



ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION

# 13<sup>th</sup> Global Conference of Actuaries 2011

## *Emerging Risks... Daring Solutions*



Institute of Actuaries of India

Designing Sustainable, Scalable,  
Equitable and Inclusive Pension Systems

## **CHALLENGES AND POLICY OPTIONS FOR DEVELOPING COUNTRIES**

Gautam Bhardwaj

Director, Invest India Micro Pension Services

gautam@iief.com | <http://www.micropensions.com>



February 20 – 22, 2011

# Compulsions







# Old Age Poverty Challenge: **Bangladesh**



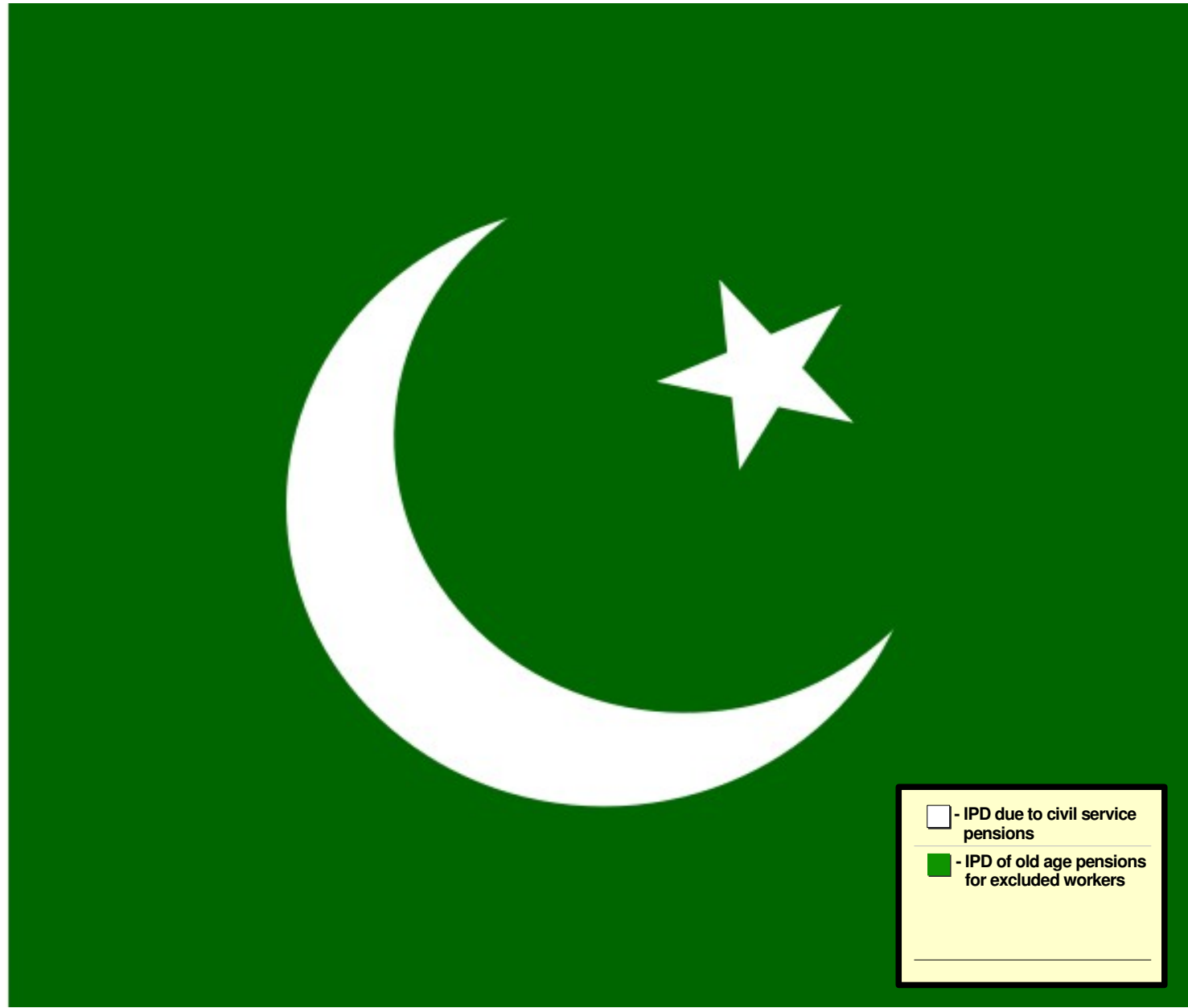
- Fiscal cost of old age pensions in 2010
- Fiscal cost of old age pensions in 2025

