Old-age woes

To determine how long-term saving products might help solve the problem of old-age income security, an improved understanding of the behavioural, economic and institutional barriers to participation are required

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(Representational image:iStock)

India is experiencing a demographic transition to greyhairs which is likely to see a further uptick. This is leading to lower fertility, increased life expectancy, and a consequent increase in the proportion of the elderly in the population. Families are shrinking and transforming into nuclear units. Individualistic attitudes and rising aspirations with accompanying changes in lifestyles are widening the generation gap. The welfare state can no longer keep up.
Increasingly, we're seeing people who are becoming poor for the first time in old age. It's clear that in this new landscape, old age is an increasingly scary and chilling prospect. We are entering the age of no retirement, no golden years.

India is home to one-fifth of the world's population, which includes a third of the world's poor and one-eighth of the world's elderly. Most of them spend their entire lives as informal workers and have no retirement security other than hopes that their children will care for them. This arrangement worked well when the joint family structure was the dominant characteristic of society. However, with new social norms eroding the family-based support system, old-age care has become a critical challenge for low-income citizens, particularly since affordable healthcare is a mirage.

The main issues that characterise old age security are:

(a) Traditional systems of inter-generational care are either breaking down or are no longer perceived as reliable.

(b) Assets, especially land and property, are seen as the best way to guarantee old-age security but seem to be out of reach for many poor people.

(c) Poor people usually have a low estimate of and little experience with their capacity to use savings as a route to old-age security.

About 75 million elderly people in India, or one in two persons above 60, suffer from some chronic disease, shows the first part of the world's largest study on the elderly ~ The Longitudinal
Ageing Study in India (LASI) ~ recently. About 40 per cent have some form of disability, and as many as 20 per cent are suffering from mental health issues.
Also, 27 per cent have multi- morbidities, which translates to roughly 35 million people.

With people living longer, the global share of people aged 60 and above increased from 9.2 per cent in 1990 to 11.7 per cent in 2013 and is expected to reach 21.1 per cent by 2050. With 65 per cent of India's population under 35 years of age when the study was commissioned, there are expected to be 350 million people above 60 by 2050.

Many elderly citizens are stuck with lives of never-ending work ~ a fate that may befall millions in the coming decades. With the increase in less stable jobs, growing casual employment and the decline of pensions, the entire old age planning has become ineffective. Average wage, when adjusted for inflation, has remained near stagnancy, which makes it hard for workers to increase their savings. They aren't making enough to put aside money for retirement. We can see a miserable preview for those who don't have pensions that previous generations enjoyed.

India is experiencing a demographic transition ~ lower fertility, increased life expectancy and a consequent increase in the proportion of the elderly.
Families are shrinking and transforming into nuclear units. Individualistic attitudes and rising aspirations with accompanying changes in lifestyles are widening the generation gap. Daily wage workers live on a day-today basis and as a result their immediate financial needs take priority over future needs. They are not able to plan for their future and as a result, they have to work till they die. Low incomes and absence of savings result in most elderly poor in India working past the conventional retirement age in Western countries, or the retirement age that the rich in India enjoy. Though informal sector workers may not 'retire' in the formal sense, they need to prepare for the eventual reduction in earning capacity that will occur during old age, especially on account of ill health. Current research estimates that about 80 million of
India's informal workers are capable of saving for retirement and are a viable constituency for micro-pension programmes.

Micro pension is a not an old concept; but it has not been able to grow because selling a pension product for low income categories and keeping it active for a long term is the most challenging task. There will always be emergencies that demand immediate cash. A maid may need to withdraw all her money in case someone has to be hospitalised.
She has so many competing needs ~ all of them important.
You need to be extremely flexible about payments.

Micro pension schemes are usually long-term savings products or hybrids between pension schemes and savings products. It is also crucial to provide a pension arrangement peculiar to the economic profile of informal sector workers due to their low and irregular incomes.

While India is among those 80 countries which have various social protection systems, our policy interventions are, at best, patchy. Article 41 of the Constitution advocates the right of the elderly to income security, but loopholes such as limited resources are a reason for the state not providing that security.
For the poor and vulnerable, two types of pension could be provided.
The first is a public or social pension, where the state raises revenue and redistributes to citizens when they reach a stipulated age in order to guarantee them a dignified life. The second is micro-pension, a personal retirement savings plan. People save a small part of their income individually during their working life that is invested collectively to generate periodical returns. When people retire their accumulated capital is paid out in monthly amounts.
The first one has issues of viability.
A possible solution could be a universal social pension with a fairly high retirement age so that expenditure is contained.

A properly designed pension system is a unique security for its beneficiaries. The worker gets a guaranteed income, determined by the number of years of service and by his or her salary at retirement.
And pensions don't run dry; workers (or their spouses) get them as long as they live, because the employer is committed to paying a certain level of benefits. Since an individual's benefit rises with each year of service, the employer is supposed to stock money away, into a fund that it manages for all of its beneficiaries, every year.

The pension system of the economy has to evolve quickly, or else the economy will be left in a dire state. The biggest challenge is the fact that almost 85 per cent of Indian labour is still deployed in the informal sector, mostly as daily wage workers. It is extremely difficult to cover informal sector employees under a national pension scheme.

There are numerous government- supported micro-pension schemes but also several mounting challenges: the reluctance of people towards investing any part of their income over a length of time, an absence of regular income for clients, poor infrastructure and connectivity, and remote spread of clientele. The government doesn't seem to have much appetite for social protection programmes and its efforts in evolving a relevant pension model have been patchy.

Government schemes like the Pradhan Mantri Vaya Vandana
Yojana and the New Pension
Scheme (NPS) of 2003 are steps in the right direction. The
NPS is slowly gaining popularity and expects huge enrolment from the informal labour segment.
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For micro-pensions to succeed, a delicate balance between economic viability, generation of adequate returns, and customised features for the participants is required. As the flow of income of low-income communities is uncertain or volatile owing to the nature of their economy, they should be offered a degree of financial flexibility providing for low or no minimum contribution requirements in order to encourage membership.

However, contributions that are set too low or which are paid very unevenly may not provide sufficient income security. Experience with micro-savings indicates that low-income groups prefer lower-value and frequent deposits rather than infrequent larger-value deposits. As there are competing demands on their resources, it is difficult for them to accumulate large amounts. In order to facilitate frequent deposits, convenient door-to-door deposit collection must be organised.
Mobile phones have transformed the landscape in a revolutionary way and this may not be such a tall order.

An ideal micro-pension programme needs to address governance, design, administrative and efficiency issues to succeed and requires a multi-model implementation of micro-pension plans in addition to a separate set of regulations.