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A Study of Demographics and the Need for Social Security in India: An Urgent Issue

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Abstract:
Around the world, rising life-expectancy and consequent demographic burden combined with increasing fiscal pressures on governments are playing an instrumental role in reforming existing pension systems. India does not have a formal social security system as in the developed countries. Though, it was among the few countries to set up the provident fund Act in 1952, yet the rules and regulations governing such organization have not kept pace with time. Although, throughout the world, pension reforms are taking place, but the developed countries whose pension systems are older and which also have proper social security systems are facing a greater challenge than the developing countries. The challenge of rising life expectancy and the need for adequate income supports in the old age calls for appropriate reforms in the existing systems. The research paper has been discussed in two parts: the first part tries to explore the comparative old age population burden in different countries, particularly in India, where the huge unorganized sector and a predominant agricultural sector present peculiar challenges; the second part dwells on the study of the pattern of household savings in India. The study finds that the older population itself is ageing and the older population will be predominantly FEMALE. Both developed and developing countries strike similarity here. Hence, the need for old age income supports. There is a need to encourage people to have old age savings to take care of their post retirement years.

Keywords: *Demographics, old-age burden, household savings, Pension reforms*

1. Introduction

India is in the phase of a rapidly changing economic scenario accompanied by a rapid demographic transition. Life-expectancy is increasing while birth-rates are on a decline. In the absence of a social security system in India and the existence of a huge unorganized sector, the problem of demographics is a matter of great concern. There is an urgent need to design a comprehensive and sustainable pension and provident fund system in the interest of equity, efficiency and economy. The Indian pension and provident fund system should be re-designed and integrated and not remain an exclusive domain of few.

According to an OECD (1994), India's pension funds assets comprise only 5 percent of the country's gross domestic product. The Report also states that one-eighth of the world's elderly reside in India and a majority of them are not covered by any formal pension system.

According to the OASIS Report (2000), about 89 percent of our population is not covered by any formal pension plans.

Arjun K Sengupta Committee (2007) which studied the plights of the huge unorganized sector in India has recommended a series of policies for their upliftment and inclusion in the pension system. The committee pointed out that India's huge working population in the informal sector is 92 percent of the total work-force. It also added that there is a sharp social divide in India and that more than three-quarters of India live with less than Rs 20 a day.'

A study of the demographic trends by the United Nations (Department of Social and Economic Affairs, UNO, 2012) reveals that the average life–expectancy is going to be eighty years by 2025 from sixty five years at present. This has not sufficiently dawned in the minds of our people. There is a serious threat that persons who are not below the poverty line might sink below it in their old- age, if not enough savings are made by them. On the other hand, they would have to incur heavy medical expenses on account of ailments associated with old age. Destitution, poverty and ill-health could wreak havoc on the lives of aged people under such circumstances. Thus, the average worker will need adequate savings to support approximately 15-20 years of retire Social Security and Pension issues have increasingly occupied centre stage in international policy debates over the last few decades.

Around the world, rising life-expectancy and consequent demographic burden combined with increasing fiscal pressures on governments and the socio-economic changes are playing an instrumental role in reforming existing pension systems. India does not have a formal social security system as in the developed countries. Though, it was among the few countries to set up the provident fund Act in 1952, yet the rules and regulations governing such organization have not kept pace with time. Although, throughout the world, pension reforms are taking place, but the developed countries whose pension systems are older and which also have proper social security systems are facing a greater challenge than the developing countries (Swarup Dhirendra,2013). The challenge of rising life expectancy and the need for adequate income supports in the old age calls for appropriate reforms in the existing systems (Dave.S, 1999, 2006).

Countries which are at an early stage of the demographic transition generally experience a boost in investment so as to accommodate its rising labour force and the savings generated by the large population may be filling the investment requirements. Other things being equal, this leads to downward pressure on rate of interest and also capital outflows. Development theory points out that capital flows from slow growing industrial countries to fast growing emerging economies because of high productivity and efficiency. But in reality, the situation is different. The capital flows to the emerging economies are lesser and have been due to imperfections in the capital market (Lucas 1990). There is a need to undertake financial market reforms, simultaneously with the pension reforms.
Technically, as the proportion of pensioners rises, the working age population falls and there is a fall in capital investments and the supply of financial assets. Population ageing can have an impact on asset prices. The movement of saving and investment gets reflected through the demand and supply of financial assets. The investment preferences of the young and working population differs from the old and retired people. Generally, the young prefer stocks over bonds whereas the old prefer safe avenues as bonds. Thus, relative asset prices and returns should be affected by population ageing.

