Securing the Silent - III

Securing Old Age: The Indian Story of Micro Pension

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market-led financial solutions"

MicroSave

Market-led solutions for financial services

Securing the silent
Vol. III

Securing Old Age: The Indian Story of Micro Pension

Authors

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Abbreviations

AH	*Abhaya Hastham*
AMFI	Association of Mutual Funds in India
DB	Defined Benefit
DC	Defined Contribution
IGNOAPS	Indira Gandhi National Old Age Pension Scheme
IIMPS	Invest India Micro Pension
IRDA	Insurance Regulatory and Development Authority
KYC	Know Your Customer
LIC	Life Insurance Corporation of India
MFI	Microfinance Institution
NGO	Non Government Organisation
NPS	New Pension Scheme
NPS- Lite	New Pension Scheme- Lite
OASIS	Old Age Social and Income Security
PAYG	Pay As You Go
PFRDA	Pension Fund Regulatory and Development Authority
PPF	Public Provident Fund
PRAN	Personal Retirement Account Number
RBP	Retirement Benefit Plan
RRB	Regional Rural Bank
SERP	Society for Eradication of Rural Poverty
SEWA	Self Employed Women's Association
SHG	Self Help Group
SIP	Systematic Investment Plan
ULIP	Unit Linked Insurance Policy
UTI	Unit Trust of India

INTRODUCTION

It has been a matter of immense happiness for us that the abridged first version (Vol. I & II) of *Securing the Silent* has been received very well by the Indian and global community of insurance and microinsurance. Being the first of its kind detail analysis of life and health microinsurance in India, it has received a grand ovation through media articles, research references and business discussions alike. The praise and appreciation, in addition to being a truly humbling experience, also brought with it a responsibility to carry on the work in future. Many of the readers enquired and requested us to focus on other fields of insurance and microinsurance in future issues. In the second issue, therefore, we have discussed about micro pensions in India, an immediate cousin of microinsurance.

Though India is still a young country, the need for pension products have increased in recent times, given the changing demography, family structure and settlement pattern. However, more than 88% of the 470mn strong Indian workforces are still devoid of any form of pension products. A majority of this un-pensioned workforce belong to the low income category, making a perfect case for micro pensions in the country. From business point of view as well, micro pension is a lucrative sector with estimated potential of USD2.5billion per year.

However, in spite of a history of several pension products designed for unorganised workforce, micro pensions have not reached its potential scale in India. However, it is the newly emerged pension reforms in India that has changed the mosaic of micro pensions in India. The Government of India started a specific micro pension plan (called NPS-Lite) for the unorganised sector (and low income) workforce, in addition to its flagship NPS (New Pension Scheme). NPS-Lite aimed to reach the un-pensioned through a variety of organisational intermediaries, including NGOs and MFIs. In addition, the government started *Swabalamban* scheme which promises a contribution top-up in NPS-Lite. Though the scheme is its infancy, some criticisms and concerns have started brewing up about sustainability and potential of the scheme.

In this Vol. III of *Securing the Silent*, we have dealt in detail about the emergence, experience and trends of all micro pension schemes in India. Tracing from the history of trade union promoted schemes to the latest developments, we have tried to objectively assess the suspicions and concerns of all the schemes in force.

Like previous year, this issue also deals primarily with objective assessment of the sector. To the extent possible we have stayed away from making any observation/ judgement if we do not have sufficient objective data to support that. However, unlike life and health microinsurance, micro pension data are not easily available in public. We heartily thank the officials and management of PFRDA (Pension Fund Regulatory and Development Authority) who helped us tracing a lot of public information on micro pensions. We also would like to thank Gautam Bharadwaj of IIMPS, who guided the researchers in a helpful way. However, we want to thank our readers the most, whose constant encouragement and appreciation helped us pull of this mammoth task.

Given the popularity it attained in small time, we have decided that from now on, *Securing the Silent* should become a half-yearly publication instead of an annual affair. Also, we would like to broaden the horizon of the publication, both in terms of its geographic focus and content. We sincerely request you to provide us suggestions on how do you think the publication should shape up in future. Please suggest us on geographies you want us to focus, contents you want to see and type of papers you want to read in the next issues of *Securing the Silent*.

Premasis Mukherjee
Practice Group Leader, Microinsurance
MicroSave; and
Editor, Securing the Silent

Content

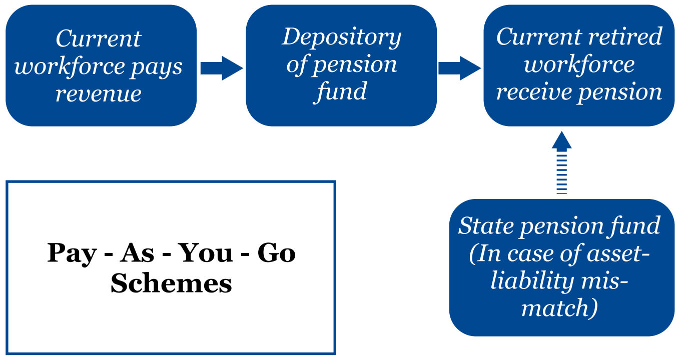
1. Global Understanding of Pension

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.

According to the World Bank's 'Arresting the Old Age Crisis', there are three broad types of pension products available in the world.

- First pillar: i.e., Social Security Schemes;
- Second pillar: i.e., Occupational Pension Schemes; and
- Third pillar: i.e., Individual Private Pension.

The first pillar is similar to any state-funded social security scheme targeted at low-income people. These schemes are supported by the state, either out of funds from the general tax revenue pool or by levying special tax or cess with the objective of social security schemes for low-income population.



Commonly referred to as Pay-As-You-Go (PAYG) Schemes, the working population subsidises the retirement payment of the older generation (inter-generational cross-subsidy). Due to pressure on fiscal exchequer, there is a global shift away from these schemes, However, since they are relatively risk-free for the beneficiaries and achieve huge outreach at low cost, they are popular in some countries (e.g. Chile and Australia).

The second pillar schemes, i.e. Occupational Pension Schemes, are mainly meant for employees where a superannuation fund is maintained by the employer to buy annuity as pension. These schemes are classified as:

1) Defined Benefit Schemes (DB schemes) wherein the pension annuity (pension benefit) is defined as a percentage of the indexed salary of the employee. In such a scheme, the pension sponsor (often the employer) bears the investment risk. Although these are attractive to the employees, DB Schemes are tough to manage at times of economic crisis since they create an open-ended liability for the employer.
2) Defined Contribution Schemes (DC schemes) in which, while contributions are explicitly defined, benefits are linked to the actual return from the investment. Hence, the risks associated with returns from funds invested in the market lies with the beneficiary. Also, as the fund is invested into market, it is highly unlikely to arrive at a predictable retirement income stream. Due to simplicity and avoidance of investment risks by employers, there has been a worldwide shift towards DC schemes from DB schemes. However, the success of a DC scheme depends on efficient fund management and dynamic asset allocation, especially in a changing economic scenario.

The third pillar schemes are contributory pension schemes meant for self-employed and unorganised sector employees who are not covered by any employee-managed schemes. These schemes are also subscribed to by organised-sector employees deploying additional funds to augment pension inflows.

1.1. Micro-Pension

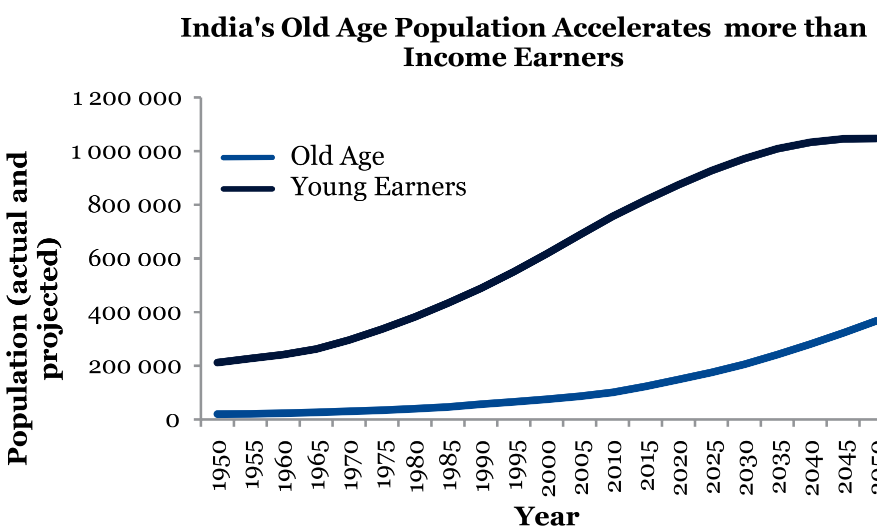
Micro-pension schemes target low-income unorganised sector labour force (having no direct employer-employee contract), most of these schemes are third pillar in nature. In the words of Stuart Rutherford, micro-pensions are a series of small payments ('mickles') over one's life to provide for either a large payment ('muckles') or series of small payments ('mickles') or combination of both ('muckles' and 'mickles'), in old age.[1]

In this paper, we have tracked the development of micro-pensions in India. We have detailed the contributory and co-contributory schemes (where the beneficiary might not contribute fully to the pension fund) and left the pure social security pension schemes out of purview. In addition, we have highlighted long-term savings tools (pay-in) and government transfers (pay-out) available to the low-income and/or unorganised sector employees, since they are integral to the solutions for old-age support.

[1] Micro-pensions: Old Age Security for the Poor?; Stuart Rutherford

2. India Should Prepare for Pension

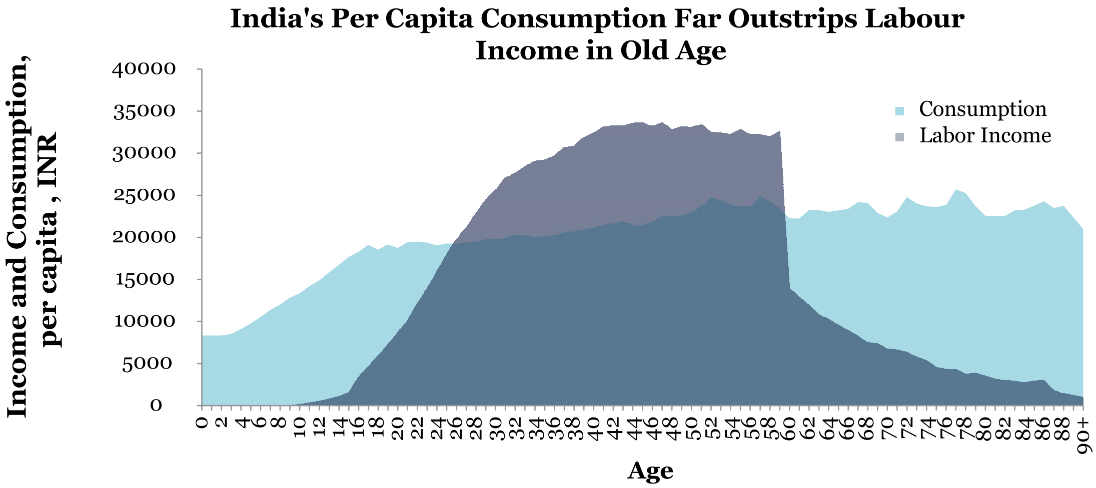
Traditionally, joint family structures in India worked as a hedge against old-age economic crisis and a support network that precluded the need for third-party pension instruments. While most Indians retire from active economic life after the age of 60, they sustain their consumption pattern as earning children generally take care of elderly parents. The system is supported by the fact that India is a country where 88.25% of the population is young and economically active and is required to support only 8.18% of the population aged over 60 years. On the basis of current demographic trends, India will have a larger population of the young and economically active as compared to people in old age until 2050.



Source: UN Population Division; *MicroSave* Analysis

However, considering that India is a large country in terms of population, aging and urbanisation are rapidly changing the absolute numbers and the dynamics of family support in old age. UN Population Division estimates that by 2050 in India there will be 21.16% of the population above the age of 60 as compared to 60.34% aged between 15 and 59 years. The overall number of elderly[2] people as a percentage

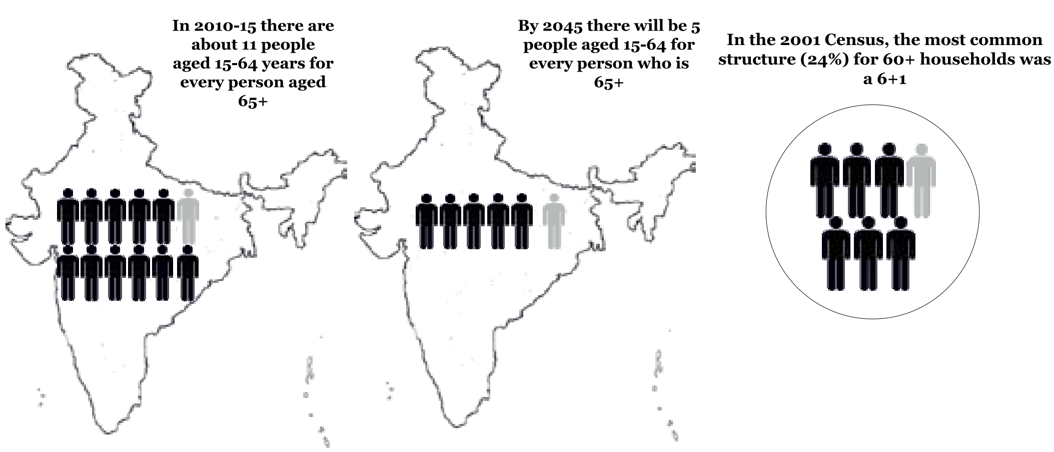
[2] For the purpose of the study, we are considering people above age of 60 to belong to old age, since that is the general age at which Indians stop earning actively



Source: R Lee and A Mason (2011); Hinz, R unpublished presentation 2011

of the population is expected to double in the next 30 years and the rise of nuclear families in urban areas will strain the family support system. It is estimated that in India at present, 11 working-age individuals support each person above the working age (65+ years). This is set to reduce to a ratio of 5:1 by 2050. While this is far better when compared to China, where the family support is estimated at 3:1, the situation in India will witness a stark shift in the coming years.[3]

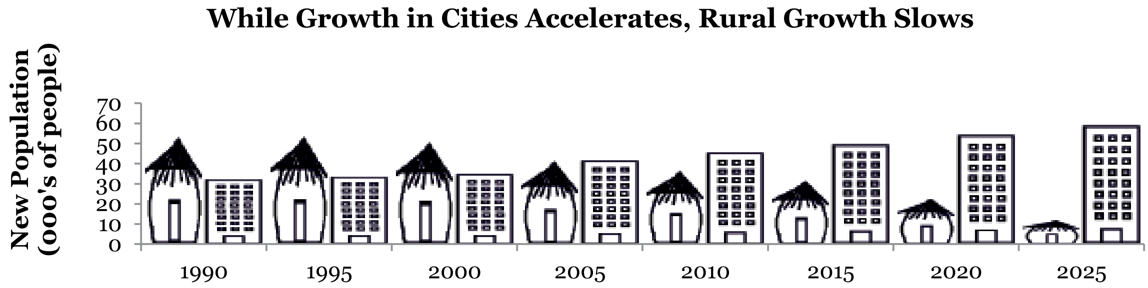
Apart from the depleting number of working persons for every old person, the rising elderly population will be further at risk due to rapid urbanisation. Today about one-third of India lives in urban areas, which is set to rise to one-half by 2045 as per the estimates of UN Population Division.



