A Perception of the Middle and High-Income Millennials about the Need for Pension and their Retirement Preparedness

NATIONAL INSURANCE ACADEMY

A Perception of the Middle- and High-Income Millennials about the Need for Pension and their Retirement Preparedness

05.06.2023

NATIONAL INSURANCE ACADEMY

STUDY TEAM

Suparna Bedakihale

S. C. Pattanayak

P. Venugopal

G. Srinivasan

ACKNOWLEDGEMENT

The outcome of this research study is a blend of the descriptive data analysis, the wisdom extracted from public domain as well as distilled from the interactions with industry experts and the suggestions provided by the survey respondents.

The research team sincerely acknowledges the intellectual literary contribution of industry stalwart Dr. H. Sadhak and others, included as a part of the research report. The team also appreciates the value it has provided to enhance the quality of the work. The team conveys deep gratitude to all such contributors towards the success of this project.

The team genuinely thank the millennials and industry experts who spared their valuable time to provide comprehensive inputs during the extensive in-depth interactions conducted as ~~a~~ part of the pilot study.

The team expresses heartfelt thanks to the millennial respondents who took trouble to provide their perspectives in response to the exhaustive questionnaire prepared for the study purpose. The team is also thankful to those who motivated the respondents to contribute and helped us to widen the reach and depth of the survey.

The research team is grateful to Dr S. Doss (National Insurance Academy - NIA), Ms. Chaturthi Shetty (NIA) and all the NIA team for their support and guidance during the entire project. The team also thanks Mr. Jitendra Warhady from publications department for his support to shape this report.

EXECUTIVE SUMMARY

India is the most populous country in the world. The improvement in longevity and decline in fertility rates in India is resulting in the growth in the size and proportion of older persons in the population. The share of the elderly in the total population in India is projected to reach nearly 20% by 2050. This inevitable demographic change is going to bring with it various socio-economic problems that emphasize the need to cautiously ensure old age financial security of the citizens.

In India, nearly 89% of the labour force is not covered under any formal retirement benefit schemes. Even in the formal sector, as the 'Pay-As-You-Go' public pension system was heavily burdened with population aging, India shifted from the 'defined benefit' pensions to the 'defined contribution' funded ones from January 2004. This move transferred the burden of 'ensuring adequacy' of pensions from the employers to the employees.

Overall, the old age preparedness of Indians does not appear to be encouraging as nearly 70% of the elderly Indians are economically dependent on others. Also, nearly 81% of the economically independent elderly are required to shoulder the financial responsibility of at least one dependent and hence, they become financially vulnerable. The situation is estimated to become worse because, by the year 2050, every 100 working people in India would need to take the financial responsibility of more than 30 elderly persons, if the elderly have not provided for themselves.

The socio-economic consequences of aging population are critical for India because, contrary to many other countries, traditionally Indians depend on their children for old-age support. This has been creating inter-generational tensions, it will continue to be so, as well as limiting the education and productivity potential of the young generations. Indians lack active retirement planning and in most of the states, the contribution towards creation of pension wealth (in the form of financial instruments and pension funds) to the household wealth is negligible even among the rich. This fact corroborated by the bottom positions of India in global retirement indices indicates a huge scope for the improvement of Indian pension systems as well as the enhancement in the retirement preparedness of Indians.

Objectives of the Research Project

The millennials - who are currently in the age group of 26 to 41 years and who represent nearly half of the working-age population – would be the only age-old citizens of India by the time India is to experience the demographic reality of 'population aging' in its full vigour. Ultimately, not only the awareness, but also the early actions of the millennials to actively plan for their retirement would be the factors essential to lay the foundation of financial well-being of Indian households and healthy socio-economic constitution of future India. Interestingly, though the millennials are exposed to 'more than ever' longevity risk, they appear to be least concerned and least prepared for their financial well-being during their old age.

National Insurance Academy set out to conduct a research study focussing on the retirement preparedness of **middle- and high-income millennials** (with annual household income between Rs. 2 lakh and Rs. 10 lakh) to examine their perception about their need for pension, their investment preferences to provide for old age, acceptance of NPS for pension planning & their retirement preparedness in general. The study also targets to identify effective facilitators that ensure the actions towards achieving the old age financial security of the millennials.

Research Methodology

The research study by the Academy was an empirical one conducted with an exploratory approach. Based on the inputs gained from secondary data and in-depth interactions with select experts, an exhaustive survey tool with more than 30 questions was prepared and pre-tested. During the period between 12th August 2022 to 15th September 2022, an online survey was conducted. In all, 458 valid responses from the middle- and high-income millennials pertaining to various categories such as professionals, self-employed, business owners, formal/ informal sector employees etc. - mostly from the urban areas in and around the western and southern parts of India - were received. The responses were then analysed to address the objectives of the research.

Findings of the Research Study

It is common to clamour that the government should work to expand the formal sector or enhance the coverage of its social security schemes to ensure old age security for the citizens. However, to arrest the serious socio-economic repercussions of 'population aging', **it is very much essential to make the citizens realize the gravity of longevity risk and make them**

accept the responsibility to mitigate the risk on their own. The research study attempted to assess the perception and the retirement preparedness of the **middle- and high-income millennials**. The following are the findings derived against the objectives of the research:

Objective 1: To examine the awareness of the millennials about their financial needs during their retirement and their preparedness for the same.

The better-off millennials are aware of the need for, and the importance of 'pension'. Most of them are well aware of the necessity of an early start for old age planning. **However, this awareness has not resulted into their actions for their own retirement planning.** A majority of them seem not to have rational estimates of their longevity and the consequent longevity risk and that makes them underprepared for their retirement. A quarter of the better-off millennials save just less than 10% of their income for future financial security.

The middle- and high-income millennials seem not to be very clear about benefits they get on retirement. About one-tenth of the employed millennials are not much aware about the pension they are likely to get and about two third feel that their existing pension would not be enough for their retired life. A quarter of the millennials expect to retire from active working life before they attain 50 years of their age.

Objective 2: To identify the investment preferences, exclusively earmarked for old age.

More than two third of the better-off millennials have not yet decided about how they are going to secure their old age financials.

Only a few millennials rely exclusively on pension products and about one third prefer those as a part of their old age provision. There appears to be a lack of awareness and, therefore, a lack of interest amongst the millennials about the pension products as compared to other financial products. They perceive the return on investment in IPPs as low and the absence of an option to surrender a pension/ annuity plan before vesting as a limitation. They expect innovative products like index-linked/ step-up annuities, seamless digitized buying processes and improved servicing support from the insurers.

Also, there is a lack of interest among the marketers to sell pension products as the commission structure for IPPs of some insurers is not attractive when compared with the commission for Mutual Fund schemes. Ultimately, there also appears a lack of interest among the insurers to come up with innovative pension products because they apparently find it difficult to convince the youngsters/ millennials to purchase pension plans.

Nearly one third millennials prefer financial products as ~~a~~ part of their old age provision and life insurance policies and mutual funds are their most preferred instruments.

Objective 3: To identify the factors that impact their awareness and actions related to pension and their buying behaviour towards the same.

Various loan liabilities, low awareness of retirement needs, poor knowledge of financial products and income constraints are the main reasons that hinder the millennials from making sufficient investment for their retirement. Financial education about retirement planning and providing knowledge of pension products available for them– are the main factors that would encourage them to save for their retirement. The financial decisions in the families of most of the millennials are taken by the millennials (Self/ Spouse/ Joint).

To get information related to financial investments, the better-off millennials are more inclined towards personal research through genuine sources on internet, social media and short videos on YouTube. The millennials also prefer advice by a trusted financial advisor and consultation with a trusted family member, friend or colleague. Though the millennials prefer online search to get financial information, they prefer the intermediaries with human interface such as brokers, web aggregators and individual agents to actually purchase the pension products.

Objective 4: To understand the acceptance of NPS as a financial security during old age

Among the better-off millennials, nearly a quarter are not at all aware of NPS. A half of them are somewhat aware. The internet/ social media, word of mouth and the employer - are the main sources of information about NPS. Many millennials have not clearly understood the double tier NPS as well as the tax treatment for their contributions. Even some millennials who claim to be fully aware of NPS have not assimilated the product conceptually and hence have inappropriate expectation from NPS.

Only 50% of the better-off millennials who are aware of NPS have invested in it, **'tax concession' being the main motive**. Nearly 25% of the millennial subscribers are with NPS **only because it is mandatory for them**.

The better-off millennials strongly expect better returns, guaranteed pension, more investment options, innovative pension options, tax free pension, enhanced tax concession and better servicing support by the participants of NPS architecture. The representative opinion of the millennials is that with the appeal of additional tax benefit u/sec. 80CCD, NPS may help to get started with retirement planning. However, the uncertainty associated with its accumulation as well as decumulation phase **makes it very difficult to plan the retirement benefits exclusively with NPS**.

Implications of the Research Study

The study indicates that there is an immense need to make the better-off millennials accept the responsibility for their old age financial security on their own and push them for active retirement planning exclusively with pension products. It needs great efforts by all the stakeholders to enhance financial and pension literacy amongst the millennials and influence their intertemporal consumption choices. The millennials working in the formal sector need to be enlightened to understand and ascertain their retirement benefits/ pensions and the service conditions related thereto. The millennials also need to be educated to verify the adequacy of their retirement provisions and purchase supplements, if necessary.

At the same time, the stakeholders need to ensure availability of reliable and sustainable pension products for the millennials. The NPS product (Government Model/ Corporate Model/ All Citizens Model) needs to be revamped and simplified to make it acceptable by the millennials as a reliable pension tool. In its new form, the 'NPS' needs to be **exclusively positioned as a 'Pension Product'** - to serve its desired purpose. There is a need to enhance awareness and disseminate correct knowledge of NPS among the millennials even from the affluent sections of the society. The employers also need to accept and bear this responsibility.

The stakeholders need to provide a multidimensional user-friendly platform to the millennials where they can update their knowledge, estimate old age requirements, compare pension products and purchase the most suitable one, seamlessly. The pension preparedness of the better-off millennials needs to be promoted through the activities targeted through a medium of their choice. However, designing of retirement plans or actual purchase actions of the millennials must be handheld by human intermediation.

Suggestions for the stakeholders

1. The pension market in India requires special attention and innovations, both in accumulation as well as decumulation phases of pension products. Along with regulatory control, the annuitization phase is more in need of a developmental push. Hence, the whole pension business in India (by NPS and the life insurers) is to be brought under one regulator for better control and for the efficient and healthy development of the sector.

2. Similar to the initiative 'Bima Sugam' by the IRDAI, an online platform of pensions is to be created under the control of the proposed unified pension sector regulator. The e-portal should include pension products of all insurers as well as the NPS and it should provide seamless purchase and servicing experience to the customers. It should provide all the educational information of financial markets and hands-on for retirement planning. Also, it should provide access to agents/ brokers for personal consultation.

3. To achieve the desired objectives of pension literacy in the most effective way, **a pan-India 'Pension Awareness Campaign' of at least 1 year duration** consisting of **the phases of "Awareness-Adequacy-Actions" is required to be launched and implemented** targeting the millennials through all appropriate media. **The awareness campaign should essentially focus on to immediately convert the awareness so created in the individual millennials to their financial planning for retirement and eventually end with the purchase of appropriate pension product.** The campaign is to be undertaken with the coordinated and collaborative efforts of various stakeholders like the Government of India, the PFRDA, the RBI, the IRDAI and others and also all the Life insurers dealing with pension products.

4. The unified pension regulator may join hands with the entities like CBSE and NPCI to include the concepts of old age financial security in the series of books on financial literacy. The regulator may also have tie-ups with schools for conducting 'Financial and Pension Literacy Programme' for students.

5. To encourage old age financial security with active retirement planning and to bring the market competition on equal footing, the government of India needs to provide suitable **exclusive (slab-wise) tax concessions for investment in pension plans (similar to the NPS) and the pension outgo as well.**

6. Along with Systematic Withdrawal Plan (SWP) for pensions, the millennials of today expect innovative annuities like index-linked/ Step-up pensions. A holistic 'Annuity Development Program' needs to be implemented for overall growth of the market so that the life insurers or the annuity providers of NPS can accept the longevity risks of annuitants for such products with desirable financial instruments in the developed financial markets.
7. **The following are the suggestions for revamping the National Pension System:**

   a. It appears that the twin account design of NPS affects the product focus, increases the product cost and invites repulsion from the customers because of its perceived complexity added to the fact that being a pension product, it already lacks a pull from the individuals. **Hence, the Tier II account of NPS should be withdrawn with immediate effect.** It would help all the stakeholders to concentrate on the core business of Tier I in a better way.

      In no way individuals should be encouraged to use NPS as a 'Mutual fund scheme'. **NPS should be structured, positioned and branded exclusively as a reliable and lasting pension product.** NPS should be defended strongly for its features desirable for a pension product by creating awareness in the society rather than entertaining public demands that would dilute the structure of NPS to increase subscriptions.

   b. In respect of most respondents, the present limit of deduction of Rs. 50,000 from taxable income (u/s 80 CCD) seems to limit their yearly contribution to NPS Tier I to Rs. 50,000. and, therefore, does not result in the desired accumulations for actual retirement planning. Hence, the tax benefits for NPS Tier I may be redesigned and the quantum enhanced. However, the tax concession may be spilt over investment slabs and care should be taken to reverse the tax benefit, if the corpus is not utilized for purchase of annuities.

   c. Some mutual fund schemes provide best returns along with liquidity. The investment in EPF/ PPF provides guaranteed returns. Though an investor needs to lock-in money in Tier I of NPS at least up to 60 years age, the NPS does not provide the guarantee for the returns nor the industry's best returns, as of now. NPS needs to be re-developed and projected as "the Best Pension Scheme" that clearly appreciates the need for reasonable certainty of old age financials and also the expectation of competitive returns and hence, exhibits those features in its design. To achieve this, the **NPS needs to shed off its image of being a 'Low-cost scheme'**. In the competitive commercial world, no one should be expected to work for philanthropic reasons. Hence, to attain the best possible level, instead of 'Low remuneration', the mantra of "Reasonable remuneration commensurate with the efforts and the quality of efforts" for all the participants of NPS architecture would work.

d. The retirement benefits/ old age pension requires a certain guarantee to plan for the old age. Hence, the funded NPS must provide a separate investment option with guarantee of returns (similar to EPF/ PPF or the pension products of some life insurers) along with the flexibility to allocate specific proportions of contributions to this "Asset class with guaranteed return".

e. The present range of maturity age of 60 to 70 years for NPS may be reconsidered to make it acceptable for millennials who expect to exit from their active working life near the age of 50 years.

f. As the millennials prefer digital ways of searching for information, the individual insurers and the NPS can drive aggressive advertisings to reach to youngsters through suitable social media. However, the human intermediaries having a strong knowledge are very essential for the close of the sale.

g. The remuneration to the pension product intermediaries must be designed strategically taking into consideration the product features and the commission structures of competing financial products like mutual fund schemes.

h. Suggestions specific to NPS- Government Model

The pension modules might be OPS or NPS, but as the governments could default on the pension liabilities, the government pensions must always be funded (never PAYG) and the concerned governments must always contribute towards the past and the current liabilities appropriately. It would be unwise to revert to 'defined benefit' pensions. However, it appears essential to pay heed to the demands of the millennials about the NPS model.

For the government NPS, 'a separate investment option with a suitable guaranteed return' or 'a minimum guaranteed rate (supported by sovereign guarantee) for all the contributions' may be adopted to limit the investment risk of employees.

A suitable minimum death/ disability/ family pension may be provided with an appropriate financial aid from the government or by launching a Group Insurance scheme to exclusively take care of such kind of pensions.

On the lines similar to GPF, suitable withdrawals and loan facility only within the withdrawable NPS corpus (not from the portion to be annuitized) may be allowed to fulfil the mid-term liquidity requirements of the members.

i. Suggestions specific to NPS Corporate Model

The suggestions related to better returns and the guaranteed rate of return are equally applicable to NPS- Corporate model. The module needs to be attractive by suitably increasing the tax benefits for the employers under 'Business expense', thus providing a scope to increase co-contribution. Similar to insurance cover (of total Rs. 7 lakhs as of now) under EDLI scheme (linked to EPF), a suitable insurance cover need to be provided for employees, to increase acceptance for the scheme by both the employees and the employer.

Conclusion

The middle- and high-income millennials of India seem to be aware of the need of pension and the early start of retirement planning. However, their awareness has not resulted into actions for their retirement preparedness because of lack of knowledge of pension products and retirement planning on one side and because of loan liabilities and income constraints on the other. Also, the millennials have not embraced NPS as a reliable tool for their pension planning.

Hence, there is a need for the stakeholders to steer the situation by taking necessary actions to educate, encourage and support the millennials to actively plan their old age financials. To bring the control and development of the whole pension sector under one authority, revamping of National Pension System, development of innovative pension products and their strategic marketing, launch of a sophisticated pension portal, implementation of a long duration nation-wide Pension Awareness Campaign, restructuring the taxation on investments/ contributions in pension plans and pension outgo and Annuity Development Program - can be the necessary and timely initiatives to realize the vision of a "Pensioned and Progressive India".