Country	Proportion of Total Population (%) (1)		Old Age Support Ratio (2)		Persons above 80 yrs or more (3)		Proportion in Labour Force, 60 yrs. and above (%) (4)		Life expectancy at 60 years (2010-15) (5)	
	2012	2050	2012	2050	2012	2050	Male	Female	Male	Female
China	13	34	8	2	11	22	43	16	18	21
Japan	32	41	3	1	22	35	42	23	23	21
India	**8**	**19**	**13**	**5**	**9**	**14**	**55**	**18**	**16**	**18**
Malaysia	8	20	13	4	7	17	51	14	18	20
Singapore	15	38	7	2	13	34	43	20	22	25
Australia	20	29	5	3	20	29	30	17	23	26
USA	19	27	5	3	20	30	35	25	22	25
Canada	21	31	5	2	20	31	30	18	22	26
UK	23	30	4	3	21	30	25	14	22	25
Brazil	11	29	9	3	15	23	44	21	20	23
Chile	14	30	7	3	16	28	46	17	21	25
Sri Lanka	13	27	8	3	12	22	44	13	19	32

Table 1: Population Aged Sixty Years and Above
Source: Population Ageing and Development Report 2012, Department of Economic and Social Affairs, UNO

(i) The old age support ratio refers to the number of persons aged 15 – 64 per person aged 65 years and above.
(ii) The proportion of persons aged 80 years and above as a percentage of the population aged 60 years or above (the oldest old).

The analysis of the Countries reveals:
(i) That the older population itself is ageing and the older population will be predominantly female. Both developed and developing countries strike similarity here. Hence, the need for old age income supports.
(ii) The proportion of old people in India will double while in China it will nearly treble that of other countries, except Malaysia already have a huge proportion of the old people in the total population. Thus, India has a better position and suitable support programs can be designed.

1.1. Implications of Old Age Support Ratio
The old-age support ratio is an indicator of demographic ageing and the degree of dependency of older persons on the potential working population. The average world dependency ratio has fallen from 12 in 1950 to 8 in 2012 and is expected to be 4 in 2050 (Department of Economic and Social Affairs, UNO).
The old age support ratio has important implications for the solvency of the social security systems/ pension systems as well as for greater need for private transfers from the working population to the older family members.
The absence of a formal system of retirement income support for the unorganized and the informal sector in India has lead to a high incidence of old people in the labour force. The rural areas have a higher incidence than the urban areas with respect to the old people participation in the labour force.

1.2. Extent of Older Persons in the Workforce
The proportion of older people in the labour force can have three interpretations.
Firstly, it speaks about the lack of financial support from the state and the family. Instead of enjoying their retired life they keep working to support themselves. In less developed countries, there is not only limited coverage of social security schemes but there is relatively low amount of pensions for those who are covered, so old people work even after retirement age.
Secondly, due to rising life expectancy, people are able to continue working after retirement. Improvement in lifestyle, better health facilities have led to higher longevity of people. The traditional concept of attaining old age after sixty no longer applies. Also, during modern times new kinds of work have opened up, opening opportunities for the old people too. Labour force participation among older

persons varies by the extent of development, region and gender. In 2012, the proportion of older persons who are economically active is much higher in the less developed countries than in more developed regions.
Thirdly, in countries like India, which have a huge workforce employed in agriculture and where there is as such no concept of retirement i.e., people continue to work till they can afford. This could be one of the reasons for a huge 55 percent of the men and 18 percent of the women above sixty years joining the labour force.

1.3. Feminization of Old Population: A Major Worry?
The old age support ratio would fall roughly three times in India in 2050. Most of the other countries already have low old-age support ratios.

(i) Old Persons above eighty years as a proportion of those above sixty is nearly the lowest in India, except Malaysia. Other countries have very high proportions of people above eighty years.
(ii) The United Kingdom has the lowest proportion of men above sixty years in the workforce and India has the highest. The absence of a formal system of retirement income support for the unorganized and the informal sector in India has lead to a high incidence of old people in the labour force. The rural areas have a higher incidence than the urban areas with respect to the old people participation in the labour force. The NSSO Survey on Employment-Unemployment (2007-08) points out that nearly forty percent of persons aged sixty years and above (60 percent of men, 19 percent of women) are working. In rural areas, the proportion was higher than the urban areas.

