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Study on Indian Pension System, Retirement Benefit Program and Different Schemes for Pension in India

Jodha Bai*

VPO-Batta, Kaithal

Abstract – The Pension Act depicts a drastic shift in the regulation of pension funds in Malawi. It becomes mandatory that every employer and employee contribute towards this fund till the end of employment. The labour concept differs from one country to another, one industry to another, time to time and between regions. Then, it depends on several problems on which the society has been confronted and moulded based on the sex, age group, economic status, soco-cultural background and also the educational level of employees in varied industries. Also, labour welfare in terms of the concept owns negative and positive sides such as, dealing with provision of the opportunities that allow workers along with their family to have a socially good life and also personally whereas, the negative side provides array of opportunities for labour problems and consequences. Moreover, it makes mandatory for every employer to keep up a life insurance policy on behalf of every employee. In order to provide people all sorts of social security and safeguard them from any kinds of exploitations, India had undertaken several welfare activities such as education for all, women empowerment, medical support for all, employment for an unskilled, semi-skilled, and skilled workforce, housing, and old age pensions. The financial and industrial policy of a state develops a roadmap for its comprehensive growth and development.

Keywords: Labour Welfare, Pension System, Indian Constitution, Skilled Workforce etc.

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I. INTRODUCTION

The labour welfare utilization philosophy in terms of the force motivating towards each labour and the ones interested in it. The social sciences Encyclopedia has been termed as the efforts voluntary of employers for the establishment of the industrial existing system, working and also living along with employees cultural conditions as required by the law, the industry custom and the market conditions." A second definition on the labour welfare is "anything that is done for the improvement and comfort, social and intellectual of employees beyond wages paid, and is not the industry's necessity." also, labour welfare as defined is " one that takes over all the employer efforts made to benefit the employees above and beyond the standard minimal of working conditions as staged by the factories act and beyond the social legislation provision provided against the accident, sickness, old age, and unemployment."

Labour welfare acts as a concern that takes the stake holders alternation nationwide. Welfare suggests doing well for all. The welfare state aims to provide free and full development of the human personality along with different materialistic terms such as progress and human freedom. India has taken the welfare state philosophy. So, abiding by the welfare state norms, India seeks granting of equality, justice, and establishes form of a social order when there lays high income distribution for each citizen, real income's base no matter what is the market value of the work or property of an individual. As per T.W. Kent, a state of welfare gives huge range of the 'Social Services' to citizen including health, education, and so on. The welfare concept is seen to change as per the needs of the people or Nation.

At the start, social awareness and humanitarianism has promoted activities for labour welfare. This gets moved by the effective efficiency and workers output having the view of better worker's, where employers have been lured into Organization through measures of labour welfare. Also, few issues as tackled by the measures of labour welfare are given below.

- Measures of labour welfare are undertaken to deter paying of surplus tax on and likewise building effective relations with their employee.
- These measures of labour welfare motivate workers to accept the idea of mechanization

and also such measures of labour welfare has been undertaken by employers as the tool to fight outside agencies.

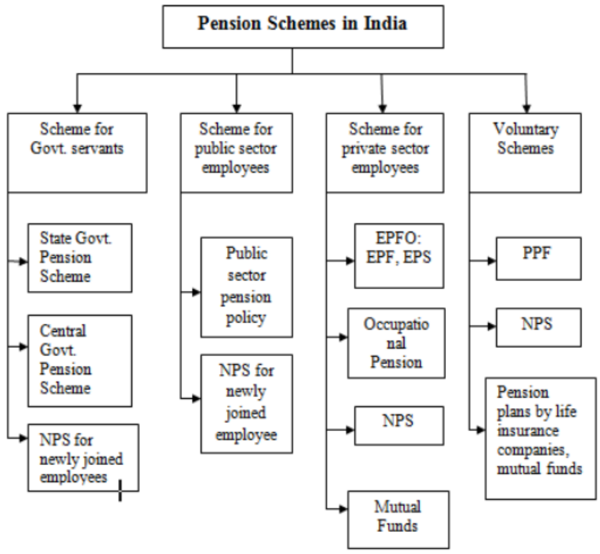
- At times, measures of labour welfare has been undertaken to map minimal requirements which has been followed by different industrial organizations.