CONTENTS

LIST OF TABLES

ABBREVIATIONS AND ACRONYMS

ADB	-	Asian Development Bank
AHI	-	Annual Household Income
APY	-	Atal Pension Yojana
ASP	-	Annuity Service Provider
AUM	-	Asset under Management
BPL	-	Below Poverty Line
BRIC	-	Brazil, Russia, India, and China
CBSE	-	Central Board of Secondary Education
CG	-	Central Government
CPSE	-	Central Public Sector Enterprises
CRIISP	-	Committee to Review Implementation of Informal Sector Pension
CSP	-	Civil Servants' Pension
DB	-	Defined Benefit
DC	-	Defined Contribution
EDLI	-	Employees' Deposit-Linked Insurance Scheme, 1976
EMI	-	Equated Monthly Instalment
EPF	-	Employees' Provident Fund
EPFO	-	Employees' Provident Fund Organisation
EPS	-	Employee Pension Scheme, 1995
FD	-	Fixed Deposit
GDP	-	Gross Domestic Product
GPF	-	General Provident Fund
GRI	-	Global Retirement Index
HALE	-	Healthy Life Expectancy
HLEG	-	High-level Expert Group
HNI	-	High Net worth Individual
IMF	-	International Monetary Fund
IPP	-	Individual Pension Plan
IRDAI	-	Insurance Regulatory and Development Authority of India
LE	-	Life Expectancy
MCGPI	-	Mercer CFA Global Pension Index
MF	-	Mutual Fund
MIS	-	Monthly Income Scheme

MMGPI	-	Melbourne Mercer Global Pension Index
MWPSC	-	Maintenance and Welfare of Parents and Senior Citizens Act, 2007
NCAER	-	National Council for Applied Economic Research
NCEUS	-	National Commission for Enterprises in the Un-organised Sector
NCFE	-	National Centre for Financial Education
NIA	-	National Insurance Academy
NPCI	-	National Payments Corporation of India
NPOP	-	National Policy on Older Persons
NPS	-	National Pension System
NSAP	-	National Social Assistance Program
NSFE	-	National Strategy of Financial Education
NSS	-	National Sample Survey
OADR	-	Old Age Dependency Ratio
OASIS	-	Old Age Social and Income Security
OECD	-	Organisation for Economic Co-operation and Development
OPS	-	Old Pension Scheme
PAYG	-	Pay as You Go
PFM	-	Pension Fund Manager
PFRDA	-	Pension Fund Regulatory and Development Authority
PoP	-	Point of Presence
PPF	-	Public Provident Fund
PSU	-	Public Sector Undertaking
QROPS	-	Qualifying Recognised Overseas Pension Scheme
RBI	-	Reserve Bank of India
SG	-	State Government
SIP	-	Systematic Investment Plan
SME	-	Small and Medium-sized Enterprise
SWP	-	Systematic Withdrawal Plan
TD	-	Term Deposit
TEE	-	Tax Exempt Exempt
UN	-	United Nations
USP	-	Unique Sales Proposition
WHO	-	World Health Organisation

CHAPTER 1
INTRODUCTION

With improving longevity and declining fertility rates, every country in the world is experiencing an inevitable demographic reality of growth in the size and proportion of older persons in the population. In India, the share of elderly (person of age 60 years and above) in the total population was 10.1% in 2021[1] and it is projected to reach nearly 19.5% by 2050 with 319 million elderly persons![2]

This phenomenon known as 'population ageing' brings with it innumerable problems. The economic problems are the basic as found in various studies. With increasing age, there grows a tendency in individuals to withdraw from active working life that leads to loss of their regular income and thus reduction in their well-being and self-esteem in their social circles.

1.1 Economic In/Dependence of Elderly in India

A person is considered economically independent if he/she does not need to take/ receive financial help from others in order to live a normal life.[1]

In India, though some individuals work for ever, those working in the private sector tend to retire early while those in the formal sector retire between 58-65 years of their age. Depending on their old age preparedness or their financial dependency on others, the retired or elderly persons can be divided in two categories 'economically independent' and 'economically dependent on others'. The following tables provide some relevant data related to elderly, extracted from 'Elderly in India 2021' published by National Statistical office.

Table 1: Percentage distribution of elderly population by state of their economic independence

Year 2017-18	Percentage of elderly persons dependent on others		
	Not dependent	Partially dependent	Fully dependent
Urban person	33%	20%	47%
Rural person	28%	25%	47%

Table 1 indicates that in the year 2017-18, in urban India, out of the total population of elderly persons, only 33% were economically independent. The remaining 20% elderly were partially dependent, and 47% elderly were fully dependent on others, for economic support. The corresponding proportions for rural India were 28%, 25% and 47% respectively.

Table 2: Percentage distribution of economically dependent elderly by category of persons supporting the elderly.

Year 2017-18	Category of persons depending on			
	Spouse	Own children	Grand children	Others
Urban person	18%	76%	2%	4%
Rural person	15%	79%	2%	4%

Table 2 indicates that out of the total population of economically dependent elderly, 18% were dependent on their spouse and a majority 76% had to prefer financial support from their children. The intergenerational dependence was even extended to grandchildren for 2% of them. The corresponding proportions for rural India were 15%, 79%, 2% and 4% respectively.

Also, in India, a majority of the 'economically independent' elderly need to take financial care of some family members. Table 3 indicates that out of the total economically independent elderly from urban India, nearly 79% elderly were required to take the financial responsibility of at least one dependent person as in 2017-18. The corresponding proportions for rural persons of India were 17%, 43%, 14%, 18% and 7%, respectively. This additional financial responsibility of dependents makes the elderly difficult to ensure their own financial sustenance and thus, they become financially vulnerable.

Table 3: Percentage distribution of economically independent elderly by number of persons dependent on them

Year 2017-18	Number of persons depending on the elderly person (dependants)				
	Nil	1	2	3 to 5	6 or more
Urban person	21%	48%	13%	13%	5%
Rural person	17%	43%	14%	18%	7%

Source of Table 1, 2 & 3: NSS, 75th Round (July 2017 - June 2018) - Social Consumption in India: Health

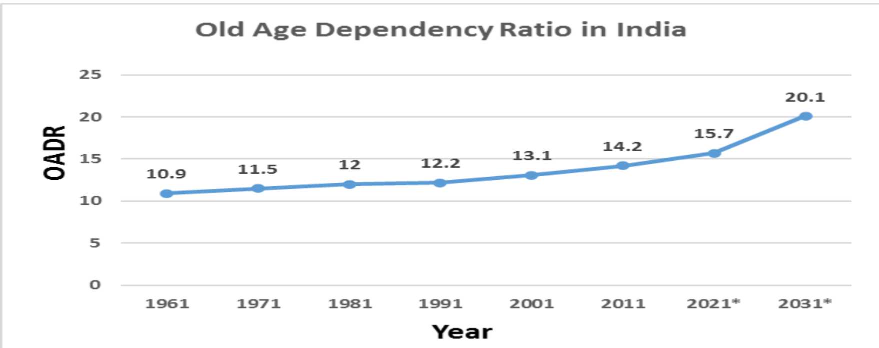
Referring to the grim reality from the data, it is evident that ultimately, the financial burden of a huge proportion of 'economically dependent' as well as 'economically independent but vulnerable' elderly is either passed on to the next generation or needs to be borne by the society.

1.2 Old Age Dependency Ratio in India and National Policy on Older Persons

'Dependency Ratio' is a measure of the age structure of a population that indicates the proportion of individuals likely to be "dependent" on others for economic support. In India, commonly, individuals aged 15 to 59 years are supposed to form the working age population. They retire or withdraw from work at age 60 years. Hence, the 'Old Age Dependency Ratio (OADR)' is defined as the number of persons who are of age 60 years or more (who are likely to be dependent), per 100 persons in the age-group of 15-59 years (who are working).

OADR = $(Population\ aged\ 60\ years\ and\ above/\ Population\ aged\ 15{-}59\ years)$ ***100**

Chart 1 - Old Age Dependency Ratio (OADR) in India



* Projections, Source: Elderly in India, 2021 (published by National Statistical office)

Chart 1 depicts the old age dependency ratio in India between the years 1961 to 2031. In 1961, the OADR was around 10.9% and it is expected to reach 20.1% in 2031. The OADR can be seen gradually rising over the past few years. Especially, the projections reflect a steep rise in the old age dependency in India between the years 2021 to 2031. The UN Population Division, 2019 projects the old-age dependency ratio to increase to 31.5 by 2050.[2]

The social implication of the OADR figures is that in the next 10 years, every hundred working individuals in India would need to take the financial responsibility of at least 20 elderly persons, if those elderly have not provided themselves for their old age.

The Government of India recognized the informal arrangement of care for elderly by their children and made it a legal obligation for children and legal heirs to provide need-based maintenance to the elderly, by passing the **Maintenance and Welfare of Parents and Senior Citizens (MWPSC) Act** in December 2007.

To reaffirm the commitment to ensure well-being of the older persons, the Government of India announced **National Policy on Older Persons (NPOP)** in January 1999. Its primary objectives include – encouragement of families to take care of their older family members and encouragement of individuals to make provision for their old age. Keeping in view the changing - demographic pattern, social value system, socio-economic needs of the senior citizens and the advancement in the field of science and technology over the last decade, a new 'National Policy for Senior Citizens' is under finalization.[1]

1.3 How Indian Households are Planning for Retirement

Every dimension of human existence, ideally, requires meticulous planning and it is more so for the old age. Individuals adopt, either casually or consciously, various ways to counteract their financial vulnerability at old ages. On the one hand they may accept the traditional passive choice of intergenerational dependence. On the other hand, they may thoughtfully opt for the active form of retirement planning and start accumulating adequate financial corpus by investing in appropriate financial assets, right from the early working stage of their life.

A report based on substantial research analysing household-level micro-data from India and six other countries throws some light on the Indian ways of managing old age finances.

Survey Report: The Household Finance Committee

(Indian Household Finance, July 2017)

Indian households seem to have poorly prepared for the financial consequences of ageing. The elderly cohort in India is expected to grow at a fast pace. However, only a small fraction of this cohort is adequately covered for their old age through private pension plans. Also, a large segment of the population from all age cohorts has not taken any active steps to ensure their financial coverage for retirement.

In India, multiple generations co-exist and this traditional approach to household financial management has probably been evolved over time as a rational response to the prevailing economic conditions and the consequence of 'joint family' system.

In contrast with the advanced economies, a large fraction of the wealth of young households in India is in the form of physical assets – particularly, durable goods and gold. In India, the rate of participation in 'land and housing assets' is 78% for the lowest age cohort and it increases to around 95% as they approach retirement. Despite the large share of real estate in the household wealth, unlike the advanced economies, very few households prefer to depend on reverse mortgage of home for their old age. Instead, more than 50% of the population expect to rely heavily on their children. This suggests that Indian households actually implement a variant of reverse mortgage contract. They bequest housing wealth to future generations and in turn, expect to receive support from them during retirement.

Of course, this social arrangement can have some positive externalities for the society such as maintaining strong family relationships, solidifying cultural norms and fostering social cohesion. Nevertheless, the enforcement of this informal arrangement can also put substantial pressure on the social fabric of India creating inter-generational tensions and limiting the education and productivity potential of the young generation.

The survey report also refers to the findings revealed in **'ICE 360^0 Survey of Indian Households**, **2016'** and concludes that the Indian household financial landscape is distinctive through its near total absence of pension wealth. The financing of retirement happens mostly through informal arrangements between parents and children and **there is a little evidence that individuals would save voluntarily for their future needs**. Pension accounts and investment-linked life insurance products do exist in India, but they are used frequently only in a small group of states, while in most other states, the contribution of pension wealth to household wealth is negligible.

It is notable that financial instruments and pensions accounts form a very low portion (3.7%) of the total balance sheet even for the rich households in India. On the other hand, in the UK and the US, wealthier households hold larger shares of financial assets. It suggests that in India, there are some factors that impede financial market participation even for the wealthy.

Also, Indian households tend to borrow later in life and are more likely to reach retirement age with positive debt balances that can be a source of risk; given that the household heads are no longer earning during those years. The need to finance adequate consumption during retirement is therefore a looming issue.

In India, the economic and social consequences of aging population have become critical because of the lack of retirement savings and more generally, the predominant reliance on the income-generating capacity of future generations. The traditional structures of household financial management are now increasingly under pressure because of the shifting of demographic patterns, social norms and changing economic conditions. In addition, the financing of health expenses with rising medical inflation and consumption during retirement is expected to leave the traditional Indian households vulnerable to adverse shocks later in life.[3]

1.4 Retirement Benefits (Formal Sector) and Annuity Products (Unorganized Sector)

The Government of India, to ensure old age security of the individuals working in the formal sector, has its well-defined rules and systems that confirm the retirement benefits. At the time of exit from active working life, people may seek some benefits in the form of a lump sum to fulfil their capital needs. However, what they desire the most is a regular, sufficient and guaranteed stream of money (a 'pension') during the whole of their remaining life span.

The employees of the organised sector, depending on their service conditions, are suitably covered under some of the lump sum benefits like Employees' Provident Fund (EPF), Leave encashment or Gratuity. As regards pension benefits, the Central and State government employees are covered under either 'Old Pension Scheme (OPS)', other public pension scheme or 'National Pension System (NPS)'. Some formal sector employees are covered under pension schemes specific to their company or group schemes with the insurers. The other entities with more than 20 employees are mandatorily covered under 'Employee Pension Scheme (EPS)' run by the Employees' Provident Fund Organization (EPFO).

However, it is important to note that in India, during 2022, only 11% labour force was covered under the mandatory retirement benefits[4] and moreover, those benefits were dependent on the duration and consistency of the employment. In other words, a part of the organised labour force and the whole unorganised labour force – comprising 89% of the work force - remain outside the scope of formal retirement benefits and need to take care of their post-retirement needs on their own. The recent developments also indicate that the Indian employment systems are becoming more and more informal and the organised sector is shrinking further.

Further, with the pension reforms in India, the organised sector has observed a shift from 'Defined Benefit' to 'Defined Contribution' in its pensions since January 2004. This changeover from public pension (pay-as-you-go) to funded pension (like NPS) has transferred the burden of 'ensuring adequacy' of the retirement provision from the employers to the employees. Consequently, with their enrolment in the defined contribution pension system, an increasing number of young employees are now required to take care of **adequacy** of their post-retirement income **on their own.**

For voluntary pension planning at individual level, various financial products and annuity products like Individual Pension Plans/ Schemes and 'NPS All Citizen model' are available.

The matter of concern is that the annuity/ pension penetration in India is very low. The 'total asset under funded and private pension plans' in India is just 9.2% of Gross Domestic Product (GDP) while the pension AUM is more than 100% of GDP in most of the developed countries.[5]

1.5 Conceptual Framework of World Bank to Pension Reforms

Along with the formal retirement benefits for the employees, every country designs its own set of voluntary pension plans, pension funds and other social security schemes – together called as the 'National Pension System'. The national pension system of a country gets evolved from its particular economic, social, cultural, political and historical circumstances and it constitutes the approach of the country towards the financial security of its old age people. The World Bank has developed principles of analysis and a conceptual framework to guide the nations in strengthening their pension systems.

Annexure 1 briefs about the conceptual framework of World Bank in reforming pension systems world over and its 5-pillar approach to achieve the objectives of a pension system.[6]

The whole Indian framework developed to provide financial security to the elderly can be segregated under the five pillars suggested by the World Bank. **Annexure 2** gives an idea of how Indian pension system fits into the conceptual framework of World Bank.

1.6 Position of India among the Global Pension Systems

The efficiency of any national pension system in ensuring a secured retirement for its older members can be assessed on the basis of certain features and predictive indicators. Based on the performance under these features, the pension systems of various countries are compared and ranked under a 'Global Retirement Index (GRI)'. The GRI provides a comparative tool for the policy makers, employers and the public at large for the betterment of their pension systems. **Annexure 3** provides a description of two Global Retirement Indices.

The Mercer CFA Global Pension Index (MCGPI) survey compares the pension systems of various countries based on adequacy of retirement benefits, likelihood of future sustainability of the systems and the level of community trust and confidence on the systems. As per the 2022 MCGPI, out of 44 systems, the Indian pension system is ranked 41st on overall index ranking and it has the lowest rank in the adequacy sub-index.

Similarly, India is ranked as the last among 44 countries surveyed for the Natixis CoreData Global retirement index 2022 on the basis of four thematic indices.

Certainly, the lowest position of India on the global canvass of retirement preparedness and welfare of retirees is alarming for all the participants of the Indian pension ecosystem. It signifies a huge scope for the improvement of the Indian pension system and an urgent need to urge retirement preparedness of the Indians.

Ultimately, all the factors discussed till now suggest a need to study the retirement preparedness of different strata of Indian population and their buying behaviour towards the pension/ annuity products in India.

CHAPTER 2
RESEARCH METHODOLOGY

2.1 Background

As discussed in the previous chapter, though the provision of financial well-being during old age is very critical, for both the individual as well as the society, the majority of Indians seem not to have prepared themselves for their retirement, financially.

India has adopted a national policy for the well-being of its elderly. Apart from the retirement benefits for the employees in the formal sector, India also has various pension schemes for the different strata of the population such as people below poverty line, low-income groups etc. However, it seems that at present, the umbrella of 'retirement benefits and pension schemes' in India is not capable of securing everyone in the system and nearly 90% of the individuals working in the unorganized sector are yet deprived of any pension coverage.[4]

The worst part is that most of the individuals do not appreciate the importance of financial preparedness and its adequacy after retirement. By and large, the individuals do not take actions to secure their old age on their own, by investing in financial instruments exclusively meant for retirement purposes. Even the rich Indians seem to have negligible pension wealth. As a result, more than 50% of the Indian households are not financially prepared for retirement and depend on children for their old-age support.[3] The high proportion of economically dependent as well as financially vulnerable elderly, opting for intergenerational dependence have created socio-economic tensions in India.

The situation tends to be a daunting one in the wake of the fact that by 2050, India is estimated to have about 20% of its population over 60 years of age, with a steep rise in its 'old age dependency ratio'.[2] Seemingly, India is likely to witness severe social and economic consequences of the unavoidable demographic reality of 'population ageing'. This problem would get further aggravated as the formal/ organized sector has been shrinking year by year and the pension systems in the formal sector have also been observing a shift from 'defined benefit' to 'defined contribution funded' pensions, leading to 'adequacy' issues.

These ground realities reflected in the fact that India occupies bottom positions in the global retirement indices declared by the entities like Mercer CFA and Natixis emphasises a need for careful analysis of the old age financial preparedness of Indians and to find the ways of its enhancement.

2.2 Rationale: Need to Focus on the Retirement Preparedness of the Millennials

The millennials – popularly known as 'Gen Y' - are the individuals born between the years 1981 and 1996 (**Annexure 4** discusses the Indian definition of millennials). The millennials constitute nearly 33% of the Indian populace with a strength of over 440 million as in the year 2021.[7] The millennials are amongst the chief wage earners in India and draw approximately 71% of the total household income. Unlike other developed countries, the millennials represent nearly half of the working age population of India and this share is expected to remain the highest in the next decade and even further.[8]

Though the millennials are better educated and better connected to the world, it is observed from various studies that they often neglect their future and their financial well-being. As per a Deloitte survey 2018, the personal savings by the millennials accounted for 10% of their overall income while the average personal savings rate of India was 18.2%.[8,9] This indicates a prevalence of 'consumption' among the millennials as against 'savings' - which was a predominant feature of the preceding demographic cohort of 'Gen X'.[8]

With the improvement in healthcare, the millennials of today are exposed to 'more than ever' longevity risk because of the increasing inflation and the geometrically rising old age medical expenses. Despite this, the millennials seem to be least concerned about their financial preparedness for old age, with their low inclination towards savings.

