural workers get wages below the minimum standard of Rs 66 per day. As per the Hon Supreme court, all those who don't get statuary minimum wage should be presumed to be conditions as bonded labour. This has serious repercussion across socio economic dimensions.
2. India currently houses more than 260 million people under the poverty line which amounts to around 26.1% of the total Indian population and they have no serious social security. If we look at the number of people surviving on less than $1 per day, the figure should exceed 300 million.

In India the major chunk of our working population are belongs to informal sector that makes up 70-80% of its workforce. This includes construction workers, drivers, farmers, maids, poultry farmers, home-based workers, casual labour, street vendors, handloom workers, dairy farmers, landless farm labourers and other daily wage labourers. All of them engage in physical labour and are unable to work full time once they are 55 or 60 years old. Table-1 shows demographic and labour market in India and other south Asian Countries.South Asian countries have very low pension coverage in the world. India has been able to provide pension coverage to 12 % of workforce only.The projection on old age population in India is given below in table-2.The proportion of the elderly (or persons aged 65 years and above) in India population is expected to rise to 9% in 2030, up from 4.6% in 2000.

Table-1 South Asia Demographic and Labour Markets

S. No	Parameters/Country	India	Pakistan	Nepal	Bangladesh	Sri lanka
1	Population (Million) (UN, 2009)	1198	173.4	27.5	162.2	20.4
2	**Age Distribution (UN, 2009) % of Population**					
	0-14 years	31.5	36.9	38.3	31.3	24.3
	15-59 years	61.3	56.9	54.5	62.5	63.9
	> 60 years	7.4	6.1	6.1	6	11.8
3	**Projected Elderly (2050, UN)**					
	>60 years	19.6	14.9	15.6	21	27.8
	>80 years	2.6	1.8	1.7	2.3	6.5
4	**Workforce (Million), ADB**	380.8	55.8	15	49.5	13
	Unemployment (% of workforce)	3.1	5.5	2.1	4.2	5.8
	Workforce (% of working age)	39.2	45.7	83.4	58.5	51.2
	Agriculture (% employed)	56.1	45.1	73.9	48.1	32.2
5	Pension coverage (% of workforce)	12	10	5	10	15
6	Per capita Income(World Bank 2010)	$950	$1,095	$511	$470	$2,054

Sources: South Asia Pension Forum, ADB, 2011

Table-2 India projected figures of the population aged 60 and above (In million)

Sl. No	Year	Males	Females	Persons
1	1996	31.02	32.81	63.83
2	2001	36.42	38.52	74.94
3	2006	42.68	45.33	88.01
4	2011	50.3	53.41	103.71
5	2016	60.2	63.86	124.06
6	2021	72.58	76.93	149.52
7	2026	87.16	92.2	179.36
8	2031	103.35	109.47	212.82

Source: Census of India

In numerical terms, the number of people above the age of 60 will rise to 100.8 million by 2010, up from 87.5 million in 2005. By 2030 this number is projected to touch 200 million and by 2050, this should further increase to 330 million.

Pension Coverage in India

Pension coverage is essential for old age security of people. But 86 % people are completely excluded from any kind of pension coverage in our country. Table-3 shows workers and coverage under pension scheme in India. Civil service pension scheme covers 6.67 % where as social assistance covers 2.44 % and new pension scheme covers only 0.44 % of workforce in India.

Table-3 Indian Pension Coverage

Pension Coverage	No of Paid workers in Millions	Percentage
Civil Service Pension	30	6.67
New Pension Scheme	2	0.44
Social Assistance	11	2.44
Private Employees	20	4.44
Excluded Workers	387	86
Total Workforce	450	100

Source: Indian incomes, savings and retirement Survey, ADB 2005

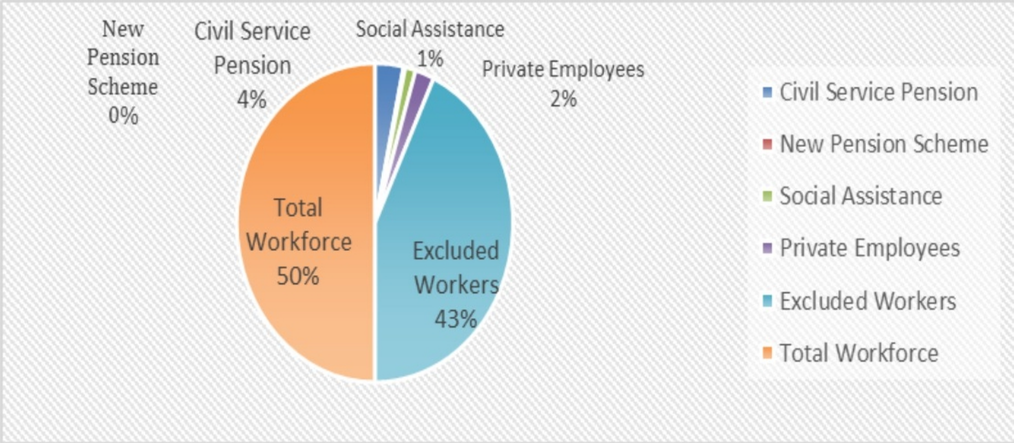

Fig-1 Percentage workforce covered under pension in India

Table-4 Returns on an annual investment of Rs 1,00,000 for 30 years

Sl.No	Pension Scheme	Rate of Return	Charges	Maturity Amount	Tax Structure
1	NPS	10%*	Rs 470 flat + 0.0084%	18,007,779	60%[1] payout + 40% annuity[3]
2	MF Pension Scheme	10%*	1.29%	17,853,235	33%[2]payout + 67% annuity[4]
3	Insurance PF Scheme	10%*	1.81%	17,766,383	Nil
4	PPF	8%#	0.00%	12,234,587	Nil
5	EPF	8.5%#	0.00%	13,477,298	Nil

Note: * Based on the past performance, #The returns are fixed
1Payout would be taxed at personal income slab.
2 Payout is tax-free. 3 &4Interest on annuity would be taxed at 20 % with indexation.

Source: Rupee talk research

Comparison of Pension schemes in India

It is necessary to compare different available pension schemes in India. Return onannual investment of one lakh rupees for 30 years are compared below in table-4. Public provident fund and Employees provident fund provides lower yield than micro pension schemes.

CONCLUSION

Informal sector workers in India are especially vulnerable to old age poverty due to their fragile labour market attachments, low intermittent incomes and limited access to regulated long-term savings products and secure banking and payment mechanisms. Furthermore, due to a breakdown of the traditional joint family support systems because of labour migration, the working poor increasingly will need to self provide for their retirement. Women are even more vulnerable to old age poverty than men as they enjoy a higher life expectancy than men, derive lower incomes in comparable occupations, suffer a shorter working age and frequent interruptions in employment and incomes due to childbirth and other family responsibilities. The market for pensions in India has largely confined to the urban middle income and rich even as 90% of the workforce continues to march towards old age without savings to assist them in managing their twilight years. India has a very large young, informal sector workforce that makes up 70-80% of its workforce. They are not part of any pension scheme. All of them engage in physical labour and are unable to work full time once they are 55 or 60 years old. Furthermore our existing pension system is passing through a crisis of confidence. The economic, demographic and labour market trends of the current system are moving in troublesome directions. The problems that the system is confronting now are quite well known.

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