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Universal Pension Scheme in India

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Abstract

Old age social security plays a pivotal role in a welfare state and one of the major components of old age social security is pension. 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. India is no exception to this phenomenon and has a low coverage of pension too. The paper proposes a universal pension scheme that will bring relief to the working population in the unorganized sector and argues that it will increase the coverage of pension without disturbing the fiscal situation. The main purpose of pensions is smoothening of consumption and mitigating longevity risks, poverty and inter-intra generation inequality. Universal pension scheme would do this successfully for citizens in country.

Keywords: Old age, pension, social security, ageing

In the last century, with industrialization and economic development, certain demographic changes have been observed in the world. The mortality rates have reduced drastically in the higher age groups leading to an increase in life expectancy. This has also been followed with a comparatively lower birth rate, and thus the old age dependency ratio has increased over the years. This phenomenon is commonly referred to as aging and it has certain economic implications on a country, like increase in pension and health expenditure.

Old age social security plays a pivotal role in a welfare state and one of its' major components is pension. The developed countries generally provide pension to those who contribute for pension whereas in majority of the developing countries pensions are provided on a discretionary basis which reduces the overall coverage of pension. India is no exception to this phenomenon and has a low coverage of pension too.

There are certain types of pension. Amongst these, a non-contributory, basic pension can guarantee that all residents of a country, regardless of earnings or occupation can have a regular income in old age. A non-contributory pension caters to the workers in the informal sector by separating the link between contributions and retirement income. This paper explores the feasibility of introducing such a pension in India. The focus of the paper is on the implementation of a Universal Pension Scheme (UPS) in India. It argues that UPS will increase the coverage of pension without disturbing the fiscal situation in the country.

The paper is organized in six sections. In Section II, a basic discussion on different types of pensions is carried out. Section III discusses the current scenario and coverage of the Indian pension system. International experiences of universal pension scheme are discussed in Section IV. In Section V, the paper lays down its universal pension scheme and performs simulation exercise to understand the extent of pension burden. In Section VI, conclusions of the paper are presented.

Section II - Pension: Basic information

In general, pensions are welfare schemes which provide some amount of financial resources to residents after a stipulated age or service. Specifically, pensions are periodic payments that start when somebody retires and continues until death. Thus, pension provides a long-term income security in old age. Pension schemes not only serve the purpose of consumption smoothening but also provide insurance to longevity risk and reduce old age poverty.

Modern pension systems are recent inventions and originated in the UK. At the outset, provisions for pensions were made on an optional and individual basis which developed into a more formal system with the first superannuation fund for public sector workers initiated in 1712 for customs officials in United Kingdom[1]. In 1810, the foundation of the British civil servants scheme was legislated by Parliament. A state pension scheme was first laid down by Otto Von Bismarck in the late 1880s[2]. In the beginning of twentieth century state and occupational pension schemes emerged in many developed nations. In general, the coverage of formal old age security is low, as majority of the working population belonging to the informal sector of the developing countries is deprived of old age security[3].

Conventionally, a pension can be paid by two ways. The first is called Pay As You Go (PAYG) where the young workers agree to pay the pension of retired people in lieu of a promise that their younger generation will follow the suit. The system is an unfunded scheme and has been largely popular in many countries. In the second system, each individual of each generation contributes a share of their current income to a fund which accrues over a period of time. The returns on such assets or a portion on such accumulated assets is used for paying pensions.

[1] The first person awarded a civil service pension was Martin Horsham, an employee in the Port of London 1684 (Raphaēl, 1964)

[2] Otto Von Bismarck (1815-1898) was the chancellor of German Empire from 1871-1890. In 1889, he passed an Old Age and Disability Insurance Bill which was an Old Age Pension programme, financed by a tax on the workers and was designed to provide a pension annuity for workers who had reached the age of 70 years. At that time, the average life expectancy of a Prussian was 45 years.

[3] Formal old age security is less than 15 percent of the world's households (Holzmann, Packard and Cuesta, 2000) and 10 percent of the world's working age population (Gillion, Turner, Bailey and Latulipe, 2000).

