Increasing Longevity: Significance of Pension & Innovation

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Apart from the common notion that *'economic strength of a country is measured by the development of its manufacturing industries'*, another important factor that affects and gets affected by the overall economic growth is the Population of a country and a number of factors come into play when we talk about population i.e. its growth rate, age structure, size of workforce, economic equality, migration etc.

India currently is enjoying demographic dividend, as the population of 1.4 billion comprises 67% of young population in the age group of 15-64 years and the elderly population constitutes only 6.4% of the population.

With declining fertility rates (live birth per woman decreasing from 5.90 in 1950 to 2.24 in 2020) and increasing longevity with Life expectancy at birth - 69.7 years and Life Expectancy at the age 65 years - 14.7 years, attributable to improving health care systems, there is an emerging trend that it will lead to a faster reduction in growth of working-age population (15-64 years) and increase in elderly population.

The projections of UN Population Report of 2019 predict India to be the most populous country in the coming years (2027) and the elderly population would rise to almost 14% of the total population by 2050 meaning that the old-age dependency ratio (65+ year-olds as a share of the working age population) would rise and the Potential support ratio (ratio of the population aged 25-64 to the population aged 65 years or over) would decrease from 7.7% to 3.9%. In simple words, the number of individuals working to support the elderly population will decrease over the years and will exert more economic pressure on them. A rising dependency ratio will exert downward pressure on GDP per capita growth.

The ageing pattern is changing rapidly and the way it is changing, our country's demographic dividend will be reversed in the next 30 years

In addition to the changing demographics, India is witnessing cultural shifts also. Nuclear families are on the rise due to urbanisation and migration of population from

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villages to the cities with changes in occupational structures and female employment. It is an acceptable fact that children nowadays, prefer to live separately without their parents, denoting disintegration of the joint family culture which offered economic support to the elderly parents.

Concepts of old age homes are being implemented and widely getting accepted in the society and there has been an annual increase of 25% in the number of old age homes. In 2016, the number of old age homes was around 500 which have risen to 728 and only 325 are free and 95 of them are on a pay-and-stay basis as per a news portal (the sparrow). The average cost of living in a paid old-age home is around Rs 50,000 per annum and can go upto Rs. 15 lakhs per annum.

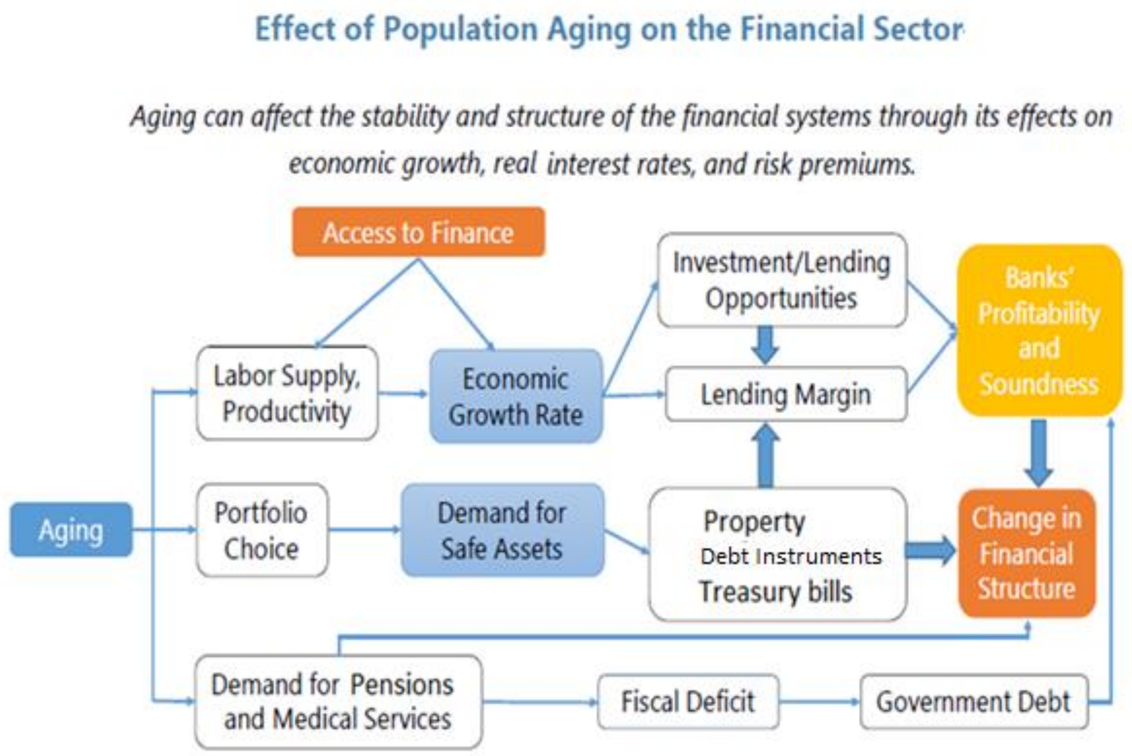
Product like reverse mortgage loan has also been launched in India in 2008 that provide regular flow of income/finances to benefit the elderly owning a house but are having inadequate sources of income to meet their current needs. However, that also has not met with much success.