II. PENSION SYSTEM IN INDIA

"By providing financial protection against the major 18th& 19th century risk of dying too soon, life insurance became the biggest financial industry of the century. Providing financial protection against the new risk of not dying too soon enough may well become the next century's major and most profitable financial industry" - Peter Drucker.

Pension in India has traditionally been based on financing through employer and employee participation. Majority of the population is not covered by any formal pension scheme, as the coverage in employee pension schemes has been restricted to only the organized sector. Only about 12% of the working population in India is covered by some form of retirement benefit schemes. That means 88% of population still does not have access to any form of retirement planning and has to rely on their own earnings or traditional and informal methods of old age income security such as the joint family system. However, traditional shelter for old age is reducing day-by-day because of changing social patterns. With the changing social and economic environment, making one's future secure by way of pension provides great relief to retired persons and helps them live a financially secure and dignified life after retirement. Meticulous financial planning adds to the quality of life in the years to come and if the person further provides for healthcare he can add years to his life.

India, like many other countries in the world, has been forced to face the phenomenon of a `graying society'- a major concern the world over since the past two decades. According to the World Bank Statistics 2001 on Population , nearly one-eighth of the world's elderly population lives in India. India is seeing a change in its family structures from the joint family system to the nuclear family system. It is mainly because of the increasing migration of younger generations to different places of the work which diminishes the old age financial support. Moreover, the increased life span and increased medical expenses during old age are beyond the means of a common man to sustain. Hence there is a pressing need to re-examine the existing formal and informal pension systems.



It is by now a well-recognized reality of the Indian financial market that most financial instruments in India are `push' products and not really `pull' products. Thus according to Mr. D. Swarup5 `Pension products globally are wholesale products sold to employers. Individual longevity risk arises because it is impossible to know when a particular individual will die. This can be managed through risk pooling which is performed by pension funds and insurers who sell annuities. The annuitants who die early generate a `mortality profit' that funds the annuities of those who live longer than average.

III. PENSION TYPES

India has a bright future of pension market. Hefty salaries, growing life expectancy, health care consciousness & management and government initiatives like pension reforms are making India a potential country for pension business. India is experiencing a demographic transition characterized by declining fertility rate and increasing life expectancy. People are having fewer children but live much longer than before, so the population is aging rapidly. Projections indicate that the proportion of population age 65 or older, that may be classified as retired will rise to 8 percent in 2031, and it will rise to over 13 percent by 2051. In absolute terms, the number of persons age 65 or older will grow from 62.5 million in 2011, to 121.8 million in 2031, and 229.4 million in 2051 . Majority of working population in India expects to maintain the current living standards and to have better quality life after retirement. Presently Indian pension market is fragmented in nature due to too many regulators. The pension funds offered by Insurers are regulated by the Insurance Regulatory Development Authority, the mutual fund pensions are regulated by the Securities and Exchange Board of India and the New Pension Scheme is regulated by the Pension Fund Regulatory Development Authority. Ideally the regulatory framework should be under one umbrella if there has to be efficient management and growth.

Traditionally, specialists have divided pensions into the following three categories:

- **Fully Funded Pension** - In this system, the accumulated pension reserves equate to the present value of all pension liabilities owed to current members. The reserves are invested in a fund of specifically held identifiable and available assets.

- **Partially Funded Pension** - Partially funded pension system shares features of both PAYG and Fully Funded individual accounts. This system has both the contribution and benefits defined and any shortfall is met through contribution at the time of payout.

- **Unfunded Pension -** Also known as `Pay-as-you-Go' (PAYG), it functions on a defined benefit basis. It is also called noncontributory pension. The benefit is given from the current government revenue. It adds to the burden on the Government treasury, leading to a rise in contributions.