In both the above mentioned ways there exist two common important characteristics, time and risk. This is because both provide an economic function of transferring income from working years to post-retirement years. There is some risk that the actual pension payments received will be less than those expected when the plan was initiated.

The outgo mode in the pension systems is generally of three types. The first one is when benefits are defined prior to acceptance of plan. This is popularly known as defined benefits (DB). The second one is defined contributions (DC) with Individual retirement Accounts (IRAs). Here the contributions are fixed and the returns depend on the investments the individual makes. At retirement, in order to pay pensions, the fund accumulated is converted into an annuity. The third one is a recent invention and is popularly known as non-financial (or notional) defined contribution (NDC) scheme (Holzmann and Palmer, 2006). These are unfunded schemes in which members have individual defined contribution (DC) accounts. The contribution rate is a fixed proportion of earnings. The returns are related to some non-financial variable, e.g. the growth rate in the country's GDP or the growth rate in national average earnings. At retirement, the notional capital in the member's account is converted to a life annuity using an annuity factor that reflects both the cohort life expectancy of the member and the rate of return over the annuity's expected term.

There are two major types of social security system, Beveridgean and Bismarckian. A Beveridgean system provides a subsistence support to the pensioners. If the people after retirement want to enjoy a higher standard of living, they are expected to make their own alternative arrangements. The UK and the USA, have Beveridgean social security systems. A Bismarckian system provides much more generous support, often at a level that does not require individuals to make additional arrangements. Germany, Italy and France have Bismarckian social security systems.

In general, in the literature on pensions, three pillars are traditionally discussed (World Bank, 1994)[4]. The first pillar is provided by the state as part of its social security system. There are two types of pension classification under this pillar. First, universal, where all the residents are considered as eligible for pension benefits. Second, means-tested, where a pension is provided to a citizen after a means (income, asset, participation in the labor force, retirement from paid employment, etc.) test. The first pillar is financed by collecting tax (part of the social security tax that the government raises) from workers and paying it out immediately to pensioners (PAYG System). The outgo mode in this system is generally DB but in recent times countries like Sweden and Poland are trying out with NDCs.

The second pillar is provided by the companies in the form of occupational pension schemes or plans sponsored by the employer. Occupational pension schemes are funded, i.e., a fund of pension assets accrues from the contributions paid by the employer (the scheme sponsor) and worker (the scheme member) and from the investment returns on these contributions. The pension is paid from the accrued fund once the member retires. The outgo mode in this system, until recently was a DB (both fixed and earnings related), which is now changing to IRAs.

The third pillar represents additional savings for retirement where other assets can also be used to provide income in retirement. To illustrate, after retirement, individuals can sell, borrow or rent their homes to increase their spending power.

Individuals can also resort to work after attaining retirement. This is sometimes called a fourth pillar of pension. This phenomenon can occur either by a choice or a compulsion as some individuals prefer a slow entry into retirement while others need means to meet their ends.

[4] Currently the World Bank promotes a five-pillar system for post-retirement protection. This kind of framework is sometimes used to define pension fund architecture. The five pillars are - Pillar Zero: non-contributory social pension and assistance (universal or means-tested) for poverty alleviation; Pillar One: a publicly managed, tax-financed social safety net; Pillar Two: a mandatory, privately managed, fully funded contribution scheme; Pillar Three: voluntary personal savings and insurance; and Pillar Four: informal support (e.g. family support), other formal social programs (e.g. health care and/or housing), and other individual financial and non-financial assets (e.g. home ownership and reverse mortgage where available).

Section III - Indian Pension System

India has a long tradition of old age income support system. The concept of old age security in India dates back to the 3rd century B.C. According to Sukraniti, a king had to pay half of the wages for people who had completed forty years of service (Gayithri, 2006). Practices of civil service pension were evident way back in 1881 when the retirement benefits were provided by the Royal Commission on Civil establishments during the British colonial rule. The Government of India Acts of 1919 and 1935 made further provisions. These schemes were later consolidated and expanded to provide retirement benefits to the entire public sector working population. Post independence, several provident funds were also set up to extend coverage among the private sector workers (Goswami, 2001).