The millennials of today - who are currently in the age group of 26 to 41 years - would only be the age-old citizens (of age 51 to 66 years) by the year 2050, by which time India is estimated to experience the demographic reality of 'population aging' in its full vigour. Ultimately, not only the awareness of these millennials about their retirement preparedness, but in fact, their early actions for the same are going to be the critical factors in laying foundation of the financial well-being of Indian households and the healthy socio-economic constitution of future India. Hence, as a logical step to strategically build a 'pensioned society' generation by generation, one must focus on 'the millennials of today' first.

The views of the generational cohorts like 'millennials' are shaped with different formative experiences such as world events or technological, economic and social shifts that interact with their life cycle and aging process.[10] As of now, only limited references are available that systematically assess the old-age preparedness of the millennials in India. However, to examine the whole cohort of millennials for their financial awareness and perception towards retirement and particularly their preferences for retirement provision, by taking into consideration multiple parameters would be a herculean task. Hence, for research purpose, it would make sense if the huge base of millennials is segregated based on their income.

India's 'National Council for Applied Economic Research (NCAER)' defines the middle class as those with annual household income between Rs. 2 lakh and Rs. 10 lakhs. The high-income class covers annual household income of more than Rs. 10 lakhs.

National Insurance Academy (NIA) decided to conduct research focusing the retirement preparedness of the economically better-off millennials, leaving the low-income segment which is predominantly covered under the social security schemes of Government of India. The research by the Academy has targeted the **middle- and high-income millennials** to examine their perception about the need for pension & their retirement preparedness. The study also targets to identify effective facilitators that ensure the actions towards achieving old age financial security of the millennials.

2.3 Objectives

In relation to the 'middle and high-income millennials', this study has the following objectives:

1. To examine the awareness about the financial needs during retirement and their preparedness for the same.
2. To identify the investment preferences, if any, exclusively earmarked for old age.
3. To identify the factors that impact their awareness and actions related to pension and their buying behaviour for the same.
4. To understand the acceptance of NPS as a financial security during older years by them.
5. To offer suggestions to enhance the level of pension awareness, actions and recommend modifications in the existing pension products based on the research findings.

It is believed that the outcome of this study would help the stakeholders to get a better idea of the perception of the targeted millennials about the financially secured old age and their expectations related to pension products. This understanding would help the participants of the pension ecosystem to focus their actions to enhance retirement preparedness of Indians in a better way.

2.4 Nature of the Study and Study Design

This is an empirical study in which an exploratory approach is adopted to assess the retirement preparedness of middle- and high-income millennials and to find ways to enhance the same. The study began with referring to secondary data from articles, research papers and books pertaining to old-age financial provision, retirement benefits and pension systems in India. The relevant literature was studied to understand the peculiar characteristics and behaviour of Indian millennials towards their investments and retirement planning, in particular.

The various national as well as international survey reports were perused to understand the awareness level and perception of people and to examine the actions taken by various stakeholders to enhance the retirement preparedness of people – especially, of the millennials.

In the next step, select millennials – covered and not covered under the formal retirement benefits - from the target group, and some retired individuals were interviewed in depth. A few financial experts and key officials associated with employers and pension providers were approached to understand their views related to the awareness of the need for pension and penetration of pension products among the targeted segment of millennials.

Based on the inputs gained from the secondary data and the interactions with the individuals, a research questionnaire was prepared and pre-tested on a group of 35 millennials. In accordance with the feedback received from the target group among whom the pilot study was conducted, the necessary changes were incorporated and an exhaustive online survey tool was created with Microsoft forms.

2.5 Data Collection and Sampling

The target respondents for the study were the middle- and high-income millennials pertaining to various categories such as - professionals, self-employed, business owners, formal/ informal sector employees etc. An online survey was conducted between the period 12th August 2022 to 15th September 2022 among the respondents from urban areas - mostly, in and around the western and southern regions of India. Further, the research team had put in extra efforts to get some more responses from the categories where the responses were limited, in order to ensure representative sample for the study.

Though a total sample of 458 valid responses was collected from all over India, the majority 399 responses were received from the states of western and southern regions, namely - Maharashtra, Rajasthan, Karnataka, Gujarat, Kerala, Uttar Pradesh and Madhya Pradesh. Hence, this study can be said to be limited to the western and southern parts of India.

The data extracted from the responses was analysed to address the objectives of the research. The following two chapters provides descriptive analysis of the information.

CHAPTER 3
DISCUSSION – RETIREMENT PLANNING

3.1 Industry Opinion about Retirement Planning of Better-off Millennials

The millennials can broadly be divided in three brackets – those who are doing well in life, those who are at mid-level and those who are still figuring out what to do. The still struggling millennials are not willing to think of their retirement plans as of now. The remaining two categories may be considered active in their retirement preparedness. The mid-level millennials having consistent flow of salary/ income may have strong sense of retirement planning. The high earners occupying senior positions or in professions may start planning for old age by virtue of their association with financial markets or by virtue of their awareness. However, though the millennials are perceived to be very particular about their financials, the Indian millennials, in general, are not serious about preparing financially for their old age.

During the first 2-3 years of employment or while in profession, the youngsters get carried away with the amazing workplaces, lavish lifestyle, a lot of travelling etc. and they ignore the importance of saving for future. They think they are too young to think about pension. Till around 45 years of age, the individuals are normally busy at buying assets like houses, cars and land for themselves. Only after the initial years of enjoyment and a lot of indebtedness, they start thinking about insurance and retirement plans. Though **Retirement Planning** is very essential for everyone, the individuals think cautiously about retirement only after they attain 45-50 years of their age. Sometimes, the high-earning professionals even do not think of saving for retirement as they feel that they would work till the last moment of their life.

The millennials of today know a lot about finance at their age as compared to the previous generation, because of the access to social network. Nevertheless, they are more interested in investments and not much serious about their financial needs analysis and retirement. Though they expect high returns, they do not accept lock-in periods. They focus on short time horizons and are not ready for long-term financial commitments. They prefer easy liquidity and emergency withdrawals and for that they are ready to pay penalties even.

The pension penetration among the millennials is not at all encouraging. The demand for pension products by the millennials is very low; also, the marketers do not reach them with attractive retirement products. Hence, it is a two-way problem. The millennials want to wait for some more time in the expectation of some better investment avenues to come in the market.

3.2 Preliminary Ideas of Millennial Respondents about Retirement

The following discussion is about the perception and retirement preparedness of the millennial respondents, in general, and it is based on the data collated from survey responses.

3.2.1 Proportion of Savings/ Investments to Annual Household Income

"Intertemporal Choice" is the process by which individuals decide about what and how much to do at various points in time, when choices at one time influence the possibilities available at other points in time. These choices are influenced by the relative value people assign to two or more payoffs at different points in time and require decision-makers to trade off costs and benefits, accordingly.

The scientific process of 'Retirement Planning' takes root in the tendency of keeping aside money for future needs. Most of the individuals tend to be limited by their budget constraints that prevent them to consume as well save to the desired extent. The decision of 'intertemporal consumption' of the disposable income - i.e., how much money to spend for the current utilities and how much to save for future – is difficult and it can greatly impact the quality of present as well as future life of an individual. Nevertheless, the behavioural finance theorists generally find that 'present' bias is common for consumption, suggesting that individuals prefer to spend "now", regardless of the impact it might have in the later years. It is common for individuals to make intertemporal choices that accommodate near-term needs and wants over long-term objectives like retirement planning. These choices are reflected in the personal savings rate or savings rate of households.

As shown in Table 4, in the recent past, amongst the Asian countries, China had the highest household savings rate of 34.8% followed by South Korea (34.2%).

Table 4: Household (Personal) savings rate of some Asian countries

Country	Household Savings Rate	Reference
China	34.8	2019 (OECD)
South Korea	34.2	Jun-22
Japan	29.5	Oct-22
Sri Lanka	20.1	Dec-21
Thailand	10	Dec-20

Source: Trading Economics

In 2018, the overall household savings rate in India was 18.2%.[9] However, a 2018 report by Deloitte mentions that Indian millennials were saving only 10% of their income.

The current survey outcome (Table 5) indicate that nearly half of the millennial respondents save between 10% to 30% of their Annual Household Income (AHI) and 22% save even more than 30%. However, what needs serious attention is that 26% of the millennial respondents - who fall in the middle- and high- income class - save less than 10% of their AHI.

This finding endorses the need to influence the intertemporal consumption choices of the middle and high-income millennials to enhance their savings for future.

Table 5: Proportion of savings/ investments to Annual Household Income (AHI)

Proportion of Savings to AHI	Respondents
Less than 10 %	26%
10% - 30%	52%
More than 30%	22%

3.2.2 Perception About the Right Age to Start Saving for Old Age

It is observed that although individuals save or invest money to fulfil various life cycle needs such as purchase of a house, education or marriage of a child etc., old-age planning takes a back seat. One must appreciate that financial provision earmarked for old age is not a fact to be thought over only when one nears the retirement age, but it is to be mulled over the moment one starts earning. One can build a sizable retirement corpus only if he/ she starts to invest exclusively for retirement from the early years, in a disciplined manner. The early start also gives the fullest benefit of compounding interest if the investment carries a fixed return.

Table 6: Perception about appropriate age to start financial investment for old age

Appropriate age to start financial investment for old age	Respondents
Immediately after one start earning	62.9%
Between 25-30 years of age	18.6%
Between 31-40 years of age	13.5%
Between 41-50 years of age	4.1%
After 50 years of age	0.2%
No need to invest separately for retirement	0.7%

Table 6 gives the perception of the millennials under study about the right age to start investing for old age. It seems that majority of them are well-aware of the necessity of early start as 63% have opined so and only less than 5% think that financial provision for old age is to be started after age 40. Nonetheless, it would be interesting to compare this revelation with the actual actions taken by the millennial respondents to secure their old age.

3.2.3 Actual Planning for their Own Retirement

The household savings rate of the (middle- and high-income millennial) respondents (Table 5) and their awareness about an early start of investing for retirement (Table 6) may look fair. However, when it comes to their own retirement planning, the picture seems grossly deficient.

For every planning, a well-thought mapping of the journey and documentation of the plan are very crucial to the success of the plan and it applies to retirement planning also.

It is clear from Table 7 that most of the respondents have not given a serious thought to their retirement preparedness. About 17% respondents think themselves too young to think of their old-age financials and they are just squirreling away their money for future consumption. Nearly 45% have not at all designed their retirement plan and 26% have not yet documented their retirement plan which indicates their casual approach. Only 12% millennial respondents claim that they have their well-designed and documented retirement plan.

Table 7: Readiness with Retirement Plan

Have you seriously thought of the necessary financial provisions for your old age/ post-retirement life	Respondents
It is too early for me to think of old age/ retirement provision as of now	17%
I have not yet designed my retirement plan	45%
I have my clearly designed retirement plan, but not yet documented	26%
I have my well-designed and documented retirement plan	12%

The millennials must realize that "Pension" or other retirement benefits available to the formal sector employees are nothing but the deferred payments of their salary and the employees covered under these benefits get their regular salaries in hand only after the necessary deductions for such provisions. In fact, these deductions commence from their *very first salary*. **By-the-same-token, it is extremely needed for the individuals not covered under the umbrella of formal retirement benefits, to consciously plan for their retirement and lock enough of money for their old age financials, right from the first earning they receive, similar to their formal sector counterparts.**

3.2.4 Expected Age of Retirement

World over the expected retirement age of millennials is showing a downward trend and the information revealed from this survey conveys something similar.

Table 8: Expected age of retirement from 'paid' working life

Expected age of retirement	Respondents
Less than 50 years of age	23%
Between 50 – 59 years of age	23%
At 60 years of age	35%
Above 60 years of age	14%
I will work forever	5%

Though the professionals or the individuals engaged in the unorganized sector can work as long as they wish, for the formal sector employees, the normal retirement age is between 58 to 65 years in India. The survey findings indicate that nearly one fourth of the targeted millennials plan to retire from paid working life even before they attain 50 years of their age. Another one fourth respondents expect to retire before they reach age 60.

The expected early exit from the workforce, in turn, signifies the need of an additional volume of financial arrangement for the post-retirement life. In fact, the earlier the retirement, the more the remaining lifespan: the more the financial needs; the lower the accumulated retirement corpus and the lower the retirement income. Hence, to make the millennials aware of the need as well as adequacy of their retirement preparedness, instead of the obvious question - “At what age do I want to retire?” it is very essential to make them ask themselves the question - “At what income do I want to retire?” and help them plan accordingly.

The expectation of early retirement of the millennials also emphasizes the need to rethink over the minimum pension access age that ranges between 55 to 60 years for various pension products in India as of now.

3.2.5 Expected Life Span After Retirement

Underestimating life expectancy is one of the top mistakes in the financial planning for old age. The reasonably good estimates of the ‘retirement age’ and the ‘life span after retirement’ are the two prerequisites for an ideal retirement planning. The longer the life span after the end of one’s regular earnings, the more the longevity risk that one needs to mitigate for.

In the global scenario, all the 11 countries that have been part of the ‘Melbourne Mercer Global Pension Index (MMGPI)’ since its beginning in 2009 - have experienced an increase in the expected length of retirement with the average length rising from 16.6 years to 18.4 years during the years 2009 to 2015.

The life expectancy is commonly estimated at ‘birth’ and at ’60 years of age’. As per the World Bank data, ‘Life expectancy (LE) at birth’ of Indians has been increasing consistently. At the cut-off years ‘1981’ and ‘1996’ of the millennial generation cohort, it was ‘54.3 years’ and ‘60.8 years’, respectively. As per WHO - World Health Statistics Reports, the average ‘LE at birth’ of Indians was 65 years in 2009 and it increased to 70.8 years in 2019.

These reports also talk about one more parameter - ‘Healthy Life Expectancy (HALE) at birth’. In 2019, the average ‘HALE at birth’ of Indians was 60.3 years only. In other words, an average Indian born in 2019 may expect to live up to 71 years of his/her age (LE – 70.8); however, there are little chances that the last ten years of his/her life would be healthy (HALE – 60.3).

Table 9: Life Expectancy (LE) and Healthy Life Expectancy (HALE) at 60 years of age (Between the years 2000 and 2019) (India and World Bank Income groups)

	Year	Life expectancy (LE) at age 60 (years)	Healthy life expectancy (HALE) at age 60 (years)	Gap (years)
India	2019	18.82	13.25	5.57
	2015	18.49	13.06	5.43
	2010	17.95	12.57	5.38
	2000	16.12	11.33	4.79
World Bank Income Groups				
Lower-middle-Income	2019	18.6	13.5	5.1
	2015	18.3	13.3	5
	2010	17.8	12.9	4.9
	2000	16.6	12.1	4.5
Upper-middle-Income	2019	21.2	16	5.2
	2015	20.7	15.7	5
	2010	19.8	15	4.8
	2000	18.5	14	4.5
High-Income	2019	24.3	18.2	6.1
	2015	23.8	18	5.8
	2010	23.5	17.8	5.7
	2000	21.9	16.6	5.3

Source: WHO

Table 9 summarises the 'Life expectancy (LE) at age 60 years' and 'Healthy life expectancy (HALE) at age 60 years' of India during the period 2000 to 2019. It also presents similar global data segregated in income groups defined by the World Bank.

The table shows that globally, the LE and HALE "at age 60 years" has been increasing year by year. It is to be noted that the gap between LE and HALE has also been widening with time furthering the old age morbidity risk. The more the gap, the more the unhealthy life span and the more the probable medical or palliative care expenses.

From the World Bank Income Group data, it is also observed that at a given point of time, the LE as well as HALE "at age 60 years" is higher for the higher income levels of the individuals.

Table 10 shows the expectations of the millennial respondents of their lifespan after retirement except for those respondents who claim that they are going to work forever. In 2019, the LE at "at age 60 years" was nearly '19 years' in India. Looking to the increasing trend, when a better-off Indian millennial of today would attain the age of 60 years, the then LE "at age 60 years" can be expected to reach a level much higher than '19 years'. On this backdrop, we need to assess the data of life span expected by the respondents after retirement.

Table 10: Expected Lifespan of millennial respondents after retirement

Expected Life after Retirement	Respondents
Less than 5 years	6%
5 - 10 years	26%
11 - 20 years	47%
21 – 30 years	16%
More than 30 years	5%

Majority of the millennial respondents seem not to have rational estimates of their longevity and hence their longevity risk. One third of the respondents assume that they would not live longer than 10 years and 47% think that they would not cross 20 years after retirement. Only 21% respondents estimate that they are going to live more than 20 years after their retirement. The inaccurate assumptions about the length of life after retirement would leave the millennials underprepared for their retirement.

3.3 Retirement Benefits Prevalent in the Formal Sector in India

3.3.1 Formal and Informal Sectors in Indian Economy

(Definitions recommended by National Commission for Enterprises in the Un-organised Sector-NCEUS)

Formal/ Organized sector –

That includes licensed organizations and large-scale organisations such as banks and corporations that are monitored by the government and are liable for compliances and taxes. It is estimated that approximately, 11% of the Indian labour force is in the formal sector.

Formal employment –

The formal sector workers are employed by the government, state or private sector enterprises and are assured with specific working hours and regular wages. As the formal sectors are legalized, the workers have social protection, economic security and certain incentives/ privileges.

Informal/ Unorganized sector -

It includes all unincorporated private enterprises owned by individuals or households, engaged in the sale and production of goods or services, operated on a proprietary or partnership basis with less than ten workers. It is estimated that about 89% of Indian labour force falls in this sector.

Informal employment: The unorganized workers consist of

(i) The workers in the unorganized sector or households, excluding regular workers with social security benefits provided by the employer and

(ii) The workers in the organised sector without any employment/ social security benefits provided by the employer.

3.3.2 A Brief Overview of the Retirement Benefits Prevalent in the Indian Formal Sector

Depending on the service conditions and the duration of employment with a particular employer, the employees working in the organized sector may get some of the following retirement benefits from their employers (This is an overview and for detail information, relevant authentic circulars, documents may be referred to).

1. Gratuity

'Gratuity' is a retirement benefit payable under the Payment of Gratuity Act, 1972 applicable to entities with at least 10 employees. The Gratuity amount is approximately equal to '15 days wages' for every year of completed service, up to a maximum of Rs. 20 lakhs. The Gratuity amount is paid to an employee exiting the employment only if, he/she has served the company for at least five consecutive years.

