

Need for universal social security and pension schemes



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Securing Old Age

Abstract

Pension system aims on poverty release, consumption smoothing, and insurance coverage in respect of ageing population. In India, most of the old age citizens are not covered under any social security program. A miniscule number of Government employees and few private sector workers retire with pensions. Majority of the total workforce is engaged in the unorganised sector with no access to old age income security. The issue of old-age security is gaining importance and it is now high on the public policy agenda. The developed countries generally provide pension to those who contribute for pension whereas in majority of the developing countries pensions are provided in a discretionary manner which reduces the coverage of pension. The article discusses the need for a universal pension scheme that will help the working population in the unorganized sector with increased coverage of pension.

Key words: Pension scheme, Old age, social security

Introduction

The increased rate of the aged people in the total population has created a substantial demand for old-age social security. Thus it has become important to provide social security to its elderly people. Pension is one of the major component of old age social security. Developed countries have a good pension system with highly organised formal labour markets. Indian old-age income security is not well developed.

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India, being a welfare State, has taken upon itself the responsibilities of extending various benefits of Social Security and Social Assistance to its citizens. As per the reports out of an estimated work force of about 397 million, around 28 million workers are having the benefit of formal social security protection in India. Rest of the workers are in the unorganised sector.

A well organised social security system for the workers in the unorganised sector will help in improving productivity, contribute to the harmonious labour relations and thus contribute to socio and economic development.

Social security is a system of protection of individuals who are in need of such protection by the State as an agent of the society. Such protection is relevant in contingencies such as retirement, resignation, retrenchment, death, disablement which are beyond the control of the individual members of the Society.

The current study attempts to examine the need for a universal social security and pension scheme. And a non-contributory pension scheme can guarantee a regular income in old age to all residents of the country, regardless of their earnings or occupation. It explains the scope for implementing a universal pension scheme which will increase the pension coverage and ensures proper income security to the old.

The findings suggest that a reasonable increase in the amount of the pension and streamlining the delivery mechanism would significantly help to reduce old-age vulnerabilities.

The paper concludes with policy directions for reforming the Indian pension system.

The coverage of formal old age security is low, as majority of the population belonging to the informal sector of the developing countries is deprived of old age security.

Indian pension system could potentially influence policy decisions in other developing countries with similar reliance on the national provident fund system.

Indian provident fund schemes are low coverage and under performance schemes due to the investment restrictions.

Majority working populations are engaged in the unorganised sector and have no access to any formal system of old age economic securities like provident fund and pension fund.

Public sector employees are privileged with a vast pension provisions while private sector employees are aggrieved with low returns from their benefit schemes.

Old age and social security

The disappearance of large family system in India that “ took care of the social security needs of all members” has necessitated provision of social security for senior citizens. For the senior citizens, social security can work like a protection cell which provides security through the medical benefit and old age pension plan.

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Social security pensions are meant to help disadvantaged sections of society such as the elderly, widows and disabled persons to live with basic financial security.

Social security has gained paramount importance in the changed economic scenario. Social security programmes are actively undertaken even in developed nations.

Social security is the financial assistance provided by the Government to the needy citizens such as disabled persons, aged persons, widows, unemployed youths, survivors of the deceased workers to promote their welfare by enabling them to access to food, shelter, health etc. social security acts as safety net for the disadvantageous sections of the society.

Social security has gained paramount importance in the changed economic scenario.

India also has enacted many social security measures for its needy citizens. In order to protect the welfare of unorganized workers the legislative measures namely minimum wages Act, 1948, the employees compensation Act, 1923, the maternity benefit Act, 1961, the bonded labour system (Abolition) Act, 1976, the contract labour (Regulation & Abolition) Act, 1970, the inter-state migrant workmen (Regulation of Employment and Conditions of Service) Act, 1979, the building and other construction workers (Regulation of Employment and Conditions of Service) Act, 1996, etc. were implemented.

