Progress of Indian Economy and Prospects of Pension Security

By

Dr. Deepak Mohanty*

Hon'ble Vice Chancellor, Dibrugarh University, Chairperson Centre for Management Studies, Prof. Pratim Barua, Shri SK Barua, Trustee-RK Dutta Memorial Trust, Shri Pranjal Changmai, Brigadier Surendra Prasad, distinguished invitees and young leaders:

It is an honor for me to deliver the 3rd Ranjit Kumar Dutta Leadership Lecture. I thank Dibrugarh University and my dear friend Shri S.K. Barua CEO, North East Gas Distribution Co. Ltd. for this opportunity. Shri Dutta was a visionary and contributed immensely to development of the oil and gas industry as Chairman and Managing Director (CMD) of Oil India Ltd. He was passionate about industrial development in the North-East region.

Leadership is about collaborate and contribute. You are graduating at a pivotal moment of our economic development and would go on to choose different careers and provide leadership in the process. Leadership is not only that how good a professional you are, though it is essential; but also, how cohesively you get your team to perform to accomplish the task. Every leader is first a follower. In an organisation while progressing through the ranks one is always a part of a team. The frontier of knowledge is so diverse and is moving so fast it is not feasible to make significant contribution without collaboration. We also need to be conscious that all our actions, individually or collectively in an organisation, could have either positive or negative consequences, what economists term 'externalities'. For example, if you smoke in public, it has an adverse health effect on people around you. Conversely, if a factory builds a road in a locality for its workers it could benefit the public at large. It is important to be conscious of societal ramification of one's action. The overarching motivation of our action should be such that it serves the society at large

As we journey to become a developed country. Many of you may have born this century. In your life time you are bound to see momentous changes in our economy. In my talk, I will briefly trace the broad macroeconomic trends of this century so far, reflect on the prospect before delving into the issue of pension security.

In the recent years, the growth trend of the Indian economy has moved up, reflecting continuing reforms and greater openness. India posted an average annual real GDP growth of 7.9 percent per annum during the 5-year period 2003-08. The global financial crisis of 2008 slowed the global economy adversely affecting our growth. In addition, domestic vulnerabilities arising out from elevated inflation and high credit growth needed to be addressed. Subsequently our growth trend recovered. Average annual real GDP growth increased by 7.5 percent per annum during the 5-year period 2014-19 before pandemic dented our growth. Not only our growth but the global economy showed a precipitous fall. From the pandemic, India has emerged stronger posting a real GDP growth of 9.7 percent in 2021-22 against a decline of about 5.6 percent in 2020-21. GDP increased by 7.0 percent in 2022-23 followed by a robust growth of 7.6 percent in the current financial year 2023-24. It is projected that a growth trend of 7 percent could be sustained through 2024-25.

***** 3rd Ranjit Kumar Dutta leadership lecture delivered by Dr. Deepak Mohanty, Chairman, Pension Fund Regulatory and Development Authority (PFRDA). Dibrugarh University, March 04, 2024

In this century the Indian economy has weathered many global shocks such as the ongoing conflict in parts of the world, the pandemic, the 'taper tantrum' of 2013 and the global financial crisis to now emerge as the fastest growing large economy in the world. We are the 5th largest economy in the world with estimated real GDP of US $ 3.7 trillion in 2023-24. If the current growth rate is sustained, India would emerge as the 3rd largest economy in the world with GDP growth of over US $5 trillion by 2026-27, as projected in a recent review.[1]

Currently, with per capita income of around US $2500, we are a lower middle-income country, as per the World Bank classification. With sustained GDP growth, India for sure will progress to an upper middle-income country with per capita income of upwards of US $4,200 in the next decade. We aspire to be a high income, developed country by the middle of the century. Of course, nothing is given. There will be many global and domestic challenges and uncertainties but this is not an unlikely outcome. We need to persevere with the ongoing effort to develop both our physical and social infrastructure; continue with reform of our labour, product and financial markets; strive to be an innovative society harnessing digital and green technology; invest in education to develop requisite skills; and embrace competition. This is an interesting time for youngsters like you to partake in our national progress.