The concern is that as more working people move to the cities, they leave thinner financial support networks in rural areas to provide for old-age care of those left behind. The stress will enhance in rural areas since households with 60+ members

[3] Based on UN Population Fund Population Estimates. Working age considered to be 15-64

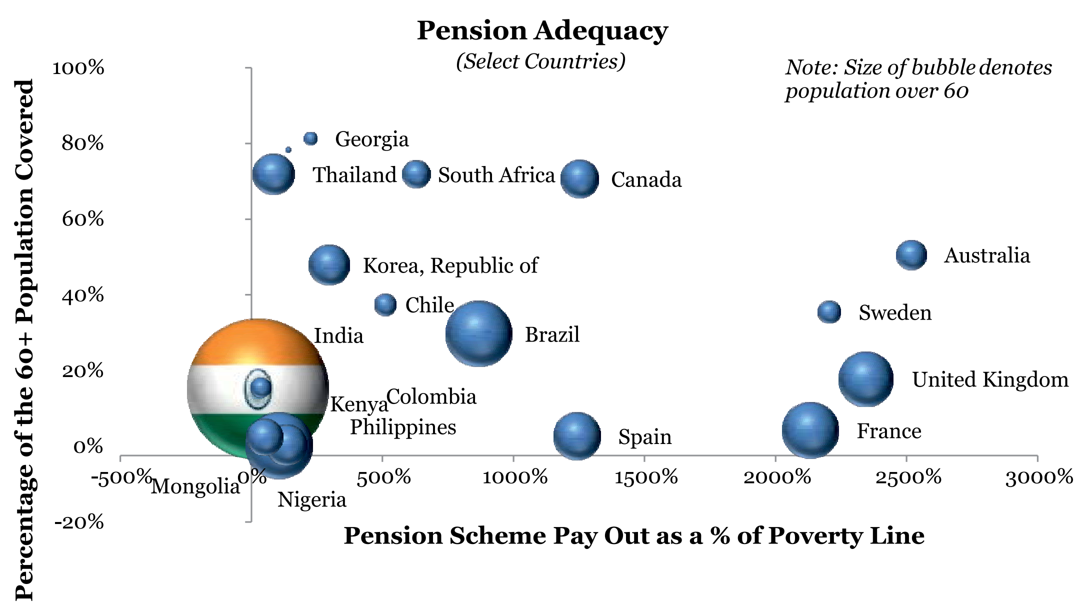
are more prevalent in rural areas[4] and there are considerable studies suggesting deterioration in living condition in cases of outmigration.[5]



Source: UN Population Division

2.1. Unorganised Sector is Devoid of Pension

In India, the need for micro-pension, i.e., financial products to provide regular cash flows during old age, especially to workers in the low-income and/or unorganised sector, is more of a necessity than conventional pension schemes for salaried or high-income workforce.



Source: HelpAge Source: HelpAge International Pension Watch Database 2012, *MicroSave* Analysis

Central and state government employees of India are covered by state-funded pension schemes, which by 2015 is estimated to cost around USD6.1 billion to state coffers.

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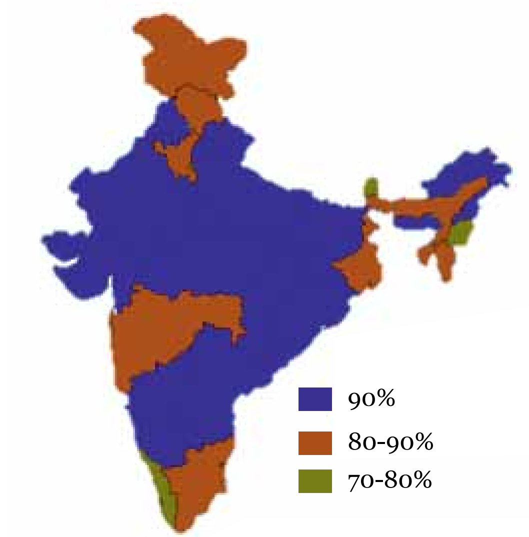
[4] Based on 2001 Census of India Data

[5] HelpAge International (2008), p 5; Piggot et al (2013)

% of Unorganised Sector Employees in India

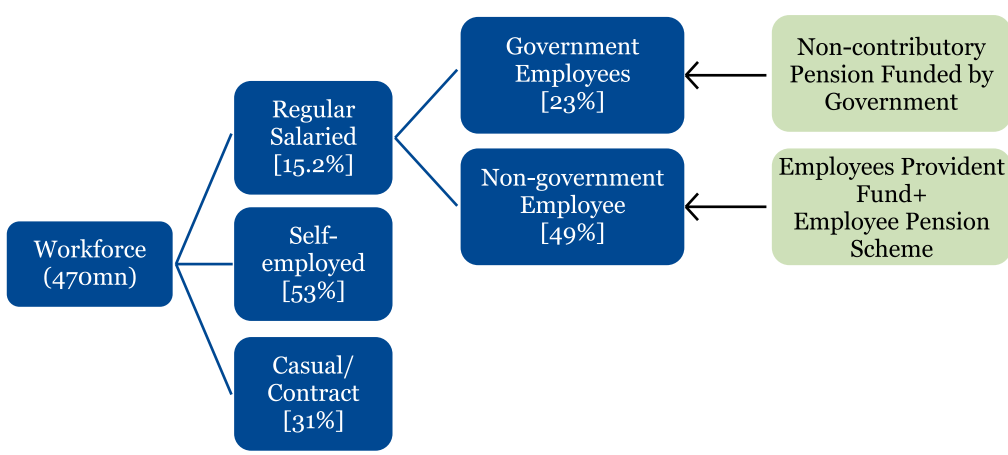


Source: NSS 55th roasd and *MicroSave* Analysis

For the private sector, it is mandatory for private industries and employers to subscribe to the Employees Provident Fund Scheme 1952, a defined contribution (DC) pension scheme, and the Employee Pension Scheme, a defined benefit (DB) pension scheme. Both these schemes are co-contributory (employers have to contribute 8-10% of employees' wages towards the pension fund). However, these two sections of organised sector workforce together do not account for more than 10% of India's total workforce.

The National Sample Survey estimates a total workforce of 470 million in India. According to the 'Old Age Social and Income Security' (OASIS) report of 2000, only 15.2% of this workforce is employed in the formal sectors, and have some form of pension coverage. This leaves 28% of the salaried workforce and approximately 340[6] -393[7] million workers of the unorganised sector excluded from any form of pension scheme.

Workforce and Pension Scenario of India (OASIS Report and *MicroSave* Analysis)



With the increasing need for pension savings on one hand and less than adequate supply (and availability) of pension products for the unorganised sector, micro-pension – the contributory pension savings product for unorganised sector workers

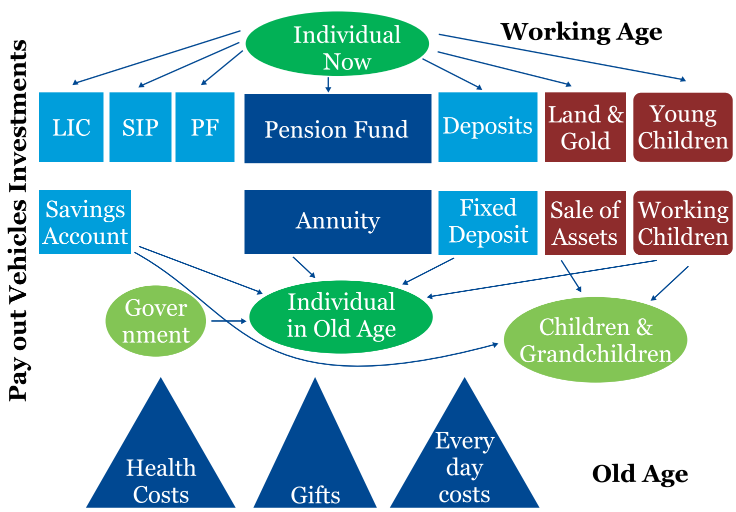
[6] According to National Commission for Enterprise in the Unorganised Sector (NCEUS) report, 2006
[7] National Sample Survey 2004-05

– becomes an unavoidable need for India. It is estimated that the potential for such micro-pension savings in India is approximately INR 201.3 billion (US$2.5billion) per year.[8] However, the size of the market is not an adequate parameter to assess feasibility of micro-pension in India. In the next sub-section, we will assess demand among the target clientele for such products.

2.2. Uncertain Household Level of Demand for Old-age Pension Savings

Conventional pension products are purpose-specific tools for arranging financial support in old age. However, they are only one instrument in a much wider landscape of options and social practices, including investments in physical assets such as jewellery and real estate as well as financial investments specifically for old age.[9] Different suppliers of financial services – savings institutions, asset managers, insurers and government – provide facilities that can be used by unorganised sector workers to manage their old-age financial needs. Although there is a looming pension gap for this segment, there is evidence that individuals are rarely conscious of sharp drop in income post retirement from active economic employment. As younger and economically active individuals give relatively low priority to economic security during old age,[10] a supply-led or 'push sale' approach to pensions to manage old age has a high likelihood of success. Before examining old-age pension saving models in India, a brief discussion on demand for old-age savings helps set the context.

Old Age Support Landscape



A prime reason to believe that active demand is limited is that old age is far away from young people's current realities. Any worries that people have about old age are mainly pushed aside to make room for more immediate and medium-term concerns.[11] The general principle that people give little concern to the future was

[8] 'Pension Reforms for Unorganised Sector'; ADB, 2006 and IIMS DataWorks Survey 2008
[9] For savings preference in a general sense, see Ramji et al (2012)
[10] See Thaler (2004)
[11] Musings on Money; Mas and *MicroSave*; 2013

reflected in a scoping study of private pensions in India, in which around 50% of people who might invest in pensions did not regard them as a priority.[12] Similarly, during the course of its own research *MicroSave* found that only a few respondents prioritise saving for old age.[13]

In addition, there is a conventional dependence on the joint family structure. In a 2002 SEWA study, most respondents had not planned for their future or expected that as a social norm, their children would to support them in old age.[14] In a recent *MicroSave* research on financial management, most respondents assumed that their children would take care of them when asked about old-age financial needs.[15] This phenomenon is not specific to low-income population but pervades through all income groups. A 2007 Savings and Investment survey by IIMS inferred that a quarter to a third of respondents across all income groups thought that their children would provide for them in old age.[16] Imagining old age is a universal behavioural problem: people tend to *'over-discount'* the future.[17]

Behavioural economists have developed mechanisms to overcome these barriers in relation to pensions. For example, Thaler's 'Save More Tomorrow (SMRT)' model to encourage adequate pension contributions has worked to help people in developed countries overcome their behavioural hurdles to contribute towards old-age pension schemes.[18] However, cash flows in the case of workers in the informal sector are not as predictable; hence pension plans targeting this segment may have to consider more flexible approaches even as they try and build a substantive corpus.

As a result of factors such as these, many people do not give much weight to their old-age needs. A recent study by *MicroSave* (See Musing on Money and Searching for Metaphors of Household Financial Management) concluded that people in the mass-market segment allocate their income to different goals based on urgency, immediacy and social pressure. Since pensions or old-age savings still do not full fill these criteria, the uptake and demand for such products are limited.

2.3. Old-age Awareness Exists

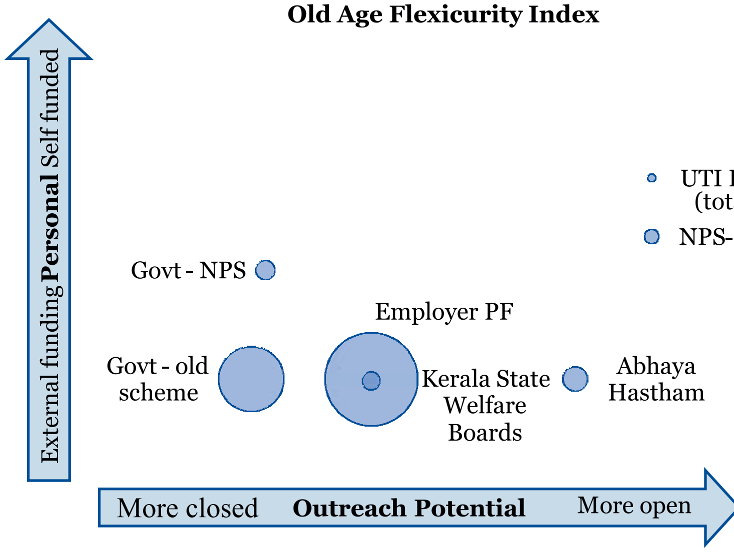
Even if people struggle to save among competing needs, some individuals do view old-age provisioning as important. Research from *MicroSave* research suggest two reasons:

Firstly, some individuals realise the risk of relying on children in old age for financial/physical support. In group discussions in Maharashtra,[19] Gujarat,[20] Uttar Pradesh, Andhra Pradesh and Madhya Pradesh,[21] the possibility that children might

[12] IIMS Dataworks (2008)
[13] Some respondents could not imagine being free of pressing issues such as child's marriage, even when they were imagining themselves at age 65. Piggot et al (2013)
[14] WWB (2003)
[15] Can Money Buy You Happiness?; MicroSave; 2013
[16] IIMS Dataworks (2008)
[17] See Thaler (2004)
[18] Thaler (2004), p 165
[19] Gianadda (2007)
[20] WWB (2003)
[21] Piggot et al *(2013)*

not support their parents in old age was cited as a reason for saving. This concern about children not supporting them in old age is in line with experiences in other countries.[22]

Old Age Flexicurity Index



Flexicurity allows for flexibility in the labour market, while also ensuring the security from extreme hardship - in this case referring to old age. Old age flexicurity means adapting the traditional defined benefit pension structure to fit the needs of the unorganised sector workers. Some schemes are only open to members of certain groups or citizens of certain states. This limits outreach. Ability for individuals to effectively self-fund without support from employers or others - makes pensions more "personal".

Secondly, provisioning for old age also serves as a form of capital that people plan to leverage in old age to ensure that children will support and respect them. Hence, savings accumulation not only provides the much-needed capital during old age but also serves to provide social standing and ensures good conduct in children. In recent *MicroSave* research,[23] some focus groups wanted to keep a lump sum of money in the bank to ensure that their children were interested in caring for them. Some studies on today's elderly reflect that small amounts of capital in old age can help maintain social status and receive the desired attention from others in the family.[24]

Invest India Income and Savings Survey 2007 indicated that approximately 61 million low-income unorganised workers are interested in saving for retirement, and nearly 25.8 million of them can afford (and are willing) to pay INR2,300 (US$51.56) per year for a private contributory pension scheme. It is estimated that the potential for such micro-pension savings in India is approximately INR201.3 billion (US$2.5 billion) per year.[25]

[22] Rutherford, S (2008), pp. 245-6 notes the issue of children turning out well or not
[23] Downloadable at: http://www.microsave.net/resource/can_money_buy_you_happiness#.Uh8cetImu-E
[24] HelpAge International (2008), p 6
[25] 'Pension Reforms for Unorganised Sector'; ADB, 2006 and IIMS DataWorks Survey 2008

3. Pension Inclusion: Contributory Pensions Before and After Liberalisation

After independence in 1947, India set up old-age security mechanisms for civil servants and other employees.[26] However, these obligatory schemes did not address the old-age needs of the informally employed[27] (including low-income earners) estimated to account for 90% of India's labour force.[28]

The first major attempt to establish contributory schemes for the unorganised sector came with the Public Provident Fund (organised by the central government) and the state-specific Welfare Board old-age pensions that were created in the 1970s. Thirty years later, the second wave of inclusive pensions came with the New Pension System (NPS) reforms, the *Abhaya Hastham* programme in *Andhra Pradesh* and the opening of Unit Trust of India (UTI)'s Retirement Benefit Pension fund to low-income individuals. Informal old-age savings schemes by NGOs (e.g., SIFFS) also formed a part of the second wave of old-age savings. In addition, the government's Indira Gandhi National Old Age Pension Scheme provides transfers to old-age individuals to avoid destitution.

Before we describe all the schemes, it is necessary to decode the skeletal models on which these schemes are based.