Schemes

The Indian old age security system can be classified as follows-

1) Civil Service Schemes
2) Employee's Provident Fund Organization Schemes (EPFO)
3) Occupational Pension Schemes
4) Public Provident Fund
5) National Old Age Pension Scheme
6) National Pension Scheme
7) Micro-pensions and Other Alternatives

1) Civil Service Pension Schemes

Central and state government employees receive pension under these schemes. The pension payments under these schemes were defined benefits and were related to final salary. They were paid out of current revenues of respective central and state governments. Recently these schemes are changing from DB scheme to a DC scheme for the new entrants (New Pension System) whereas the old scheme still provides pensions for employees who joined the civil service prior to 2004 and the armed forces.

2) Employee’s Provident Fund Organization Schemes (EPFO)

The Employees’ Provident Fund (EPF) came into existence on November 15, 1951. It was replaced by the Employees’ Provident Funds Act, 1952[5] The Act and Schemes are framed and managed by a tri-partite Board known as the Central Board of Trustees, Employees' Provident Fund, consisting of representatives of Government (both Central and State), employers and employees. The Board manages a contributory provident fund, pension scheme and an insurance scheme for the workforce engaged in the organized sector in India. It is one of the world’s largest organizations in terms of clients and the volume of financial transactions undertaken by it. The Board is assisted by the EPFO and operates following three schemes:-

a) Employees' Provident Fund Scheme (EPFS), 1952 which is a mandatory saving scheme for old age/ contingencies.
b) Employees' Pension Scheme (EPS), 1995 which provides pension to members, widows, widower, children, orphans, physically disabled members and dependent parents or nominee.
c) Employees' Deposit Linked Insurance Scheme (EDLIS), 1976 which makes provision for insurance benefits to beneficiaries of members who died in harness.

The EPFO compulsorily covers formal sector workers with monthly earnings of Rs.6,500 or less at firms with 20 or more members in defined industries.[6]

3) Occupational Pension Schemes

The public sector enterprises have similar type of pension arrangements like civil servants. These systems are now changing and most of them have become contributory. The private sector enterprises also provide pensions and contribute in these types of schemes. Nevertheless the mode of payment of pensions varies from enterprise to enterprise. The enterprises sometimes manage the fund themselves and sometimes jointly with pension providing companies.

[5] It is also known as the Employees’ Provident Funds and Miscellaneous Provisions Act, 1952 which extends to the whole of India except Jammu and Kashmir.
[6] Annex – Table 1 and Table 2.

4) Public Provident Fund

The Public Provident Fund (PPF) initiated in 1968, stands as a voluntary tax-advantaged DC saving option using personalized accounts. This scheme has been open to all citizens (except non-resident Indians) but since it uses income tax rebates as incentives for customers, it has mainly attracted formal sector workers, who pay income taxes. The minimum contribution is Rs 500/- per annum and the maximum contribution is Rs.1, 00,000/- per annum. Withdrawals are allowed from the sixth year and a subscriber is entitled to withdraw the entire fund after the expiry of a period of fifteen years. Also loan facilities are available from third financial year up to fifth financial year.

5) National Old Age Pension Scheme

The Indira Gandhi National Old Age Pension Scheme (NOAPS) was launched in 1995 for persons below poverty line (BPL) who were aged 65 and above. The pension amount consists of Rs. 200 per month from the central government plus a contribution by the state, varying state-wise, according to discretion of the State Government. Nevertheless, in 2011 the eligibility age was reduced to 60 years and the GoI's contribution was increased to Rs. 500 per month for persons above 80 years.