The question now arises, are we prepared for these imminent changes and limit its implications.

From an economic standpoint, an aging population will impact labour productivity as physical and cognitive abilities of older workforce declines with age and this will compel investments in newer productivity-enhancing technologies to maintain the tempo of growth trajectory. At the same time to support the elderly population with adequate income and provide improved medical facilities, situation will demand large outlay of funds for old age income security and healthcare services which will exert tremendous pressure on public finances. In other words, revenue collections will get expended in non-developmental areas than creation of asset/capital.

Therefore it becomes essential to have a clear understanding of the interconnections of capital-labour ratios, its resulting effects on factor prices, production, savings and investments and lay down a well-thought-out policy to address these challenges. Economic policy plays an important role, either directly through changes in public saving **or** indirectly by providing incentives to households to save or supply work and to entities to invest & innovate.

Aging can impact the banks' business models also with fewer young borrowers availing traditional lending products leading to decline in loan-to-deposit ratios and forcing banks to enter new activities and act more like non-banks. Experiences of Japan suggests that population aging has been an important driver of an ongoing shift in regional banks' business models, moving away from primarily lending-oriented banking towards a greater focus on securities investments and fee-based sources of income.



An analysis by IMF found that economies with an aging population tend to feature smaller term spreads with less bank finance, which is consistent with other evidence on the negative effects of flat yield curves on bank profitability. The analysis suggested that the increase in the old-age dependency ratio observed in Japan between 1990 and 2015 could account for upto 40% of the decline in the importance of bank finance observed during the same period. For the G7 and G20-averages the estimates are about 20 and 30%, and for the world it is 6%.

The monetary policy and the financial system also gets impacted as retirement planning turn out to be imperative for the workforce and savings & investment behaviour of individuals change, seeking real returns (inflation protection) to secure their retirement income.

In the Indian context, the retirement space is quite fragmented with statutory and voluntary schemes applicable to different segments of the workforce and roughly less than 15% of the working population are covered under formal pensions.

- National Social Assistance Programme (NSAP) comprises of Indira Gandhi National Old Age Pension Scheme (IGNOAPS), Indira Gandhi National Widow Pension Scheme (IGNWPS), Indira Gandhi National Disability Pension Scheme (IGNDPS), National Family Benefit Scheme (NFBS) and Annapurna
- Civil Service Pension – *discontinued and replaced with NPS* - National Pension System regulated by PFRDA
- Employees' Provident Fund & Employees' Pension Scheme
- Approved Superannuation Funds & Recognised Provident Funds
- Special Provident Funds - Coal Miners, Seamen, J&K, Assam Tea Plantations
- Social Security Schemes of Government - *Atal Pension Yojana being administered by PFRDA, Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM), Pradhan Mantri Karam Yogi Maan-dhan, Pradhan Mantri Kisan Maan Dhan (PM-KMY)*
- Public Provident Fund
- Annuity Plans of Life Insurance companies
- Retirement Plans of Mutual Funds

The Indian Pension System has been ranked 40th out of 43 countries in the Mercer CFA Institute Global Pension Index Report of 2021 with Philippines, Argentina and Thailand below India. The report compares the retirement income system of countries based on 03 sub-indices – adequacy, sustainability and integrity and on the Indian pension system it has commented *that "the overall index value for the Indian system could be increased by:*

- *introducing a minimum level of support for the poorest aged individuals*
- *increasing coverage of pension arrangements for the unorganised working class*
- *introducing a minimum access age so that it is clear that benefits are preserved for retirement purposes*
- *improving the regulatory requirements for the private pension system'*

Another concern that predominantly exists is the low level of financial literacy. As per (*Global Financial Literacy Excellence Center (GFLEC),* only 24% of adult Indian population are financially literate and Pension literacy is even far lower. Steps have already been initiated to improve the overall level of financial literacy and a 5-year plan has been documented through the National Strategy for Financial Education (NSFE) - 2020-25 which lays down the roadmap for dissemination of financial education to across all sections of the society. Moreover, an institution National Centre for Financial Education (NCFE) has been set-up by the Financial Sector Regulators (RBI, SEBI, IRDAI and PFRDA) for implementing the vision envisaged in NSFE.