2. Other Pension Schemes –

Depending on the service conditions, an employer and/ or an employee may contribute a specific percentage of salary to a pension fund, every month, to provide a regular pension to the employee on retirement. The following are the major types of employee pensions –

Defined Benefit – Under the 'Defined Benefit' pension scheme, though an employer and/or an employee contributes a fixed amount to the pension fund, the pension amount is seemingly predictable. It is based on the average salary drawn by an employee during the last months/ years of service and the duration of service, irrespective of the actual contributions made by the employee/ employer towards the pension fund.

'Old pension scheme' for government employees is an example of defined benefit scheme.

Defined Contribution - Under the 'Defined Contribution' pension scheme, a fixed amount is contributed by the employee and/or the employer towards a pension fund every month and the pension amount receivable on retirement is uncertain as it depends on various market related factors. The amount contributed to pension fund is invested in financial markets in a regulated manner. At the time of retirement, an annuity product is purchased in the name of an employee out of the corpus accumulated under his contributions.

In this type of pension scheme, the amount of pension depends on the growth rate of the pension corpus and the annuity rates at the time of retirement that in turn depend on various factors such as the rate of contributions, the prevailing economic scenario and the interest rates.

'National Pension Scheme (NPS)' for employees is an example of defined contribution scheme. Since 2004, the Central and some State government employees are covered under NPS.

3. Provident Fund –

It is a provision mandatory for entities with at least 20 employees, under which a certain percentage of salary (10% - 12%) is contributed to a Provident Fund every month, by both the employer and the employee. There can also be a provision of additional contributions only by the employees under the head 'Additional/ Voluntary Provident Fund'. An interest at a guaranteed rate is added to the accumulated corpus every year and a lump-sum is provided to the employee at the time of exit by way of retirement/ resignation/ termination or on death. The following are the types of provident fund -

a. **General Provident Fund (GPF) –** It is managed by the government/ semi government entities and the local authorities for their employees.
b. **Employees' Provident Fund (EPF) managed by the Employees' Provident Fund Organisation (EPFO) –** It is mandatory to companies with at least 20 employees. It is

mandatory for the employees with salary up to Rs.15,000 p.m. to enrol in the scheme. Once an employee gets an EPF membership Id, he needs to contribute to EPF in his next employments, irrespective of the salary (It can be more than Rs. 15,000).

c. **Recognized Employee Provident Funds (in lieu of EPF) managed by independent employers for their employees.**

4. Employee Pension Scheme, 1995 (EPS 95) run by the EPFO –

The employees eligible for the Employees' Provident Fund (EPF) scheme run by the EPFO are also eligible for the schemes –

i) 'Employee Pension Scheme, 1995 (EPS 95)' which is a 'Defined Contribution-Defined Benefit' social security scheme and

ii) 'Employee Deposit Linked Insurance (EDLI)'.

W.e.f. 1 September 2014, the employees with salary more than Rs. 15,000 at the time of joining cannot participate in EPS 95 and EDLI schemes.

The allocation of contribution to Employees' Provident Fund (EPF)

The contributions deposited to EPF by the employer, the employee and the government are distributed amongst three social security schemes. The following table depicts the contribution to EPF by the three entities as percentage of salary (Basic + DA) and its allocation, as restructured in 1995:

Table 11: Contribution rates to EPF (as percentage of salary) and the allocation

	EPF	EPS 95	EDLI	Total (% of salary)
Employee	12%	-	-	12%
Employer	3.67%	8.33% *	0.5%	12.5%
Government	-	1.17%	0.25%	1.42%
Total	**15.67%**	**9.50%**	**0.75%**	**25.92%**

* Subject to maximum Rs.1,250/- i.e. 8.33% of Rs.15,000; balance employer contribution to EPF up to August 2014. W.e.f. 1st September 2014, an employee can opt for full employer contribution of 8.33% of actual salary to EPS 95 to get additional pension above the defined rate.

The scheme EPS 95 provides a regular pension if an employee retires after attaining at least 58 years of age and completing at least 10 years of service (this does not have to be a continuous service). Presently, the basic pension under EPS 95 ranges from Rs. 1,000 to Rs. 4,000. An employee can get reduced pension if he retires after at least 10 years of service after attaining at least 50 years of age. As on March 31, 2022, the EPS has nearly 7.3 million pensioners.

W.e.f. 1st September 2014, an employee can opt for higher contribution by the employer to EPS scheme to get pension based on his average actual salary of last 5 years (as per the decision of EPFO in 2014 upheld by the Supreme Court in November 2022).

The 'Employee Deposit Linked Insurance (EDLI)' scheme provides Life Insurance (death) cover of 30 times the salary (maximum Rs. 4,50,000 and bonus Rs. 2,50,000, i.e., Total of Rs. 7 lakhs) during the service period to the employees covered.

5. Other benefits –

1) Leave encashment facility that converts the accumulated days of leave (up to a certain limit) into a salary-based amount payable to an employee on retirement.
2) Accumulations under savings part of Group Savings Linked Insurance scheme.

3.3.3 The Employed Respondents Expecting to Continue with the Same Employer

The duration of loyal service of an employee decides the 'eligibility for' and 'quantum of' some of the retirement benefits. If an employee from the formal sector switches the job, though his/ her EPF or NPS account gets continued in the next employment, the frequent employment switches may reduce the chances to get some of the retirement benefits like 'Gratuity' or 'Employee pension' and it may also affect the quantum of some retirement benefits.

The collated responses of the survey from Table 12 indicate that less than 50% of the employed millennials from the sample, expect to continue with the same employer throughout their life. The majority (54%) of the respondents are inclined to change their employment.

Table 12: The employees expecting to continue with the same employer throughout life

Expectations of the employed millennials	Respondents
Expect to continue with the same employer throughout life	46%
Expect to change the employment	54%

3.3.4 The Probable Retirement Benefits that the Respondents Expect to be Eligible for

A millennial who expects to join an employment or continue with the employment may be eligible for certain retirement benefits depending on the service conditions. Under the survey, the better-off millennials were asked to mention the retirement benefits - they would be eligible for, taking into consideration their current profession/ employment and job switching preferences. Table 13 shows that among the sample, 44% respondents would not get any formal retirement benefit and they need to take care of their old-age finances on their own.

Table 13: Expected retirement benefits

Expected Retirement benefits	Respondents
I am not much aware about	12%
Only PF	6%
PF, Gratuity and Employee Pension	9%
Both PF and Gratuity	13%
NPS and Gratuity	16%
No retirement benefits	44%

A concerning revelation is that 12% of the respondents are not much aware about the retirement benefits. This figure includes only those respondents who are aware of their lack of knowledge of retirement benefits and were ready to accept their ignorance while submitting the response.

3.4 Importance of 'Pension' and its 'Adequacy'

3.4.1 Advantage of Regular Pension over Lump-sum Retirement Benefits

After retirement from active working life, as the routine expenses and other family liabilities continue to exist as before, a responsible retiree has to make the necessary financial provision for the rest of his/her life. Though some lump-sum amount may be necessary to fulfil certain immediate capital needs, a regular and guaranteed stream of lifelong monthly income - known as a 'pension' - is very much essential for an elderly person.

As seen earlier, in the organised sector, retirement benefits can take the form of a pension and/ or a lump-sum. The benefits like PF and Gratuity provide a lump-sum in the hands of an employee on retirement. If an employee is not covered under any formal pension arrangement, ideally, he/ she must invest a large portion of the lump-sum in the appropriate pension products to get a regular monthly income. This requires sufficient financial knowledge on the part of the employee, or he/she needs to consult a financial expert.

One should always keep in mind that accessibility to the large lump-sum benefits at the vulnerable age of an employee may prove risky, as there is always the danger of these amounts getting utilized for other casual purposes or for entertaining the demands of some opportunists.

Hence, it is always better to get part of the retirement benefit in the form of an employee pension, essentially. If the full retirement benefit is a lump-sum, to ensure strict utilization of the corpus for optimal old age security of the beneficiary, it is desirable **to lock-in** a sufficient corpus till the retirement of the beneficiary and then directly convert it into annuities/ pension to get a regular retirement income.

3.4.2 Awareness of the Need of Regular Pension among the Respondents

Table 14 shows the preferred form of retirement benefits of the millennial respondents. It seems that most of the respondents are aware of the need for regular pension income as 78% of them would prefer 'Part lump-sum and part pension' and 7% would prefer 'Only pension' as their retirement benefit, if given a choice. Also, the 12% respondents (who seemingly believe to have the necessary financial expertise to efficiently convert a lump-sum into lifelong annuities) would prefer a lump-sum, to purchase a pension product of their choice. Some 3% respondents would prefer only a lump-sum to repay their other liabilities.

Table 14: Preferred form of retirement benefit

Preferred form of Retirement Benefit	Respondents
Only lump-sum which I can use to repay my other liabilities	3%
Only Pension	7%
Only lump-sum which I can use to purchase a pension of my choice	12%
Part Lump-sum and part pension	78%

3.4.3 The Pension Coverage in India

Though 'Employee Pension' is a valued and preferred retirement benefit, it is not available to every employee, even in the organized sector. A progressive employer may design its exclusive 'Employee pension' with a suitable combination of various schemes such as Employer's own pension scheme, Group superannuation scheme with an insurer, NPS corporate model or EPS 95 under EPFO. The eligibility of an employee to get the actual benefit under a pension scheme and the quantum of pension – both depend on the service conditions and typically, the duration of the service of an employee with a particular employer.

As regards the pension coverage of government employees, the central government employees joined before 01.01.2004 are covered under the defined benefit – Old Pension Scheme (OPS) and those joined thereafter are covered under NPS. The state government employees are covered either under OPS or NPS depending on their date of joining and the pension scheme adopted by the respective state governments.

The public sector undertakings and big institutions may have their own pension schemes, or they can provide coverage to their employees under corporate model of NPS. Some employers also prefer designing group superannuation schemes for employees, with the life insurers.

The eligible employees (engaged in entities with at least 20 employees) in the formal sector are at least covered under the mandatory Employee's Provident Fund (EPF) and hence, such employees from low salary bracket may get automatic coverage under the formal pension scheme 'EPS 95', by virtue of their membership under EPF.

Since 1st September 2014, the employees starting their first employment with salary more than Rs. 15,000 can become members of the EPF at their option, however they are not eligible to join 'EPS 95'. In case of such employees, their full retirement benefit is in the form of a lump-sum amount accumulated under Employees' Provident Fund (EPF) only.

3.4.3.1 The Coverage of Employed Respondents under Various Pension Schemes

The present pension entitlement of the employed millennials under the survey is shown in Table 15. Nearly 73% of the respondents are covered under some form of the employee pension scheme. About 18 % respondents are not covered under any pension scheme.

The concerning part is that about 9% of the respondents have no knowledge regarding their coverage under any pension scheme.

Table 15: Coverage of employed millennial respondents under various pension schemes

Coverage under pension schemes	Respondents
I am not much aware about;	9%
Covered under Employer's own Pension Scheme;	11.5%
Covered under NPS (Corporate Model) through my employer;	37%
Covered under EPS, 1995	20%
EPS 1995 and NPS	4.5%
EPS 1995 and Group Superannuation scheme of my employer with an Insurer	0.5%
No, I am not covered under any pension scheme;	17.5%

3.4.4 Importance of Ensuring Adequacy of a Pension by Virtue of Employment

3.4.4.1 Replacement Rate of Pension Schemes

In fact, it is not enough just to get a pension after retirement, but for a pension to be meaningful, its quantum must be sufficient to fulfil the post-retirement needs of the beneficiary in the true sense. On the backdrop of volatility of interest rates in the economy and the rising inflation scenario, it is important to examine the sufficiency of a pension to maintain the expected standard of living of a retiree. The adequacy of a pension scheme can be gauged with the parameters known as '**Pension Replacement Rates'** - under which the pension quantum is expressed as a proportion of the pre-retirement income of an individual.

Gross Replacement Rate

As per OECD, the gross replacement rate is defined as the 'gross pension entitlement' divided by the 'gross pre-retirement earnings'. It measures how effectively a pension system provides a retirement income to replace earnings - the main source of income - before retirement. This indicator is measured in percentage of pre-retirement earnings by gender. As per OECD indicators, in 2020, the gross replacement rate of pension was 56.4% and 55.6%, respectively, for men and women of India.

Net Replacement Rate

The 'net replacement rate' is defined as the 'net pension entitlement' divided by the 'net pre-retirement earnings', taking into account the personal income taxes and the social security contributions paid by the workers and the pensioners. Whilst the gross replacement rate gives a clear indication of the design of the pension system, the net replacement rate matters more to the individuals as it reflects their disposable income during retirement in comparison to the one they earned while working. The net replacement rate may vary with the earning levels.

In India, the net replacement rate from pension schemes for an average earning male and female with a full career at the normal retirement age, was 64% and 63.1%, respectively, in 2020.

3.4.4.2 Expected Quantum of Pension by the Millennial Respondents

In practice, the post-retirement conditions of a family and the expectations of their standard of living vary from person to person. Table 16 provides the depiction of the expected pension quantum of the millennials under survey in comparison to their pre-retirement income. It can be observed that though 5% respondents assume that they can do with a pension amount of less than 30% of their pre-retirement income, nearly one fourth of the respondents expect pension quantum of more than 65% of their pre-retirement income.

Table 16: Expected quantum of pension by the millennial respondents

Expected quantum of pension as a proportion of pre-retirement income	Respondents
Less than 30%	5%
Between 30% - 40%	19%
Between 41% - 50%	29%
Between 51% -65%	22%
More than 65 %	24%

3.4.4.3 To decide Sufficiency of Actual Pension earned by Virtue of Employment

To verify the adequacy/ sufficiency of a pension coverage, the employee needs to estimate the regular monthly income required by him after retirement and compare it with the quantum of pension that he/she would actually receive. To predict the pension quantum, an employee must be aware of the type of his pension coverage – 'defined contribution' or 'defined benefit'.

In the case of the defined contribution pensions, the pension amount depends on the corpus accumulated through defined contributions deducted from salary, the growth rate of the corpus and the annuity rates prevailing in the economy on the date of purchase of the immediate annuity policy after retirement. Hence, the resulting pension is uncertain (not guaranteed) and may not be enough for the retiree if the economic scenario is not favourable.

In the case of the defined benefit schemes, the pension quantum has some relation to the last drawn salary of the retiree and it can be predicted to certain extent, with salary projections. Under the defined benefit EPS 1995, if an employee does not opt for higher pension (applicable w.e.f. September 2014, to be implemented after May 2023), a fixed pension amount ranging between Rs. 1,000 to Rs. 4,000 per month, as of now, is paid. Even, the defined benefit pensions may prove insufficient, considering the growth rates of inflation and the old age expenses, on the backdrop of rising expectations of standard of living.

The point to remember is that under both the pension arrangements – defined contribution (NPS) and defined benefit (EPS) - the ultimate responsibility of predicting and ensuring adequacy of future pension falls on the individual employees and not on the employers or the government.

During the survey, the millennial respondents covered under various pension schemes by virtue of their employment were asked about their perception of adequacy of their pension quantum. Table 17 indicates that the majority (64%) respondents were of the view that they would not get a sufficient quantum of pension to maintain their standard of living during old age.

Table 17: Perception about sufficiency of pension

Whether your pension would be sufficient to provide the expected standard of living after retirement	Respondents
Yes	18%
I am not sure	18%
No	64%

3.5 Pension Planning: An Important Part of Retirement Planning

The financial requirement during old age primarily takes the form of a regular stream of monthly income known as a 'pension'. 'Pension Planning' is deciding the quantum of pension, in advance, that is required by an individual to live a peaceful retired life and then to manage the present as well as the future cash flows to ensure the same. Pension planning is a dynamic exercise if one is working in the private sector because of the volatility in salary and the uncertainty about the retirement age. Under a systematic pension planning, the individuals not covered under formal pension schemes can design their own pension arrangements and those who are covered under such schemes can supplement their pension provisions, if necessary.

In simple terms, the pension planning includes an 'Accumulation/ Corpus building phase' during the working years and a 'Decumulation/ Conversion into annuity phase' during the post-retirement years. For old age planning, one needs to ensure capacity of the accumulated wealth to smoothly transform into a pension, from a pre-decided age of retirement from active life.

3.5.1 Estimation of Required Pension Quantum, Pension Corpus and the Investment

To plan for retirement, one needs to estimate the post-retirement lifestyle, for example, the city one wants to live in, the type of accommodation or the number of leisure trips etc.

Pension quantum - Taking into consideration the factors like present expenditure, expected/ predetermined age of retirement, expected longevity together with expected healthy longevity, time horizon in retirement, expected standard of living after retirement and the estimated inflation in Indian economy over the period, an individual can arrive at the requirement of a regular post-retirement income (pension) and its frequency, necessary to fulfil all the needs.

Pension corpus - Once the desired pension quantum and its frequency is decided upon, one needs to arrive at the desired pension corpus that needs to be invested in suitable products to generate the required pension quantum, seamlessly and regularly up to the end of the desired period. The pension can be structured in the form of an interest, interest plus principal or redemption of units of underlying assets. This requires some estimates of the economic scenario and the knowledge and availability of financial products.

Estimates of Investment for pension provision –

On the verge of retirement, an individual may have a readymade pension corpus, may be in the form of a lump-sum retirement benefit or the proceeds of sale of some capital asset. If it is not the case, one needs to build an exclusive and sufficient retirement corpus with regular investments in financial products, right from the early period of his/ her working.

Considering the investment horizon and the assumptions of interest rates, one can find out the amount to be invested per year/ per month until retirement to build the required retirement corpus (Reverse calculation).

Thus, sufficient investment in appropriate financial products on regular basis would build the desired pension corpus at the end of the working life and investment of this corpus in suitable (pension or alike) products would generate the required pension throughout life.

3.5.2 Designing a Pension Arrangement

An individual who wants to receive a regular old-age income may opt for one or more of the following ways a to design a 'Pension' for him/ her –

➢ **To design a Pension during the Working Life**

1) Periodical investments directly in "Deferred Pension (Annuity) products" like NPS or Individual Pension Plans (IPPs) of life insurers.
2) Periodical investments in other financial products - like fixed/ term deposits in banks or post offices, life insurance policies, PPF, government/ corporate bonds, equities, mutual fund schemes and other savings schemes – in order to build a corpus/ pension wealth

that can be invested in a pension/ annuity product or Monthly Income Scheme (MIS) at the end of the working life or from a predetermined age.

➢ **To create a Pension at the end of the Working Life (during Retirement Days)**

Lump-sum investment of retirement corpus (mostly out of the retirement benefit) in the instruments like - "Immediate Pension (Annuity) products" of life insurers, Monthly Income Schemes (MIS) of various financial entities, Income generating bonds of government or corporates, Systematic Withdrawal Plans (SWPs) of mutual funds.