Prepare for the future while harnessing demographic dividend. One important factor that is contributing to this progress is our population. India with a population of over 1.4 billion is the most populous country on the face of this planet. Our population is also young which is expected to drive the growth process. This is what economists call demographic dividend. This opportunity arises once in many generations in economic development of countries.

While our young population is contributing to growth, the window is going to shut rapidly with ageing. Currently we are favorably placed in the age-mix of our population: every 10th person in the country is over 65 years. It is projected that by 2050, every 5th person in the country would be over 65 years. Simultaneously, longevity is also increasing: life expectancy at birth was 35 years in 1950 which has currently doubled to 70 years. Someone at 65 is expected to live, on-an-average, another 15 years. Consequently, the dependency ratio, the ratio between old and working-age population, would increase. This will slow down economic growth rate, as we see around us in ageing-societies which have attained higher per capita income levels; besides there are attendant challenges of senior care.

There is also a social churn with increasing turn towards nuclear families. So, the scaffolding of joint family's social insurance is waning. This will have its own economic and social ramifications in terms of maintenance and healthcare. Currently, 70 percent of our older population are dependent on daily maintenance according to a Position paper by NITI Aayog[2]. Further,78 percent of our older population is living without any

[1] by Department of Economic Affairs' *The Indian Economy: A Review of January 2024.(https://www.dea.gov.in/sites/default/files/The%20Indian%20Economy%20-%20A%20Review_Jan%202024.pdf)*

[2] Senior Care Reforms in India- a Position paper by NITI Aayog-February 2024 *(https://www.niti.gov.in/sites/default/files/2024-02/Senior%20Care%20Reforms%20in%20India%20FINAL%20FOR%20WEBSITE_compressed.pdf)*

pension cover. So, unless we prepare for old age social security now, it will be increasing challenging.

Phases of economic life. One can broadly divide one's economic life into 3 phases: 1st is the phase of learning and acquiring skill, the phase you are in, we can put this phase as initial 25 years of age of one's life.

Following that you join the workforce in the 2nd phase to support yourself and your family economically. This phase can be put to say 35 years. This is the phase that most of you, would be stepping into now. This phase is very critical as not only that you would be meeting your current financial obligations but you need to financially provide for your future. The 3rd phase is when you retire from active commercial work, either dictated by the nature of employment contract or it is not physically feasible to continue working. This final phase is getting elongated with increasing trend in longevity. This would mean that during one's employment phase, one would have to make provision for an increasingly longer period.

Myopic to the future. As youngsters, when one joins employment, retirement is far from one's mind. As humans, we tend to value instant gratification more than deferred gratification. Even in the organised sector, people tend not to look beyond the minimum statutory requirement of retirement savings. Further challenge emanates from the nature of labour market. The size of our employed labour force is estimated to be 535 million, around 85 percent of that is in the unorganised sector.[3] The labour force in the unorganised sector does not have statutory access to retirement saving. So, they have to make a voluntary effort to save for the retirement. The other issue arises from gender imbalance in the employment market. Not only the share of women in the formal labour market remains relatively low, female labour participation rate in our country is relatively less. Labour Force Survey Report 2022-23 showed that the Female Labour Force Participation Rate in the country was 37.0 percent in 2023 as compared with 78.5 percent for male, as per 'usual status' concept of measuring labour force participation.[4] It is not that women are not working: they are in unpaid house work or farm work. In fact, women need a retirement savings account more than men as their longevity is higher.

Where do we stand in terms of retirement savings? The principal retirement saving scheme for the organised workers is provided under the Employees Provident Fund and Miscellaneous Provisions Act, 1952. There are a few other statutory provisions for retirement savings such as for Assam Tea Planation workers and Coal Miners. Some organisations have their own retirement saving trust for their workers. In addition, insurance companies and mutual funds provide personal retirement savings accounts.