In India, the elderly population is projected to reach 116 million in 2016 and 179 million in 2026. This raises the need for an effective system of pension.

Population in India across Different Age Groups (million)

Age groups	Census 1991	Census 2001	Census 2011
All ages	838. 6	1, 028. 6	1, 210. 6
0-14 years	312. 4	363. 5	372. 4
15-59 years	464. 8	585. 6	729. 9
60 years and above	56. 7	76. 6	103. 8
Age not stated	4. 7	2. 9	4. 5
% of 0-14 years	37. 3	35. 3	30. 8
% of 15-59 years	55. 4	56. 9	60. 3
% of 60 + years	6. 8	7. 5	8. 6

Source: Census of India

Percentage Distribution of Population by Broad Age Groups, Sex and Residence, 2012

Residence	Sex	0-14 years	Broad Age Groups	
			15-59 years	60+ years
Total	Total	29.1	62.6	8.3
	Male	29.7	62.4	7.9
	Female	28.4	63.0	8.6
Rural	Total	30.5	61.2	8.3
	Male	31.1	60.9	7.9
	Female	29.8	61.5	8.7
Urban	Total	25.2	66.5	8.2
	Male	25.9	66.2	7.9
	Female	24.5	66.9	8.6

Source: Sample Registration System (2012).

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Old age social security plays a pivotal role in a welfare state and one of its' major components is pension.

Pension provides a long-term income security in old age.

Need for Pension scheme

Need for Pension arises because of:

- ï, One is not as productive in the old age as in youth.
- ï, The rise in the nuclear family system as compared to earlier joint family system.
- ï, Migration of younger earning members as they are no longer interested in their family business.
- ï, Rapidly growing informal and unorganized sector.
- ï, Rise in cost of living.
- ï, Urbanization and improved standard of life
- ï, Increase in the life span because of good medical facilities.
- ï, Bringing unorganized sector into formal scheme of pension.

Unlike most of the developing countries, India did not have a universal social security system for the old aged people. As there is no formal pension scheme in India for the newly appointees, a need was felt to have a scheme so that people can save for their future when they are no longer working.

Pension is a financial tool for old-age income security. These are generally defined as monthly payments made on superannuation to an individual to enable her/him maintain a decent standard of living post retirement and in old age.

The developed countries generally provide pension to those who contribute for pension whereas in majority of the developing countries like India, pensions are provided on a discretionary basis which reduces the overall coverage of pension.

The National Social Assistance Programme (NSAP) was introduced in India in 1995.

Currently, five schemes come under the NSAP: the IGNOAPS, the Indira Gandhi National Widow Pension Scheme (IGNWPS), the Indira Gandhi National Disability Pension Scheme (IGNDPS), the National Family Benefit Scheme and the Annapurna Scheme.

The central government makes a diminutive contribution of Rs 200 per month per person to old-age pensions, raised to Rs 500 per month under IGNOAPS, for persons aged 80 years and above.

The patterns of usage of the pension are indicative of its importance in the lives of the beneficiaries.

The accepted defined benefit pension system, which was the broader goal of a welfare state, is slowly giving way to the defined contribution system where risk is borne by the final beneficiaries.

Pension reforms in India in the last decade have seen three major initiatives – a paradigmatic shift in the civil servants' pension scheme, the National Pension Scheme for all citizens and the New Pension System Lite for the economically disadvantaged sections with small savings.

Pension system in India

Pension plans provide financial security and stability during old age when people don't have a regular source of income. Retirement plan ensures that people live with pride and without compromising on their standard of living during advancing years. Pension scheme gives an opportunity to invest and accumulate savings and get lump sum amount as regular income through annuity plan on retirement.

The history of the Indian pension system dates back to the colonial period of British-India. The Royal commission on civil Establishments, in 1881 first provided pension benefits to the government employees. Government of India Acts of 1919 and 1935 made further provisions and expanded the retirement benefits to the entire public sector workforce.

Several provident funds were set up after the independence to extend the coverage to private sector employees.