Age last birthday	Amount of annuity payable at yearly intervals which can be purchased for ₹.10,00,000/- under different options for Immediate Annuity is as under:						
	(A)	(D) (15 years certain)	(F)	(G)	(H)	(I)	(J)
25	67660	67456	64702	48586	66742	65722	64294
30	68986	68680	65008	50116	67762	66640	64600
40	72760	72250	65620	54400	70924	69088	65212
50	79492	78064	66334	61540	76330	73372	65926
60	92650	87244	67252	74902	86836	81736	66742
70	120496	98362	68170	102340	108970	99382	67660
80	184858	104788	69292	165886	159970	141100	68680

Example: Annuity rates of Immediate Annuity Plan of a Life Insurer (as on 18.04.2023)

You may choose any one from the below mentioned annuity options for Immediate Annuity

A. Annuity payable for life at a uniform rate.

B. Annuity payable for 5 years certain and thereafter as long as the annuitant is alive.

C. Annuity payable for 10 years certain and thereafter as long as the annuitant is alive.

D. Annuity payable for 15 years certain and thereafter as long as the annuitant is alive.

E. Annuity payable for 20 years certain and thereafter as long as the annuitant is alive.

F. Annuity for life with return of purchase price on death of the annuitant.

G. Annuity payable for life increasing at a simple rate of 3% p.a.

H. Annuity for life with a provision of 50% of the annuity payable to spouse during his/her lifetime on death of the annuitant.

I. Annuity for life with a provision of 100% of the annuity payable to spouse during his/her lifetime on death of the annuitant.

J. Annuity for life with a provision of 100% of the annuity payable to spouse during his/ her lifetime on death of annuitant. The purchase price will be returned on the death of last survivor.

3.5.3 Need of a Supplementary Pension Provision

Depending on the service conditions, an individual may be covered under a mandatory pension scheme or he/ she may be eligible only for a lump-sum retirement benefit. Nevertheless, it is very essential for him/ her to verify the adequacy of the pension quantum or the lump-sum pension corpus, as the case may be, in advance, to maintain the desired standard of living during old age. This can be done by calculating the pension quantum/ corpus necessary for him/ her and comparing the same with the pension quantum/ corpus that would generate/ accumulate under the mandatory scheme on the date of retirement.

As seen earlier, the pension quantum depends on the volume of the accumulated pension corpus, which in turn depends on the quantum of the periodical contributions and the interest rate with which the corpus grows during the accumulation phase. Similarly, in case of an annuity plan, the quantum of pension also depends on the specific pension option selected by the customer and the interest rate scenario in the economy at the start of the pension.

Hence, there is every possibility that the actual corpus built under the defined contribution model of pension (like 'Group pension scheme' with an insurer or 'NPS') is less than the required retirement corpus. Hence, the pension quantum generated therefrom would not be enough to support the expected standard of living of the individual. In such cases, the individual needs to invest additional amounts in appropriate financial instruments on his own, to supplement the mandatory pension amount by bridging the gap between desirable accumulation of pension corpus and the corpus accumulated through mandatory provisions.

3.6 Actions of Millennial Respondents towards Old-Age Financial Planning

3.6.1 Preferences of the Respondents to take care of their Old Age Financial Needs

In the changing socio-economic scenario, the financial provision required during the old age of an average Indian has been rising year by year and one cannot presume that this financial responsibility would be taken care of by anyone or all of one's family, children, the employer or the government. Especially, those working in the unorganized sector, the self-employed individuals and the professionals need to budget and manage their old age finances on their own as they are not covered under any form of retirement benefit. Also, the individuals from the organized sector need to check the availability and adequacy of their pensions in the light of volatile economic scenario and the changing personal conditions that may prompt the need to purchase supplementary pensions, if required.

Table 18: Preferences to take care of old age financial needs

Preferences to take care of old age financial needs (Multiple options can be selected by a respondent)	Respondents	
	Exclusive preference	Composite preference
I have not yet decided about my retirement/ old age provision	40%	
My investment in other financial products for old age provision	8%	33%
My personal investment in Pension Products for old age provision	6%	30%
Land/ House property/ Jewellery/ Wealth that I already have	2%	27%
Coverage of me/ my spouse under Pension Scheme by virtue of employment	3%	21%
Monetary support from my spouse/ children/ family	3%	18%

When the millennials under the survey were asked about their preferences to take care of their financial needs during old age, 40% of the respondents stated that they haven't yet decided about how they would be going to financially secure their old age.

- **About 18% respondents (exclusive preference for 3%) consider worth preferring the monetary support they expect from their family members to rely on during old age.**

The social fabric in India has been witnessing a shift from the 'Joint family system' to a 'Nuclear family system' and the value system of Indians has been undergoing a drastic change. The new generation of children are preferring their social and financial freedom. Hence, the millennials of today may take care of their age-old parents or family members, but it would be imprudent if they expect and rely on the same kind of support from the younger members of their family or their children.

- **For their old age provision, about 2% millennials have decided to exclusively rely on the land, house property, jewellery or other wealth that they already have. In other words, they do not think it necessary to invest in financial/ pension products to secure their old age. Nearly 25% respondents consider their pre-existing wealth worth relying on, along with other options, to support their financial needs during old age.**

Individuals may take up some asset building activity like purchase of house property in the expectation to get rental income that increases 10%-15% every year and becomes a perennial source of retirement provision. However, the assets - in the form of a land, house property or ornaments - of the millennials may not be a dependable source of retirement provision because, these assets may bear some kind of risks or uncertainties related to title, safety, liquidity or their capacity to get efficiently converted into a guaranteed stream of regular monthly income. Also, a plan to bequeath this property to the next generation and expect an old-age support from them, would be risky for obvious reasons.

- **About 3% of the respondents feel that coverage for them/ their spouses under pension schemes by virtue of employment would be enough to take care of their old age and for 18% it is one of the avenues available.**

One must appreciate that fulfilment of service conditions to be eligible to get the benefit under a pension scheme and ensuring adequacy of the pension quantum - are the two important aspects of employee pension one needs to consider for.

- **About 8% of the respondents prefer investment in other financial products as their sole support for old age and 25% prefer it along with other options.**

To build a retirement corpus, individuals may invest in other financial products like fixed deposits, insurance policies or mutual funds in the expectation of safety or better returns along with liquidity. The end utilization of the lump-sum received on maturity of these financial products must be earmarked as its efficient conversion into pension. However, the individuals may be tempted to use this amount for other purposes. An investment in (pension) products with a mandatory provision to purchase annuity on attaining a certain predetermined age can overcome such problems.

- **About 6% of the respondents prefer investment in pension products as their sole support for old age and about 24% prefer it along with other options.**

As seen earlier, 'Corpus building' is just one part of the retirement provision and efficient conversion of the corpus into regular monthly income is equally important. Though there are several ways to design a pension, direct investment in pension products is the most reliable (though necessarily not the most efficient) way of securing old age financials. Hence, to effectively serve the purpose of retirement provision, it is advisable to invest some part of savings in pension products (Deferred or immediate).

The survey indicates that nearly 30% of the millennial respondents have accepted pension products as a part of their retirement planning.

3.6.2 Other Pension Products Preferred by the Respondents for Retirement Planning

For better-off millennials, 'Annuity/ Pension plans of Life Insurers' and 'NPS' are the major pension products available in the Indian market (other than employer pension, if any). Annuity plans of established Life Insurers can provide safe returns and hence, peace of mind; however, the returns are low (4%-5%) and disappointing for a risk lover millennial as money gets stagnated there. At present, in India annuity products available are limited.

The NPS provides investment options with a combination of market linked asset classes. Since inception it has provided an inflation beating average return of about 10%-12% during corpus building phase, however the return is not guaranteed.

The millennial respondents were asked to mention the other pension products that they have invested or would invest in personally. About 29% respondents prefer NPS and about 25% prefer annuity plans of insurers for their retirement provision. Nearly 10% respondents prefer both NPS as well as annuity plans. However, about 35% respondents have expressed their disinterest in pension products.

Table 19: Other Pension Products preferred by the respondents for retirement provision

Preference of other pension products for individual investment	Respondents
No investment in other pension products	35%
National Pension System (NPS)	29%
Annuity Plans/ Individual Pension Plans (IPPs) of Insurers	25%
NPS and Annuity Plans/ Individual Pension Plans (IPPs) of Insurers	10%
NPS and Retirement equity Mutual Funds	1%

3.6.3 Other Financial Products Preferred Exclusively for Retirement Provision

As per RBI data of Household Finances, the stock of financial assets of Indian households as at the end of March 2022 was Rs. 221.4 lakh crore (93.4%, if compared with Indian GDP) and it comprised of Bank deposits – 52%, Life Insurance funds – 24%, Currency – 13% and Mutual funds – 10%, approximately.

In the year 2021-22, the flow of financial assets held by Indian households was Rs. 19.68 lakh crore (10.8% of GDP) comprising of the financial instruments as given in Table 20.

Table 20: Flow of financial assets as in 2021-22

Financial asset	Percentage
Bank and non-Bank Deposits	28%
Provident and Pension Funds (including PPF)	23%
Life Insurance Funds	17%
Small Savings (excluding PPF)	13%
Currency	11%
Mutual Funds	6%
Equity	2%
Other investments	1%
Total	**100%**

Source: RBI – Household financial savings (2021-22)

From Table 21, in the year 2021-22, Deposits, Provident and Pension funds and Life insurance funds were the preferred vehicles for an average Indian to park the money. Mutual funds took a small share of 6% of the total investments.

Table 21: Preference to other financial products for retirement provision

Preference to other financial products for retirement provision (Multiple options can be selected by a respondent)	Respondents	
	Exclusive preference	Composite preference
No investment in other financial products	12%	
Life Insurance policies;	10%	63%
Mutual funds;	3%	56%
House property;	1%	35%
Equities;	0%	34%
PPF	2%	32%
FDs/ TDs, Guaranteed Return Plan in Banks/ Post offices;	1%	27%
Gold/ Commodities/ Crypto currency	-	2%

The targeted millennials were asked to specify the other financial products that they invest/would invest in~~,~~ exclusively for their retirement/ old age support. The findings from Table 21 indicate that though 'Mutual Fund' is not a preferred instrument for an average Indian to park the savings, 'Life Insurance policies' and 'Mutual funds' are the most preferred options for retirement provision of the respondent millennials (exclusively preferred by 10% and 3% respondents and preferred in combination with other products by 53% respondents). House property, Equities, PPF and Fixed deposits come next. Only a few respondents invest in other products like gold, commodities or crypto currency. About 12% respondents do not prefer investment in financial products for their retirement provision.

The risk averse individuals may prefer safe instruments like life insurance policies of established insurers to build their retirement corpus. However, it is an industry perception that the better-off millennials are moving more towards Mutual Funds and they do not connect with other products - especially, pension products - may be, due to lack of awareness. With aggressive marketing by the asset management companies and a good word of mouth publicity, the millennials feel that 'Mutual fund (MF) schemes' are the only products that are relevant for their age. In India, the better performing MF schemes provide returns in the range of 8% to 25% depending on the underlying assets and they also carry some features like Systematic Investment Plan (SIP) and Systematic Withdrawal Plan (SWP) that match with the individual requirements of periodical cash flows and designing of tailor-made pension arrangements.

However, one should keep in mind that investment in mutual funds provides undue liquidity that may tend individuals to use the corpus for other purposes or tackle emergency situations. The average holding period for MFs in India is not more than 3 years. Hence, the consistency of investments desirable for a pension arrangement seems lacking with MFs in India. On the contrary, the pension products of insurers charge penalty for premature withdrawal that encourages consistent long-term investment. Though the internal rate of return in case of pension products is low, it is safe. The industry experts say that the closing rate of a good sales talk with millennials for pension products is as good as 50%. However, the insurers are deficient in increasing the pension awareness amongst millennials through appropriate medium like social media in reaching them with appropriate intermediaries with strong connect.

"… Retirement Planning is a predictable requirement. For pension provision, safety of capital and guarantee of returns are very important. You can't solely depend on Mutual Funds (MFs) for maintaining your lifestyle requirements.

Pension products of an Insurer and the schemes of MFs are not the same but their risk levels differ. These two products cannot replace each other but both can be used for Retirement Planning. The whole funding for pension needs to be divided appropriately between low-risk pension products and high-risk products like MFs.

There is a basic thumb rule for financial planning that - you should invest only the percentage equal to '100 – current age' of the funds in high-risk investments like MFs. In case of high-risk products, *the market volatility can wipe off the whole corpus created over a long term and instead of 'Return on Capital' one may need to worry for 'Return of Capital'. You cannot plan 'pension' on such uncertain products. Moreover, investments in Mutual funds provide undue liquidity that people may tend to use to fulfil other financial requirements or tackle needs in emergency situations. On the contrary, pension products would charge penalty for premature withdrawal of money which is a point in favour of consistent long-term investment.*

Hence, one should secure part of the future pension with low-risk pension plans of the established insurers. The outcome of certain pension products is not dependent on market fluctuations, interest rates or government policies. For rest of the pension amount, one may go for high-risk products like MFs or equities where one may expect better returns.

Pension plans are like healthy food at home. Mutual funds are tasty, but not good for health. They should only be taken as weekend hotelling and not as everyday food…"

- Sri. Pramod Patankar, An Industry Expert

Now a days, the risk taker millennials also invest smartly in start-ups or equities. As per one industry expert, in India, many HNI millennials invest in start-ups that provide returns up to 18%-20%. Some millennial investors also put their money in very high-risk areas like foreign bonds or crypto currencies, however those areas are not regulated.

According to industry practitioners, the millennials of today are not ready for long-term financial commitments, even though their parents nudge them for such investments. It is observed that the millennials may continue their PPF accounts opened by their parents, however, they are not interested in opening a new PPF account as it creates a long-term commitment. Similarly, in case of 'Jeevan Shanti' pension plan of LIC of India, the initial deferment period of '20 years' has been brought down to '12 years' in sync with the market demand.

3.7 Factors that Influence the Decisions and Actions for Retirement Planning

The 'ways of income generation' and the 'income' can be divided in two types – 'active' and 'passive'. The active income is derived from some labour and it includes salary, commission, business income or investment income derived by active choices. On the contrary, the passive income requires a minimal labour and it includes a rental income or business income in which an individual does not materially participate.

Similarly, the choices adopted by an individual to manage his/her old age financial needs can be divided in two types - 'active' and 'passive'. The passive choice of retirement planning - like accepting intergenerational dependence or relying on rental income may require minimal effort on the part of an individual, however, it may lead him/ her to old age poverty and emotional trauma. Hence, individuals must cautiously adopt the active choice of retirement planning - like adequate investments in appropriate financial instruments - to combat the financial vulnerability at old age.

3.7.1 The Factors that Hinder the Millennial Respondents from Planning for Retirement

To actively manage their old age finances, people need to have -

- Awareness of the needs during the retirement days
- Present financial ability to invest for old age
- Adequate financial literacy and knowledge of retirement planning
- Adequate knowledge of financial products

Table 22: Factors that hinder the millennial respondents from planning for retirement

Factors (Multiple options can be selected by a respondent)	Respondents	
	Exclusive factor	Composite factor
Nothing specific. I can save sufficiently for my retired life;	21%	
There is no need for me to save for my retirement	7%	
My liabilities of home loan, car loan, educational loan, loan for business infrastructure etc.	8%	27%
Low awareness of retirement needs	10%	25%
Poor knowledge of financial products	8%	23%
Income constraints	8%	22%
Unmanageable routine expenses	3%	12%

When the millennial respondents were asked about the factors, if any, that prevent them from making sufficient investment for retirement purpose, about 21% respondents expressed that they have no difficulty to save for retirement. About 7% perceive no need to save exclusively for retirement. The rest of the respondents opined that their capital liabilities, low awareness of retirement needs, poor knowledge of financial products and their income constraints – are nearly equally responsible in preventing them from sufficient investment for their old age.

3.7.2 The Factors that Encourage the Respondents to Save More for their Retirement

The millennials were asked that considering the increasing cost of living and healthcare, what would encourage them to save more for retirement.

Table 23: Factors that would encourage to save more for retirement

Factors that would encourage to save more for retirement (Multiple options can be selected by a respondent)	Respondents	
	Exclusive factor	Composite factor
Nothing specific	15%	
Financial education of retirement planning	26%	44%
Knowledge about options of pension products available for me	11%	31%
More Tax incentives by the government	9%	29%
Availability of pension products of my choice	8%	26%

The highest number of respondents (exclusive 26% and 44% in total) have specified 'financial education of retirement planning' as the encouraging factor. Next comes the 'knowledge about options of pension products available for me' (11% exclusive and 31% in total). The rest have mentioned 'More tax incentives by the government' and 'Availability of pension products of my choice' as the factors that would encourage them to save more for retirement. For 15% respondents, there is nothing specific that would encourage them to save more for retirement.

"*… Financial education about retirement provision should start from the elementary stage when one enters a job. Employer is the initial – starting point that can do a lot of things for the newly joining young employees. The environment that an individual works in, matters a lot in building his life. People tend to do the things that their colleagues do… say partying ..or travelling… or say saving for the future. As an employer, one needs to be responsible. In our company, we have adopted NPS Corporate Model.*

The investment awareness should boil down to the lower space. The insurance companies should go to the corporates and share their expertise and inculcate the habit of goal-based investing in the youngsters. Also, the entities that have a high penetration in various unorganised sectors can play a major role. The agency model for LIC of India, Bancassurance for the others and the Post *offices, in general, are the important channels to increase financial/ retirement awareness. To enhance retirement awareness in unorganized sector, digital push can play an important role as everybody has a smart phone, even in Tier II or the rural area…"*

– Mr. Abhyuday Das, An Industry Expert

3.7.3 The Financial Decision Makers in the Households of the Millennial Respondents

Table 24: Financial decision makers in the households of the millennial respondents

Who takes financial decisions in the family	All respondents (Average)	Only female respondents
Myself	47%	26%
Me and my spouse, jointly	22%	33%
All family members, jointly	15%	23%
My Spouse	10%	13%
Only my senior family members	5%	5%

It is observed that only for 5% respondents the financial decisions in the family are taken exclusively by their senior family members. It implies that in case of nearly 95% respondents, the millennials in the family (the respondent/ the spouse/ both/ along with other family members) have 'a say' in the financial decisions of their family and in the family nests of nearly 80% respondents, the financial decisions are taken by the millennials - either by themselves or jointly with their spouse.