3.1. Two Pension Models for the Unorganised Sector

In both the first and second wave, two broad pension models can be distinguished. One model is that of the 'agnostic' contributory pension; agnostic models are defined contribution as opposed to defined benefit schemes and are referred to as 'agnostic' as they are not based on a strong specific employee-employer or affiliation-based relationship but rather a casual product holder-financial institution relationship. Such a model has the potential of rapid scale up, with recent agnostic products such as UTI-RBP and NPS-Lite offering the promise of scale up because they can leverage the diverse relationships of a large number of distributing partners to allocate pensions. However, outreach depends on each scheme's ability to attract appropriate partners who are willing to manage the front-end and can enrol members and keep them enrolled.

[26] Government employees before the New Pension System (NPS) reforms received a non-contributory defined benefit pension from the government, and they also contributed to a provident fund. Other formal sector employees fell under the 1952 Employees' Provident Fund Act. Under this legislation, formal sector employees in firms with 20+ employees contribute to a provident fund (Employees' Provident Fund) and most will have a defined benefit pension fund (Employees' Pension Scheme).
[27] Including individuals from the informal sector and people employed by the formal sector but outside the system of formal employment
[28] As cited in MacKellar (2009), p 19

Two Models for Inclusive Pensions		
	Membership Specific	**Agnostic**
Distinguishing Feature	Pension provided by virtue of membership of an organisation	Pension is available to all (third party pension provider). Ground-level institutions partner with the pension provider as a distributor
Characteristics	The organisation often has the ability to muster outside resources for members	Pension product can be offered by multiple organisations with less financial resources
Examples	Kerala Welfare Boards; *Abhaya Hastham*	Public Provident Fund (PPF) UTI Retirement Benefit Pension; National Pension Scheme-Lite

A second type of model – the membership-based model—coexists with the agnostic model. These models work when individuals have a strong relationship with a membership organisation. The relationship could be a strong union or political affiliation or an employee/employer relationship. The membership organisations have some access to external resources to provide benefits to members. However, reliance on external sources can at times undermine the sustainability of these schemes.

4. The First Wave: Early Inclusive Pension Initiatives for the Unorganised Sector

The first wave of inclusive pension initiatives includes the agnostic scheme viz. Public Provident Fund (PPF) and the member-based worker welfare funds. The PPF effectively allows individuals, including those outside of formal employment relations, to access provident funds similar to those subscribed to by government employees and by workers in formal-sector private businesses.

Meanwhile, welfare funds for different types of unorganised sector workers emerged in different states from the 1970s onwards. These member-based schemes are/were available to members of certain trades/occupations such as construction workers, *beedi* workers and porters. While many of these schemes continue today, none are an unambiguous success. However, these schemes did establish structures and examples that the second wave of contributory pensions has potential to leverage.

4.1. Public Provident Funds: A Cautionary Tale for Agnostic Schemes

The Public Provident Fund (PPF) concept was the first scheme aimed at getting unorganised sector workers to contribute towards old-age pension. Established in the late 1960s, the scheme is a long-term savings facility similar to the one available to employees in the organised sector. The scheme, offered through public-sector banks and the postal service, gives a fixed rate of return on an individual's regular deposits and the fund matures after 15 years. Thereafter, the term can be extended in incremental blocks of five years.

One worrying criticism of the scheme is that, despite its focus on access, it failed to take off in terms of reaching out to workers in the unorganised sector. The scheme offers features that make it accessible to the micro market: the minimum yearly contribution is INR500, and the timing of contributions is flexible.[29] If payments stop, interest continues to accrue and the policy can later be revived. The scheme is offered by the Indian Post Office as well as the banks, which increases its inclusiveness quotient. However, as noted in the OASIS report on pension reform, PPF accounts were not highly successful in attracting customers: an estimated 1%

[29] See PPF pages on large commercial bank websites (ICICI, SBI, etc.)

of the unorganised workforce enrolled after 30 years of operation.[30] The limited outreach of PPF, despite some attractive features, should be a lesson for new schemes; pension product and features are only one side of the equation, front-end retail channels with outreach into under-served segments is the other challenge. Pension is a product that requires commitment and regularity in the long term; the outreach channel should be such that it presents credibility and has the ability to attract and retain subscribers.

Another shortcoming of PPF is that funds can easily be diverted and used in pursuits other than the intended economic security in old age. While the term is 15 years (too short, as the OASIS report notes, for younger workers), there are possibilities to withdraw funds earlier.[31] This undermines the scheme's purpose as an old-age savings vehicle.

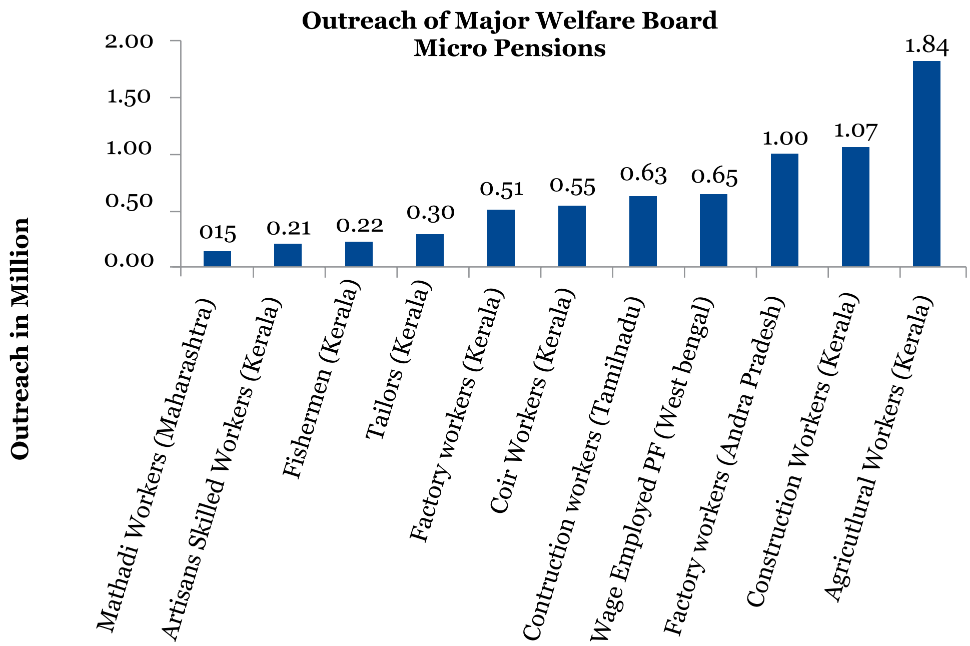
4.2. Welfare Fund Board Pensions: Early Membership-based Schemes

Shortly after PPF was established, India saw the emergence of worker-welfare boards, typically set up at state level with each board catering to workers from different occupational groups (e.g. construction workers, auto workers, etc.). The Toddy Workers Welfare Fund of 1969 in Kerala was a frontrunner in co-contributory pension for the unorganised sector.[32] So far nearly 30 co-contributory schemes have been established by six state governments. These pension schemes are available to a broad spectrum of unorganised workers, including semi-formal employees such as document writers, advocate clerks and ration dealers, plus informal workers such as auto-rickshaw drivers, agricultural labourers, handloom workers and barbers and tailors. Nearly 8.85 million people are covered by these schemes.[33]

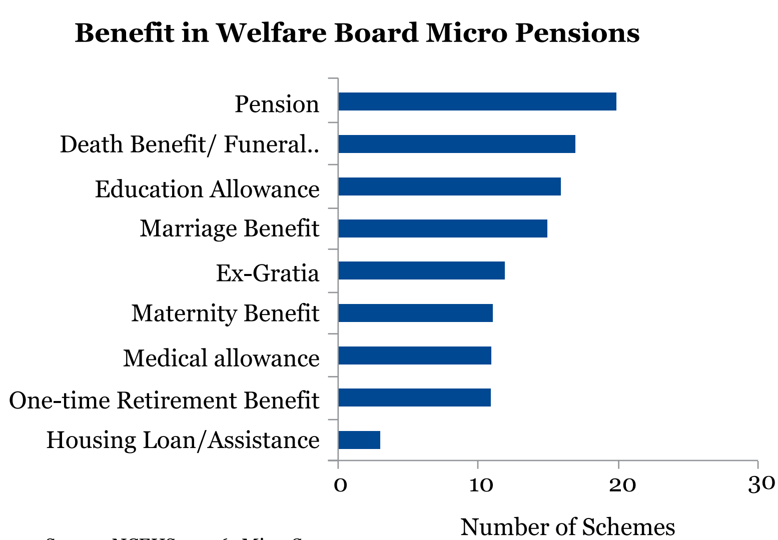
Co-contributory Welfare Board Schemes in Indian States

State	Number of Schemes	Target Populations
Kerala	24	Toddy workers, Head Load workers, Advocate clerks, factory works, motor transport workers, fishermen, coir workers, khadi workers, agriculture workers, auto-rickshaw drivers, tailors, beedi-cigar workers, barbers, laundry workers, dairy farmers, construction workers
Tamilnadu	2	Construction workers, manual workers
Maharashta	1	Mathadi workers
Andhra Pradesh	1	Manual workers
West Bengal	1	Wage employees
Tripura	1	Unorganised sector employees

[30] Project OASIS Committee (2000), p 11
[31] Project OASIS Committee (2000), p 11
[32] Kannan (2002), p 243
[33] Social Security for the Unorganised; Govt. of India; 2006



The state welfare boards wanted to create these schemes on the lines of pension schemes available to the organised sector. Hence, many of these products are not simply pension annuities but also present a combination of benefits including medical assistance, life insurance, scholarships for children's education and even maternity benefits and marriage benefits. In spite of attractive benefits and benevolent government co-contribution, many of these schemes have not achieved the intended scale. The reasons are many and are discussed below:

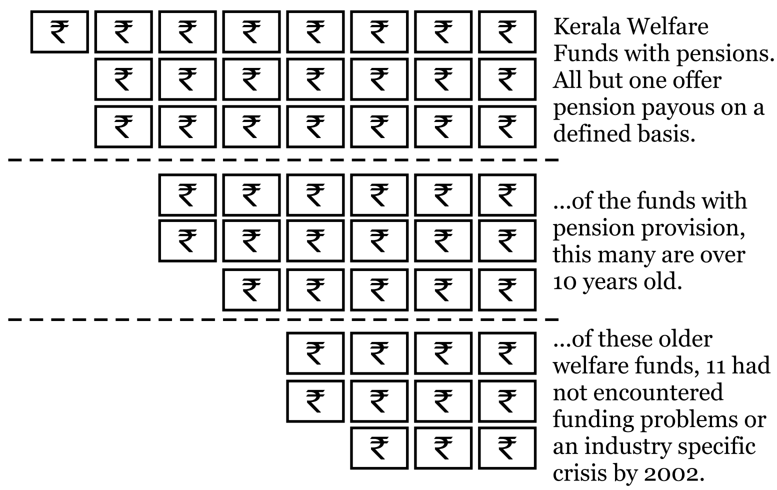


Source: NCEUS, 2006; *MicroSave*

Firstly, many livelihood-based welfare boards and their pension schemes emerged from political or union activism.[34] Possibly as a result of relative empowerment, these funds could complement beneficiary contributions with monies from employers, livelihood-specific levies and other government funds.

[34] Kannan (2002),pp 246-7

How Long Term are the Funds?

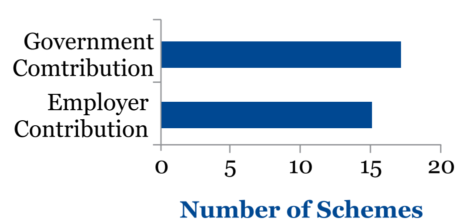


Source: Kannan (2002). The Hindu, National Commission for Enterprises in the Unorganized Sector (2006)

Secondly, the funds are very specific and difficult to extend to other categories of workers. This also implies that livelihood-specific schemes are vulnerable to changes in a particular line of business. The Kerala Beedi and Cigar Workers Fund, for example, suffered as a result of a ban on smoking in public places and the Kerala *abkari* workers needed to be rehabilitated after *arak* was banned in the state.[35] Overall, the highly specific nature of the funds can create limits in terms of comprehensive old-age cover and definitely limits coverage to a sub-set of unorganised sector workers.

Thirdly, many of the schemes operate on a defined benefit basis. The burden of providing guaranteed old-age payments to members has become unsustainable for some of the funds. Difficulties also arose because of low contribution levels and collective funds from co-contributors.[36]

Source of Financing in Co-contributory Welfare Micro Pensions



Source: NCEUS, 2006;

While some welfare boards have struggled with finances, they did set the historic precedence for institutionalising social security for low-income unorganised workers. In recent years, the structure and intent of the welfare boards have been leveraged by the government's NPS-Lite scheme. Welfare boards are some of the largest organisations to have adopted NPS-Lite for their members.

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[35] National Commission for Enterprises in the Unorganised Sector (2006), p. 180 on Fisherman

[36] National Commission for Enterprises in the Unorganised Sector (2006). Coir Workers pension and Agricultural Workers Welfare under stress (p 175); Kerela Fisherman Welfare Fund cannot collect from dealers under court order (p. 171)

5. The Second Wave: Agnostic and Member-based Models from 2000s

Long after PPF and worker-welfare schemes began, the 2000s saw a renewed interest in pensions. At this time, financial liberalisation, economic growth, changing demographics and the emergence of many NGOs, MFIs and other community-focused organisations had altered the financial sector landscape and presented possibilities for providing pensions.

One major event in the evolution of low-income targeted pensions and contributory pensions generally was the 1999 OASIS project, which paved the way for widespread pension reforms in India. The pension reform proposals responded to two aspects of unsustainability in the existing pension landscape. Firstly, there were a small number of defined benefit recipients that would weigh on future finances, and secondly, the majority of the population still had no old-age provisions.

Indian Pension Reform - New Pension System (NPS)

Hostorically, government and other formal sector employees in India were enrolled in a defined benefit scheme, where a third party (usually the employer) bears the risk of an individual's old age support, and a less effective provident fund. [1] The idea of defined contribution pensions (pensions where individuals bear the risk of amassing enough money for old age) is itself relatively recent in India.

In 2004, the government introduced the new pension system (NPS), which shifted new civil servants to a defined contribution (DC) pension model. Under the scheme, employees must contribute 10% of their salary towards the NPS pension, and their contribution is matched by government. At age 60, the individuals can start receiving their pension. They must use at least 40% of their accumulated funds to purchase an annuity (subject to a certain minimum annuity amount), the remainder can be taken as a lump sum. Unlike the previous defined benefit (DB) pension scheme-which guaranteed a certain income of retirement-NPS links the pension that employees receive to the growth of assets in their personal pension account. While the old defined benefit scheme is closed to new members, the scheme continues to operate for existing members.

Following the roll-out of NPS for civil servants, in 2010 the government opened NPS to private individuals as well. As compared to government employees, NPS gives greater flexibility to private individuals who invest in the scheme. For civil servants, the government has selected fund managers to manage their employees' pension funds. For private individuals - for whom the scheme is voluntary-there are several approved fund managers from which subscribers can choose. Under the NPS scheme for private individuals, people can enrol by going to a point of purchase (e.g.a bank branch). Under the scheme, subscribers can choose between investment strategies as well as fund managers.

NPS Architecture
As part of the NPS architecture, the government selected a single central record keeping agency (CRA), NSDL. The CRA registers all subscribers to the NPS scheme, and issues them with a Personal Retirement Account Number (PRAN). Subscribers receive a PRAN card. The PRAN system allows the individual's account to be portable.

[1] Provident funds acted more as a savings facility than as a pension due to early withdrawals equal to 60% of new funds. (Sources: Hinz, R. P. and G. V. N. Rao. 2003. "Approach to the Regulation of private Pension Funds in India: Application of International Best Practise", in Bordia and Bhardwaj,p. 113)

To respond to these issues, the OASIS project report outlined the basis of India's New Pension System (NPS), which included not only formal but also unorganised sector workers. NPS was first formalised in 2004 for central government civil servants, for whom the scheme replaced the previous pension system for new entrants into government service.