Years	1961	1971	1981	1991
Rural	52.04	45.48	43.13	43.10
Urban	35.20	31.48	27.54	24.29
Total	49.50	43.16	40.08	39.13

Table 2: Work Participation among the Elderly in India (as percentage of total elderly population)
Source: Rajan, Mishra and Sarma (1999)

Area	Male	Female
Rural	66 %	23%
Urban	39%	7%

Table 3: Work Participation among the Elderly in India (as percentage of total elderly population – sex wise division)
Source: NSSO Survey on Employment- Unemployment (2007-08)

That Rising demographics necessitate urgent action has been focused by the OASIS Committee Report 2000, the Population Ageing and Development Report 2012, Department of Economic and Social Affairs, UNO, the Population census 2011 and the World Bank Report 1994. The whole world is witnessing rise in life expectancy and India is no exception. However, the situation is not so alarming in case of India. The rising life expectancy could lead to severe problems if adequate policies are not implemented. The issue of rising demographics appears problematic, firstly, because of Civil service pension system which was based on 'generous' defined benefits system and have resulted in huge 'fiscal stress', secondly, the huge unorganized sector which is still not covered under any formal pension system, thirdly, the growing private sector demands parity with those of the public/ government sector.
The question is just not about bringing them under formal pension arrangements but how to enable them to face the 'TWIN CHALLENGES' of (i) rising health expenses (ii) breaking family support system.
The analysis of the countries reveals that the older population itself is ageing and the older population will be predominantly FEMALE. Both developed and developing countries strike similarity here. Hence, the need for old age income supports. The proportion of old people in India will double while in China it will nearly treble. Other countries, except Malaysia already have a huge proportion of the old people in the total population. The old age support ratio has important implications for the solvency of the social security systems/ pension systems as well as for greater need for private transfers from the working population to the older family members. Most of the other countries already have low old-age support ratios. Old Persons above eighty years as a proportion of those above sixty is nearly the lowest in India, except Malaysia. Other countries have very high proportions of people above eighty years. India has a better position and thus suitable support programs can be designed. The absence of a formal system of retirement income support for the unorganized and the informal sector in India has lead to a high incidence of old people in the labour force. The rural areas have a higher incidence than the urban areas with respect to the old people participation in the labour force.

2. A Study of the Pattern of Household Savings in India
The study was done to find out behavioral trends during the period post 2000 and the analyses are as follows:

(i) Domestic Savings comes out of three sources namely Household, Private Corporate Sector and Public Sector. Households account for three-fourth of the total savings. Broadly, total savings comprises of two types – financial and physical. Within the Households, the share of financial savings has been declining vis-a –vis physical savings. According to CSO Data, financial savings was 55 percent during 1990s and have declined to 36 percent in 2011-12.
(ii) Financial savings are mostly in the form of Bank Deposits, Life Insurance funds, Pension and Provident funds, Shares and Debentures and so on. Total deposits in financial institutions like Banks, Non- Banking Financial Companies (NBFC), Cooperative Banks, Mutual funds Deposits were analysed. Out of the total deposits, Deposits in Banks comprises the largest

amount and their share increasing sharply in the second half of 2000s. The reasons for rise again in 2009 can be related to the increase in deposit rates and also due to adoption of 'core –banking' functions- where banks offer a range of value – added products to customers across places, across people and that too 24 x 7. Further, financial sector reforms, growing income, demographic dividends factors, spread of branches and financial inclusion efforts, all add to the growth of bank deposits.

During the mid 1990's, NBFCs saw rapid growth and were gaining popularity among investors. But it did not last long as fraudulent practices by some companies lead to heavy losses for the depositors.

(iii) Investment in Government Securities comprises lower choice when it comes to voluntary preferences.