6) National Pension Scheme

National Pension Scheme (NPS) has evolved over the years, after 2003. NPS was made operational from December 22, 2003 for all new recruits of central government employees (except for the armed forces) joining service on or after January1, 2004. The NPS originated based on the Old Age Social and Income Security project (GOI, 2000), Report of the Working Group (GOI, 2001) and Report of the High Level Expert Group (GOI, 2002) commissioned by the Central Government. These reports led to the setting up of a Pension Fund Regulatory and Development Authority (PFRDA) in October 2003 and introduction of a PFRDA bill in Parliament in 2005. An extension of the NPS occurred on May 1, 2009 when this scheme was extended to all citizens of India. On December 1, 2010, the voluntary pillar was introduced. In order to widen the coverage,

another scheme called NPS-Lite was introduced. These schemes are all contributory schemes with individual retirement accounts and do not provide a guarantee of pension. As of May 7, 2013, only 4,90,988 individuals have subscribed to the scheme, of which more than fifty percent are civil servants for which the scheme is mandatory. To encourage people from unorganised sector to open a pension account, government has started a new initiative, *swavalamban*, under which government contributes Rs. 1000 per annum for each NPS account in 2010-11 to 2012-13.

7) Micro-pensions and Other Alternatives

Micro-pensions are provided by microfinance institutions. Micro-pensions have gained considerable relevance in India in recent years with the development of MFI's and NGO's. Micro-pensions adhere to the needs of very specific individual groups or local communities in exchange of low contributions and low premium. In terms of coverage, one of the most successful examples is Self-Employed Women's Association (SEWA). In 2009, 50,000 self-employed women were enrolled in SEWA's micro-pension scheme. Nevertheless, micro-pensions are targeted to specific groups and can certainly be regarded as a measure to reach certain economically disadvantaged groups but not the masses. Other alternatives are long-term saving options offered by banks, and pension schemes offered by insurance companies that provide the investor with a choice of funds.

Coverage and Size

Pensions in India are largely financed through current revenues (in the government sector) or employer and/or employee participation (in the organized sector). This has restricted the coverage to about 24 percent of the working population,[7] majority of which belong to the organized sector workers. The vast workforce in the unorganized sector is denied access to formal channels of old age economic support. It is estimated that about 8.2 percent of Indian population was above 60 years in 2011. A very small segment of the population is covered under existing pension schemes (Table 1).

[7] 498.4 million in 2012-13

The Melbourne Mercer Global Pension Index[8] places India at an overall index of 42.4 percent for 2012, while China is 45.4 and Brazil is 56.7. Pension liability, mainly of the civil servants, was about 2.6 percent of GDP in 2012-13 (Figure 1). Pension bill of the Central Government constituted about 0.68 percent of GDP in 2007-08, 1.17 percent in 2009-10 and 0.91 percent in 2011-12. For 2012-13, pension was budgeted at Rs. 814.65 billion and projected at Rs. 862.9 billion in 2013-14. The state governments' pension expenditure in 2012-13 is budgeted at Rs.1,404 billion which accounts for 1.7 percent of GDP.

Need for Universal Pension

It is apparent, that the coverage of pension is low in India as the schemes are either discretionary or voluntary in nature. Pension reforms in India in the last decade have seen three major initiatives – a paradigmatic shift in the civil servants' pension scheme in