3.7.4 Influence of Children on the Investment Decisions of the Millennial Respondents

Table 25 shows that only about 18% millennials have indicated some level of influence of their children on their investment decisions.

Table 25: Influence of children on investment decisions

Whether your financial decisions are influenced by the investment choices suggested by your children	Respondents
I do not have children	29%
My child/children is/are too small to discuss these matters	22%
Not at all	31%
To some extent	12%
Yes, as my children have more information about financial products	2%
Yes, I always consult my children	4%

3.7.5 Medium preferred to get Information Related to Financial Investments

It can be observed from Table 26 that the millennial respondents are more inclined towards personal research through genuine sources on internet (34% in total), social media (36%) and short videos on YouTube (38%) rather than watching television (23%) and attending webinars (19%) to get inputs on financial investments.

Table 26: Medium preferred to get information related to financial investments

Preferred medium to get information related to financial investments	Respondents	
	Exclusive preference	Composite preference
Personal research through genuine sources on internet	10%	34%
Social media	8%	36%
Advice by a trusted Financial Advisor	7%	38%
Consultation with a trusted family member/ relative/ friend/ colleague	2%	33%
Short videos on YouTube	2%	38%
Television	2%	23%
Official Websites visited while filing ITR	1%	13%
Webinars	0%	19%

Though the maximum number of respondents (10%) exclusively prefer 'Personal research through genuine sources on internet' to get information related to financial investments, the millennial respondents also prefer human touch like advice by a trusted financial advisor (exclusive for 7% and 38% in total) and consultation with a trusted family member/ relative/ friend/ colleague (exclusive for 2% and 33% in total).

3.7.6 Preference of the Respondents for Intermediaries to buy Pension products/ NPS

Table 27: Intermediaries preferred for buying pension products

Intermediaries preferred for buying Pension products	Respondents
Broker	31%
Web aggregator	25%
Individual agent	24%
Online/ Direct from the company	14%
Banks/ Corporate agent/ Point of Presence	6%

Though the millennial respondents are inclined towards digital search to get financial information, the digital channels are preferred only by 39% respondents ('Web aggregator' by

25% and 'Online sale from the company' by 14%) for actual purchase of the pension products. The channels having a human interface are preferred by a greater number of respondents - 'Broker' by 31% and 'Individual agent' by 24% respondents, adding to 55%. The banks, corporate agents and Point of Presence (PoP) are the least preferred intermediaries as only 6% respondents have opted for these channels.

"...Personal research is necessary for taking investment decisions. A lot of tools are available in the virtual space that provide you various ways of calculation. The parametric and analytical tools available on internet nowadays, are accurate. At fingertips we can calculate everything. If you type "Retirement plan" on Facebook, Instagram or Twitter, it gives you everything about it. That is 'Intelligence marketing'. Don't enter blind zones, don't invest in the things you don't know. I would do the research to put my money. Before investing in a financial product, I check its past performance, yield and the way it is structured in the market.

Previously agency model was dominant. People used to trust whatever the agents said. Agents may not educate the customers properly as they may not be aware well of the products, the benefits and the financial impact of buying those products in real sense. But now, personal research is easier. People use the cheap internet in India to be associated with the financial space. Young generation is tech-savvy and trade-lover. Instead of having a personal meeting with an advisor – especially after pandemic – the youngsters use mobiles, laptops, internet ... to gather information. In metropolitans, people do their own research for investments. However, in other areas, the selling is still relation based.

People get information about insurance and retirement products from various sources like web-aggregators, but they will purchase the products from agents or brokers. People may buy policies through aggregators, but they come to agents or brokers for servicing support. Insurance policy is a contract, it needs handholding. People like to purchase insurance or retirement products from a person whom they know. The complicated products and their claim settlement procedures make people expect the agent or the broker to be around. It gives them a lot of comfort. To settle a death claim, nobody would rely on a call centre..."

- ***Shri. Abhyuday Das, An Industry Expert***

CHAPTER 4
DISCUSSION —
RETIREMENT PLANNING WITH NATIONAL PENSION SYSTEM

National Pension System (NPS) is a market linked 'defined contribution' pension product introduced by the Government of India. Initially, it was meant for the Central Government employees (except the armed forces) who joined service on or after 01.01.2004.

Under the NPS- Government model, the retirement corpus is built in the name of the individual employee with a monthly contribution at the rate of 14% of the salary and a matching contribution by the government till the exit of the employee. This model replaced the two earlier retirement benefits - 'General Provident Fund (GPF)' and the defined benefit Civil Servants' Pension Scheme popularly known as 'Old Pension Scheme (OPS)' with –

1) Tax free lump-sum withdrawal up to 60% of the accumulated corpus, and

2) Mandatory purchase of pension/ annuity out of at least 40% of the accumulated corpus.

Subsequently, many state governments adopted the NPS model for their employees. Also, with effect from 01.05.2009, the self-financing "NPS - All citizens model" has been extended to cover the self-employed professionals, employees working in the unorganized sector and others – as a voluntary retirement savings account to design their pensions. (Annexure 5 contains a brief information about NPS- All Citizens Model)

The NPS platform has two tier arrangement – Tier I (mandatory) and Tier II (optional) –for the subscribers to contribute.

'Tier I' is the basic mandatory account to accumulate the pension corpus, wherein the contributed money gets locked till maturity of the account (on retirement of the employee or at 60 to 75 years of age for 'all citizen model'). On maturity, the accumulations under Tier I account are available for 'tax free withdrawal (up to 60%)' and to purchase pension (with at least 40% of the corpus)' from an annuity provider.

An add-on to Tier I is the optional ‘Tier II’ account to which any amount can be deposited or withdrawn at any time, similar to a savings bank account. The Tier II account can be used to get better returns along with high liquidity; however, the withdrawals therefrom are taxable.

The “NPS - All citizens model” is a flexible pension product as the subscriber can select the Pension Fund Manager (PFM), Annuity Service Provider (ASP) as well as the investment class and investment strategy as per his/ her wish. The NPS is also an attractive scheme because since inception, it has provided an average return of about 9% to 12% under different asset classes. The NPS investments are continuously monitored by NPS Trust at the first level and regulated by the Pension Fund Regulatory and Development Authority (PFRDA).

As on 31st December 2022, about 23.53 lakh central government employees and 59.78 lakh state government employees are mandatorily covered under the government model of NPS.

However, it appears that ‘NPS’ is not voluntarily embraced by the individuals as expected and estimated by the different stakeholders. A survey conducted by the Asian Development Bank (ADB) and the Ministry of Finance in 2004 had showed that about 310 million workers in the unorganised sector were not covered under any retirement benefits and 20 million of them were able and willing to join NPS immediately.[11] Despite this, till the end of the year 2022, only 48 million individuals have been covered under the social security schemes like the ‘NPS Lite’ and ‘Atal Pension Yojana (APY)’; about 1.62 million employees have been covered under ‘NPS Corporate Model’ and only 2.65 million subscribers have joined the low cost and easily accessible ‘NPS - All citizens model’. Lack of awareness, high enrolment costs and absence of distributors were supposed to be some of the initial reasons for the poor response to NPS.

4.1 ‘NPS - All Citizen Model’: Uptake by the Millennials

The following table shows the age-group-wise break-up of the subscribers of ‘NPS - All citizen model’ enrolled during the period between 2016 and 2021. During this period, the maximum subscribers of ‘NPS - All citizen model’ were from the age groups ‘26-35’ years (33%) and ’36-45’ years (31%). Also, for both the age groups, the enrolments exhibit a positive trend. Interestingly, it also indicates that during this period, the millennials were increasingly inclined towards voluntary participation in ‘NPS - All citizen model’.

Table 28: Age group-wise break-up of the subscribers of 'NPS - All citizen model' - enrolled during the last 5 years

Age Group (Years)	2016-17	2017-18	2018-19	2019-20	2020-21	Total	Proportion
18 - 25	1,635	4,787	7,246	31,609	40,183	85,460	**6%**
26 - 35	36,791	62,266	68,961	1,32,771	1,78,650	4,79,439	**33%**
36 - 45	70,911	83,160	78,374	1,01,553	1,19,308	4,53,306	**31%**
46 - 55	57,172	58,152	53,766	60,700	66,122	2,95,912	**20%**
56 - 60	23,229	22,690	20,684	18,495	17,714	1,02,812	**7%**
61 and above	5,766	9,032	6,464	4,000	3,171	28,433	**2%**
Total	**1,95,504**	**2,40,087**	**2,35,495**	**3,49,128**	**4,25,148**	**14,45,362**	

Source: Socio-economic characteristics of NPS subscribers (all citizen model), PFRDA

However, it is too early to be carried away with these uptake figures or jump to the conclusion that the millennials now value the NPS for their pension provision. It is possible that the millennial subscribers could be using the NPS Tier I merely for tax saving or only NPS Tier II just for liquidity with better returns. Hence, one needs to delve into the NPS statistics to confirm whether the NPS is actually serving the purpose of retirement planning for the millennials. In fact, the NPS data needs meticulous analysis for all demographic segments against various parameters like usage of Tier I and II, Tier-wise volume of yearly contributions, partial withdrawals and actual purchases of annuity on maturity - to help find the underlying reasons of voluntary participation of the subscribers in NPS.

4.2 Awareness of National Pension System (NPS) among the Millennial Respondents

As shown in Table 29, 32% of the survey respondents claim that they are 'fully aware' of NPS. About 47% say that they are 'somewhat aware' of NPS. And a fact that needs serious attention is that nearly 21% of the better-off millennial respondents say that **they are not at all aware of NPS**. The survey also brought out the fact that many millennials have not clearly understood the double tier NPS as well as the tax treatment for the contributions. Also, from the responses to open ended questions it is observed that some respondents have misconceptions about NPS. As NPS product is not assimilated conceptually by some of them, they have some inappropriate expectation from NPS. (**Referred to in section 4.6**)

Table 29: Awareness of National Pension System (NPS) among the respondents

Awareness of National Pension System (NPS)	Respondents
Fully aware	32%
Somewhat	47%
Not at all	21%

4.3 Sources of Information of NPS for the Millennial Respondents

Table 30: Source of information about NPS

Source of information about NPS	Respondents	
	Exclusive source	Composite source
Internet, social media;	12%	32%
Friends/ relatives/ colleagues;	12%	31%
My employer;	15%	29%
Financial Advisor;	11%	29%
Newspaper advertisement;	2%	14%
Intermediaries;	2%	12%
School/ College curriculum;	4%	9%

The millennial respondents who are aware of NPS were asked about their sources of information of NPS. As shown in Table 30, 'Internet, social media' is the top source of information of NPS for the respondents. Then come their 'friends, relatives, colleagues', their 'employers' and the 'financial advisors'. Some individuals have also gathered information of NPS through newspapers, intermediaries and their educational curriculum.

4.4 Preference for Investment in NPS by the Millennial Respondents

The respondents who are aware of NPS were asked about their investment in NPS and (as shown in Table 31) it is observed that 56% of them do not contribute to NPS. Nearly 30% contribute only to Tier I, 1% prefer only Tier II and 13% of them invest in both Tier I and II.

Table 31: Type of investment in NPS

Do you invest in NPS?	Respondents
Yes, only in Tier I	30%
Yes, in both Tier I & II	13%
Yes, only in Tier II	1%
No	56%

4.5 Purpose of the Investment in NPS by the Millennial Respondents

The millennial respondents investing in NPS were asked about the purpose behind their investment in NPS. Nearly 24% respondents mentioned that they invest in NPS only because it is mandatory for them (otherwise they might not have invested). About 19% respondents invest exclusively for the tax benefit, indicating that their contributions might be limited to the tax concession limit. About 12% utilize NPS exclusively as a self-planned pension provision and 3% invest in NPS to get fair returns, exclusively.

From Table 32 it appears that behind the NPS investment by the respondents, other than the mandatory arrangement, **'tax benefit' is the dominant reason**; as it is the exclusive objective for 19% respondents, and it is one of the reasons for a majority - 57% of the respondents.

Table 32: Purpose of investment in NPS by the millennial respondents

Why do you invest in NPS?	Respondents	
	Exclusive purpose	Composite purpose
It is mandatory;	24%	45%
For tax benefit;	19%	57%
It is a self-planned pension provision;	12%	33%
For fair returns;	3%	22%

4.6 Some Views of the Millennial Respondents about NPS

With two open ended questions, the millennial respondents were asked to provide their views about NPS. The majority 71% respondents provided no comment on this; about 15% respondents provided favourable opinion and 14% were negative on NPS. The following table provides a summary of some selected views of the respondents about NPS.

Table 33: Views of the millennial respondents about NPS

Favourable views on NPS	Adverse views on NPS
The product is easy to purchase, it is fast and flexible.	The product and the processes are complex, especially withdrawal. Customer services are poor.
There are tight regulations around NPS, hence comparatively low risk is taken by the fund managers.	NPS is conservative and provides low returns as compared to similar mutual fund schemes, Annuity rates of NPS do not beat inflation.

Suitable fund options are available in NPS.	Though fund options are available, one may not have enough expertise and sufficient time to switch between funds to get the real advantage.
It is good to lock-in money till retirement when it is needed the most.	The provision of lock-in period and mandatory purchase of annuity with at least 40% of the corpus deprives one from a full control over the money.
Additional tax benefit of Rs. 50,000 u/s 80CCD is attractive.	The additional tax benefit of Rs. 50,000 is not enough.
On maturity, NPS provides tax-free amount up to 60% of the accumulated corpus.	The maturity amount is not completely tax-free. While redeeming 40% of the hard-earned money as annuities, one needs to pay taxes.

Some Misconceptions and Inappropriate Expectations of the Respondents from NPS

- There is a limit on maximum investment in NPS.
- Variety of pension options are not available under NPS.
- Demat account is required for NPS investment.
- There should not be any lock-in period under NPS.
- On maturity, 100% of the accumulations under Tier I should be given to account holder.
- Tax benefits are to be given for NPS tier II contributions, too.

4.7 Viewpoint of the Respondents about "NPS as a Tool for Retirement Planning"

To address the purpose to ensure a sufficient, regular and reliable pension during old age, it is very important for an individual to pick appropriate financial instruments during the accumulation and decumulation phases of pension planning. With this reference, the objective and subjective responses of the middle- and high-income millennials under the survey were analysed to extricate their opinion about "NPS as a tool for their retirement planning".

4.7.1 NPS – All Citizens Model

It is revealed that most of the respondents look upon 'NPS – All citizens model' only for its additional income tax benefit u/sec. 80CCD. With the appeal of additional tax benefit, NPS helps people build a habit of savings for retirement and get them started with their retirement planning. However, unlike provident funds, NPS returns are not guaranteed. As the returns depend on economic scenario during the corpus building phase, the volume of corpus accumulated under NPS is uncertain. Also, the annuity (pension) rates of NPS cannot be predicted well in advance and they depend on the interest rates in the economy at the time of start of the pension. Thus, the uncertainty associated with NPS during its accumulation as well as decumulation phase makes it very difficult for individuals to plan their retirement benefits exclusively with NPS.

The respondents have opined that sole investment in NPS would not be enough for a better post retirement life. Some respondents view Public Provident Fund (PPF) and pension plans of life insurers as the better options. Some respondents say that instead of investing in NPS, one should invest in diversified long-term equities or long-term equity/ index funds to get more returns and use the accumulations to buy annuity products of choice.

To summarise, the respondents feel that because of the inherent limitations of uncertainty and moderate returns, NPS cannot be an exclusive financial tool for retirement planning and one may opt investing in NPS – though with other financial instruments - for pension planning.

4.7.1.1 A lesson: The Need to Revamp NPS Product

The discussion about the type of investments in NPS, the purpose behind those investments and the viewpoints of the better-off millennials about "NPS as a Tool for Retirement Planning" compel us to think about the most relevant question – Whether the NPS architecture is serving the real purpose for which it has been brought into existence… whether the pension system is really catering to the pension needs of the subscribers of the system.

The design and the Unique Sales Proposition (USP) of pension/ annuity products like 'Individual Pension Plans' of life insurers are very clear. Individuals purchase these products with an exclusive motive to get a decent pension and while purchasing they have a clear idea that the amounts invested in such products cannot be withdrawn in between for any purpose other than purchasing an annuity with the accumulated corpus at the vesting age.

However, it appears that there is no clear marketing focus for the NPS. Though the 'NPS - All Citizens Model' has been launched as a low-cost and flexible scheme designed to cater to the pension needs, its two-tier structure and the specific features have provided it an added potential to work as a **Multifaceted Product**. The NPS product can be taken advantage of in any one or more of the following ways –

1. **As a mere Tax Saver instrument**

Under the present taxation rules, just to get an additional income tax benefit u/s 80CCD, one may invest up to Rs. 50,000 in Tier I of NPS every year. On maturity he needs to purchase an annuity with at least 40% of the accumulated corpus. He can avail the facility of partial withdrawals in between. On maturity, if the total accumulation is less than Rs. 5 lakhs, he can withdraw 100% of the corpus.

2. **As a flexible Investment Tool similar to Mutual Fund schemes**
   One may contribute just Rs. 1,000 (minimum contribution) to Tier I every year and utilize Tier II for market linked liquid investments with ease of switching between asset classes and fund managers. The first online platform for NPS - 'Paytm' used to display NPS under 'Mutual Funds'. Now, it shows NPS as a separate category and provides an option of 'Anytime Withdrawal' under NPS with minimum investment of Rs. 1,000 which is mandatory for Tier I and the balance amount is invested in Tier II.
3. **As a customized Pension Arrangement**
   After estimating the pension requirement, one may religiously invest enough in Tier I to lock it until retirement and build the necessary pension corpus. One can design a tailor-made pension by preferring "active choice" and utilizing "switching" facility.

Ultimately, the inherent limitations of the NPS to be an ideal pension scheme, a very low voluntary uptake, the unwanted and multidimensional usage by investors and some improper investor demands (like further reduction in the proportion of maturity corpus utilized to purchase annuity, exorbitant increase in the frequency and amount of partial withdrawals, tax concessions for investment in Tier II etc.) indicate that **the weird and diluted structure of the NPS product itself** and **the lack on the part of the stakeholders to create and strongly defend the necessary structure and image of NPS as a desirable pension product** – are the main reasons for the NPS to be a grossly misunderstood product. And it seems that the NPS was never on the right track to provide a reliable pension support to Indian citizens.