IV. THE RETIREMENT BENEFIT PROGRAM

When India became Independent and drafted its Constitutional Scheme as a progressive democratic welfare state, it aims to achieve "Social Security" for every individual. A number of welfare legislations have been framed for the purpose which derives their strength and spirit from the Directive Principles of the State Policy. In Life Insurance Corporation of India v. Consumer Education and Research Centre , the Supreme Court has observed that social security has been assured under Article 41 and Article 47 and it imposes a positive duty on the State to raise the standard of living and to improve public health. In Samal Chand Tiwari Son of Late Prem v. State Of U.P., Through Secretary, the Allahabad High Court has stated that the quantum of retiral benefits although is governed by statutory rules but it is clear that Government servant has a legal right to receive his retiral benefits as soon as he retires. Because after retirement a Government servant is not paid any salary only some amount is paid in the form of retiral benefits to provide him monetary assistance to sustain himself and his dependents with honour and dignity. Retiral benefits are not bounty but a right earned by the employer and thus it is deferred wages payable to a Government servant in lieu of considerable length of service rendered by an employee to the employer. Nonpayment of pension, therefore, amounts to denying right to earn livelihood which includes his deferred wages in accordance with rules. And the nonpayment of the same will amount in violation of fundamental right under Article 21 of the Constitution of India.

But unfortunately even after 71 years of Independence and 67 years of being Republic the annual report of Ministry of Labour and Employment, Government of India, 2016 - 2017 states that the social security schemes in India cover only a small segment of the organized Work - force.

The Crux of achieving "Social Security" lies in the "quality of life" and thus it can only be achieved by improving the same. Right to life is a Fundamental Right under the Constitutional Scheme but it does not mean mere a right to alive or live. Rather it does not mean an animal existence too. What the Right to Life means is living a life with "human dignity". The Supreme Court in Francis Coralie v. Administrator, Union Territory of Delhi, has Observed that the right to life includes the right to live with human dignity and all that goes along with it, namely, the bare necessaries of life such as adequate nutrition, clothing and shelter and facilities for reading, writing and expressing one-self in diverse forms, freely moving about and mixing and commingling with fellow human beings. Of course, the magnitude and content of the components of this right would depend upon the extent of the economic development of the country, but it must, in any view of the matter, include the right to the basic necessities of life and also the right to carry on such functions and activities as constitute the bare minimum expression of the human-self. Every act which offends against or impairs human dignity would constitute deprivation protanto of this right to live and it would have to be in accordance with reasonable, fair and just procedure established by law which stands the test of other fundamental rights. Another broad formulation of theme of life with dignity is to be found in case of Bandhua Mukti Morcha v. Union of India, where the Supreme Court observed that "to live with human dignity, Free from exploitation. It includes Protection of health and strength of workers, men and women. In Chameli Singh vs. State of Uttar Pradesh, the Supreme Court while dealing with Article 21 has held that for a decent and civilized life includes the right to food, water and decent environment. The court has observed that in any organized society, right to live as a human being is not ensured by meeting only the animal needs of man. It is secured only when he is assured of all facilities to develop himself and is freed from restrictions which inhibit his growth. All human rights are designed to achieve this object. Right to live guarantee in any civilized society implies the right to food, water, decent environment, education, medical care and shelter. These are basic human rights known to any civilized society.

Again in Board of Trustees of the Port of Bombay vs. Dilipkumar R. Nandkarni, the court came to hold that 'the right to life' includes the 'right to livelihood. In Olga Tellis vs. Bombay Municipal Corporation, the Court has observed that one aspect of the right to life an equally important facet of that right is the right to livelihood because no person can live without means of living, that is, the means of livelihood. But in A.K Bindal vs. Union of India, the court has acknowledge that what should be the salary structure to lead a life with human dignity is a difficult exercise and cannot be measured in absolute terms. 'Right to health, medical aid to protect the health and vigour of a worker while in service or post – retirement is a fundamental right under Article 21.