# Old Age Poverty Challenge: **India**

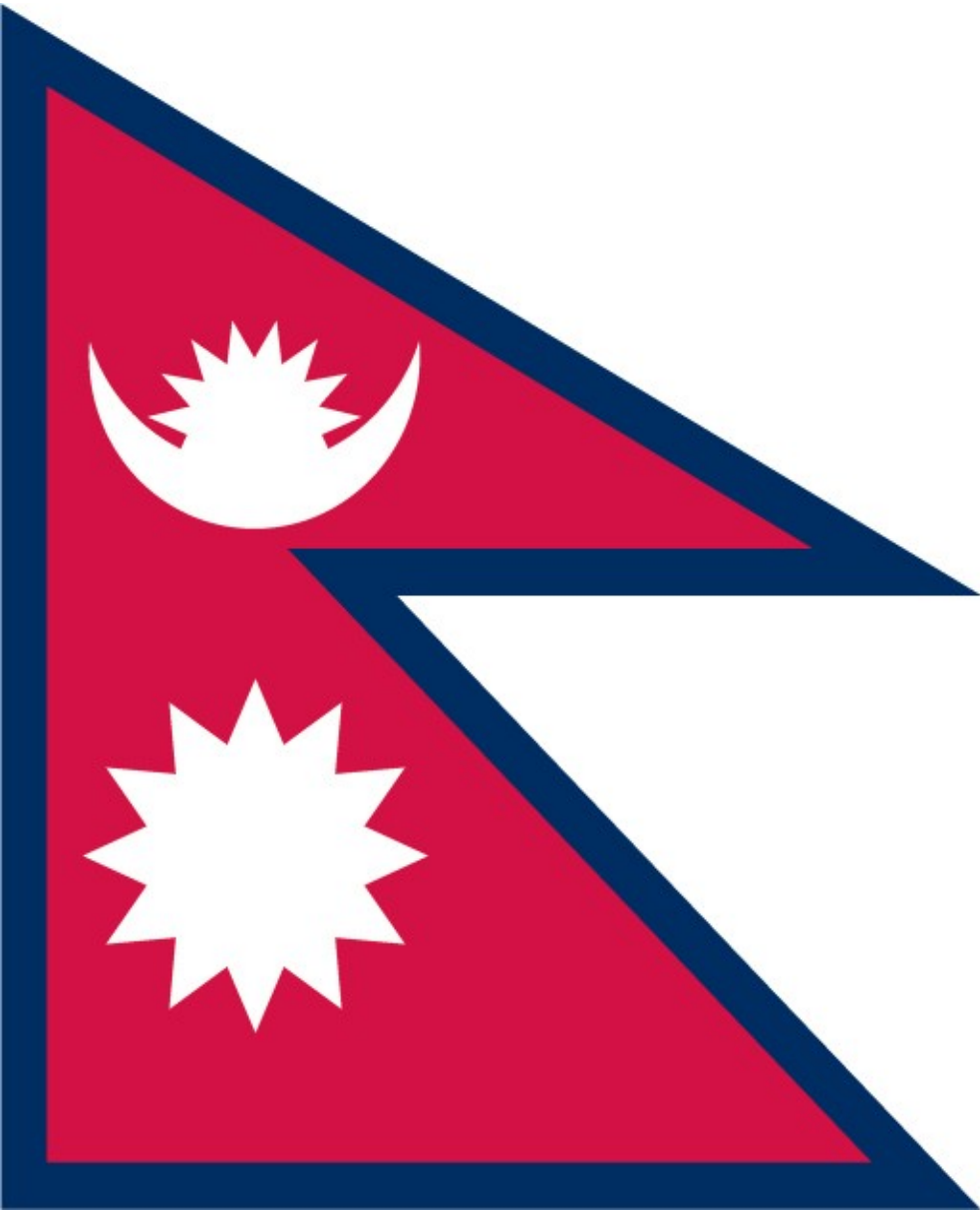





-  - Lifetime poor
-  - Unpaid workers
-  - Informal sector workers who can save for old age
-  - Formal sector workers with pension benefits