The industry experts strongly feel that **there is an immense need to rework the NPS product and revamp the marketing mix to align its focus with the vision of making India "a Pensioned Society", in a true sense.**

4.7.2 NPS Government/ Corporate Model

In general, the respondents covered under NPS ‘Government Model’ or ‘Corporate Model’ have the following opinion about the mandatory NPS models –

1) To maintain the financial wellbeing of employees under a social security measure, there must be a guaranteed component in ‘pension’. However, the mandatory market linked NPS does not guarantee any definite quantum of pension like the old pension scheme.
2) The corpus amount of NPS is at high risk and there are also the chances of capital loss in case of extreme situations.
3) Investment in NPS yields much less returns as compared to the average returns of the better performing mutual fund schemes and the guaranteed returns of PPF.
4) Under NPS- Government/ Corporate model, there is no fixation of minimum pension.
5) Fixed annuity rates are not declared under NPS and the pension under NPS does not beat inflation.
6) For obvious reasons, the rate of NPS pension is uncertain and it is different for two persons retiring from the same rank.
7) There is no provision of family pension under NPS model for employees.

Some of the respondents have strongly demanded for the restoration of Old Pension Scheme (OPS) and General Provident Fund (GPF) for all central, state and PSU employees.

According to the PFRDA, 26 state governments, except for Tamil Nadu and West Bengal, had notified and implemented NPS for their employees. Recently, the state governments of Rajasthan, Chhattisgarh, Jharkhand, Punjab and Himachal Pradesh have informed the Centre about their decision to revert to the Old Pension Scheme (OPS) and have requested a refund of the corpus accumulated under the NPS. Also, the employee organisations in some other states have been raising demand for the same.

On this backdrop, though the finance ministry is not about to consider the proposal to restore the OPS in respect of the central government employees, it has on 6th April 2023 set up a committee to review the NPS for government employees. The committee would undertake an analysis to suggest measures to modify the existing framework and structure of the NPS (Government model) with a view to evolve an approach that addresses the needs of employees to improve upon the pensionary benefits, keeping in view the fiscal implications and impact on overall budgetary space, while maintaining fiscal prudence to protect the common citizens.

4.8 A Brief Overview of the Journey of the Formal Pension Systems and Pension Reforms

For many years, the 'NPS – Government Model' is being criticised by some sections of the society and protests are being held demanding restoration of the guaranteed benefit old pension scheme for the government employees. On this backdrop, it becomes very essential to understand the journey of formal pensions and the pension reforms all across the globe and in India in particular, in the context of the changing socio-economic scenarios. The following is a very brief overview of the same.

Living a peaceful and happy life after retirement is the right of all citizens who have contributed to the growth and development of the organizations and the nation while they were young and working. To ensure the same, old age income security has been one of the oldest socio-economic concerns of the society. Gradually, the thought of supporting those who protected and assisted the growth of young generations emerged as an important factor influencing the government policies world-wide. Many countries introduced laws regarding social insurance and social security for their citizens, particularly for their workers and elderly population . Over a period, in the 1940s, it took the shape of **pensions** the world over.[12]

As per the internationally accepted principle of providing income security after retirement, a comprehensive pension system of a country has **3 basic pillars[15]**.

'Pillar I' covers every citizen of the country through a standardized, government-run pension system (includes pension for government employees) that offers basic coverage and is primarily focused on reducing poverty.

'Pillar II' is a mandatory occupational pension system where the employee and the employer contribute towards the pension fund.

'Pillar III' is a voluntary, privately funded system that includes individual savings plans and insurance.

Over a period of time, though the concept and importance of old age economic support in the form of pensions remained the same, its format underwent changes with the changing dynamics and the evolving philosophy of socioeconomic policy. In 1994, the World Bank published its policy research report ***Averting the Old Age Crisis*** that not only provided a blueprint for an impending crisis owing to the increased longevity and aging of the population, but also a strategic model for pension reforms based on the public-private partnership.

4.8.1 The Old Age Crisis[12]

The 'Old Age Crisis' refers to the major concern for old age social security and pension~~,~~ arising out of the changing world demographics distinctly characterised by the important trends – namely, reduction in mortality and fertility, increase in longevity with better health care and improved medical facility. The demographic changes also exhibit -

i) Decrease in the growth rates of younger cohort (age 0-14)

ii) Slow growth in the working age population (age 15- 59) and

iii) Rapid growth in the elderly population (age 60+).

These changes in population age structure and the fact that people live much beyond their normal working life create several socio-economic and political challenges. This predicament imposes burdens on national treasury with enhanced expenses on health care. It causes imbalance in the inter-generational transfer of resources and imposes growing burden on youth. It also adversely impacts the labour supply, productivity, national savings and economic growth as such. The changing dynamics of population also becomes an important political issue since, ageing emerges as a very strong political agenda which may overshadow the issues of youths as well as development.

However, the most severe impact of demographic transition of a country is on its traditional, government run, defined benefit (DB) pension system as it creates imbalance in the ratio of 'workers' to 'social security beneficiaries'. Moreover, furthering the sustainability issues, the non-funded DB pension system has certain inherent risks.

4.8.2 Limitations of the Non-funded Defined Benefit (DB) Pension System[12]

Traditionally, the DB pension is a non-funded, publicly managed pension system financed through the pay roll deductions/ taxes and it works on the principle of 'Pay-As-You-Go (PAYG)'. The quantum of pension under DB system is a defined (guaranteed) one and it is organized around certain predetermined formulas based on the history of employment earnings (e.g., duration of service and last drawn salary).

In simple terms, under a PAYG system, no separate funds are reserved for the pension provision and the pension instalments of current retirees are paid through the salary deductions of the young generations currently working with the government. Though the mechanism of a PAYG system appears very simple, there are some arguments about its serious inherent weaknesses as mentioned in the following page.

1. **Issue of solvency/ sustainability**: With improved longevity of the retired employees, the hidden pension liability of any pension system increases beyond the estimations, over time. Under a PAYG system, as there is no separate asset allocation for the pensions, in order to match the rising liability, there is a need for regular increase in the matching contributions. However, normally it does not happen. It creates an asset-liability mismatch and makes the PAYG DB pension system unsustainable over a long run.

2. **Burden on Treasury:** The pressure of unfunded DB pensions has been a major fiscal drag worldwide. It has been criticized that the system imposes burden on the treasury when the anticipated liabilities are larger than the actual contributions by the current employees. When the system tends to be insolvent, it is rescued by the government subsidy.

3. **Political risk:** The government mandated PAYG system may run into political risk since the legislature and the political parties control the system. Often, the political interest prevails over the economic interest of the pensioners. Sometimes, the external shocks are tackled with some internal changes in the system to protect the interest of the pressure groups. Therefore, the misdirected political intervention in PAYG social security system may cost the treasury dearly and harm the pensioners' interest adversely.

4. **Policy Risk**: The public sector pension schemes involve 'policy risk' since the government of the day may not be able to accommodate the required pension outlays leading to delays in pension payments or defaults in few cases. On the other hand, private pension schemes are less subject to this 'policy risk' because the governments are less prone to confiscate private property.

5. **Lack of transparency:** It is often argued that the PAYG system is not transparent enough since the fund information is not publicly available and the workers are unable to view the performance and progress of the fund. Also, the country is unaware of the changing trend in the hidden pension liability which generates public debt, in turn.

4.8.3 The Need for Pension Reforms Worldwide[12]

Eventually, it was revealed that though the crisis in respect of old age social security arises out of demographic transition, it gets accentuated by the non-funded 'defined benefit' form of pension system of a country, since it imposes unsustainable pressure on the treasury. Hence, being one of the most critical policy issues, the old age crisis forced the nations worldwide to find innovative strategies and policies to replace the DB systems and to ensure old age pension and social security **within the given limitations of resources and political framework**.

There was one more important structural issue regarding the "Responsibility" of providing pension and retirement income to workers. With gradual dismantling of the concept of 'Welfare States' in many developed and emerging economies, a new dimension was added to social security that reduced the responsibility of 'the Government' for social assistance and passed the responsibility of ensuring old age security to 'the Individual' as its own.

Gradually, to protect and promote social security with a new dimension and ensure sustainable pension systems, various initiatives were taken by many developed and developing countries (may be as political initiatives) and thus pension reforms were introduced worldwide.

4.8.3.1 Pension Reform Models[12]

Since 1980s, a variety of measures for old-age security have been suggested by various economists and policy makers. Depending on the socio-political circumstances and the economic needs, a country can adopt an appropriate model of pension reforms. There are three major pension reform models being followed world over -

1) **The Parametric Reforms Model (PRM)** – It retains the basic structure of defined benefit system, but introduces parametric changes like increasing retirement age, increasing rate of contribution, revaluation of past earnings, indexation of pension etc. to enhance pension entitlement. Most of the OECD countries have introduced PRM for pensions.
2) **The Systemic Reform Model (SRM)** – It usually replaces 'defined benefit (DB)' pensions by funded 'defined contribution (DC)' pensions. In this model, the longevity risk is transferred from the pension provider to the pensioner. Beginning with Chile, countries such as Mexico, Argentina, Peru, Bolivia etc. in Latin America and Hungary, Poland, Sweden in Europe have switched over to 'DC pension' from 'DB pension'.
3) **The Notional Defined Contribution (NDC)** – It attempts to integrate the characteristics of DB and DC systems. NDC is a shift from a DB Plan to a Notional Account, under which

the pension depends on the contribution of the member but the (notional) interest rate is decided by the government. Therefore, the risk of investment lies with the government and the individual investment risk lowers as compared to the risk in a DC system.

One instrument commonly applied irrespective of the reform model is to increase the retirement age for pension entitlement as it has a long-term positive impact. Since, irrespective of the level of development, the longevity throughout the world has increased significantly, increasing the age of retirement has become a necessity rather than a mere deferment of pension burden by the governments, as often seen.

Increasing the retirement age provides scope to organizational growth by continuing the contribution of the skilled and the experienced manpower. Though temporarily, it also channelizes government funds for development, to boost growth. It can increase the pension entitlement to some extent by increasing the working span. It boosts domestic savings since at high ages, the propensity to save is higher than to consume.

During recent times, 34 member countries of OECD have reformed their pension systems between the period January 2009 and September 2013.[14]

For the OECD countries the objectives of pension reforms are…

To ensure -

1. Pension system *coverage* in both mandatory and voluntary schemes.
2. *Adequacy* of retirement benefits.
3. The *financial sustainability* and *affordability* of pension promises to taxpayers and contributors.
4. *Incentives* that encourage people to work for longer parts of their lifetimes and to save more while in employment.
5. *Administrative efficiency* to minimise pension system running costs.
6. The *diversification* of retirement income sources across providers (public and private), the three pillars (public, industry-wide and personal), and financing forms (pay-as-you-go and funded).

The latest example is the increase in the age for retirement in France. In February 2023, seemingly because of the potential unsustainability of its current pension system - owing to increasing life expectancy, demographic decline, burgeoning public debt and the extra strain put on economy by the Ukraine war - the country announced enhancement in retirement age from 62 to 64 years (it followed by massive protests by the unions).[13]

4.8.3.2 Advantages of a Defined Contribution Pension System

Though there are several pension reform programmes, the major debates and initiatives on pension reforms world over are centred on the privatized funded 'Defined Contribution (DC)' pension system under systemic reforms. There is a wider agreement that the politically vulnerable, publicly managed (DB) pension system needs to be replaced by a market-based pension system running with individual accounts and rule-based approach to risk allocation.

The market-based social security system is basically a 'defined contribution (DC)' pension system, fully funded by the members. The DC pension system has several potential strengths and can avoid some inherent weaknesses of the PAYG defined benefit system. The most important feature of this system is the introduction of 'Individual Accounts' expected to provide the contributors their ownership claims on a particular mix of financial assets and linking their future benefits to the size of the assets. The system has wider investment options and provision of active investment choice for the members. The professional fund managers in DC system are considered to be more efficient and able to provide better returns by virtue of their expertise in management of investments. In addition to this, the system offers solvency and transparency to its members. As it is a self-funded scheme, it imposes no burden on treasury and also reduces political intervention in social security. It supports capital market development, boosts domestic savings and finally generates momentum of growth.[12]

However, experts have also pointed out some weaknesses of the Individual Account based DC system such as the high administrative costs, high costs of annuity, return related risks, inflation risks and potential irregularity of contributions.

4.8.4 Pension Coverage in India[15]

It seems that poverty and unemployment might have acted as deterrents to provide a tax financed government pension arrangement (social security) for every Indian citizen attaining old age. Hence, in India, the government-funded (public financed) pension (Pillar I) has very limited coverage and it covers the poor and elderly persons above 65 years of age through the National Social Assistance Program (NSAP) and the earlier generation government employees through the traditional PAYG (Defined Benefit) pension scheme.

Therefore, prior to pension reforms, the pension policy adopted for the organized sector (Pillar II) in India was primarily based on financing through employer-employee participation under DB (employer specific schemes) or DC-cum-DB (e.g., EPS) schemes. This had, however, denied the vast majority of the workforce (88%) engaged in the unorganized sector access to the formal channels of old age economic support.

Besides the challenge of limited coverage, the mandatory and voluntary private pension system existing in India (prior to the pension reforms) was characterized by the limitations like fragmented regulatory framework, the need for uniform standards and lack of individual choice and portability. Also, the problems like high incidences of administrative cost and the low real rate of return were associated with the then existing unsustainable system.

The non-sustainability of the Indian Pension System was accentuated by a sharp increase in the financial burden on the government and other employers on account of pension liabilities. During the 1990s, while the total pension liability on account of the central government employees had increased at a compounded annual growth rate of more than 21%, the comparable rate for the state government employees was 27% per annum.

4.8.4.1 The Civil Servants' Pension (CSP) in India and the Fiscal Stress[15]

Prior to pension reforms, all the Central and State government employees (except armed forces) in India were covered under a 'PAYG Defined Benefit (DB)' pension system known as Civil Servants' Pension (CSP). The CSP was an unfunded scheme and there had been no attempt at building up pension assets through contributions or any other provision. The CSP scheme was indexed to wages and inflation. A modified 'one rank one-wage' principle was applied to it wherein all retired employees of a certain rank got the same pension. The pension payments were revised periodically to reflect the growth in wages and consumer price index. The growth in pension benefits in older ages was typically higher than the inflation.

In India, the CSP was designed at the time, when going by the pattern of life expectancy, most of the employees who retired at the age of 60 years were expected to live up to the age of 68 years or so. However, with the enhancement of longevity of the government employees, who largely belonged to the higher income group, the value of the annuity embedded in the CSP went up over time.

Consequently, the main problem under the unfunded, defined benefit CSP in India was that of the fiscal stress. In 1990-91, the total pension outgo in respect of Central Government (CG) employees was 0.38% as a proportion of GDP (Rs.2,138 crore in absolute terms) and it increased to 0.74% of GDP in 1999-2000. The outgo reached to Rs.15,367 crore in 2003-04.

As a proportion of net revenue receipts, the expenditure on CG pensions increased from 3.9% in 1990-91 to 7.9% in 1999-2000.

The fiscal stress at the sub-national level was more acute. For State governments, the pension payments as a proportion of net revenue receipts rose from 5.4% in 1990-91 to more than 10% in 2000-01. As a result, some of the State governments did not make timely payment of pension benefits. One State government chose to cut the benefits by reversing recent increases in the pension due to hikes in the wages of then existing employees.

4.8.4.2 Pension Reforms in India[15]

Ultimately, to tackle the socio-economic challenges originating from the changing demographic profile, increased longevity and breakdown of traditional family support system, there was a need to introduce social security reforms in India. In the public sector, the fiscal stress of the unsustainable, defined benefit pension system applicable to government employees was the major driving force for the pension reforms. In the unorganized sector, the absence of a country-wide low-cost social security system, ageing population and social changes were the important considerations for introducing pension reforms. Thus, designing an effective, efficient and accessible pension system that caters to the old-age requirements of a heterogeneous Indian work force was the immediate priority of the nation.

The government commissioned two initial milestones – the 'High-level Expert Group (HLEG)' for the 'Government employees' and the 'Old Age Social and Income Security (OASIS)' project for the 'unorganized sector' - on the road to pension reforms. The HLEG suggested a new hybrid pension scheme that combines contributions from the employees as well as the Central Government on matching basis, while committing a 'defined benefit' pension to the employees. The OASIS report recommended a scheme based on 'Individual Retirement Accounts' to be opened anywhere in India.

Eventually, the government of India initiated its social security reforms with the launch of a contributory funded pension - the "New Pension System (NPS)" – that had its origin in the two reports mentioned above. In the first stage, NPS was introduced for the new recruits in the Central Government (except Armed Forces) from 1st January 2004. It marked a shift from the 'defined benefit' to the 'defined contribution' regime in India. NPS is based on the principles of defining the liability of government upfront, giving investment choice to subscribers, facilitating portability of labour force and ensuring transparency and fair play in the industry.

To provide voluntary access to retirement coverage, the NPS model was extended to all citizens of India w.e.f. 1st May 2009.

The Indian model of pension reforms has been a semi-systemic model that has retained the defined benefit model for the existing employees and has adopted a defined contribution model of NPS for the new recruits. The defined benefit pension scheme has been retained for the central government employees who had joined service up to 31st December 2003 and in case of some state governments, for the employees recruited up to the effective date as mentioned in the notifications issued by those governments.

Even after the introduction of NPS, the other statutory pension/ provident fund systems like EPF and EPS,95 under EPFO were allowed to operate in the organized sector. However, the Employee Pension Scheme run by EPFO also seems to be under financial stress.

4.8.4.3 Rising Pension Liability under Employees' Pension Scheme (EPS 1995)

For the organized sector employees, excluding the government employees, the basic structure of pension and other retirement benefits has been outlined in the 'Employees Provident Fund & Miscellaneous Provisions Act, 1952'. The provisions of this Act are applicable to all defined establishments, employing more than 20 workers and cover nearly 69 million employees in the organized sector, as at the end of F.Y. 2022-23.

The first major change in EPF & MP Act, 1952 occurred in 1995, with the conversion of part of 'defined contribution EPF Scheme' to a 'defined benefit scheme' in the form of 'Employees' Pension Scheme'. 'The Employees' Pension Scheme, 1995 (EPS, 95)' is a defined benefit scheme, based on a contribution rate of 8.33% of salary from the employer to which the government makes an additional contribution of 1.16%. This change marked an important break from the existing policy of the Employees Provident Fund Organisation in two ways:

(a) With this amendment, the concept of a mandated annuity (EPS 1995) to the employees of private sector was introduced for the first time.

(b) It added a new pension liability (since the scheme is defined benefit, but not fully funded) to the existing liability with regard to the civil servants of the central and the state governments.