Table 1: Coverage of the Indian Pension Network

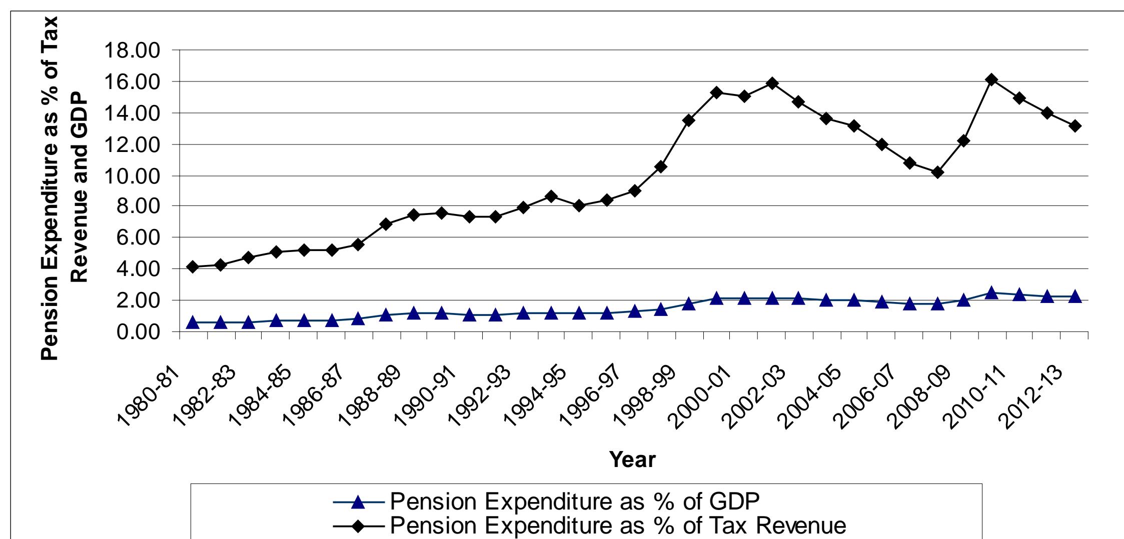
	Year	Coverage in Millions
EPFO[a]	2011-12	85.5
Civil Servants[b]	2009-10	2.6
State Government[c]	2009-10	7.4
Local Bodies[d]	2009-10	2.1
Central Government Autonomous Bodies[e]	2009-10	3.5
State Government Autonomous Bodies[f]	2009-10	2.4
Defense[g]	2012-13	1.3
PPF[h]	2009-10	1.0
NPS(excluding bcdef)[i]	2013-14	2.2
NOAPS[j]	2004-05	2.2
Formal Sector coverage outside EPFO[k]	2009-10	5.0
Micro-pension and other Private pension[l]	2011-12	2.1
Total		117.1

Source: (a) EPFO Annual Report, 2011-12; (b) (c)(d)(e)(f) http://mospi.nic.in; (g) World Military Balance, 2013; (h) Stelten (2011); (i) http://pfrda.org.in; (j) Estimated from NSSO 61st Round and Tendulkar Report on poverty; (k) Stelten (2011); (l) Stelten (2011)

[9] As estimated by Commission for Agriculture Costs and Prices, New Delhi.

Figure 1

Total Civil Service Pension Payments as a Percentage of Tax Revenue and GDP



Source: www.rbi.org.in

2004, the introduction of NPS for all citizens and the initiation NPS-Lite for the economically disadvantaged sections with small savings.

Nevertheless, the contributory new pension scheme has reached only an insignificant percentage of the informal workforce. It has been unsuccessful to reach those people who do not have the capacity to save for future long term consumption. Further financial literacy required to be in the NPS is also inadequate. Therefore, clearly the NPS has not served the best interest of workers. Owing to these reasons the new pension scheme has seen a lukewarm response so far, with a majority of subscribers being central and state government employees, for whom the scheme is mandatory (Sanyal, Gayithri and Erappa, 2011). Moreover, the NPS does not even guarantee a minimum pension, thus defeating its objective of “welfare” orientation. Thus, there is a necessity for a different pension scheme in India which not only ensures a minimum Beveredgian pension and tries to cover majority of the working force but also lowers fiscal cost of the country.

Section IV - Cross Country Experience

In order to introduce a universal pension, India needs to introduce a basic pension or a Pillar 1 pension. A basic pension Pillar 1 of the World Bank (1994) can either be contributory or universal in nature.

Universal pension is a benefit which is received by citizen once they reach the required age. In its simplest form, the character of this type of pension is flat benefits with no means (e.g. income or asset, participation in the labour force, retirement from paid employment) test. Universal pensions are easiest to administer, and have very low administrative costs in comparison to the other schemes. In Table 3 and Table 4 *Willmore (2004)* gives the difference between universal pension schemes and means tested pension schemes and clearly shows that Universal Pension Schemes are found to be far better in terms of coverage when compared to means tested scheme (Wilmore, 2004).