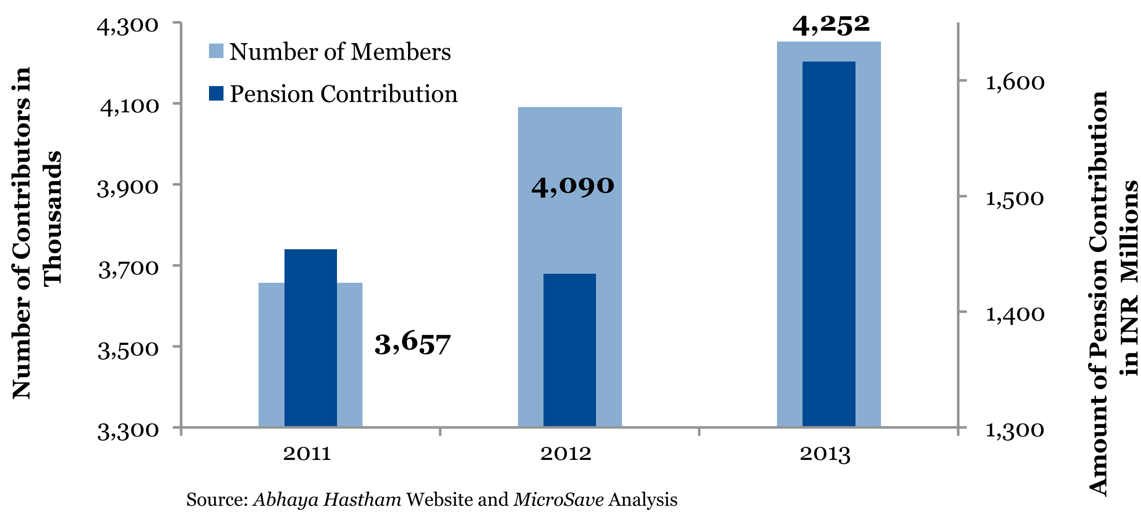
The reforms also provided momentum for the expansion of pensions to low-income individuals. In terms of distribution, the OASIS report itself focused on creating retail points and engaging NGOs to better serve unorganised workers. In terms of financial burden, the defined contribution structure promoted by the reforms increased accessibility because it shifted old-age financial obligations to the individual. (As a result, the pension is not dependent on durable employment relationships in which the employees are empowered to demand future payments or co-contributions from their employers.)

Post 2000, three notable low-income targeted schemes emerged that leveraged community-based organisations and structures to promote pensions. One was the membership-based *Abhaya Hastham* scheme in Andhra Pradesh. Two agnostic products also emerged (UTI RBP and NPS-Lite). One of the architects of the reform, Gautam Bharadwaj, became a co-founder of Invest India Micro-Pension Services, which launched the 'Micro-Pension' model in partnership with community-based distributors and UTI. The second – NPS-Lite – leveraged the architecture created initially for civil servant pensions to serve low-income subscribers as well. These three products are discussed below.

5.1. *Abhaya Hastham* Leverages the SHG Infrastructure in Andhra Pradesh

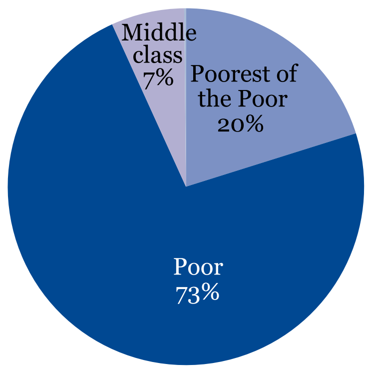
In 2009, Andhra Pradesh's state government launched *Abhaya Hastham* (AH), a co-contributory pension scheme for Self Help Group (SHG) members of Society for Eradication of Rural Poverty (SERP), an NGO promoted by the state government. Women who had been involved in an SHG for more than a year could join the scheme, to which they contribute INR1 per day (INR365 per year). Government co-contributes an equal amount to the fund and the fund management rests with LIC.

Outreach of *Abhaya Hastham* Over Years



Source: *Abhaya Hastham* Website and *MicroSave* Analysis

Abhaya Hastham **Reaches Low Income Groups**

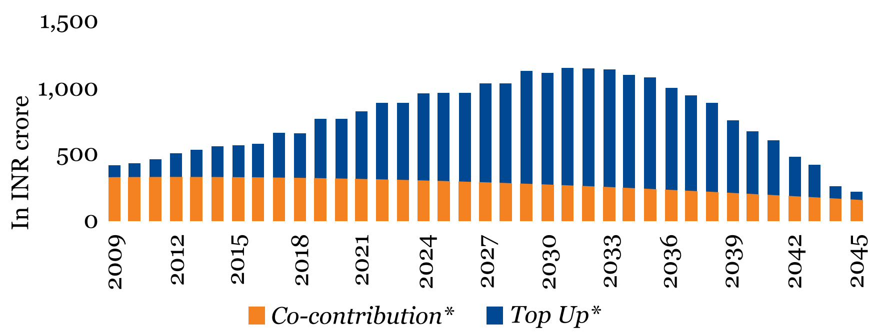


Source: SERP Website, *MicroSave* Analysis

The AH scheme offers good value to subscribers. For INR365 per year, the subscriber is assured of a pension of at least INR6,000 per year (INR500 per month) and up to INR26,400 per year (INR2,200 per month) depending on age. In addition, the scheme does not penalise subscribers who were already approaching old age at the time the scheme was launched: the Andhra Pradesh government topped up their fund so that their pension was substantial, creating a positive word of mouth in the target communities.

The *AH* scheme has managed to achieve substantial outreach quite rapidly. Through promotion via the Society for the Elimination of Rural Poverty (SERP), the scheme has been able to attract a sizeable membership of over four million women. Over 40% of SERP's members – almost 15% of all rural females in the Andhra Pradesh – are now partners in the *Abhaya Hastham* micro-pension scheme. While outreach is relatively good, the scheme relies heavily on government subsidy (over and above the scheduled matching contribution of INR365 for each member). Although the plan is to make this scheme eventually self-sustainable, due to the low contribution rates and generous support to SHG members who were near old age when AH was launched, based on the co-contribution model sustainability is not expected to be reached until the year 2045.

Fund Management Projection *in Abhaya Hastham*



Source: SERP internal documents, *MicroSave* analysis

The defined benefit structure and the long time horizon during which the *AH* needs government top-ups makes the scheme reliant on political will and public finances. While this situation strains financial viability, the decision to provide a substantial pension pay-out to older SHG members is a strategic way to boost continued client interest in the scheme. As word of mouth and experience largely determine whether new clients decide to join and persist with the scheme, early beneficiaries receiving a meaningful amount may help attract more funds from younger subscribers to bolster AH's overall finances.

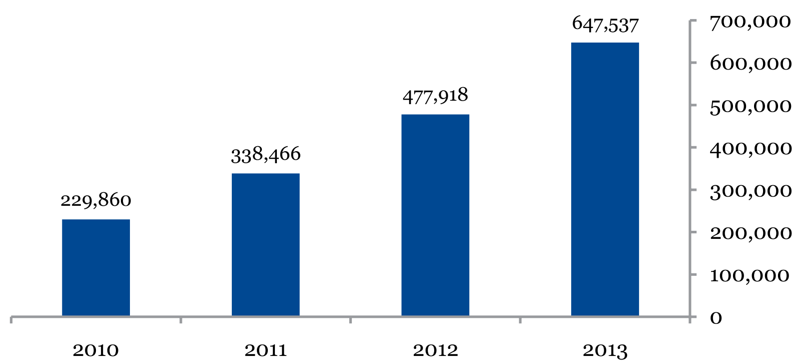
Also, as a member-based scheme, replicating *AH* in other states is difficult. The scheme requires substantial financial commitment by the state government to fund such a defined benefit scheme. In addition, few states have an SHG distribution network as strong as SERP, which has a solid track record in facilitating access to financial and other services for members.

[38] Information from UTI RBP Key Information Memorandum (KIM), UTI AMC
[39] Shankar and Asher (2011)

5.2. UTI's Retirement Benefit Pension (RBP) – Flexible Model for Self-funding

The asset management company UTI opened its fund to low-income clients in 2006. Under the low-income designated scheme, individuals pay regularly into their personal account and the payments are invested in UTI's Retirement Benefit Pension (UTI RBP) fund, which invests in a mix of equity and debt securities. An individual receives access to the old-age pension at the age of 58. Funds can be withdrawn earlier, but there is an exit charge.[37] UTI worked actively with pension facilitator IIMPS to forge partnerships and enrol low-income groups in the UTI fund. Employers, NGOs and MFIs signed up to offer the product either directly or via IIMPS' micro-pension model:

UTI RBP Folios



Data Source: UTI KIM Statements; UTI AMC Webstie

- Cooperatives (SEWA, COMPFED, Shepherd);[38]
- Government (Rajasthan Vishwakarma Unorganised Sector Workers (Motivational) Contributory Pension Scheme; Government of Bihar);[39]
- Other grassroots organisations (Srei Sahaj; Janalaxmi).

Although fund management remains with UTI, the scheme's exact features marginally differ on the basis of the delivering organisation. SEWA's members, for example, can pay as little as INR100 per month and there is flexibility around late payments.[40] The scheme offered via the Government of Bihar to contract teachers is based on a contribution of INR200 per month debited from the teachers' salaries.[41] In this example, the Government of Bihar co-contribute to teacher's funds. The flexibility allows for tailor-made policies that suit the different situations of unorganised workers. In partnership with VISA, IIMPS recently launched a pre-paid card system to make payment more secure for clients.

[37] Information from UTI RBP Key Information Memorandum (KIM), UTI AMC
[38] Shankar and Asher (2011)
[39] Recently, UTI entered an agreement with the government of Bihar to offer the scheme to contractual teachers, who would contribute 200 with a matching government contribution. Kumar (2012).
[40] Gianadda (2007), p. 16 notes no late payment penalty
[41] Kumar (25 August 2012)

Accessibility
As regulations in the financial services have evolved, there has been some hiccups in the scheme. For example, anti-money laundering provisions earlier halted the collection of cash contributions from clients. Another issue cropped up when clients wanted to withdraw their funds; on the basis of anti-money laundering guidelines, thumbprints were not accepted as authorisation unless certified by the banks. Moreover, clients needed bank accounts to receive the funds and had to submit proof that their accounts were active.

Adequacy
In terms of adequacy, the UTI RBP fund's split between equity and debt investments is a standard approach designed to achieve higher returns than a normal savings account while also limiting risk. The compounded annualised returns were 8.43% for the equity fund and 7.61% for the debt fund in the five years to 31 March 2013.[42]

Another gauge of adequacy is whether subscribers continue to contribute regularly and abstain from withdrawals. As the scheme is relatively new and has encountered regulatory challenges, it is difficult to assess whether clients will keep contributing in the future. Any option to withdraw all or most of the money before old age can undermine usefulness in old age as immediate needs take precedence.

Sustainability
As a defined contribution fund, the UTI RBP product will not face the same concerns of underfunding that have been the bane of other inclusive schemes. In addition, the micro-contributions are combined with other (non-micro) investments in UTI RBP, allowing for economies of scale. As the fund has a critical mass without micro-contributors, the pressure to achieve scale rapidly is relieved. Since the scheme is commercial and does not rely on public subsidies, it is insulated from future policy shifts.[43]

[42] UTI RBP KIM
[43] Although the implementing partner can opt to help subsidise its members contributions

5.3. NPS-Lite

A second large-scale agnostic low-income pension scheme is the nationwide NPS-Lite, which was developed to fill the pension gap for the unorganised workforce. After opening in 2010, the scheme covered 1.58 million subscribers by March 2012.[44]

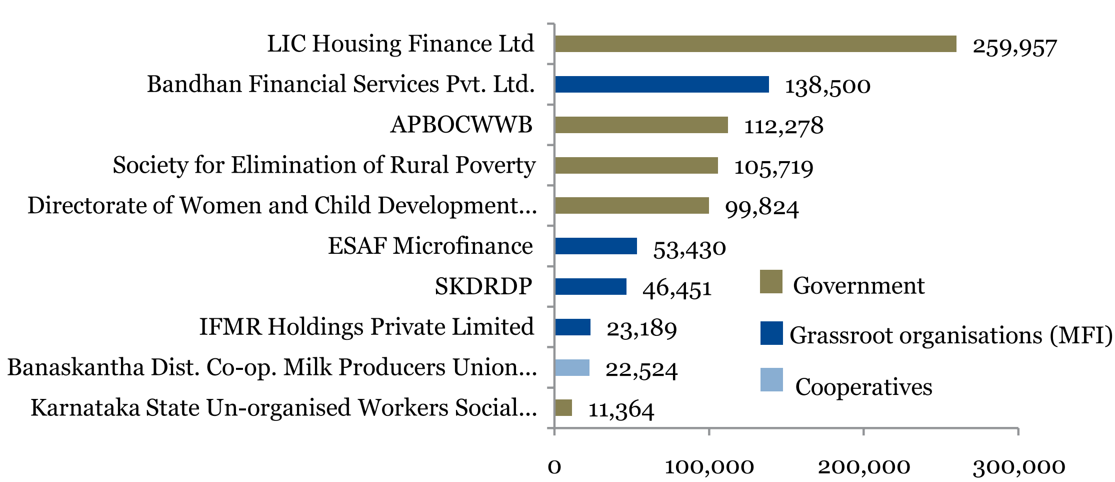
NPS Lite Scheme Basics

- Subscribers to NPS-Lite enroll in the scheme through aggregators.
- KYS procedures are slightly relaxed: forms of proof other than India's PAN card are accepted.
- The aggregator chooses the manager for the funds for its subscribers
- The individual can take pension at the age of 60, or at age 50 if contributions were made for 20 years
- At retirement, the individual should take at least 40% of the fund for an annuity, and the rest can be taken as a lump sum.
- If funds are withdrawn before the prescribed age, the individual can only get 20% as a lump sum and must take 80% as an annuity
- Subscribers pay a yearly charge of INR35 and a INR70 one-time fee;
- Subscribers receive a Personal Retirement Account Number (PRAN) card, which is portable across aggregators.

The *Swavalamban Scheme* is a scheme of India's central government. The scheme says that the government will contribute 1,000 INR p.a. to NPs accounts started in the last three fiscal years of the subscriber contributes between 1,000 and 12,000 INR in that year.

The government co-contribution is only scheduled to continue for five years til the 2016/2017 fiscal year. After that, there may be no co contribution.

Leading Aggregators of NPS-Lite (by Subscriber)



[44] PFRDA website

NPS-Lite's contributory pension uses the NPS architecture. To promote old age savings, the Government of India and Pension Fund Regulatory and Development Authority (PFRDA) launched the *Swavalamban* co-contribution scheme. The co-contribution not only incentivises savings, but also helps low-income individuals build a big enough corpus to be useful later on in life.

5.3.1. The Different NPS-Lite Models

NPS-Lite offers a common India-wide product distributed by PFRDA-approved aggregators (see text boxes *Indian Pension Reform* and *NPS-Lite Scheme Basics* for more details). A diverse range of organisations can act as aggregators provided they meet criteria on capital adequacy, profitability, cash management and track record. As of March 2013, there were 76 aggregators including MFIs, worker welfare boards, government departments, common-service centre (CSC)[45] providers, banks and other community-based organisations. Under the NPS system, aggregators have the ability to appoint facilitators to help distribute NPS-Lite. Facilitators do not have to meet all the requirements needed to become an aggregator, but they can still help enrol and service NPS-Lite customers by acting under the appointment of an aggregator.

NPS Lite Terms in this Report

Aggregator: refers to organisations that have met captial and experience requirements and are officially registered with PFRDA as aggregators.
Facilitator: refers to organisations that partner with aggregators to distribute NPS-Lite to clients.
Distributor: refers to aggregators and facilitators.