# Old Age Poverty Challenge: **Pakistan**

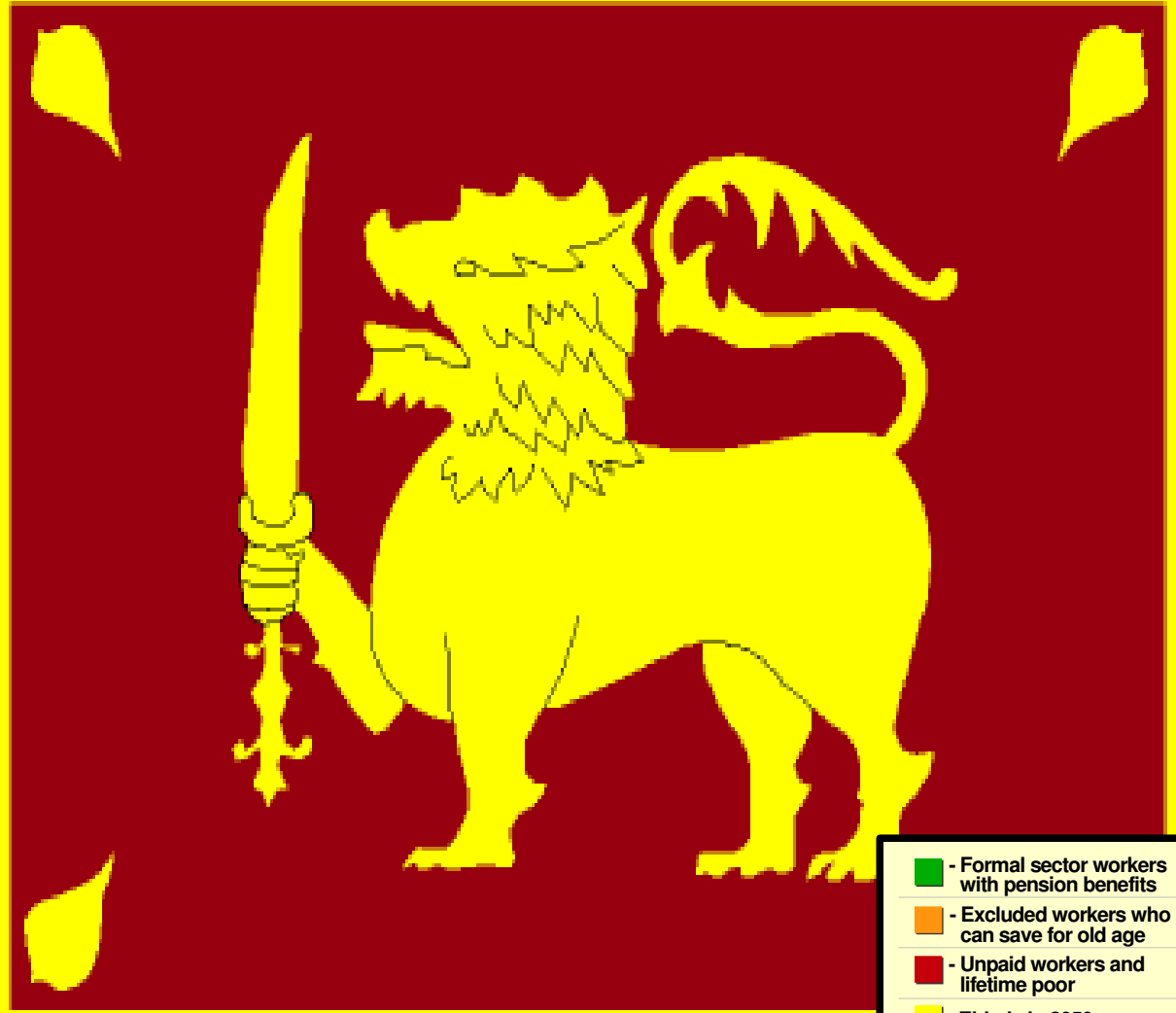
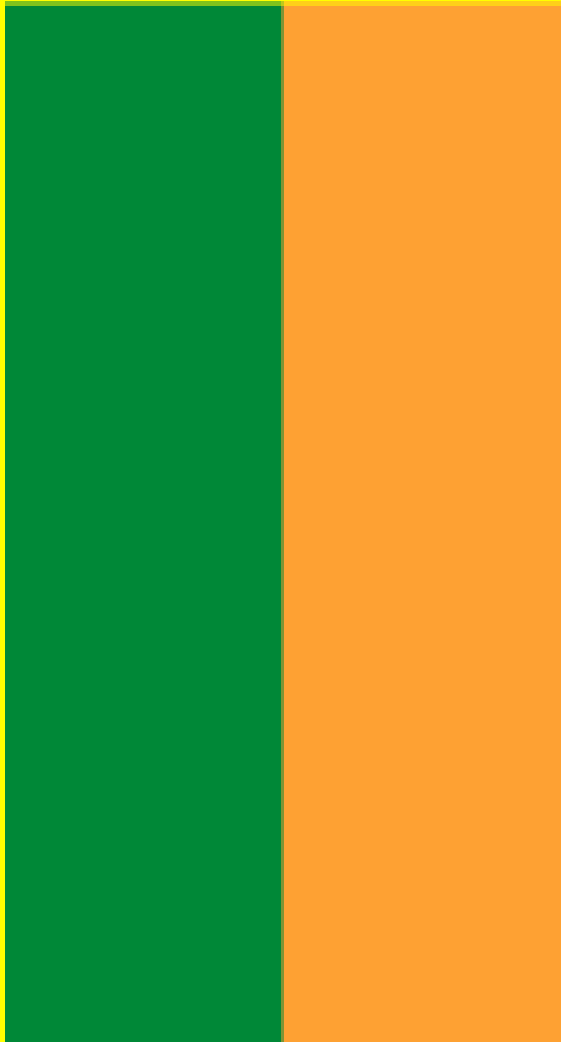