Table 3: Non contributory Universal Old Age Pension Scheme Select Countries (2000)

	Population Over Age 65 (% of total)	Covered Population	Beneficiaries (number)	Beneficiaries (% of covered population)	Maximum Net Monthly Pension			Annual transfer to aged (% of GDP)
					Local Currency	US $	% GDP per capita	
New Zealand	11.7	citizens and permanent residents with 10 years residence from age 65	453400	100	NZ$977 (Single) NZ$752 (couple)	$447 $344	42 33	4.1
Mauritius	6.2	citizens with 12 years residence; permanent residents with 15 years residence from age 60	112000	109	R/ 1400 (Age 60-89) R/ 5400 (Age 90-99) R/ 6000 (from age 100)	$55 $212 $236	17 66 74	2
Namibia	3.8	citizens and permanent residents, from age 60	82000	85	N$160	$26	16	0.7
Botswana	2.8	citizens from age 65	71000	167	110 Pula	$24	9	0.4
Bolivia	4.4	citizens born before 1975, from age 65	366000	100	150 Bolivianos	$21	29	1.3
Nepal	3.7	citizens from age 75	171322	60	150 Rupees	$2	11	0.1
Antigua	7.3	citizens from age 60	4170	100	EC$750	$281	30	1.8

Source: Willmore (2004)

Table 4: Means tested Schemes in Select Countries (2000)

	Population Over Age 65 (% of total)	Covered Population	Beneficiaries (number)	Beneficiaries (% of covered population)	Maximum Net Monthly Pension			Annual transfer to aged (% of GDP)
					Local Currency	US $	% GDP per capita	
South Africa	3.6	Citizens from age 65 for men and 60 for women	1800000	88	500 Rand	$80	32	1.4
Australia	12.3	Residents from age 65 for men and 60 for women	1730000	66	A$653 (Single) A$753 (Couple)	653 $497	37 28	2.3
Costa Rica	5.1	Citizens from age 65	40106	20	8500 Colones (Single) 11050 (3 dependents)	$30 $39	9 11	0.09
United States	12.3	Eligible residents from age 65	2011000	6	$512 (Single) $385 (Couple)	$512 $385	17 13	0.07
India	5	Citizens from age 65	2200000	4	75 Rupees	$2	5	0.01

Source: Willmore (2004)

In spite of the advantages, UPS have been adopted by very few countries as it is perceived that they are considered to be fiscally expensive. Strongly targeted social pensions are common around the world (especially in the developing and developed world). However, targeted schemes coverage is much lower than that of UPS. Countries like The Netherlands and Norway provide universal basic pension that is tax-financed. South Africa, Australia, Brazil, Lesotho and Chile have pension schemes which exclude only a few. It is found that New Zealand, Mauritius, Namibia, Botswana, Bolivia, Nepal, Samoa, Brunei, Kosovo and Mexico City provide a basic universal pension to the elderly simple based on citizenship, residence and age. Interestingly, it may be noted that except for New Zealand none amongst these is a developed country. By design UPS provides social protection to an entire population which remains unattainable by contributory pensions.

Section V: Universal Pension for India

Universal pension schemes are often criticized for high fiscal costs. An attempt has been made to estimate the fiscal cost of a universal pension scheme applicable to residents above 60 years of age. This would be the simplest form of flat pension based on age and residence (born resident) irrespective of income or participation in the labour force or retirement from the service. This means that all Indians of the qualifying age and above will receive pension.

The estimates are made on the following assumptions -

(a) The real GDP (Base Year 2004-05) is assumed to grow at the rate of 4, 5, and 6 percent since the CAGR from 1950-51 to 2012-13 is 4.94 percent.
(b) The qualifying age is simulated from 60 to 65 years of age, given that the qualifying retirement age for pensions may change in view of the rising longevity of population in India
(c) All persons of the qualifying age and above will receive pension.
(d) Pension amount per month is assumed to be Rs. 500, Rs. 1000, Rs. 1500 and Rs. 3000 (Base Year 2004-05). An adjustment for inflation has not been made.
(e) The future population of India has been calculated from UNDESA, 2010. Table 5 gives the estimated population figures at five year intervals for the period 2010 to 2050.
(f) Pension estimates are made for 2015, 2025 and 2050.