The Benefit Program

A Retirement plan provides a sense of social security and ensures that after hard labour of several years, one can afford to relax and start enjoying the fruits of his labour as long as he is gifted to live. The Retirement Benefit Programme can be broadly classified in to following three heads:-

1. Benefits, which are paid to the employees of Central Government and employees of Central Public Service Undertakings (CPSUs)

2. Benefits, which are paid to the employees of State Governments and employees of State Public Service Undertakings (SPSUs)

3. Benefits which are paid or available to the employees of Private Sector

V. DIFFERENT SCHEMES FOR PENSION

5.1 The National Pension System

Government of India established Pension Fund Regulatory and Development Authority (PFRDA) on 10th October, 2003 to develop and regulate pension sector in the country. The National Pension System (NPS) was launched on 1st January, 2004 with the objective of providing retirement income to all the citizens. NPS aims to institute pension reforms and to inculcate the habit of saving for retirement amongst the citizens. Initially, NPS was introduced for the new government recruits (except armed forces). With effect from 1st May, 2009, NPS has been provided for all citizens of the country including the unorganized sector workers on voluntary basis.

5.2 The Employee's Provident Funds & Miscellaneous Provisions Act, 1952

An Act to provide for the institution of provident funds, pension fund and deposit-linked insurance fund for employees in factories and other establishments. The Act applies to every establishment which is a factory and in which 20 or more persons are employed. The Act further declares that where an establishment consists of different branches whether situate in the same place or in different places, all such departments or branches are treated as a part of the same establishment Also where in an establishment to which the Act applies the number of person employed fall below 20 such decrease in does not affect the applicability of the Act. The central board of trustees administers a contributory provident fund, pension scheme and an insurance scheme for the workforce engaged in the organized sector in India. The board is assisted by the employees' PF organization (EPFO)

5.3 Swavalamban Account

A citizen of India between the age of 18 and 60 years as on the date of submission of his / her application, who belongs to the unorganized sector or is not in a regular employment of the Central or a state government, or an autonomous body/ public sector undertaking of the Central or state government, can open NPS - Swavalamban account. The subscriber of NPS – Swavalamban should not be covered under social security scheme like Employees' Provident Fund and miscellaneous Provisions Act, 1952, The Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948, The Seamen's Provident Fund Act, 1966, The Assam Tea Plantations Provident Fund and Pension Fund Scheme Act, 1955 and The Jammu and Kashmir Employees' Provident Fund Act, 1961.

Though there is no minimum contribution requirement per year, minimum contribution of Rs.1000/-per year is recommended to avail Swavalamban benefit. The normal exit from NPS Swavalamban account is at the age of 60. However, early withdrawal is also permitted with certain conditions.

On withdrawal from NPS Lite account on 60 years of age, the subscriber would be required to invest minimum 40% of accumulated savings (pension wealth) to purchase annuity. At the time of exit, the effort is to give a monthly pension of Rs.1000/-. If 40% of the amount is not sufficient to give pension of Rs.1000/- higher percentage or entire pension wealth would be subject to annuitisation. On withdrawal before 60 yrs, the subscriber would be required to invest minimum 80 % of accumulated savings to purchase annuity. He can withdraw rest of the 20% amount. In case of death of the subscriber, the entire amount will be transferred to the nominee/ legal heirs. The nominee/ legal heir will approach the aggregator with necessary documents such as Death Certificate, Identity proof of the nominee, etc.

5.4 Indira Gandhi National Old Age Pension Scheme 2007

Indira Gandhi National Old Age Pension Scheme is a Social Assistance Programme initiated by the government which represents a significant step towards the fulfillment of the Directive Principles in Article 41 and 42 of the Constitution recognizing the concurrent responsibility of the Central and the

State Governments in the matter; In particular, Article 41 of the Constitution of India directs the State to provide public assistance to its citizens in case of unemployment, old age, sickness and disablement and in other cases of undeserved want within the limit of its economic capacity and development.

VI. CONCLUSION

Retirement fund industry in India is in a nascent state and is not as diverse as its counterparts in developed countries. It is nascent because there exists information asymmetry in terms of investment practices followed. It is a black box and fiduciary responsibilities are avoided. Investment is regulated, rather over regulated sometimes, and reporting is done annually however, the money managers can use the funds according to their experience. Fund management is both active and inactive. The significance of this activity varies which could be attributed mainly to the existence of opaque systems with regulatory regime and operations being very lax along with yearly reporting practices which mostly prevails in the industry.

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Corresponding Author

Jodha Bai*

VPO-Batta, Kaithal