

# India's Pension Challenge

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## India's Pension Challenge: Bridging Gaps for a Secure Retirement Future

### Context:

Pensions are fundamental to ensuring **economic security and dignity** for the elderly. In retirement, individuals face **reduced income**, **rising healthcare expenses**, and **inflation**, making pensions a **necessity rather than a luxury**.

Despite rapid economic growth, India's pension system remains underdeveloped and exclusionary, especially for the **informal sector**, which forms the bulk of the labour force.

To achieve the goal of becoming a **developed economy by 2047**, India must adopt a **sustainable and inclusive pension policy** that addresses current gaps and future challenges.

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### India's Pension Landscape: Gaps and Inequities

- As per the **Economic Survey 2025-26**, only **12% of India's workforce** is covered by formal pension schemes.
- **Public sector** and **organized private sector** workers benefit from overlapping schemes.
- In contrast, **informal sector workers**—making up **85% of the labour force** and contributing over **50% of the GDP**—are largely excluded.
- Informal workers can only access **voluntary schemes** like the **National Pension System (NPS)** and **Atal Pension Yojana (APY)**, covering just **5.3% of the population**.

This results in:

- A **fragmented** and **inefficient** pension architecture.
- **Lack of scalability** and **transparency**.

- A system that **does not reflect the changing nature of the workforce**, such as the rise of gig and platform-based jobs.

Without reform, India risks a **retirement poverty crisis**, especially with the **old-age dependency ratio projected to reach 30% by 2050**.

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## Challenges in Expanding Pension Coverage

### 1. Scalability

- India's pension schemes are **narrowly targeted**, leading to **overlapping and parallel systems**.
- For instance, gig platforms are mandated to contribute to social security, but these efforts lack integration into a **centralized framework**.
- **Developed countries** like **Japan** and **New Zealand** use **universal, flat-rate pensions** applicable to all workers regardless of employment type.

### 2. Sensitisation and Accessibility

- **Pension literacy remains low**, particularly among rural and informal workers.
- The **voluntary nature** of schemes like APY and NPS results in **low participation** without awareness drives or behavioural incentives.

### International best practices:

- **Australia** integrates retirement planning into the **school curriculum**.
- **Netherlands** mandates **annual pension disclosures**.
- The **UK** uses an **opt-out enrolment system** to boost participation.
- **Nigeria** leverages **digital platforms** for easier enrolment and wider reach.

### 3. Sustainability

- Ensuring the **long-term financial health** of pension funds is essential.
- According to the **Mercer CFA Institute Global Pension Index 2024**, India's pension system scored only **44%**, with low adequacy ratings.
- Even **China**, with broader coverage, faces **sustainability challenges** due to over-reliance on public funds.
- Countries like the **US, Denmark, and Australia** have successfully included **private sector funds** and adopt **diversified investment strategies** for better returns.

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### Proposed Solution: A Three-Tiered Pension Framework

To ensure comprehensive coverage and financial security, India must adopt a **three-tiered pension model**:

#### Tier I: Universal Basic Pension

- **Flat-rate, mandatory pension** for all citizens, regardless of employment status.
- Funded through a mix of **government support** and **modest individual contributions**.

#### Tier II: Occupational or Employer-Based Schemes

- **Mandatory or auto-enrolment schemes** for both formal and informal workers.
- Encourages **shared contributions** by employers and employees.

#### Tier III: Voluntary Pension Savings

- **Flexible, tax-incentivised schemes** offering **market-linked returns**.
- Designed to **supplement** basic retirement income.

**Complementary steps** include:

- Nationwide **financial literacy campaigns** integrated into **school and college education**.

- **Digital pension portals** with simple interfaces for enrolment and fund tracking.
  - **Annual disclosures** of pension entitlements to improve transparency.
  - **Regulatory reforms** to ensure sound investment of pension funds and long-term **liquidity**.
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### Conclusion: A Call for Urgent Reform

India is experiencing a **demographic shift** with a growing elderly population. Without major reforms, the country faces a rising risk of **old-age poverty** and **social insecurity**.

A **reimagined, inclusive, and sustainable pension system**, especially one that includes the **informal sector**, is essential for realising the **vision of a developed India by 2047**.

Building a pension framework based on **universal access**, **financial resilience**, and **public trust** will not only protect future retirees but also strengthen India's **socio-economic foundations** for generations.



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