Table 5: Agewise Estimated Population

(No in million; % to total population)

Year	60+		61+		62+		63+		64+		65+		Total Population
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
2010	93	7.6	86	7.0	80	6.5	73	6.0	67	5.5	60	4.9	1225
2015	113	8.7	105	8.0	96	7.4	88	6.7	79	6.0	70	5.4	1308
2020	136	9.8	126	9.1	117	8.4	107	7.7	97	7.0	87	6.3	1387
2025	160	11.0	150	10.3	139	9.5	128	8.8	117	8.0	106	7.3	1459
2030	188	12.3	175	11.5	163	10.7	151	9.9	138	9.1	126	8.3	1523
2035	217	17.7	203	16.6	189	15.5	176	14.3	162	13.2	148	12.1	1225
2040	250	15.4	234	14.4	219	13.5	203	12.5	187	11.5	172	10.6	1627
2045	286	17.2	268	16.1	251	15.1	233	14.0	216	13.0	199	11.9	1665
2050	323	19.1	304	18.0	285	16.8	266	15.7	247	14.6	228	13.5	1692

Source: UNDESA 2010 Revision, Authors' Calculation

The results of the simulation exercise shows that the burden of UPS is nominal even if the economy is estimated to grow at a conservative rate of 6 percent or less (Table 6). Implementation of the universal pension scheme would entail an additional expenditure of 1.04 percent in 2015 if the qualifying age for pension is 60 years and the economy grows at 4 percent per annum, given that the pension amount is Rs 500 per month (Base Year 2004-05). If the qualifying age for pension rises to 65 years then at a monthly pension of Rs 500 per month the additional expenditure would just rise by 0.65 percent in 2015.

Currently pensions amount to 2.26 percent of the GDP in 2012-13. This expenditure is borne on account of civil servants which is a very small proportion of the elderly in India. Funding remains a major problem in case of universal pension as the pension expenditure is already high. Nevertheless, since the welfare aspects involve the entire population an additional burden can easily be comprehended. On the other hand a part of pension can be recovered from pensioners who continue to work or have investment income (rich pensioners) simply by making the non-contributory pension taxable as ordinary income which is done in both Mauritius and New Zealand, with encouraging results (Wilmore, 2004).

Table 6: Pension GDP Ratio in the case of the above Universal Pension Scheme

		Pension GDP Ratio											
		Rs 500 Per Month			**Rs 1000 Per Month**			**Rs 1500 Per Month**			**Rs 3000 Per Month**		
Year	**Growth Rates/ Age of Retirement**	**4**	**5**	**6**	**4**	**5**	**6**	**4**	**5**	**6**	**4**	**5**	**6**
2015	**60**	1.0	1.0	1.0	2.1	2.0	2.0	3.1	3.0	2.9	6.2	6.1	5.9
	61	1.0	0.9	0.9	1.9	1.9	1.8	2.9	2.8	2.7	5.8	5.6	5.4
	62	0.9	0.9	0.8	1.8	1.7	1.7	2.6	2.6	2.5	5.3	5.1	5.0
	63	0.8	0.8	0.8	1.6	1.6	1.5	2.4	2.3	2.3	4.8	4.7	4.6
	64	0.7	0.7	0.7	1.5	1.4	1.4	2.2	2.1	2.1	4.4	4.2	4.1
	65	0.7	0.6	0.6	1.3	1.3	1.2	1.9	1.9	1.8	3.9	3.8	3.7

2025	**60**	1.0	0.9	0.8	2.0	1.8	1.6	3.0	2.6	2.3	6.0	5.3	4.7
	61	0.9	0.8	0.7	1.9	1.6	1.5	2.8	2.5	2.2	5.6	4.9	4.3
	62	0.9	0.8	0.7	1.7	1.5	1.3	2.6	2.3	2.0	5.2	4.6	4.0
	63	0.8	0.7	0.6	1.6	1.4	1.2	2.4	2.1	1.9	4.8	4.2	3.7
	64	0.7	0.6	0.6	1.5	1.3	1.1	2.2	1.9	1.7	4.4	3.8	3.4
	65	0.7	0.6	0.5	1.3	1.2	1.0	2.0	1.7	1.5	3.9	3.5	3.1
2050	**60**	0.8	0.5	0.4	1.5	1.0	0.7	2.3	1.6	1.1	4.5	3.1	2.2
	61	0.7	0.5	0.3	1.4	1.0	0.7	2.1	1.5	1.0	4.2	3.0	2.1
	62	0.7	0.5	0.3	1.3	0.9	0.6	2.0	1.4	1.0	4.0	2.8	1.9
	63	0.6	0.4	0.3	1.2	0.9	0.6	1.9	1.3	0.9	3.7	2.6	1.8
	64	0.6	0.4	0.3	1.2	0.8	0.6	1.7	1.2	0.8	3.4	2.4	1.7
	65	0.5	0.4	0.3	1.1	0.7	0.5	1.6	1.1	0.8	3.2	2.2	1.5