# Old Age Poverty Challenge: **Nepal**



-  - People with pension benefits
-  - Excluded workers who can save for old age
-  - Lifetime poor and current destitute elderly

# Old Age Poverty Challenge: Sri Lanka



- Formal sector workers with pension benefits
- Excluded workers who can save for old age
- Unpaid workers and lifetime poor
- Elderly in 2050

# South Asia's Pension Policy Options

- Develop an integrated, equitable and inclusive pension policy framework
- Parametric/ systemic reform to existing provisions
- Encourage and enable young excluded workers to achieve old age income security through thrift and self-help. Use products that maximise outcomes and mitigate market, longevity and inflation risks
- Build robust data foundations and administrative capacity for targeted delivery of social pensions





# Unique Challenges and System Design Considerations



# Difficulties with Initial Conditions

- Pension coverage gap: >90% of workforce
- Breakdown of traditional support structures
- Limited fiscal and administrative capacity to deliver a meaningful, population-wide social pension
- Predominantly informal labour markets
- Frequent mobility across jobs and locations
- Rising life expectancy
- Concepts of 'retirement' or 'pension' do not resonate

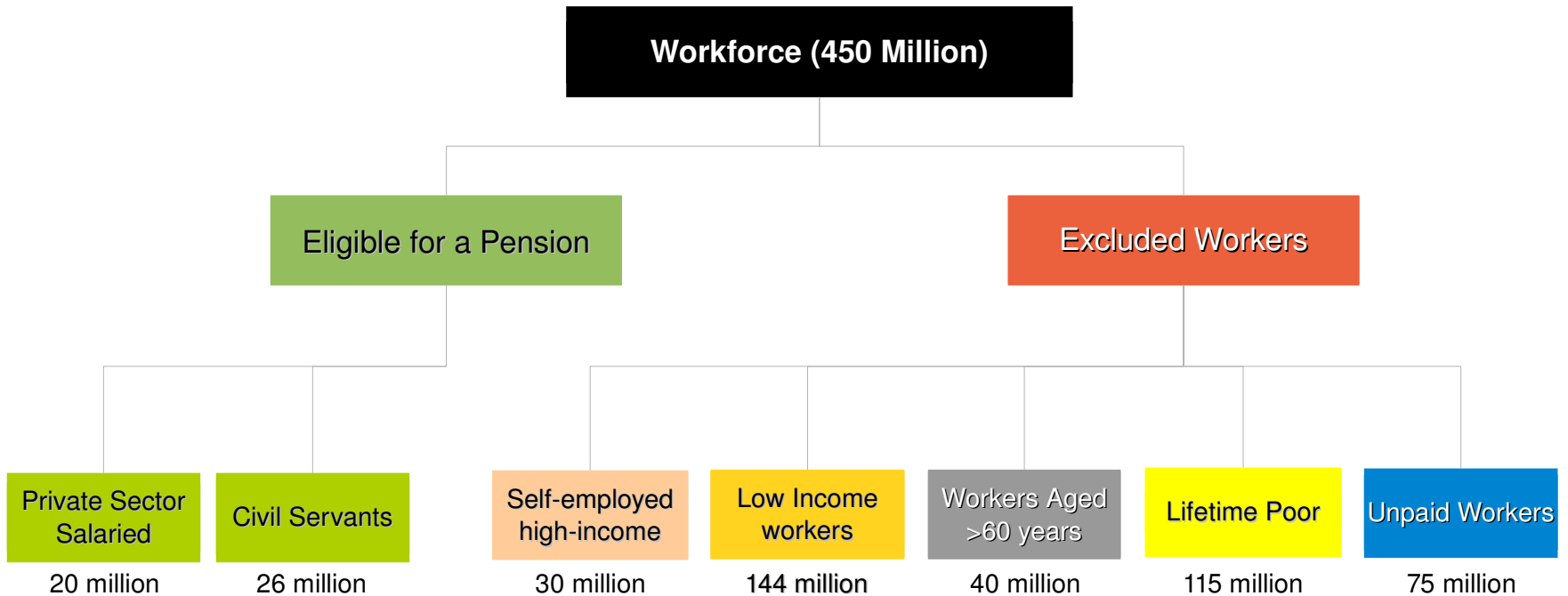


# Difficulties with Initial Conditions (2)

- Low literacy and low financial literacy
- Low intermittent incomes, tiny contributions and modest balances highly sensitive to transaction costs
- Difficulties with enforcing mandatory coverage
- Tax incentives will not produce voluntary coverage
- Under-developed securities markets (except India)
- Under-developed insurance and annuity markets