The diversity among aggregators and the ability to appoint facilitators gives rise to diversity in the implementation models. Three main types of model are:

- **Direct aggregator model** in which the aggregators have an existing client base. The pension product is to be delivered by these organisations as an additional product to their existing product portfolio. Grassroots organisations (e.g. NGOs, MFIs), banks and Regional Rural Banks (RRBs) are such direct aggregators.
- **Promoter model** in which aggregators work with client-facing partner organisations to promote subscription to pension schemes. (e.g. LIC in partnership with its micro-insurance agents and corporate agents).
- **Independent agent model** in which agents are engaged by an aggregator with the purpose of providing last-mile outreach and enable NPS-Lite to reach potential subscribers (e.g. LIC appointing facilitators with Confederation of NGOs in Rural India).

While several distribution models exist, aggregators are often engaged in more than one model. As with many products in financial inclusion space, the challenge is to

[45] CSCs are a type of one-stop shop where various government services are provided. These centres are managed by contracted third parties such as FINO.

define a sustainable distribution channel that properly incentivises stakeholders to access the target population and provide them with the needed information and support when deciding to enrol.

5.3.2. Direct Aggregator Model

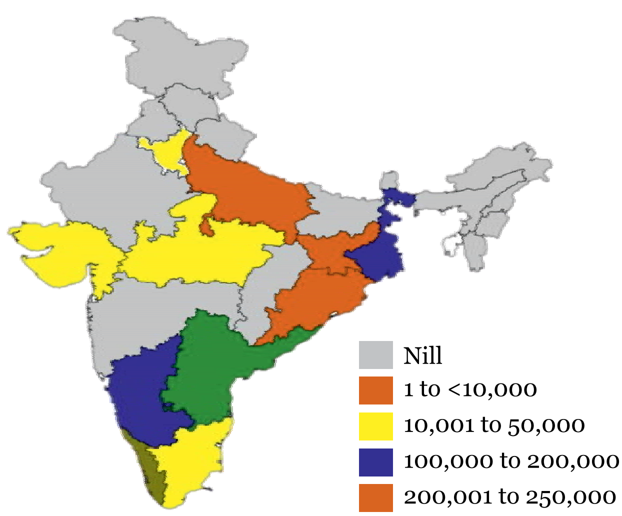
Aggregators can promote NPS-Lite directly to subscribers. Organisations with an existing client base that falls within the NPS-Lite target market, such as cooperatives, MFIs, worker welfare boards and NGOs, may use this model.

Easy access to clients did translate into faster take-up: ESAF, Bandhan and SERP were among the largest aggregators by subscriber base in 2011/12. Many of these organisations often have frequent and substantive interactions with clients. In some organisations (MFIs, certain cooperatives) these interactions involve regular cash transactions and provided interfaces that pensions could leverage almost immediately.

5.3.3. The Promoter Model Enhances the Direct Aggregator Model

In the promoter model, one organisation enlists entities that have direct ties to the target population to act as facilitators. LIC is a key aggregator using this model, with most of its subscribers in 2012-13 coming through relationships with welfare boards, MFIs, NGOs, etc. Many aggregators currently using the direct aggregator model could also be involved as promoters. For instance, KGFS (an IFMR initiative) offers NPS-Lite to its clients; IFMR has also appointed facilitators such as CARE and Saija Finance Private Limited to distribute the product to have a wider reach.[46]

NPS-Lite Outreach in 2012



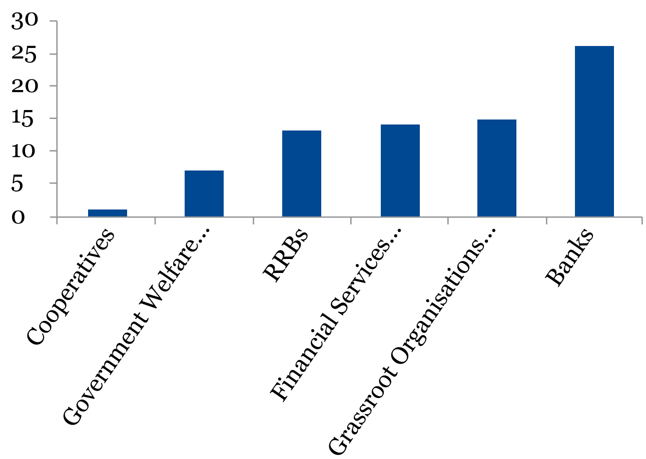
No State falls into the category of .50,000 to ,100,000

Source: PFRDA, *MicroSave* Analysis

[46] Mohan R (IFMR Rural Finance) 28 January 2012

5.3.4. The Path Forward for the Independent Agent Model is Unclear

Types of Aggregators in NPS-Lite



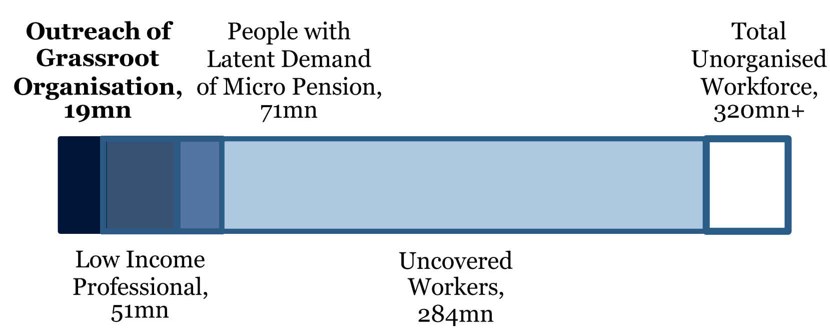
Source: RFRDA and *MicroSave*

The third model uses direct, independent agents to distribute NPS-Lite. Acting without the confines of an organisation, independent agents could provide enrolments within the community to a wide range of 'un-affiliated' individuals. This model is similar to the 'tied-agent' model prevalent in insurance. However, unlike insurance, incentives to agents in NPS-Lite are not comparable, making distribution a challenge.

5.3.5. Outreach Performance of Different Types of Aggregators is Not Similar

Although NPS-Lite has attracted varied type of aggregators including banks, RRBs, cooperatives, grassroots organisations (NGOs/MFIs) and government welfare boards, the performance differs widely.

Current Grassroot Organisations Covers Only a Fraction of the Potential Target

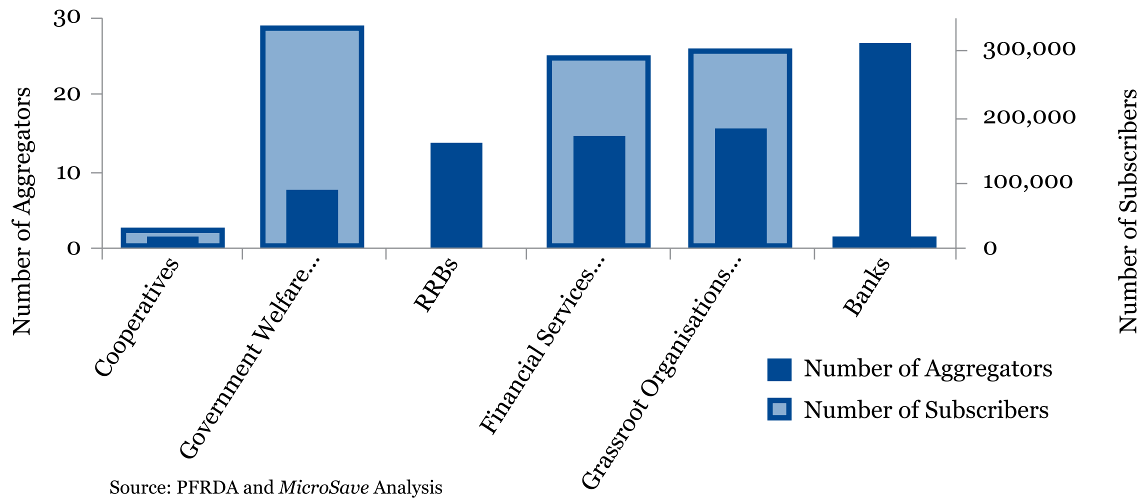


Source: IIMS Dataworks, Dia Vikas, MixMarket, organisation websites, *MicroSave* analysis

* For current aggregators. Assumes no overlap in membership. Includes MFI, NGO, and Welfare Boards

While government welfare boards have a maximum number of subscribers per aggregator (47,285), banks and RRBs are yet to catch up (banks have on average 174 subscribers per aggregator). Grassroots organisations and cooperatives have attained decent outreach because of their existing client base (approximately 20,000 per aggregator) in 2012. However, relying on these organisations alone may not provide the scale that is required. Given the scale of the 'pension gap', grassroots organisations serve only a small part of the overall potential market. Moreover, many small client-based organisations do not meet the threshold financial requirements to act as aggregators.

Number of Aggregators Versus Number of Subscribers in NPS-Lite

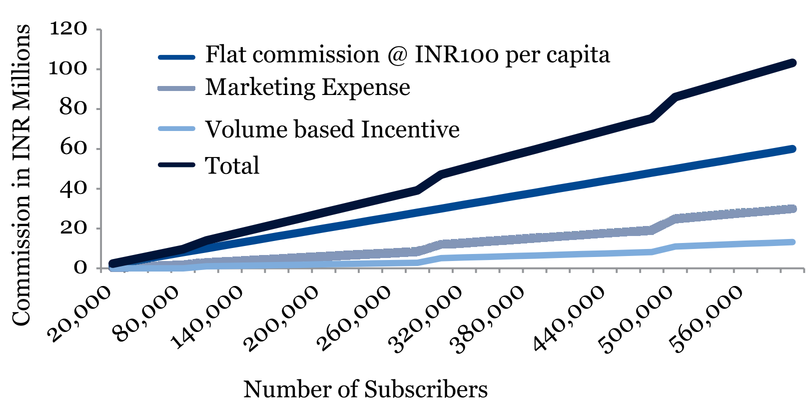


Source: PFRDA and *MicroSave* Analysis

5.3.6. Incentive Structure (Revenues)

Incentive to the aggregators of NPS-Lite depends upon the number of subscriber and not the contribution collected (general practice in pension and insurance industries is to provide commission based on contribution). PFRDA provides INR100 per active or new subscriber to the aggregator.[47] An additional amount of INR20 per client is paid for promotion costs. Finally, for aggregators that attract

Commission Structure in NPS-Lite

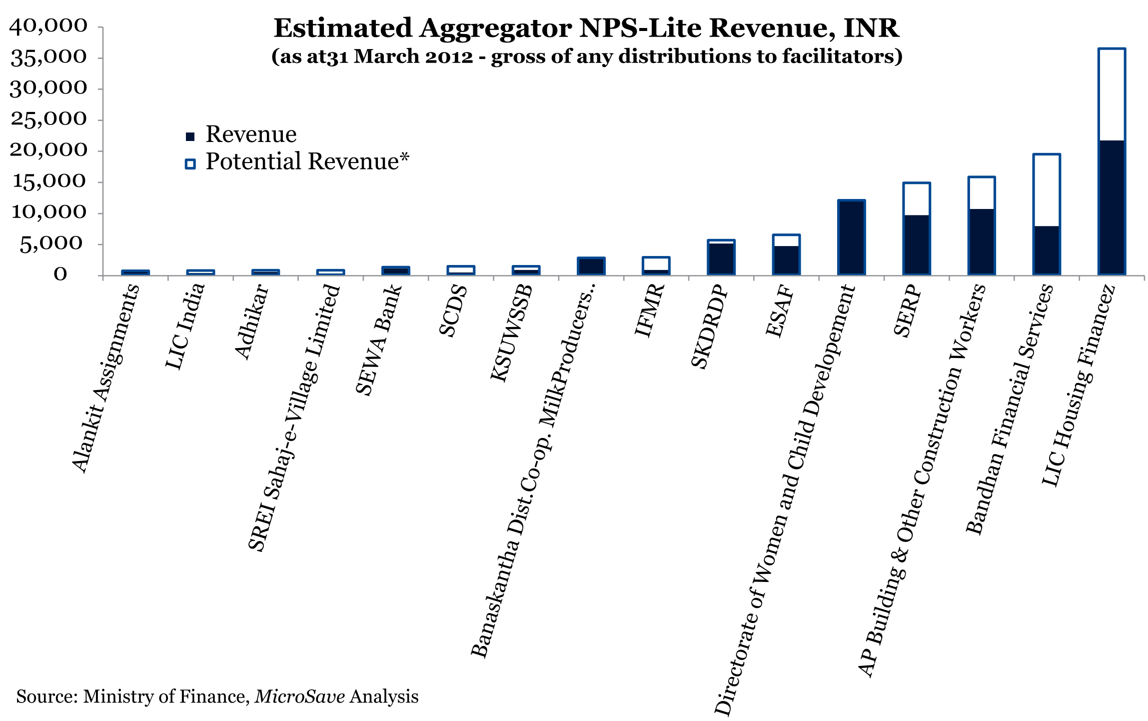


Source : PFRDA and *MicroSave* Analysis

[47] The amount was initially INR50 but was later raised. This is a positive point in the incentive scheme for true inclusion. Only new policy sales count towards the rural and social quotas in insurance, which has contributed to the issue with policy lapse after year one.

a high number of subscribers, PFRDA pays additional volume-based incentives that increase as the subscriber base grows. Moreover, an aggregator is eligible for incentive only for the subscribers who have contributed at least INR1,000 per annum. Although the incentive system motivates aggregators to register a high number of subscribers, they do not have any incentive to collect more than the minimum contribution from the subscribers.

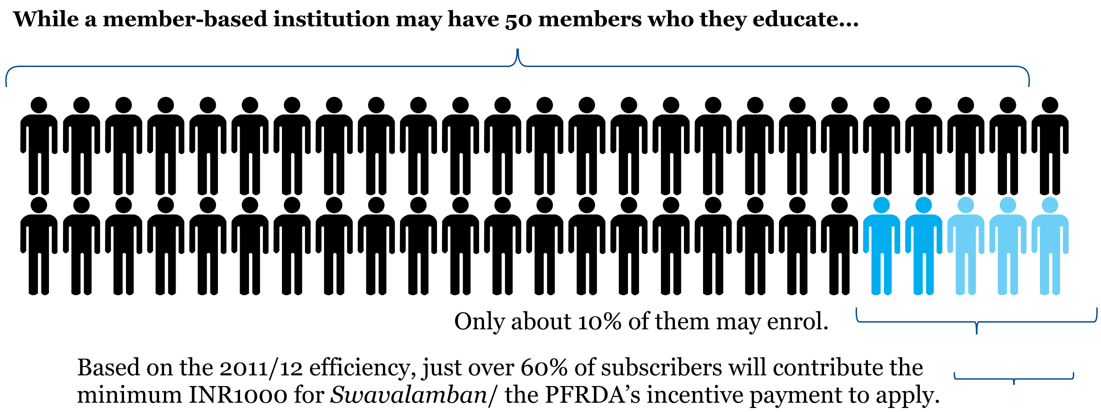
Current aggregators of NPS-Lite have so far struggled to convert their subscriptions into revenues. Irrespective of the model, most aggregators of NPS-Lite are not currently performing at optimal levels. Many of their subscribers appear not to have contributed the INR1,000 required for the aggregator to receive remuneration and in these cases, costs have been incurred by the aggregator without any revenue flowing from the enrolment in the fiscal year.



Source: Ministry of Finance, *MicroSave* Analysis

* if all NPS Lite subscribers had been eligible for *Swavalamban*. Assumes eligibility criteria not met because of low contribution

In spite of the policy-level aspirations and excitement, NPS-Lite has not so far succeeded in reaching the high-potential micro-pension market. We have seen earlier that even with the current aggregators, NPS-Lite will fall short of attaining the required outreach. In addition, the existing aggregators were not able to convert even half of their target clientele into consistent pension savers until 2012.



Such poor outreach is detrimental for the scheme and the aggregators as well. Since NPS-Lite incentives are linked to the number of contributors, aggregators will gain only if they are able to convert most of their existing clients to NPS-Lite contributors.