(iv) Insurance savings are going higher than those in provident and pension funds. Investment in Insurance policies as a savings for future is well appreciated and also is growing. Insurance sector was liberalized and open to private sector from 2000. The IRDA (Insurance Regulatory and Development Agency was set up by an Act of Parliament to be the Regulator. According to World Economic Forum's, Financial Development Report 2012, India tops all countries in terms of life-insurance density followed by China, Japan, USA, and UK. A recent study by McKinsey and Co indicates that consumers have a huge demand for long-term savings products and preference for insurance products vis-a vis other investment product. As the penetration of Insurance Companies rise and as retirement benefits become more limited for the new generations of Government employees, the demand for insurance increases. Also consumers prefer investment in insurance because of convenience, tax benefits and protection covers.

(v) Provident and Pension funds as part of gross household financial savings was 22.8 percent in 1999 and have fallen from 19.3 percent in 2000-01 to 9.20 percent in 2006-07. In 2007-08, it was 9.9 percent and gradually picked up to 10.1 percent in 2008 and to 13.1percent in 2009 and 14 percent and 15.6 percent in 2010 and 2011 respectively.

Item	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Financial Savings (gross)	100	100	100	100	100	100	100	100	100	100	100	100
(a) Currency	6.3	9.5	8.9	10.5	9.2	8.8	8.6	11.4	12.7	9.8	13.8	11.3
(b) Deposits	41.9	37.9	40.9	41.6	39.4	47.4	55.3	52.2	60.7	41.9	45.6	52.8
(I) with Banks	32.5	31.1	35.5	36.7	37.1	46.7	54.3	50.4	52.8	36.6	41.3	48.5
2) NBFC	2.9	2.8	2.7	0.9	0.4	0.8	1.2	0.5	2.0	1.9	0.4	1.5
3) Coop-Banks and Societies	5.6	6.1	2.8	4.0	2.0	0.0	0.0	0.0	4.7	3.7	3.1	2.3
4) Trade Debt (net)	0.1	-2.1	-0.1	0.0	0.0	0.0	0.0	1.1	1.2	-0.2	0.7	0.5
(c)Shares and Debentures	4.4	2.3	1.7	0.1	1.1	4.9	6.6	12.4	-0.7	4.5	0.2	-0.7
1) Private Corporate Business	3.1	1.1	0.8	1.1	1.4	1.3	1.4	4.4	1.0	0.7	0.7	0.1
2) Coop-Banks and Societies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
3) Units of UTI	-0.4	-0.6	-0.5	-2.2	-0.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
4) Bonds of PSU's	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
5) Mutual Funds(other than UTI)	1.3	1.7	1.3	1.2	0.4	3.6	4.8	5.3	-1.4	3.3	-1.2	-1.1
(d) Claims on Govt.	15.7	16.8	17.4	20.2	24.0	14.7	5.2	-4.0	-3.8	4.4	4.0	-2.1
1) Investment in Govt. Securities	1.7	5.7	2.5	4.7	5.0	2.4	0.2	-2.1	0.0	0.0	0.0	0.0
2) Investment in Small Savings etc	14.0	11.7	14.9	15.5	19.0	12.3	4.9	-1.9	-3.8	4.3	4.0	-2.3
(e) Insurance Funds	13.6	14.4	16.1	13.5	13.2	14.2	15.0	18.0	21.0	26.2	22.3	23.1
(f) Provident and Pension Funds	**19.3**	**19.0**	**15.0**	**14.1**	**13.2**	**10.0**	**9.2**	**9.9**	**10.1**	**13.1**	**14.0**	**15.6**