Indian pension system largely hinges on financing through employer and employee participation. It denied the vast majority of the unorganised workforce's access to formal channels of old age economic support.

A common objection to social security pensions is that they might displace or undermine family support for widows and the elderly.

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Traditionally, joint family structures in India worked as a hedge against old-age economic crisis and a support network that precluded the need for third-party pension instruments.

Universal Social Security and Pension Schemes

Table: Details of Pension Beneficiaries of Selected Pension Schemes

Schemes	Year	Number of Beneficiaries (Million)	% of Total 60+ population	
			Total population	% of Total population
Old Age Pension Scheme	2011-12	18.0	17.4	1.5
Civil Service Pension Schemes	2012-13	11.5	11.1	1.0
Employees' Provident	2013-14	2.8	2.7	0.2

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Source: Economic & Political Weekly and Government of India.

Universal pension schemes are often criticized for high fiscal costs.

Recently Government of India announced a slew of low-cost pension and insurance schemes, in the budget for 2015-16. It includes least half-dozen social security schemes like Atal Pension Yojana and Universal Social Security scheme that will lead to a universal social security system for all, especially the poor and the underprivileged.

Atal Pension Yojana will provide defined pension according to contribution. Of this, 50 percent contribution would be made by the government

The government proposes to work towards Universal Social Security for all Indians. These social schemes reflect the intention that no person suffers from avoidable pain due to illness, old age.

In countries like Canada and New Zealand, a progressive income tax system taxes the pensions for higher income individuals, making even the universal pension system relatively targeted.

However, most of the lower income countries which might institute a universal pension system may not have a progressive income tax structure and may find it difficult to use the tax system to make the universal pension more targeted. Depending on the income distribution within the country,

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making the pension small enough may be sufficient for higher income individuals to not bother with collecting the pension. Such is the case in Nepal where higher income Nepalese often do not collect the very low universal benefits.

A second set of issues arise regarding the service delivery for a universal pension. In the case of Namibia, despite a mandate for a universal pension, many rural elderly were not receiving the pension. The reasons ranged from lack of access to the pension distribution network and difficulties with verifying age and eligibility to different types of fraud. However, the administrative cost of the system was raised. Since poorer regions are harder to reach, the poorest may still not be reachable with a universal pension without a sizable investment in administrative capacity. This service delivery issue applies to all types of social pensions, not just the universal type.

Some countries as noted above, offer universal pensions to all residents above a certain age regardless of income or assets. Even non-citizens who have fulfilled a minimum residency requirement in the country are often eligible. Universal pensions are clearly the best way to drastically reduce old age poverty since all the elderly, regardless of work or contribution experience, are eligible to receive some benefit. However, as with any universal benefit, many people who will be receiving it will not be poor. As a result, in terms of poverty reduction achieved per dollar spent, the expenditure may not be wholly effective. Furthermore, in the countries where such programs have been adopted, such as Namibia¹³ and Mauritius,

cost considerations are forcing the governments to move toward means-testing and other methods of providing old age security.

Universal pensions systems involve less administrative apparatus and administrative costs than targeted systems, but the actual benefits, since they are received by the nonpoor as well as the poor, cost more.

A large proportion of India's population is without insurance of any kind, health, accidental or life. Worryingly, as the young population ages, it is also going to be pension-less.

Conclusions

The current study attempts to examine the need for a universal pension for the elderly.

Indian financial sector reforms have made significant progress in the spheres of banking and capital market. But sectors like insurance and pension are still hitherto untouched sectors.

India has low coverage pension and the pension system is unable to fulfil its purpose. Since independence, many reforms have been initiated.

The introduction of a universal pension scheme will facilitate social security and also helps in assuring the young that in old age there would be national savings to take care of any difficulties, implying that over-accumulation is not necessary during the younger days.

The introduction of a universal pension scheme will enhance the welfare of the working cohorts of India majority of whose future lies in uncertainty.