Estimated NPS Fee Revenue as a % of Interest Revenue for Select Aggregators							
	Bandhan	BWDA Finance	Cashpor MC	ESAF	SEWA Bank	SKDRDP	SCDS
Estimated NPS-Lite incentive as a % of interest revenue	0.1%	0.2%	0.0%	0.7%	0.6%	0.3%	1.0%
Potential NPS-Lite incentive as a % of interest revenue based on current subscriber numbers	0.3%	0.2%	0.0%	1.0%	0.8%	0.3%	3.5%
Potential NPS-Lite incentive as a % of interest revenue if 20% borrowers subscribed	1.3%	1.7%	1.9%	1.3%	0.4%	2.8%	2.6%

Source: MixMarket, Ministry of Finance, *MicroSave* Calculations

In the next section, we assess some of the common worries and confusions around the current NPS-Lite model.

5.3.7. Structural Issue: Political Sustainability

The operational obstacles that individual distributors face are intertwined with the political challenges to NPS-Lite and *Swavalamban*. For some time NPS and NPS-Lite remained under a cloud of confusion while the Pension Bill was pending

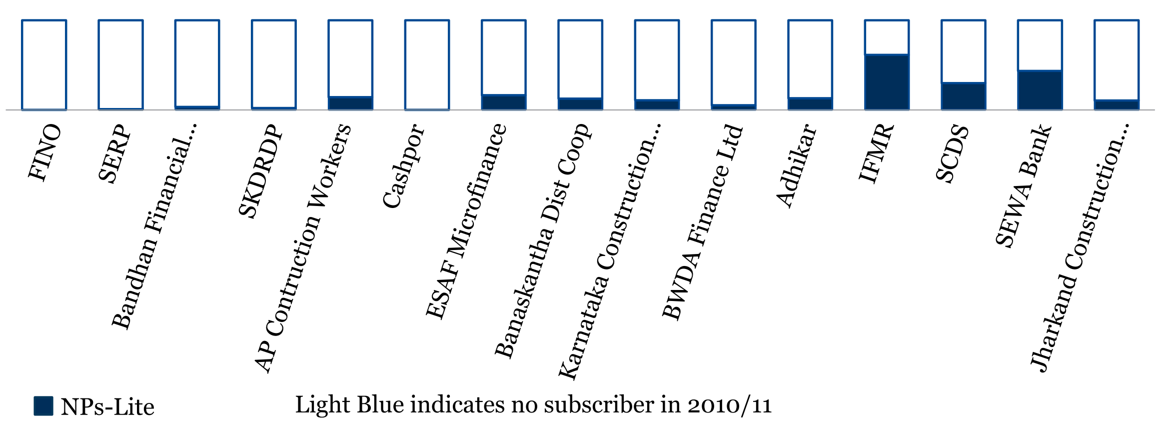
Is political nature of pensions a bad thing?
The political nature of pensions may not actually help keep co-contributions in future instead of jeopardising them. If enough voters become used to the INR1,000, political parties that vie to win elections at the national level may find it politically difficult to stop renewing the scheme, some experts say. Commentators have also mentioned how the contributions might be harnessed by state or local administration that present the co-contribution as their initiative. With political incentives to continue the scheme at both the national and local level, there is little reason to worry about its political future.

approval from Parliament. With the status of PFRDA still unsettled, there were limits to its ability to effectively fund promotional activities and to penalise sector participants that violate stated operating procedures.[48] However, the bill has recently been approved and experts hope that the overall NPS structure will get a boost in the next couple of years. However, the *Swavalamban* co-contribution of NPS-Lite, which is believed to be vital for customer acceptance, is not a permanent feature, even though the period for the co-contribution was recently extended.

In a country with a large number of poor people, where the banking sector – despite its outreach – is unable to bring about financial inclusion, NPS has undertaken the arduous task of bringing people under the NPS-Lite scheme. Large-scale promotional activities and co-contributions are vital to the enrolment of people from the target segment of unorganised sector workers. For both of these, however, NPS is dependent on successive governments at the centre; sustainability in the near future appears unrealistic and the scheme will depend on its credentials as a social good provided for through tax-payer money.

2011/12 NPS-Lite Enrolments Compared to Reported Outreach (in %)

(note that the membership that would fall within the target audience for NPS-Lite subscription may vary)



Source: IIMS Dataworks, Dia Vikas, MixMarket, Dia Vikas, MixMarket, *MicroSave* analysis

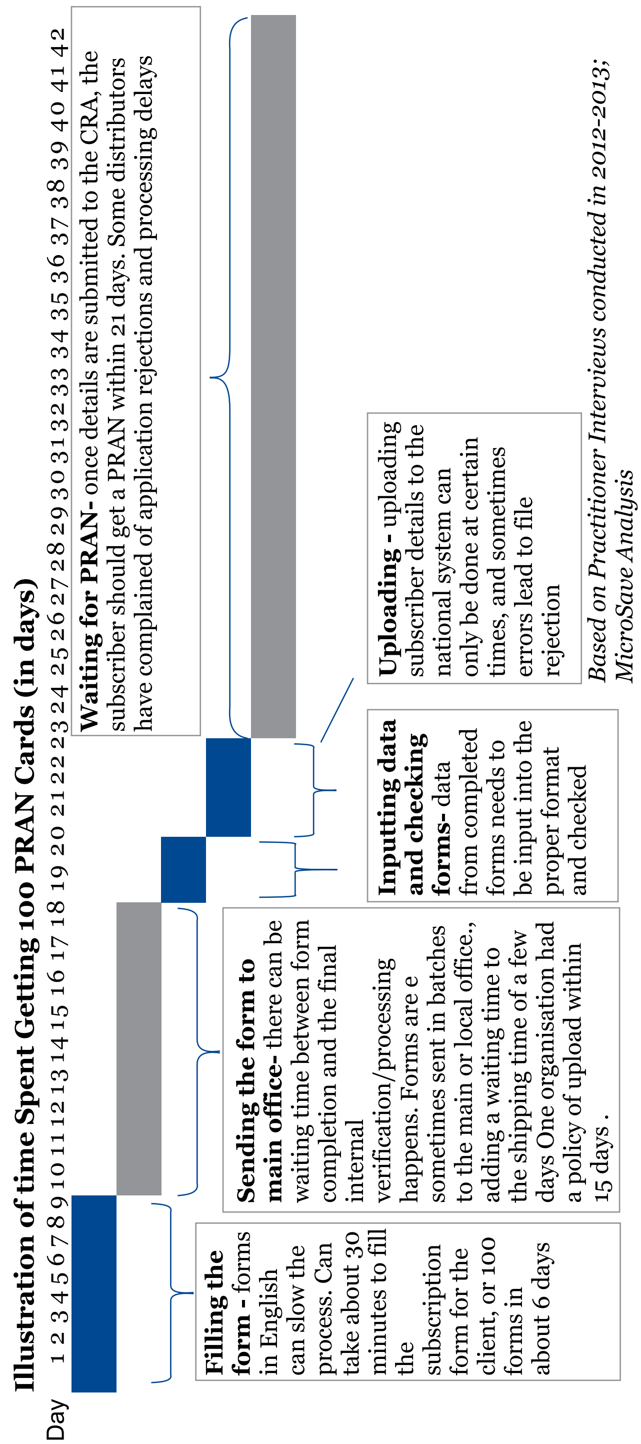
[48] The relevant bill, Pension Fund Regulatory and Development Authority Bill, 2011, has been approved in September 2013. Even without the full regulatory provision, however, it was possible for PFRDA to renew licences.

5.3.8. Supply Side Issues: Cost of Delivering NPS-Lite Might be a Deterrent

Many stakeholders note that NPS-Lite revenue is too low for the product to ever be a stand-alone or commercial product.[49] It is believed that NPS-Lite will be viable only if distributors leverage existing client networks and infrastructure while using incentives to meet incremental costs. At present, the diversity among aggregators (in terms of their distribution model, the length of experience they have in distributing NPS-Lite and their target segment) leads to a large variation in time and money spent on distribution. The *MicroSave* team conducted research on several NPS-Lite aggregators to understand their costs and experience in dealing with the scheme. In the following section, we detail the main costs (including staff time spent and other incremental expenditure) of NPS-Lite distribution.

5.3.9. Staff Time Spent

Enrolment in NPS-Lite is an intensive process. In addition to convincing people to join (see ***Marketing*** for more information), the client-facing staff is often involved in completing the enrolment form and submitting it to their local office. Staff at the local, regional and/or main offices check the forms and send them to the central office, where staffs recheck, process and submit the data to the central record-keeping agency (CRA) for card issuance. (See the text box *Indian Pension Reform* for more information on the CRA.) After submission, client-facing staff and sometimes management staff have to answer subscriber queries while they await their PRAN card issuance. Before delivering cards to the end clients, they are checked for errors. Cost is incurred in each and every step of this value chain.



Based on Practitioner Interviews conducted in 2012-2013; MicroSave Analysis

[49] Even though, at 10%, the payment for acquisition is high for pension, note some practitioners

5.3.10. NPS Specific Costs

In addition to staff time spent, there are other specific costs that are attributable to NPS-Lite acquisition. These include the following notable costs:

5.3.11. Marketing and Awareness Generation

Awareness about contributory pension schemes and their benefits is low, especially among the target clientele, which remains financially un-served or under-served. Moreover, it is difficult to convince people to part with money now with the promise of an undefined benefit at a much later time. These factors mean that substantial efforts need to be made on client awareness and marketing to enrol each subscriber. The success rate for marketing varies: in some pilots 30% of those targeted enrol, while 10% success rates have also been reported.

Aggregators/distributors welcome some recent PFRDA publicity efforts (e.g. informational banners, advertisements in the mass media, etc.), but many still muster a variety of resources to enrol new subscribers (see text box *Ways to Enrol Subscribers*).

Even after the client has been enrolled, persistency is not guaranteed. It is too early to tell how successful the scheme will be at keeping subscribers enrolled: many aggregators/facilitators only started enrolling clients in 2010. However, aggregators in NPS-Lite receive the same incentive payment for continuing and new subscriptions (in contrast to conventional front-loaded incentive for pension products). Hence there is incentive to maintain persistency in the sold policies as compared to only sales-driven efforts witnessed in conventional pension market

Ways to Enrol Subscribers

- Enrolment camps;
- Referral from PFRDA hotline;
- Letters to members from senior management
- Group meetings;
- Discussions with opinion leaders;
- PFRDA promotional materials (banner, stands);
- Organisations own ads in local language;
- One-on-one discussions with members by staff;
- Encourage subscribers to recruit friends;
- Attempt to give information in the 15 minute time allotted for explaining all aggregator products;
- Information given as part of a full-fledged four-module two-day financial literacy course;

Some aggregators report that fewer clients come forward for re-enrolment than they had expected. The fee that aggregators receive for renewed subscriptions may cost more than was expected. One of the earlier aggregators reports that attrition rates go up year after year – while about 85% of clients renewed their pension policies in the first year, that figure dropped to around 50% in the second year.

5.3.12. Individual Incentives to Staff

Incentives to staff differ from organisation to organisation. While some aggregators do not incentivise their staff for their efforts in selling NPS-Lite/enrolling clients, others combine these incentives with other objectives that together determine a sales staff's commission or bonus. In some cases, however, sales incentive comprises the major cost head in NPS-Lite distribution. In one of the aggregators, INR30 is given to the field officer and INR20 to the branch manager for each NPS-Lite subscription. For many aggregators, therefore, one third or more of the total incentive payment goes as direct incentives to the front-line staff.

5.3.13. Shipping Costs

Several aggregators/distributors mentioned the costs involved in materially shipping the forms as a major cost head. While subscriptions are highly decentralised, completed forms are typically sent to a central or regional office for verification and uploading to the system. Depending on how dispersed the clients are and on how decentralised the verification process is, courier costs can be high (up to INR90). Many organisations have streamlined their operations and adapted to NPS specifications that initially caused high costs.

Practitioners cited stringent photo specifications for PRAN card/KYC procedures as a common reason for rejection of enrolment applications. Rejection caused delays and frustration and could also increase costs: application forms went back and forth between the offices dealing with submitting forms and the offices that acquired the client. As client-facing offices become more familiar with requirements, efficiency should increase.

Delivery of PRAN cards is another challenge because cards are often delivered to one office and need to be distributed by another. As one practitioner noted, there is a large risk associated with ensuring that government-issued ID is securely delivered to the right person. In the government health-insurance scheme RSBY, a stack of government health insurance smart cards (RSBY cards) was reportedly found in Uttar Pradesh. The commercial insurance company that provided the insurance and issued the cards received negative publicity and an inquiry was initiated.[50]

Staff Trainings: As pension use in India is limited even among the middle- and high-income class, client-facing and other support staff will often require training on the product, its features and its use. Many distributors have noted the low initial level of pension knowledge among their staff and have invested in training their existing staff to be able to sell this product along with other services.

[50] Khyati (17 June 2012)

5.3.14. Mismatching Cash Flow

In addition to the costly model of NPS-Lite distribution, timing of incentive payment is a potential issue in NPS-Lite. The scheme is designed to provide incentives to the aggregator only if INR1,000 is deposited during the tax year. As such, the payment amount due to an aggregator can only be accurately determined at the end of the year. The timing difference between expenditure for client acquisition and PFRDA payments has effects down the incentive structure. At the aggregator/facilitator level, many organisations provide NPS-Lite on a non-profit basis. The timing difference creates additional inconvenience in what is already a fairly low-value proposition.

At the sales staff level, the client-facing individuals who actually enrol subscribers – especially agents who distribute other products like insurance – are accustomed to more frequent payments. While PFRDA has allowed for some of the payment to aggregators to be disbursed before the end of the year, this is not seen to be adequate to incentivise staff to spend time on NPS-Lite.

5.3.15. Demand Side Issues

While distributors, financial managers and government can work to promote the scheme and improve the efficiency of delivery channels, ultimately the end beneficiary must see value in the product and find it relatively easy to use. If people don't believe that NPS is positioned to meet their financial needs in old age, they won't enrol or they will drop out after enrolling. The costs and efforts incurred in distribution will have been wasted and the government will not achieve its objective of helping individuals in the unorganised sector save for old age.

Cost for Fund Managers: Slow Enrollment makes Low Cost Model Impossible in the Short Term

At present fund managers are finding it difficult to keep fund costs down for NPS-Lite, given the low enrolment rates. While the NPS system promised to be a 'low cost' pension choice, the fund managers did not receive sufficient inflows to set up their own funds, instead investing in existing index funds at a higher charge. The maximum management fee allowed was later revised upwards but was all inclusive.

Source: ***Bhaskaran****, Deepti on LiveMint*: "NPS needs more transparency to inspire customers' trust", 12 Sept 2012," NPS loses 'lowest cost' tag", 8 Sept 2012, "Regulator gives NPS funds managers quiet nod to invest directly in stocks" 7 March 2013.

Demand side research on savings, insurance and old-age savings provides insight into the savings features that potential subscribers prefer. Based on *MicroSave* research,[51] people preferred when they:

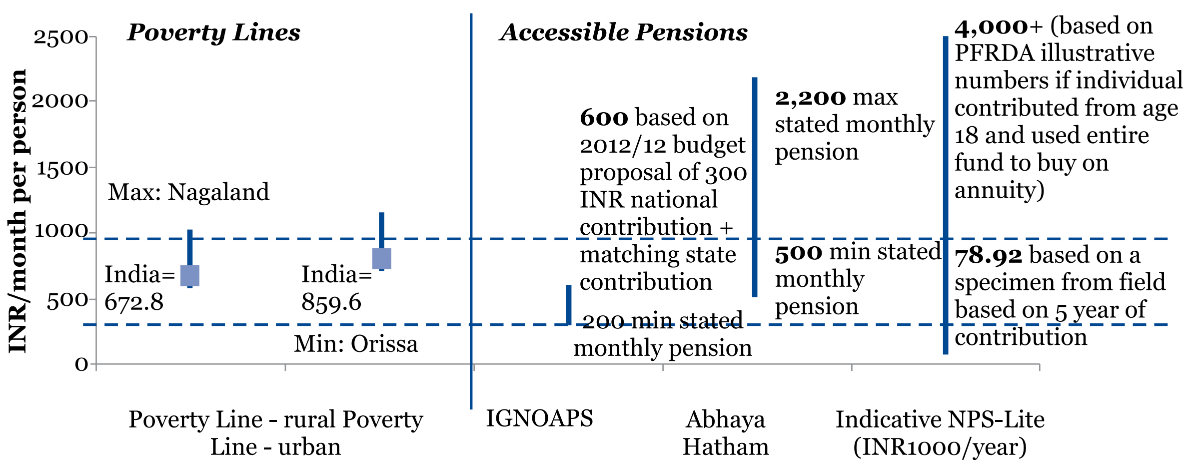
- Can trust that the money will not get lost (trust in institutions);
- Know what the returns will be (trust in the scheme);
- See that product terms are flexible and premiums affordable (flexibility);
- Receive good returns (value or adequacy).