Table 4: Household Financial Savings (Gross)
Source: Annual Reports of RBI

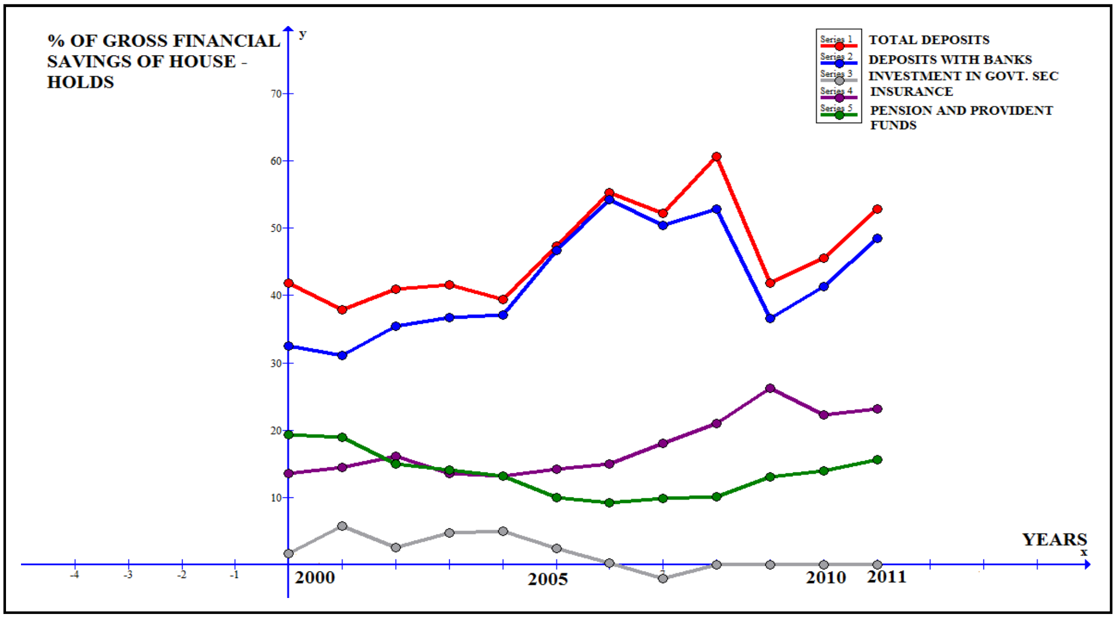

Figure 1: Household Financial Savings
Source: Annual Reports, RBI, Hand book of statistics on the Indian economy (various issues)
Note: Author's calculation using information from Reports

2.2. What Explains the Trend?

The decline in the share of provident and pension funds can be explained:

(i) The EPF and miscellaneous Act covers only those employees of the organized sector whose salary is below Rs 6500/ per month and this limit has not been changed since 2002. As wages have grown over these years, many workers have become ineligible for coverage under the EPF Act.

(ii) Due to Globalization and liberalization, opportunities have increased and workers' movement to better avenues has taken place. As a result, many workers have either shut their account or have stopped contributing to EPF Accounts.

(iii) According to EPFO rules, those accounts which have been inactive for 36 months – that is no contributions have been received, will get no interest on it. There are many cases where workers have joined higher pay jobs but still have the account.

(iv) The real rate of interest was declining (due to high inflation) since the late 1990s and thus there was a decline in the proportion of pension and provident funds savings.

It is evident that financial savings devoted to Provident and Pension funds were higher than the Insurance till 2002 and both tread almost same levels till 2004. The downward movement begins after 2004 and this continues till 2008 and then there is slow but upward movement thereafter. The upward movement could be due to the increase in disposable income on account of the sixth pay commission. Also, the development in pension sector, like NPS being extended for the general public from 1st May 2009 and the NPS returns about 11 percent may have been positive points for the revival.

Also, Investment in Alternative Assets- like Equity and Gold linked Debentures, Gold ETF (Equity traded fund), Real estate are growing. Structured products gained popularity in 2006-07 but faded in the 2008 market crash due to Global Recession. They saw re-surgence and were one of the most popular products of course among the high income earners in 2011-12.

3. Conclusion

India needs to device a sound system for old population in consonance with the phase of a rapidly changing economic scenario and rapid demographic transition. Life-expectancy is increasing while birth-rates are on a decline. In the absence of a social security system in India and the existence of a huge unorganized sector, the problem of demographics is a matter of great concern.There is an urgent need to design a comprehensive and sustainable pension and provident fund system in the interest of equity, efficiency and economy. It should be remembered that measuring the success of a pension and provident fund system requires a long time horizon-longer than 15-20 years, may be a life time, therefore, one should not make haste. The success of any program depends on 'consensus and commitment'. As long as the twin deficits of governance and ideas prevail, no efforts would pay. To quote Pete Peterson, former U.S., Secretary of commerce and deputy chairman of Federal Reserve Bank of New York, 'The costs of global Ageing will be far beyond the means of even the world's wealthiest nations- unless retirement benefit systems are radically reformed. Failure to do so, to prepare early and boldly enough, will spark economic crises that will dwarf the recent meltdowns in Asia and Russia. For this and other reasons, global ageing will become not just the transcendent economic issue of the 21st century, but the transcendent political issue as well'.

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