As per the RBI report, the household savings in India is 11% of Gross National Disposable Income (GNDI) out of which only 2.2% is for pensions and this proportion has been range bound over a decade. Post pandemic, there has been a drastic change in financial behavior, as 90% Indians have changed their personal spending preferences and 70% Indians have placed emphasis in securing their future by investing and savings, newer investments etc. Further, impetus to this change has been provided by surging digital & contactless payments. (UPI, e-wallets, cards)

On a larger perspective, for addressing the challenges posed by aging population progressions or ingenuities needs to be built around the pension, healthcare and fiscal framework of the country.

Changes are required in the public pension systems to achieve a balance among a multitude of objectives; ensuring pension sustainability, maintaining appropriate national saving levels and providing adequate old-age support. As reforming the public pension system is challenging, alternative measures such as automatic adjustment mechanisms can be considered. The Defined Contribution pension schemes can support higher saving rates and with wider coverage or increased replacement rates, the pension system can be strengthened. NPS is one such initiative which is regulated by PFRDA. As on 30th Oct 2021 the coverage under NPS & APY (a govt. guaranteed pension scheme) is 4.7 crores and the corpus accumulation is Rs 6.76 lakh crore. Government employees both central & state constitute 76.6 lakh subscribers, APY/NPS Lite 3.61 crore subscribers and 31.6 lakh subscribers have joined voluntarily from 9000+ corporate and individual segment. The average returns generated by the Pension Funds is over 10% for the last 13 years. *(CAGR since inception).*

The healthcare system and its spending can be re-examined by focussing on primary and preventive health care system, increasing health insurance coverage and encouraging competition among insurers and service providers and making more effective use of health information technology.

The financial industry including Banks will also be required to adapt themselves to the emerging demographic landscape and meet the demands of elderly population. With customers living longer and share of elderly clients increasing over the years, Banks will need to innovate their

- *Processes being user friendly*
- *Accessibility of services*
- *Product offerings being easily understood*
- *Service Delivery is efficient*

In India, we tend to refer financial products/schemes/offerings for the elderly with a pre-tag or identifier as “Senior Citizen’ and this notion should evolve towards the way we engage with them for financial products & services as with aging the cognitive and physical abilities declines.

Banks have been working towards this and provide dedicated counters, have senior citizen charter, ‘Senior Citizen Account’, simplified ways of collecting life certificates from pensioners but some of the thoughts that I would like to share is uniformly applicable to the financial sector are:

- Simplify the processes so that they engage with the minimal requirements of intermediaries for their financial well-being.
- Create of awareness about 'Facilities available for Senior Citizens'
- Content of financial literacy for senior citizens may provide information about preventing scams/frauds calls/mails, reporting of complaints, estate planning tools, schemes/offers for pensioners, suitable investment products and rights/facilities available to senior citizens.
- Forms/Screens of kiosk/Apps may be made simple, distinct and readable.
- Customise products or design schemes that are easy to understand and they can relate to.
- Products offered should be appropriate to their needs and based on personal assessment of the elderly person’s financial circumstances and understanding.
- Train the frontline staff to handle them with sensitivity and respect as they often have many concerns/questions and sometimes are impatient and condescending.
- A dedicated channel for addressing their queries and grievances redressal.

- Enable disbursement of social security benefits or other benefits through an unique digital identity system for reducing abuse and fraud to some extent

Our country is unique and the emerging challenge needs to be dealt distinctively. The expansion of old age income security to the entire working population of 40-50 crore individual is a primary requirement to ensure a secured life of dignity for the elderly population and this task of enrolling them in a pension scheme is enormous. A wider coverage of the working population in a pension scheme which is contributory will enable creation of assets that will help in nation building as these long-term funds are invested in financial assets within the country. Currently our pension assets are 14% of GDP in comparison to 80% of GDP globally. *(Netherlands - 191%, Canada – 159%, Switzerland – 141%, US - 147%, Australia - 135%, UK - 123%)*. Pension assets are long term funds and can aid the economy in financing infrastructural projects and at the same these investments would facilitate in deepening the capital markets and support government borrowings programme.

I am confident that our financial systems will evolve in the right direction to overcome the eminent challenge of ageing population which is inevitable and the elderly citizens of our country will have a life of dignity and respect.

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