[51] *MicroSave* and IFC (2011), Piggot et al (2013), other *MicroSave* research.

5.3.16. Does NPS-Lite Provide Value for Money?

While in theory NPS-Lite is a low-cost model in terms of management fees, subscribers have to pay INR70 per year for the service, or 7 percent of the minimum contribution under *Swavalamban*. In comparison, other long-term savings vehicles (endowment life insurance, recurring deposit etc.) are attractive, especially to those with slightly higher disposable income. However, as compared to other micro pension schemes, NPS-Lite is better positioned in terms of adequacy to take care of old age costs.

How Adequate are Indian Micro Pension Schemes?



Source: NSSO; *Abhaya Hastham* website; PFRDA promotional materials; "Key Features of the Budge 2012-2013" at indiabudget.nic.in; *MicroSave* Analysis

5.3.17. Trust in the Scheme

People don't just want to be able to access their principle – they want to know what the return will be. NPS-Lite exhibits some of the characteristics that clients claimed to dislike during market research, including:

- Non-guaranteed returns (market linked);
- Uncertainty (around the S*wavalamban* co-contribution).

One way to communicate these tricky features is to explain them in simpler, less accurate terms. Mis-selling can naturally arise when the product is fairly complex and staff themselves recently became familiar with its features. Both features are examined below.

Trust in the Scheme: Portability

NPS-Lite grants each member an individual account number. This makes the accounts portable. Theoretically, this means that the relationship between subscriber and the NPS-Lite distributor that enrolled them can come to an end without NPS-Lite contributions ceasing.

In practice, however, it might be more difficult to port the scheme than imagined. Practitioners admitted that the initial aggregator would probably need to provide information on portability for it to become reality. MicroSave research has indicated that lower-income clients can be highly dependent on the intermediaries (especially agents) of savings schemes as they often do not know how to access the company providing the scheme to verify information or make claims.

Aggregators might also be slow to spread information on porting. Some distributors choose to enrol customers in this low-margin scheme to increase client loyalty and cross selling. Since money earned on originating the membership is not a core motive, some distributors may want to delay any porting.

If clients have invested enough money in NPS-Lite, however, they may find ways to port their account if needed.

5.3.18. Uncertainty Around *Swavalamban*

Many NPS-Lite distributors have noted that, without the INR1,000 co-contribution from government, enrolment for NPS-Lite would be minimal.

The INR1,000 contribution is a natural incentive that helps overcome some innate barriers to contributing (pain now) for a faraway benefit. Research has shown that people are more likely to buy something when they get an added benefit free and when the deal is for a limited time only.[52] The *Swavalamban* matching contribution is like a 'buy one get one' free deal (you pay 1,000, the store gives you 1,000 free), which gets people to part with their hard-earned money. In addition, the deal is for a limited time only because it finishes at the end of the tax year. These features help make retirement savings something people need to do now instead of putting off. Once *Swavalamban* ends, (for now, subscribers get a maximum of five years co-contribution) subscribers will have little incentive to prioritise pension savings. Continued enrolment in Year Two is already a challenge and the lack of incentive will make it even harder.

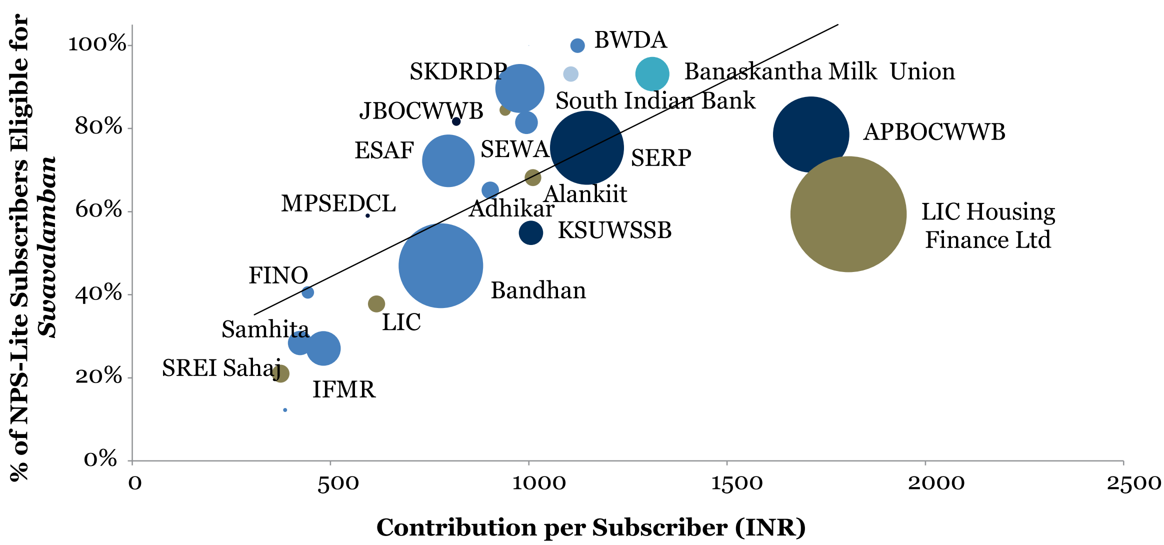
Despite this observation, not all subscribers receive their co-contribution since it is only applicable once the individual contributes INR1,000 in the financial year. This level is not always reached, meaning that the co-contribution is not received.

[52] Kahneman (2011),

Other practitioners and observers have noted that there are some moral issues that arise from the INR1,000 minimum contribution for *Swavalamban* to apply. For example, credit-granting institutions are well placed to offer *Swavalamban* loans right before the financial year ends, so that people get access to the INR1,000 co-contribution. Also, the front-line staff that sells NPS-Lite may rely too much on the INR1,000 co-contribution to make the sale instead of providing comprehensive financial education. In some cases, subscribers were aware only of the INR1,000 co-contribution and the restrictions on withdrawal before age 60. Other scheme features and costs (INR70 per annum as administration cost and INR35 as one-time fee) were not known.

While it is too early to do a detailed analysis on persistency and contribution by clients, initial trends show that with the exception of some government sponsored organisations and cooperatives, NPS-Lite contribution remains close to the minimum contribution of INR1,000, required for availing the *Swabalamban* benefit. For aggregators where existing clients are not eligible for *Swabalamban* benefit, both overall and per capita contribution remains low.

Is *Swabalamban* the Only Reason for NPS-Lite Uptake?



Source: Ministry of Finance, *MicroSave* Analysis

Appendix 1

Pensions are a designated form of old-age provisioning for low-income groups. This appendix evaluates other financial tools (both pay-in and pay-out facilities) that can fulfil some of the functions of a pension for the low-income workforce. The criteria of adequacy, accessibility and sustainability[53] are used to evaluate the offerings of banks, life insurers, the government and asset-management companies. While some offerings have features that could be leveraged to promote low-income old-age savings on a larger scale, none of them currently provide a suitable model for filling the low-income old-age saving gap.

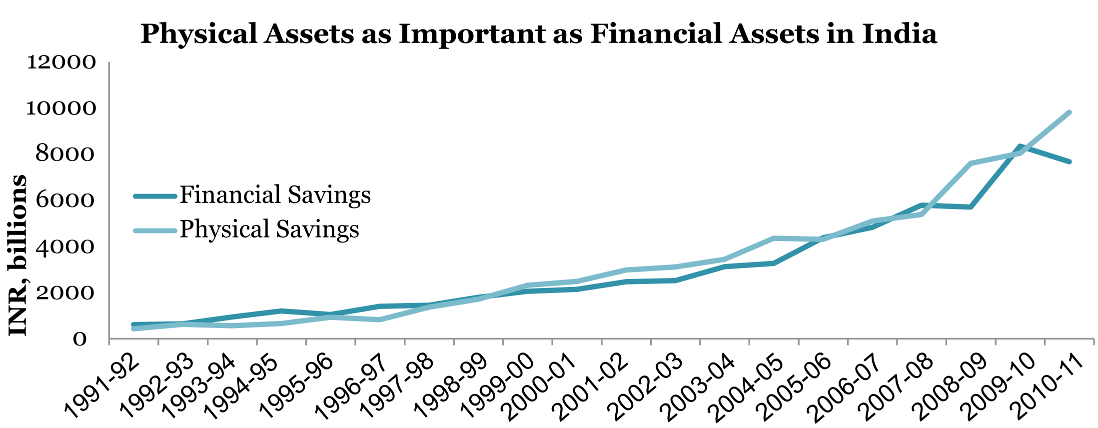
Savings Now (Options for Building Funds for Old Age)

The first stage in the lifecycle of a contributory pension is the pay-in period. In the ideal situation, contributions are profitably invested to provide an adequate corpus for living in old age.[54] This appendix discusses the non-pension financial savings tools for old age used by (or available to) low-income segments. Financial tools are one type of provisioning; people also save for old age using physical assets, business initiatives and investment in children.[55]

A1.1 Saving Deposits – A Nation of Savers: Deposits

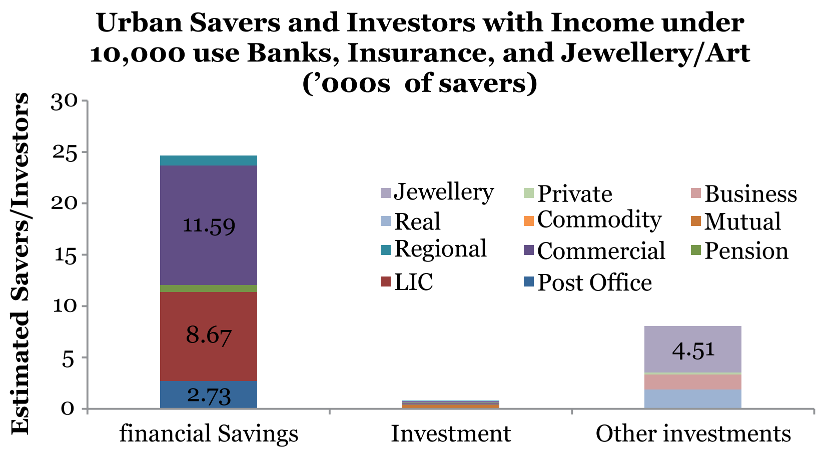
Saving accounts ranging from instant-access accounts to longer-term products such as fixed deposits can theoretically be used to accumulate money for old age.

Access to simple liquid savings deposit accounts for the unbanked was an early item on the financial inclusion agenda. Government and non-government initiatives led to the growth of small-scale savings (e.g. by self-help group members) and no frills bank accounts.[56] The push for inclusion lowered the barriers to formal saving by eliminating minimum balances, creating regular savings patterns, relaxing KYC procedures for accounts under INR50,000 (USD816) and removing costs.[57]

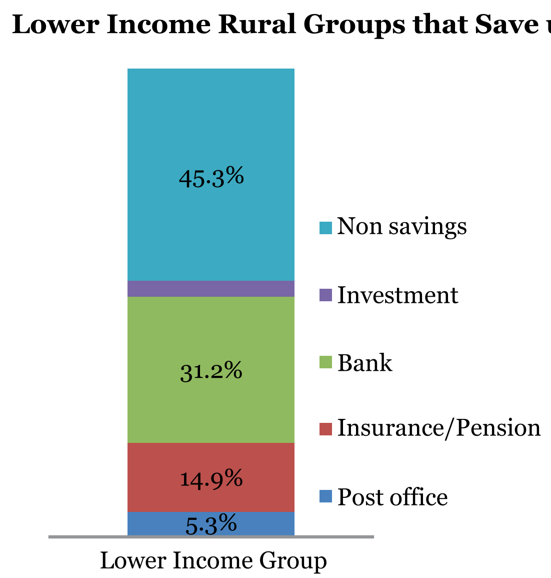


Source: RBI Handbook of Statistics on the Indian Economy, *MicroSave* Analysis

[53] The scope of this report is limited to discussing the sustainability for designated pension products only. More information on the state of play for non-pension providers in these sectors can be found in other publications such as Mukherjee et al *Securing the Silent - I: Life Microinsurance in India - The Story So Far 2012r; MicroSave and IFC* 'Deposit Assessment in India', 2011.
[54] WWB (2003) p 2 on capital appreciation, not just preservation
[55] Piggot et al (2013) shows how one group of respondents thought about old age and what tools they used to save for it
[56] Now called basic savings accounts. See RBI circular DBOD.No. Leg. BC.35/09.07.005/2012-13 dated 10 August2012 and circular DBOD.No.Leg.BC. 44/09.07.005/2005-06 dated November 11, 2005.
[57] Despite the large number of no-frills accounts (renamed basic savings bank deposit account in August 2012), limited client awareness and use has been an issue. See Ballem and Bansel (2011).



Source: NCAER HH Survey, 2011; *MicroSave* Analysis



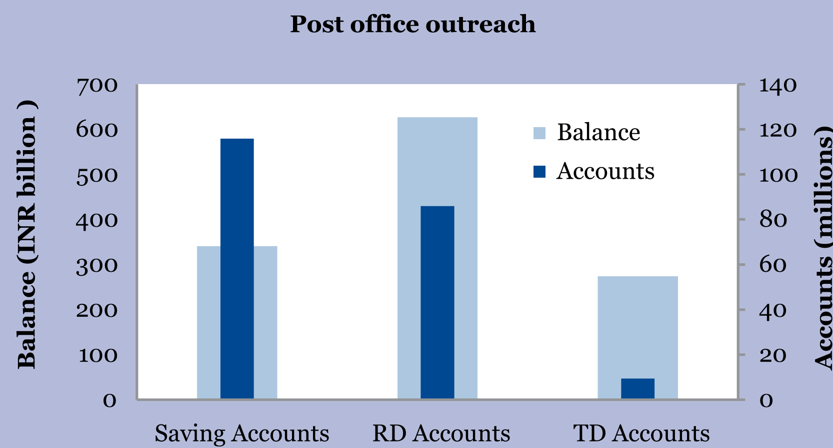
Source: NCAER HH Survey, 2011; *MicroSave* Analysis

Adequacy

MicroSave research showed that some low-income individuals say that they will use liquid savings (in bank deposit accounts, SHGs or at home) for old age.[58] However, respondents who cited liquid savings as a method of old-age saving often noted that their savings would be used for old age 'if there is anything left' after other expenses were met. Respondents knew that liquid savings would most likely be drawn down before their old age, making them an unreliable old-age savings tool. In the very few cases where respondents had opened a fixed or recurring deposit account, these were meant for other purposes such as children's weddings.

[58] Piggot et al (2013)

Post Office Savings



India Post's extensive network of 155,000 branches (almost 90% in rural areas) has long been active in providing savings schemes to India's rural and low income individuals. General savings account, five year recurring and time deposit schemes, and national savings certificates (up to 10 years) can all be accessed for contribution of less than INR200 a year. The involvement of the India Post in low income savings could provide a platform for offering longer term plans for old age or even pensions, but these options have not yet been implemented.

