Implementing Pension Reforms in India

India has a complex system of provident fund and pension schemes, targeted at different segments of the labor force. The country’s social security system has seven components—the Employee Provident Fund Organization schemes, the civil service schemes, the schemes of public enterprises, superannuation plans of the corporate sector, voluntary tax advantaged schemes, social assistance schemes, and micropension schemes. However, formal retirement provisions cover less than 12% of India’s 450 million active workforce. Traditionally, access to formal retirement benefits for Indian workers has been restricted to salaried employees of the central and state governments and those of the larger private and public sector companies. Most of India’s workforce is employed in the informal sector and hence most Indian workers are excluded from access to formal retirement programs.

Two principal concerns have driven India’s pension reform. The first was a fiscal imperative to truncate the unfunded defined benefit civil service pension scheme that covers nearly 25 million central and state government employees. The second was a social imperative to provide a sustainable and scalable pension system to India’s informal sector workers who have not, until the present, enjoyed the benefits of a government-sponsored retirement income arrangement.

Reforming the Pension System
On 1 January 2004, upon the recommendation of the Project Old Age Social and Income Security Committee, the Government of India embarked on an ambitious pension reform agenda that sought to replace the traditional defined benefit civil service pension scheme with a new defined contribution scheme for government employees by installing the new pension system (NPS) and establishing an interim Pension Fund Regulation and Development Authority (PFRDA). The government also decided to extend the NPS to India’s 400 million informal sector workers, making a unified pension arrangement mandatory for government employees and voluntary for others. Currently, 23 state governments have introduced the NPS scheme for their new employees.

Supporting the Implementation of Pension Reforms
To help the government implement pension reforms, the Asian Development Bank (ADB) provided its first pension reform–related technical assistance (TA) in 1999 to cover the overall legal, regulatory, and tax frameworks for the pension and provident funds, and support the strategy for modernizing the EPFO. Subsequently, ADB provided two TAs: (i) pension reforms for the unorganized sector in 2003, and (ii) state-level pension reforms in 2004. These were aimed at designing a legislative regulatory framework and incentive structure to promote the orderly development of the pension system for the unorganized sector and to assist selected state governments in measuring and reforming their civil service pension. The unorganized sector pension TA

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included a national level survey on a stratified random sample of over 40,000 informal sector households across all 28 states in India. The survey provided the government with direct consumer feedback on the proposed features of the NPS. The state-level pension reforms TA, which is still ongoing, has assisted the selected states in developing the data and payroll administration management information system and in evaluating their unfunded pension liabilities.

Based on the success and the recommendations of these two TAs, ADB provided a follow-on TA in 2008 to support the Government of India in designing and implementing the NPS to provide the informal sector with broad voluntary coverage across geographical, income, and occupational distribution. In this context, the TA helps formulate strategies and measurable action plans, and develop and test pension products before their rollout to the formal and informal sectors. The TA will also help the government and PFRDA develop a database to determine the informal sector workers’ demand and ability to pay for voluntary retirement contributions, and the nature and the size of the excluded funds. Conferences and workshops will be held to disseminate and discuss TA findings, and make stakeholders sensitive to potential reforms.

The TA is expected to successfully introduce the NPS and a comprehensive old-age income security system in India. It would reduce the fiscal burden for the government at the central and state levels, and widen the coverage of old-age income security for the workers in the informal sector. It will also contribute to the development of the national capital market in India, as pension funds are important sources for long-term funding.

The TA will help in the following areas:
- Raise awareness regarding workers’ participation in the NPS;
- Evaluate the effectiveness of NPS institutional support mechanisms and the ability of the points of presence to deliver quality services, including sales, promotions, collection, pooling, and transfer of pension savings to the central record-keeping agency and pension fund managers;
- Assess the effectiveness of service delivery and adequacy of benefits under existing schemes, and develop strategies for effective service delivery; and
- Study of product development would include formulating and field-testing in four selected districts to test market demand and the informal sector workers’ ability to pay for such products.

**Endnotes**
1 The PFRDA Bill (2005) empowers PFRDA to regulate all intermediaries under the NPS, including pension funds, central record-keeping agency, and points of presence. It will approve the terms and conditions of a scheme, and lay down norms for the management of pension funds.
2 Indian Pension Sector Encyclopedia, Invest India Economic Foundation (IEF). www.iief.com
3 ADB. 1999. Technical Assistance to India for Reform of the Private Pension and Provident Funds System Reform and Employees’ Provident Fund Organization. Manila. (TA 3367-IND, $1,000,000, approved on 26 December).

**About the Asian Development Bank**
ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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