Source: Authors' Calculation

In general, broadly assuming that the population of India above 60 years is 10 crore and if a universal pension of about Rs. 6,000 per annum is awarded to all of them. The annual fiscal implication of this measure, at Rs 60,000 crore would be less than the food subsidy or even the petroleum subsidy for 2013-14. At a fiscal burden of Rs. 60,000 crore, UPS will be about one fourth of the projected cost of food security Bill.[9]

Two important points need to be considered. First, as discussed by *Bharati and Singh* (2013), elderly are not only productive but also serve as an anchor for many dependent children. Therefore, when pension is awarded to the elderly, it serves the larger family besides empowering the elderly who have toiled all their lives. Second, the estimates presented here, are an overestimate, since these have not been adjusted for a significant portion of the population (about 10 percent) that draws pension from the Central and state governments, public sector undertakings, civil servants, and defense and railways employees.

[9] As estimated by Commission for Agriculture Costs and Prices, New Delhi.

Section VI - Conclusion

India has an elaborate pensions system which finds its origin in the British period of rule. Since independence, many reforms have been initiated, some as late as 2003. The government does provide primary benefits to families below the poverty line, covering nearly 1.7 crore of population in 2010. But, nearly 80 percent of the working population is not entitled to any pension. An introduction of a universal pension scheme will bring relief to the working population. It will ensure that they live a good life after they retire with their health well taken care of. Nevertheless, if a citizen wants more at old age he/she can either opt for the national pension scheme or any other private schemes to do that.

It should be noted that the main purpose of pensions are smoothening of consumption and mitigating longevity risks, poverty and inter-intra generation inequality. Universal pension scheme are found to do this successfully for each and every person of this country. An introduction of this scheme will therefore enhance the welfare of the working cohorts of India majority of whose future lies in uncertainty.

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ANNEXURE

Table-1

Contribution rates (percentage of wages) for financing and administering the benefits under the EPF & MP Act are given below:-

	CONTRIBUTION ACCOUNTS			ADMINISTRATION ACCOUNTS		TOTAL
	EPFS	**EPS**	**EDLIS**	**EPF**	**EDLIS**	
Employee	12	0	0	0	0	12
Employer	3.67	8.33	0.5	1.1	0.01	13.61
Total	15.67	8.33	0.5	1.1	0.01	25.61

Note: EPFS - Employees' Provident Fund Scheme; EPS – Employees' Pension Scheme; EDLIS - Employees' Deposit Linked Insurance Scheme.

Source: http://www.epfindia.com/epfbrief.html

Table II

The benefits under each of the three schemes are indicated in the table below: –

	EPF, 1952	**EPS, 1995**	**EDLIS, 1976**
Benefits	Accumulation plus interest upon retirement, resignation and death. Partial withdrawals allowed for specific expenses such as house construction, higher education, marriage, illness etc.	Monthly benefits for superannuation/ retirement, disability, survivor, widow (er), children. Amount of pension based on average salary during the preceding 12 months from the date of exit and total years of employment. Minimum pension on disablement. Past service benefit to participants of erstwhile Family Pension Scheme, 1971	The benefit provided in case of death of an employee who was member of the scheme at the time of the death, The family will get 20 times of the average wages of the last 12 months of the member. According to the revised scheme, maximum benefits under the scheme will now be Rs. 1,30,000/- , as the wage ceiling upto which contribution can be paid under the scheme is Rs. 6500/-.

Note: EPFS - Employees' Provident Fund Scheme; EPS – Employees' Pension Scheme; EDLIS - Employees' Deposit Linked Insurance Scheme.

Source: http://www.epfindia.com/epfbrief.html