A1.2 Mutual Funds – Moving Towards Inclusive Systematic Investment Plans?

Mutual fund investments are another tool that can be used for old-age provisioning. In terms of ***adequacy***, mutual funds promise a higher rate of growth (year-on-year 12.81% for aggressive debt-oriented funds in 2012)[59] than basic bank savings accounts, which paid around 4% in 2012 (lower than inflation of 9.5% y-o-y in 2012)[60]. Systematic investment plans offered by mutual funds match the regular contribution patterns that contributory pension plans often adopt. Together, these features could make mutual fund investments a better option for old-age provisioning.

Access to mutual fund investments for excluded groups is more complicated on paper. Access for low-income individuals seemed promising in the late 2000s. Mutual fund houses that offered conventional systematic investment plans started offering much lower minimum contributions. These 'micro-SIP' plans allowed customers to contribute as little as INR50 per month for participation in the manager's existing funds (See text box :*Micro-SIPs*).

[59] Information from Economic Times. Accessed 21 July 2013.
[60] CPI sourced from RBI. WPI y-o-y was 7.2%

Micro-SIPs

Many of the mutual-fund houses have dedicated micro-SIP plans to allow wider access to their existing funds. Some schemes offer low monthly contributions, others have tie ups with ground level organizations for distribution and still others relax PAN-card requirements based on SEBI letters. Some schemes include:

- **UTI** offers micro-SIP options in several of its funds with a minimum 500 INR (including the ULIP and equity fund) for those without a PAN cared. In addition UTI's Retirement Benefit Pension (RBP), one of the pioneers in micro SIPs partners with ground level organizations to expand the reach of its plan. Unlike the other micro-SIPs UTI RBP qualifies;
- **ICICI** tied up with KAS Foundation and KGFS to offer micro-SIPs at a monthly contribution of INR100 respectively;
- **SBI** launched "*Chota* SIP," with aminimum monthly contribution of INR 100 and term of 5 years. Investments in SBI AMC's Magnum Balanced Fund, MMPS 93, MSFU Contra Fund, and SBI Blue Chip Fund are available to participants, and SBI collaborates with NGOs and others to reach the last mile with its micro SIP;
- **Sahara** Daily Fund offers INR10 daily SIP;
- **Reliance -** INR100 minimum monthly;
- **Bharti Axa -** minimum INR100 monthly;
- **Axis** Mutual Fund - minimum of INR100 monthly;

Source: Rovi Samalad, " Micro SIPs in vogue? Cafe Mutual; KIM of Mutual Funds

The securities regulator SEBI took a critical step in expanding access with its letter of 19 June 2009 to the industry body AMFI (Association of Mutual Funds in India), which relaxed KYC requirements for systematic investments of up to INR50,000 a year.[61] Low contribution investors were not required to provide a PAN (personal account number) card to invest.[62] In lieu of PAN, applicants could supply other identification documents.

After 2009, there was confusion over the regulations surrounding the PAN card exemption. In 2011, new KYC regulations designed to unify the KYC process across products (bank accounts etc.) appeared to require PAN card for all clients.[63] Ambiguity was further removed after SEBI issued a second letter to AMFI (24 July 2012), which confirmed that micro-SIPs were to be included under a Ministry of Finance circular that said investments under INR50,000 per year did not require a PAN card.[64]

[61] AMFI, 'AMFI Guidelines for Uniform Implementation of SEBI letter dated June 19 2009 on exemption of PAN For Systematic Investment Plans (SIP) up to INR50,000 per year per investor,' July 14 2009
[62] A PAN card, which is used by the government for assessing taxes, is issued after an application that costs INR94 and calls for both proof of address and identity
[63] Adajania, (13 May 2012.); SEBI, Circular MIRSD/SE/Cir-21/2011, 5 October 2011
[64] Letter OW/16541/2012 dated 24 July 2012 from SEBI (Investment Management Department) to AMFI

Practical considerations also limit the outreach of micro-SIPs to low-income individuals. SIPs generally allow systematic payments via debit from a bank account or via cheque. These requirements exclude the unbanked. Recognising this issue, in 2012 SEBI noted plans to allow customers to invest up to INR20,000 per annum in cash. However, commentators note that many providers of mutual funds are not equipped to deal with cash.[65]

For the many distributors without cash handling systems, it is not worth investing in these systems. At the moment, mutual fund channels focus on more informed urban demographics (71% of assets under management were sourced from investors in India's top five cities as of March 2012).[66] The small scale of the investments made by micro-clients translates into even smaller commissions for sellers.[67]

In terms of old-age savings, limited accessibility has so far prevented mutual funds from offering any effective old-age savings vehicle. However, regulatory moves in the direction of inclusivity provide some basis for mutual funds to form part of a wider old-age planning model in future.

A1.3 Life Insurance

In comparison to the limited expansion of micro-SIPs, life insurance is a tool long used by rural and low-income groups. The public-sector insurer Life Insurance Corporation India (LIC) had a monopoly on life insurance until 1990 and during this time, it built up a large network of individual agents to sell insurance policies in rural areas. LIC offered savings-linked insurance policies that returned a lump sum at the end of the policy. Many policies last 15 or 20 years, during which time agents systematically collect premiums from clients. Individual LIC savings-linked policies became a popular option in areas where access to bank savings was limited. Since the insurance industry was opened to competition in 1990, private companies also offer long-term policies in rural areas on a smaller scale than LIC (See *Securing the Silent - I: Life Microinsurance in India - The Story So Far)*.

Overall, the good reputation of LIC in rural areas, LIC's extensive rural network and the long-dated savings-linked policies in the industry provide a good basis for life insurance to act as ***accessible*** old-age savings.

MicroSave research and 20-year policies for old age...

A few respondents stated that had taken life insurance policies for when they were older, or for their future needs. However, in the almost one hundred sessions about insurance, old age was mentioned only twelve times as a goal for life insurance. **[can I say that?]**

MicroSave's qualitative research experience confirms that low-income individuals do use insurance for old age. The relative frequency of longer insurance policies was fairly high (in one study, 23

[65] Adajania (26 August 2012)
[66] Master (2012)
[67] Even despite the higher commission allowed outside India's top 15 cities

out of 42 policies where low-income clients disclosed had terms of 20+ years).[68] A handful of individuals with these policies mentioned using insurance specifically for old-age savings (other uses such as children's weddings or education were far more commonly cited).

Adequacy

As a relatively accessible way for people to move money into old age, some of the drawbacks of long-term savings-linked life insurance are instructive. While many people purchase 20-year policies, these often do not make to their 20-year maturity date for a variety of reasons. People can stop contributing due to emergencies or surrender their policies early (usually at a high cost) to get access to a lump sum for various purposes. While policy surrender provides liquidity earlier in life, there are often high costs associated with non-completion of the policy terms and early liquidation means there is little money left for old age.

Are Insurers Poised to Offer Better Old Age Saving?

Insurers, with a combined agent network of over 1 million, reaches deep into rural areas. As such, they are an ideal distribution channel for old-age savings products.

Moreover, insurers offer relatively accessible and adequate options for old-age savings. Often, some element of the amount that the client will receive on maturity is guaranteed, with additional 'bonus' linked to company profits or other. These policies offer liquidity and other flexible features to help people along.

LIC's Money Back allows people to save over the long term while also meeting their intermediate financial needs with periodic 'money back' payments to clients. The interim payments can also act to solidify client trust and to incentivise continued payments.

Bajaj Allianz' Super Saver provides guaranteed returns that many clients prefer as well as a variable bonus. The policy offers flexibility to revive the policy if premiums are stopped. The minimum sum assured is INR20,000.

Some of these policies - especially the money back options - are already sold by agents to lower income groups to save for life events, and could be used for old-age saving. The product, channel, and value alignment are there . Such long term policies could be even be converted into traditional monthly pension payments by tacking on an immediate annuity (See text box: *Insurers and Pension Annuities*). All that seems to be missing is sensitisation around old age to get people to focus on old age security uses of insurance.

Another challenge in the model is the issue of mis-selling and fraud (both perceived and real). In terms of mis-selling, many instances of stock market-linked returns were presented to clients as guaranteed returns. This situation led to a crisis of confidence in the insurance industry and a strong reaction by the regulator IRDA

[68] Twenty-year policies among certain demographics (e.g. middle-aged widowed women, as an example) could be intended as an old-age pension. Rutherford (2008)

(see *Securing the Silent - I: Life Microinsurance in India - The Story So Far)*. An issue in the low-income and rural bracket is over-dependence by clients on the agent. If agents stop visiting to collect premiums, some clients assume fraud has occurred. In some of these cases the client's funds are safe with the company, but they have difficulty accessing the policy provider directly without the agent being involved. Building a solid and truthful relationship has been a challenge to other long-term savings providers, which micro-pensions will need to overcome.

Insurers and Pension Annuities

Life insurance companies offer the possibility of a steady income in old age via annuity plans. Some annuity plans include a systematic investment as well as the annuity. For example, LIC's *Jeevan Nidhi* allows minimum monthly contributions of INR250 and confines the subscriber to purchase some level of annuity product upon maturity/earlier withdrawal.[1] The fund is partially based on guaranteed returns and partially on variable returns. Many companies offer immediate annuities, where one can buy an annuity with a lump sum of say INR25,000 (e.g. in Bajaj Allianz' Pension Guarantee). This sum is a realistic amount that modest size endowment policies might yield on maturity. As the market for annuities develops, existing agent channels might be used to help lower income pensionable groups create synthetic pensions.

[1] Unless it is invested in another plan with similar restrictions on using the money for an annuity.

From the supply side, the current strain on the insurance industry will be likely to limit growth in the micro-insurance market (See *SSecuring the Silent - I: Life Microinsurance in India - The Story So Far* for a detailed discussion of this)

A1.4 Can Other Savings Products Provide Old-age Security?

In the wider landscape, designated pension products are just one financial tool that can be used in old age. All the tools mentioned here compete with pension products for a low-income client's money.

Although micro-SIPs stalled on outreach, savings accounts and life insurance are more accessible to low-income individuals but they are not fully utilized for old age. For a few individuals who are especially concerned about old age, these alternate tools are used to build old-age security, but for the large number of people who do not prioritize old-age savings,[69] the offerings by banks, insurers and mutual funds do not provide effective old-age security options. Most people need to be persuaded into old-age savings and these alternate savings methods provide too many opportunities to withdraw money before old age for the plans to be effective.

[69] IIMS Dataworks (2008); Piggot et al (2013)

Appendix 2: Living Then (Receiving Funds in Old Age)

Assistance from children and transfers from government are currently a major source of old age support in India. As India's old-age population grows, reliance on children and government support will be unsustainable.[70] Some level of government support is needed to keep the elderly from destitution,[71] but the government cannot provide a means of living on a wide scale.

Indira Gandhi National Old Age Pension Scheme (NOAPS)

Currently, India provides a minimum level of old-age pension to the elderly via the Indira Gandhi National Old Age Pension Scheme (IGNOAPS). Launched under the Government of India's National Social Assistance Programme (NSAP), IGNOAPS is a needs-based scheme to help the elderly avoid destitution. The central government provides INR200 per month to recipients, with additional funds provided by state governments in certain cases.[72] In tandem with NOAPS, the *Annapurna* scheme provides in-kind transfers of food to low-income individuals over 60.

Under the current distribution system for IGNOAPS, some people that are eligible to have reported that access is costly given the bribes needed to be included on the list of recipients. As India moves to digitize its transfer payments through the unique identification card project, the cost to potential recipients of the scheme may decrease.

In the long term, however, there are limits to the IGNOAPS scheme. Currently, the small transfers under IGNOAPS are meaningful when older people live in an extended family situation.[73] Taken by them, the amount provided by government is below the per capita poverty line in every Indian state.[74] If family support diminishes as India's population ages, the usefulness of NOAPS as a household income supplement may fall away.

In addition, IGNOAPS transfers will become costly as the elderly population increases. Using UN population estimates and NSAP data, over 15% (more than 15 million people) of the 60+ population are recipients of IGNOAPS. Spending on the pension scheme is already INR2,400 per old person per annum. (For contrast, this amount is more than twice the INR1,000 co-contribution offered by the government-promoted NPS-Lite defined contribution scheme – see *Section 4*). As the relative number of old people rises, the fear is that a rising number will not get support from IGNOAPS or their family.

[70] This is a critical reason for pension support mentioned in OASIS. Project OASIS Committee (2000)
[71] This level of protection is often referred to as Pillar I pension – James (1997)
[72] The 2012-13 Budget proposed to raise the central contribution to INR300 per month. (See Key Features of the Budget 2012-2013 at http://indiabudget.nic.in)
[73] HelpAge, (2008)
[74] However, even if the state government matches this proposed amount, INR600 per month is below the rural poverty line in every state in India as per the 2009-2010 poverty lines. http://planningcommission.nic.in/data/datatable/0904/tab_45.pdf

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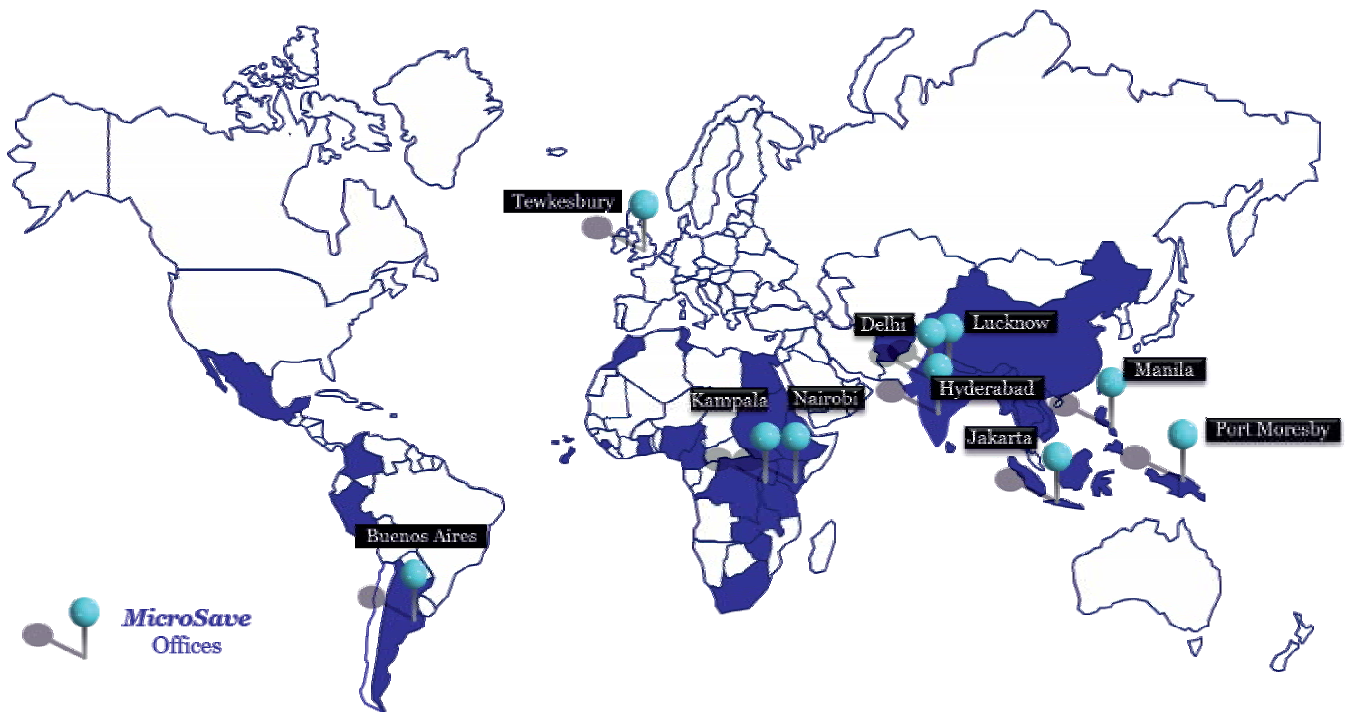

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