

## KEY POINTS

- Pension reform was driven by the need to establish a self-sustaining broad-based pension system to mitigate the Government of India's unfunded pension liabilities under the defined benefit system.
- The technical assistance (TA) projects of the Asian Development Bank (ADB) supported selected states in the measurement and reform of civil service pensions. The projects were implemented through stakeholder consultations to raise awareness and encourage mass workers' voluntary participation in the new pension system, capacity building, and field testing new products.
- The new National Pension System (NPS) also extended social protection coverage to all Indian citizens, including informal sector workers who were previously not covered.

## SOCIAL PROTECTION BRIEF

### Supporting Pension Reforms in India

#### BACKGROUND

The Government of India is at the forefront of pension reform in South Asia. The drive for pension reform stemmed from ballooning unfunded pension liabilities under the defined benefit system for civil servants, which was not fiscally sustainable for both central and state governments. The current occupational pension system for civil servants and salaried employees in the private sector barely covers 14% of India's paid workforce. Most of India's workforce is employed in the informal sector, and are excluded from the benefits of a regulated retirement income system.

In 2004, the government took the first steps toward establishing a self-sustaining and broad-based pension system for India when it moved away from unfunded defined benefit pensions for government employees in favor of a contributory system. This new system is a defined-contribution, individual-accounts-based pension program mandatory for civil servants. In 2009, the NPS was made available to all other Indian citizens, including informal sector workers, on a voluntary basis.

#### THE PROJECT

To support the government's efforts to implement civil service pension reform, ADB provided two TA projects to assist selected states in India in the measurement and reform of civil service pensions,<sup>1</sup> and support implementation of the NPS (2008–2011).<sup>2</sup> The TA projects supported state governments in (i) estimating liability, (ii) deciding on the reform option to implement, (iii) setting up the requisite systems and procedures for the proposed pension system, and (iv) developing capacity and education to implement reform. Both projects aimed to strengthen social protection in India by building a comprehensive and sustainable old-age income security system.

#### KEY RESULTS

The first TA project assisted five states (Assam, Bihar, Chhattisgarh, Jharkhand, and Madhya Pradesh) in the pension reform process by looking in-depth at the liabilities, pension reform options, and institutional challenges to implement reform. The project helped the states to (i) improve, compile, and standardize information on the full set of employee benefits; (ii) build a liability estimation tool kit for analyzing the fiscal and financial impact of reform proposals for each state; and (iii) review the impact of alternative pension benefit structures' administrative costs, and risks of moving toward a defined benefit pension system.<sup>3</sup>

<sup>1</sup> ADB. 2004. *Technical Assistance to the Government of India for State Level Pension Reforms*. Manila (TA 4548 financed by the Japan Special Fund).

<sup>2</sup> ADB. 2007. *Technical Assistance to the Government of India for Implementing Pension Reforms*. Manila (TA 4938 financed by the Japan Special Fund).

<sup>3</sup> ADB. 2011. *Technical Assistance Completion Report: India – State Level Pension Reforms*. Manila (financed by the Japan Special Fund).

The second project supported the design and implementation of the NPS that provides broad-based old-age income security to civil servants (of the central and state governments), as well as the public, including informal sector workers.<sup>4</sup> This enabled the government and the Pension Fund Regulatory and Development Authority to formulate a strategy to roll out the NPS among the formal and informal sectors, and to establish institutions and networks for service delivery and monitoring. Major outputs included identification of cost-effective and sustainable pension products, enhancement of service features under the pension system, and draft policy and regulations. The project also facilitated stakeholder consultations to raise awareness and encourage mass workers' participation in the new pension system on a voluntary basis, institutional and administrative capacity assessments, and field testing new pension products.

Through pension reform, ADB helped achieve the objectives of the Government of India's Tenth Five-Year Plan (2002–2007) to improve public resource management and to develop a domestic capital market critical for moving the infrastructure agenda forward and for financing India's economic growth. The TA projects helped improve the sustainability of these states' pension schemes, and extend social protection to workers not covered by the defined benefit pension system.

However, challenges remain in building institutional administrative capacity to improve service delivery. There is also a need to continue pension reform to further improve the poor's benefit levels and pension coverage.

<sup>4</sup> ADB. 2012. *Technical Assistance Completion Report: India – Implementing Pension Reforms*. Manila (financed by the Japan Special Fund).

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