We in PFRDA regulate two pension schemes: (i) National Pension System (NPS) (ii) Atal Pension Yojana (APY). These pension schemes are accessible to all through

---

[3] Economic Survey 2021-22 *(https://www.indiabudget.gov.in/budget2022-23/economicsurvey/doc/echapter.pdf)*

[4] Periodic Labour Force Survey Report 2022-23 released by the Ministry of Statistics and Programme Implementation on 9th October 2023.
(https://pib.gov.in/PressReleasePage.aspx?PRID=1967291#:~:text=Periodic%20Labour%20Force%20Survey%20Report,status'%20concept%20of%20measuring%20labour)

intermediaries such as banks or could be self-initiated in a digital mode, namely, ‘eNPS’.

NPS is a contributary pension scheme and is mandatory for government employees joining services from 2004. This scheme for government employees is a defined contribution plan with co-contribution from the government. The central and most state governments are on the NPS. It was opened to all citizens in 2009 irrespective of their employment status. In other words, anyone in the age group of 18-70 years could open an NPS account. Subsequently, NPS was opened to the corporate sector in 2010. So, corporates have a choice to either go with EPFO or NPS for their employees.

APY was introduced by the Government in June 2015 as a part of the overarching objective of providing universal social security. APY is a pension scheme open to all individuals, including a common person, in the age group of 18-40 years. It is particularly aimed at under- privileged, unorganized and low-income individuals. The scheme design is very attractive. It is a defined-benefit and defined-contribution pension plan. A person knows beforehand how much she would have to contribute and what is the pension she will get.
It has triple benefits: First, it gives life-time monthly fixed pension in the range of ₹1,000-5,000 post 60-year of age depending on the person’s choice and corresponding contribution. Second, the spouse gets the same amount of pension for life-time on subscriber’s demise. Third, the accumulated corpus with interest is returned to the nominee on the demise of both the subscriber and spouse.

With all these schemes, where do we stand in terms of retirement savings? Our retirement corpus is estimated to be around Rs. 45 lakh crore which is about 16.5 percent of our GDP. If we compare this number with other countries, the level of our retirement savings accumulation is still relatively less. For example, in the Organization of Economic Cooperation and Development (OECD) countries, the average corpus is around of 80 percent of their GDP. In a few of these countries, the retirement corpus is over 200 percent of their GDP. This will suggest that we have way to go to make adequate provision for retirement.

Way to pension security. Let me conclude with some thoughts on how do we enhance our retirement savings?

First, one ought to set aside some money from one’s current income to accumulate a retirement corpus irrespective of one’s profession or level of income. Given the competing demand, it is not always easy to set aside funds for the future. However, given the prospect for the Indian economy, as we transition from a lower- middle income to a high-income country, our ability to set aside money for the future will increase.

Second, it is smart to start early. A basic but a profound concept is the compound interest rate. Small amounts set aside early in one’s life can add upto a substantial corpus at the time of retirement.

Third, not to be deceived by money illusion. It is important to understand and provide for the inflation-risk so as to preserve the real purchasing power of one’s savings. For example, if we assume an annual inflation rate of 5 percent, the real worth of Rs. 1 crore now will be Rs.23 lakh 30 years down the line.

Fourth, there is a need to improve personal financial literacy so that one takes a balanced financial decision. However, financial literacy remains low, not only in our country but also in advanced economies. For example, OECD/INFE 2023-International Survey of Adult Financial Literacy showed that on an average, only one-third of people surveyed had adequate financial literacy.[5] RBI NCFE Financial Literacy Survey for India suggested that only 25 percent of people are thinking to make retirement savings.[6] As in the standard-curriculum, aspects of personal finance is not generally covered, it is worth the effort to improve financial literacy which is seen to contribute positively to one's financial wellbeing.

Finally, as you step out of the university into professional life, I hope you will make a judicious choice for retirement savings.

Thank you.

[5] OECD/INFE 2023-International Survey of Adult Financial Literacy *(https://www.oecd-ilibrary.org/docserver/56003a32-en.pdf?expires=1709292910&id=id&accname=guest&checksum=8A429C3C7A45EDF735BC9666A6E70E1B)*

[6] Financial Literacy and Inclusion in India-Final Report on the Survey Results by NCFE *(https://www.ncfe.org.in/images/pdfs/reports/NFLIS_2019.pdf)*