Innovation in National Pension System[1]

I thank Outlook Money for this opportunity to be part of this august gathering. I propose to discuss how innovation in the National Pension System (NPS) has made pension accessible to all.

Pension is a Necessity

Prudent financial planning, especially early retirement planning, is important for long-term financial well-being. Pension as a financial product is not readily substitutable with any other financial assets. Pension provides lifelong financial security to self and spouse on retirement. Pension assumes added urgency at the current juncture of our socioeconomic development. In this context, I may highlight a few issues.

First, rising longevity: The share of population over the age of 60 years is projected to increase from 10.5 percent in 2022 to 20.8 percent by 2050.[2] This aging is likely to accentuate as every fifth Indian is expected to be over 60 years of age by the middle of this century. Life expectancy is also showing a steady increase with improved nutrition and health-care. Rise in the share of older people coupled with higher longevity would imply that income provision has to be made for longer periods for a decent post-retirement life.

Second, increasing dependency: The old-age dependency ratio is expected to increase from 18 percent in 2020 to 30 percent by 2050 exerting pressure not only on our younger generation but also on our overall financial resources. Its financial implication will be disproportionately large unless working-age population makes provision for their future.

Third, rising healthcare costs: As people age, healthcare expenses typically increase. A well-planned pension provides the resources to manage these costs and makes old-age care affordable.

Fourth, changing family dynamics: The implied insurance of traditional family structure, where elderly parents largely relied on their children for support, is changing. Adequate pensions offer financial independence to manage one's affairs.

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[1] Address by Dr. Deepak Mohanty, Chairperson, Pension Fund Regulatory and Development Authority (PFRDA) at Retirement Expo event: 'Outlook Money 40After40', Jio World Convention Centre, Mumbai, February 07, 2025.
[2] UNFPA India Ageing Report 2023.

Features of the National Pension System (NPS)

Against this backdrop, how is NPS positioned to cater to the wider need for pension? NPS is a flexible, digitally enabled, easily accessible, low-cost pension product with market-driven competitive returns.

The introduction of the NPS in India marked a paradigm shift in transition from a defined benefit (DB) to a defined contribution (DC) system enhancing the stability of our pension system. In the past, pension was perceived to be the privilege of government employment. It is no longer so with the introduction of NPS in 2004, first for the government employees, and then extended to private corporates including the common person, and now to children with the scheme of NPS Vatsalya. NPS Vatsalya can be seamlessly ported to a workplace pension on the child coming of age and joining the workforce, thereby providing continuity to one’s retirement savings account. Thus, any member of the family from infancy to 70-years old can join NPS now.

Flexibility in NPS is the result of innovation informed by user experience. First, NPS has an unbundled architecture with each intermediary at the background undertaking a specialized activity in a professional and cost-effective manner attaining economies of scale. This architecture helps minimizes risk of sole dependency on entities involved and eliminates risk of failure of the system.

Second, digitalisation has played a crucial role. It eases onboarding and significantly reduces the cost to the subscriber. One could join NPS digitally by using net banking, mobile apps or eNPS; or physically through bank branches including that of many RRBs.

Third, NPS offers flexibility in selecting pension funds and asset allocation. It offers auto-choice and active-choice of asset allocation. In auto-choice, one gets to select any one of the four life cycle funds which balance risk with age among various asset classes. For example, as one ages, the equity allocation tapers down. Alternatively, there is active-choice where the subscribers chose their mix of asset classes depending on their risk appetite. For example, one can invest upto 75 percent in equity, irrespective of one’s age.

Fourth, NPS provides a very low threshold of entry making it a people’s product. The NPS account remains active, only with an annual contribution of ₹1,000. It is not necessary to contribute every month. Thus, NPS is also suitable for people with irregular income. There is no upper limit for contribution. It has its own advantage. For example, youngsters contemplating to retire early can front-load their contribution to achieve their retirement goal. Similarly, a subscriber can defer his/her exit and stay invested in NPS upto 75 years of age. Additionally, the subscriber has an option to withdraw the lumpsum amount in the form of systematic lumpsum withdrawal (SLW) in a phased manner upto the age of 75 years or withdraw anytime the entire amount.

Fifth, tax efficiency; both the employer and employee enjoy income tax deductions upto 14 percent of the employee’s salary contributed to NPS under the new tax regime. Of course, under the old tax regime there is an additional benefit of ₹ 50,000, exclusively for NPS.

Progress of NPS

At present, NPS has around 16 million subscribers: 9.6 million government and 6.4 million private subscribers with a corpus of almost ₹ 13.4 trillion. On a voluntary basis, both private citizens and corporates have enrolled with NPS. Private sector NPS assets have also shown a robust growth in recent years. The corpus from the private sector is about ₹ 2.8 trillion. There were over 19,000 corporates with over 2.2 million subscribers including 1.3 million from the private corporate sector. The adoption of NPS by private corporate employees, however, is not commensurate with the large number of corporates that have joined, underscoring the need for concerted efforts to tap into the potential.

The popularity of NPS is also rising among the individual subscribers with a subscription base of 4.2 million expanding at a compound annual growth rate of 22 percent surpassing the growth of employer-based subscription.

The schemes under NPS have generated attractive returns. The average annual returns since inception under the equity scheme of NPS have been over 13 percent, with 9 percent for corporate debt scheme and 8.8 percent for government securities scheme.

Why is still pension coverage inadequate?

The pension coverage in India is inadequate, mainly because 80 percent of our workforce is engaged in the unorganized and informal sectors where they do not have access to occupational pension as in the organized sector. As per the Economic Survey 2024-25, around 58.4 percent of workforce was self-employed and 19.8 percent was casual labour where there is no statutory access to social security benefit like workplace-related pension. Similarly, on the eShram portal of the Ministry of Labour and Employment over 305 million unorganised workers were registered, suggesting that the bulk of our work-force goes uncovered by pension.

This challenge is not limited to us. A recent study by the Organisation for Economic Co-operation and Development (OECD)[3] showed that Asia and the Pacific region's pension systems are facing common challenges as they attempt to expand coverage, and ensure adequacy and fairness, while maintaining fiscal sustainability. While pension system designs vary, coverage of contributory schemes is a common challenge because of stubborn informality. At the same time, regional and global experience suggests potential for coverage expansion by focusing on workers not yet covered by design such as self-employed, business owners, those in enterprises below a certain size, and gig and platform workers.[4]

Conclusion

I may conclude. There is a need to expand pension coverage so that people have adequate post-retirement income to lead a life of dignity. However, the adoption rate is low, even among people who have the income to contribute, partly due to inadequate appreciation of the need. I hope events like this focused on retirement-planning will help in improving awareness. The NPS has made pension available to all irrespective of one's income and employment status. We have been working on improving the accessibility of NPS, both digitally and physically, to every citizen of India, and also to increase awareness.

Once again, I thank Outlook Money for inviting me to interact with you.

Thank you.

[3] Pension at a Glance – Asia Pacific 2024

[4] Pensions in Aging Asia and the Pacific: ADB Economics Working Paper Series | October 2024