# India's Pension Coverage Gap



**Sources:** *Indian Retirement, Earnings and Savings Survey*, Indian Ministry of Finance and *Invest India Incomes and Savings Survey*, 2007



# Design Considerations: NPS

<b>Objective</b>	<b>Compulsion</b>	<b>Outcome</b>
Sustainability	Budget neutral	DC
Scalability	200mn workers, 3.3mn sq km	Extensive use of IT
Low cost/ charges	Small transaction sizes, modest account balances	Unbundled architecture, bidding, existing outreach
Simplicity	Low literacy/ financial literacy	Limited, standard choices
Portability	Changes in jobs, locations and risk profiles	Individual accounts, central record-keeping
Flexibility	Heterogeneity, enforcement issues	Mostly voluntary



# Coverage Outcome: NPS

<b>Scheme</b>	<b>Participation</b>	<b>Subscribers</b>	
Central Government (2004)	Mandatory	709,887	
GOI Autonomous Bodies (2004)	Mandatory	18,892	
State Governments (Starting 2003)	Mandatory	507,843	<b>1,236,622</b>
Unorganized Sector* (2009)	Voluntary	38,857	
Corporate Sector (2010)	Voluntary	4,125	
NPS Lite (2010)	Voluntary	30,227	<b>73,209</b>
<b>Total Cumulative NPS Coverage as on 07 February 2011</b>			<b>1,309,831</b>

NPS Coverage as on **07 February 2011**

To date, 4437 Tier-II accounts has been activated

**Source:** Pension Fund Regulatory and Development Authority, <http://www.pfrda.org.in>



# Summary

- South Asian countries are at an early stage of their demographic transition
- Existing pension provisions have important weaknesses and minuscule coverage
- Pension reforms should focus on IT, individual choice and low costs
- New DC pension programs will not work for the lifetime poor, those nearing retirement or the current old
- But they can achieve a coverage that is larger than the populations of most countries



# Thank You