The declining contributions by the current members and an increase in the number of pensioners have sparked concerns over the viability of the EPS scheme amidst the hike in the pension quantum (present minimum guaranteed pension of Rs. 1,000 p.m.) with the amendments in the scheme in 2014 (upheld by the Supreme court vide its judgement dtd. 04.11.2022) that removed the upper cap of Rs. 15,000 on pensionable salary. Though the employees joining service on or after 1st September 2014 with salary more than Rs. 15,000 cannot participate in EPS, the increased pension liabilities of employees already covered under the scheme may create a stressful situation.

Under the pre-amendment scenario, to earn a minimum pension of Rs. 1,000 with 10 years of pensionable service, a member of EPFO should ideally contribute at least Re. 711 per month for 10 years. However, for various reasons - like low monthly pay, low basic salary in wage structure or non-contributory periods due to leave and job losses - out of the 61.2 million contributing members to the scheme in 2021-22, more than half or 34.7 million members contributed less than Rs. 700 p.m. towards pension. The EPS had a net actuarial deficit of Rs. 37,327 Cr. as on March 31, 2019 which would have increased further since then.[16] The scenario may get worsened with the implementation of the amendments.

CHAPTER 5
FINDINGS AND IMPLICATIONS

5.1 Population Ageing: National Importance of Financial Security at Old Age

India is the most-populated country in the world and it is marked with low per capita income and unequally distributed wealth. With the adoption of visionary policies along with liberalization and technical revolution, the Indian economy has been growing at a fair pace. However, it is still tackling chronic challenges like unemployment, under-employment, poverty and old age financial security.

As human life is full of uncertainties, ideally, individuals should plan and keep aside enough money to ensure financial security during their old age. The financially independent elderly do not depend upon the younger generations or the government for their welfare. However, there seems a huge scope for enhancement of the retirement preparedness of Indians as indicated by the consistent bottom positions of India at various global retirement indices. Even among the upper social strata in India, there are examples of many super-rich individuals ignorant about their old age financial requirements during their growing years and hence, had to spend their later years in miserable conditions even with the support by the society or the government. Furthering the gravity of the situation, the phenomenon of 'population aging' has triggered certain peculiar, inevitable socio-economic problems for India.

Like many other countries, for India also, the grossly evident after-effect of improved longevity and demographic decline was on its public pension system and it was heavily burdened with unsustainable financial pressure. In a bid to control the situation, India moved from the 'defined benefit regime' to the 'defined contribution regime' of public pensions since the year 2004. However, in the new regime, the old age economic challenges have seemingly accentuated for the citizens in general, with the typical environment of reduced wage growth, low interest rates and reduced investment returns in many asset classes.

The old age income security has become a crucial issue for India as it has a low coverage under formal retirement benefits and hence it characterises with the high proportions of economically dependent as well as vulnerable elderly in the population. The old age crisis has deeper roots in India, because instead of active retirement planning, the citizens have continued relying on the traditional intergenerational dependence during their old age. It has placed additional financial burden on the next generations limiting their potential for education and productivity. It has created tension in the social fabric of India, ultimately hampering the economic growth of the nation. The rising projections of 'Old Age Dependency Ratio' in India by the centenary of independence of India indicate that the working population in India and the Indian government/ society would need to take more and more financial burden of the elderly, if the individuals are not educated and empowered to financially secure themselves for their old age.

Hence, to ensure sustainable growth of the nation, India requires immediate attention, appropriate policies and their efficient execution to ensure the old age preparedness of its citizens with adequate pensions designed by themselves by way of active retirement planning.

5.2 Ensuring Retirement Preparedness of Indians

As per a study launched in 2016, only 7% of the elderly (age 60 years and above) are officially retired from any organised sector of employment.[2] One possible suggestion to address the issue of bearing the increasing financial burden of the unproductive and dependent elderly is to attach the said responsibility to the government of India. It is comparatively easy to clamour that the government should bring more number of individuals under the ambit of retirement benefits or enhance the coverage of its social security schemes. However, taking into consideration the population and the developmental stage through which India is passing, it would be unrealistic to expect the government to have a huge revenue to support public pensions, except for the weaker sections of the society.

In fact, to prevent the socio-economic repercussions of 'population aging' in a logical way, it is very much essential to make the citizens realize the gravity of the longevity risk and make them accept the responsibility to mitigate the risk on their own. Certainly, the government needs to play a definite role to create and maintain an environment that encourages the individuals to act seriously, but cautiously, for their retirement preparedness. The government also needs to act as a facilitator to develop and regulate the desired systems in a prudent way. Basically, to empower every Indian to lead a financially independent old age, all the stakeholders in the Indian ecosystem need to take the following broad measures collectively

1. To eliminate the traditional Indian approach of managing old age financials through economic dependence on children or on other relatives. Instead, educate and enable the individuals to practice the active form of retirement planning.
2. To arrest the trend of financial vulnerability of the economically independent elderly. To educate the individuals to appropriately estimate their old age needs in view of inflation and the rising medical expenses and to ensure adequacy of the provisions for their retirement, in advance.

5.3 The Millennials - The Initial Target to Start with the Actions

In a country like India with a population of nearly 141 crores as of now, to bring in the desired attitudinal change in the society, one needs to hit the nail on the head. To make a solid and long-lasting impact on individuals, it is necessary to "*Catch the people when they are young*".

'The millennials' is a generational cohort that covers young individuals of ages between 26 and 41 years, as of now, who are supposed to have their income at their own discretionary disposal. It is a range of young as well as maturing earners having similar yet, peculiar views and different behavioural patterns. Hence, the millennials seem to be the apt target to start with the actions of inculcating the behaviour of active retirement planning in India and get the ball rolling. Thus, as a first step towards gradually creating a 'Pensioned India', the stakeholders in the Indian ecosystem need to focus their attention and actions on 'the millennials'.

To decide on the best strategy for the action plan, one needs to take stock of the present situation and make some initial assessments. This research study conducted by NIA centres around a specific section of Indian millennials. It focuses on the "middle- and high-income millennials" to examine their awareness about their old-age needs, importance of pension and active retirement planning. It also tries to assess their actions for their financial preparedness during their old age and their investment preferences, if any, exclusively earmarked for retirement.

In relation to the 'middle and high-income millennials', this study has the following objectives:

1. To examine the awareness about the financial needs during retirement and their preparedness for the same.
2. To identify the investment preferences, if any, exclusively earmarked for old age.

3. To identify the factors that impact their awareness and actions related to pension and their buying behaviour towards the same.
4. To understand their acceptance of NPS as a financial security during their older years.
5. To offer suggestions to enhance the level of pension awareness, actions and recommend modifications in the existing pension products based on the research findings.

5.4 Summary of the Research Findings (Chapter 3 - Retirement Planning)

The individuals would lead a financially secure and peaceful autumn of their life only if they build an exclusive retirement corpus right from their early years and be prepared for their retirement with a sufficient pension. Essentially, 'Retirement Preparedness' is a function of -

1. Availability of surplus money throughout the working years to be kept aside for retirement purpose.
2. The financial and pension literacy of the individuals and their actions.
3. Availability of appropriate financial products in the economy to invest to provide for retirement benefits.

Though apparently, the target group of middle- and high-income millennials seem to have enough disposable income and hence, sufficient surplus, their old-age financials cannot be taken for granted and one needs to assess their actual intertemporal consumption, pension literacy and their actions for retirement planning to appraise their retirement preparedness. The following is **the summary of research findings** (discussed in chapter 3) derived under specific objectives **generalized for** the whole strata of middle- and high-income millennials of India.

Objective 1.

To examine the awareness of the middle- and high-income millennials about the financial needs during their retirement and their preparedness for the same.

- A quarter of the millennials save just less than 10% of their income for future.
- The better-off millennials are aware of the need for and importance of 'pension'.
- **Most of the better-off millennials are well aware of the necessity of an early start for old age planning. However, this awareness has not resulted into their actual actions for their own retirement planning.**
- A majority of the millennials seem not to have rational estimates of their longevity and the consequent longevity risk and that makes them underprepared for their retirement.

- The millennials are not very clear about their retirement benefits. About one tenth of the employed better-off millennials are not much aware about their pension coverage.
- About two third of the employed millennials feel that their existing pension would not be enough for their retired life.
- A major chunk of the millennials expects to change the employment.
- A quarter of the millennials expect to retire from active working life before they attain 50 years of their age.

Objective 2.

To identify the investment preferences, if any, of the middle- and high-income millennials exclusively earmarked for old age.

- **More than two third of the millennials (who responded) have not yet decided about how they are going to secure their old age financials.**
- About one third millennials prefer pension products and another one third millennials prefer financial products as a part of their old age provision.
- Nearly one third millennials have total disinterest about pension products. Only a few millennials rely exclusively on investment in pension products for their old age support.
- Among financial products, life insurance policies and mutual funds are the instruments most preferred by the millennials to invest for their old age provision.

Findings related to Individual Pension Plans (IPPs) of Life Insurers

- There appears to be a lack of awareness and, therefore, lack of interest amongst the millennials about the pension products as compared to other financial products. (It may be so because they perceive pension needs are to be taken care of only at later ages.)
- **There is a lack of interest among the marketers as the commission structure for IPPs (especially one time investment/ Single Premium Plans) of some insurers is not attractive when compared with the commission for Mutual Fund schemes for the same type of investment. (It appears to be one of the reasons for the popularity of MFs because the incentive is higher)**
- It, thus, appears that there is a lack of interest among the insurers to come up with innovative products because they apparently find it difficult to convince the youngsters/ millennials to purchase pension plans.

- The millennials perceive the return on investment in IPPs as low compared to other financial products though the low returns are compensated by the guarantee for future.

> *"...In the current scenario, the pension products are not much attractive. They provide returns around 4.5% to 6.5% whereas long-term government bonds are available at 7.5 % yield to maturity as in October 2022. The inflation is around 6-7%. It means that those who have opted for pension products are actually losing money. One can have a combination of corporate bonds, government bonds, gold and equity that can give a return of around 8% to beat the inflation at least by 1 to 2%... The pension market needs to evolve from the current situation..."*
>
> ***– A Respondent***

- The absence of an option to surrender a pension/ annuity plan before vesting is perceived as a limitation, though the need to lock the money till retirement is appreciated.
- The millennials expect innovative products like index-linked/ step-up annuities, seamless digitized buying processes and improved servicing support from the insurers.

Objective 3.

To identify the factors that impact their awareness and actions related to pension and their buying behaviour towards the same.

- Financial education of retirement planning and knowledge of pension products available for them– are the main factors that would encourage retirement savings by the millennials.
- Various loan liabilities, low awareness of retirement needs, poor knowledge of financial products and income constraints are the main reasons that hinder the millennials from making sufficient investment for their retirement.
- The financial decisions in the families of most of the millennials are taken by the millennials (Self/ Spouse/ Joint).
- The millennials are not much influenced by their children while taking financial decisions.
- To get information related to financial investments, the millennials are more inclined towards personal research through genuine sources on internet, social media and short videos on YouTube. The millennials also prefer advice by a trusted financial advisor and consultation with a trusted family member, a friend, or a colleague.
- Though the millennials prefer online search to get financial information, 'Online/ Direct purchase' is not a channel of choice for them to buy pension products. On the other hand,

Brokers, Web aggregators and Individual agents are the preferred intermediaries for the millennials to actually purchase the pension products.

5.5 Summary of the Research Findings (Chapter 4 - Retirement Planning with NPS)

> *"… 'Social security' is no more a mere "socio-political" problem, but it is a "socio-fiscal-economic-political" issue being faced by the developed as well as the developing countries. To confront the challenges arising out of ageing and old age income instability, a strong nonpartisan political desire is required to put in place a well-meaning and sustainable "Pension and old age social security system". It is, no doubt, a very complex issue and a number of stakeholders with diverse interests are present. It is also very difficult to satisfy these cross-purpose groups with a single set of solutions. Still, a solution that aims at attaining the long-term socio-economic objectives is to protect the interest of older people and creating the space for economic growth needs to be attempted…"*[12]
>
> ***- Dr. H. Sadhak***

The environmental factors that enable the development of a national pension system of any country consist of the demographic profile, the macroeconomic environment, the capacity of the administration, the regulatory and the supervisory institutions and the breadth, the depth and the efficiency of the financial markets, particularly with respect to the long-term financial instruments. Within the 5-pillar framework of World Bank, the pension systems are examined against the criteria - *adequacy, affordability, sustainability, equity, predictability and robustness*. As the pension benefits are the claims against future economic output, these systems are also evaluated on their 'ability to contribute to the output and growth of a nation by minimizing labour market distortions, mobilization of savings and development of financial markets' so as to support the promised benefits in future. The sophisticated systems of global retirement indices compare pension systems on the basis of these criteria.

As per the World Bank approach, primarily, the **Pension Systems** developed in a country need to fulfil the following **core objectives** of social security**:**

- To protect the citizens against the risk of poverty during old age.
- To encourage their consumption smoothing during their working life.

In India, the **National Pension System** carries the lion's share of the responsibility of old age financial security of the citizens. The schemes 'NPS Lite' and 'Atal Pension Yojana (APY)' cater to the needs of lower income strata. The NPS Government model covers most of the young government employees and the 'NPS - All Citizens Model' is supposed to take care of the pension needs of the middle- and high-income labour force.

The following paragraphs **summarize the generalized research findings** under 'objective 4' (discussed in chapter 4) that attempt to assess how far the NPS has been successful to influence the **middle- and high- income millennials** of India for their consumption smoothing and accepting NPS to secure their old age.

- ❖ **Nearly a quarter of the better-off millennials are not at all aware of NPS** and half of the millennials are somewhat aware of NPS.
- ❖ Many millennials have not clearly understood the double tier NPS as well as the tax treatment for their contributions.
- ❖ Some millennials who claim to be fully aware of NPS have not assimilated the product conceptually and hence have inappropriate expectation from NPS.
- ❖ Only 50% of the better-off millennials who are aware of NPS have invested in it, **'Tax concession' being the main motive** behind their contributions.
- ❖ Nearly 25% of the millennial subscribers are with NPS **only because it is mandatory**.
- ❖ Internet/ social media, word of mouth and the employer - are the main sources of information about NPS for the better-off millennials.
- ❖ The better-off millennials strongly expect –
    - Better returns from NPS commensurate with its long lock-in period.
    - Better servicing support by the participants of NPS architecture.
    - More investment options.
    - Innovative pension options like Index-linked pension.
    - Enhanced tax concession u/s 80CCD (Rs. 50,000 at present)
    - Tax free pension.
    - Removal of ambiguity on taxation on the withdrawals from Tier II.
- ❖ **Nearly one third of the millennial subscribers perceive NPS as a tool for self-planned pension provision.**

However, though with the appeal of additional tax benefit u/sec. 80CCD, NPS should help to get started with retirement planning and build a habit of savings for retirement, the uncertainty associated with its accumulation as well as decumulation phase **makes it very difficult for the millennials to plan their retirement benefits exclusively with NPS**.

5.5.1 Expectations of the Millennials from NPS

This research study has also tried to identify the gaps in the current form of NPS and the expectations of the present/potential millennial beneficiaries from their respective NPS models. The following are the expectations common for all the models:

- A suitable "Minimum Guaranteed Return" for long term investment in NPS.
- Efficient fund management evident by the industry best returns.
- More investment choices
- Tax-free NPS pension, else TEE type tax regime.
- Enhancement in the limit of additional tax benefit from the present Rs. 50,000.

'NPS – All Citizens Model'

1. Remove complexity of NPS. It needs to be simple and user friendly.
2. New age people may want to retire between 45 to 50 years of their age. Hence, provide flexibility of the maturity age for NPS.
3. Provide expert guidance to help execute appropriate and timely switching between funds.
4. Provide 'Replenishable Loan facility' with EMI option.

'NPS - Government Model'

Though a large section of the millennial employees working with the government/ PSU prefer the return of the Old Pension Scheme, they expect that if NPS is to be continued for them -

1. NPS should not be mandatory but, an additional option along with the OPS.
2. A suitable "Minimum Guaranteed Pension" for long term investment in NPS.
3. Fixation of suitable minimum pension (based on rank)
4. Facility to withdraw money from Tier I on the lines similar to earlier GPF.
5. Family pension/ Spouse as a primary beneficiary for pension after demise of the employee.
6. Increase in employer contribution to double the present level.

'NPS - Corporate Model'

The millennial employees expect that their employers educate them about to plan for their retirement and to encourage them to save for retirement. Some of them expect NPS to become an optional retirement benefit for all private sector employees with a provision to opt either NPS or EPF while joining. As the EPF interest rates are continuously decreasing, they also suggest that the existing employees may be given an option to switch from EPF to NPS.

However, they have the following expectations from the NPS model for employees -

1. A suitable increase in the employer contribution eligible for tax concession.
2. A suitable combination of fixed and market linked returns. For example, 50% contribution in fixed return scheme (like PF), 50% contribution in market linked scheme.
3. Provision of an option for 'Index-linked' or 'Step up' pension.
4. Life Insurance cover (may be under group scheme) with risk premium based on the projected salary drawings.
5. Life Insurance coverage to take care of the family pension arrangements.
6. Option for partial withdrawals to take care of midterm financial goals.
7. Option for loan to take care of emergencies.
8. More fund managers and more choices of funds/ options to invest.
9. User friendly NPS website, simple processes, simple login and user id, detailed yet easy-to-read reports/ statements (similar to mutual fund schemes).
10. Easy to use and versatile NPS Mobile App with full access & rights also for asset allocation.
11. QROPS compliant Tier 1 fund to allow the transfer of overseas pension funds.

Some inhibitions of the employers to opt/ switch to 'NPS - Corporate Model'

1. Though NPS returns appear reasonable (nearly 10%), they are market-linked and not guaranteed; whereas EPF returns (now above 8%) are guaranteed (although interest on employee contributions above Rs. 2.5 lakh attracts income tax as per the present rules)
2. As of now, an EPF optee is covered with a life insurance of Rs. 7 lakhs by virtue of auto enrolment under EDLI scheme. There is no such provision for NPS subscribers.
3. Simultaneous compliance for EPFO and NPS would be difficult for employers if both the vehicles – EPF and NPS are opted for.
4. Taxation benefit for employer contributions in NPS needs to be attractive.

5.6 Implications of the Research Study

The mapping of the study findings against the objectives of the research clearly indicates that though the middle- and high-income millennials are aware of the necessity of an early start for retirement planning and also the importance of pension, their awareness is not reflected into actions for their own retirement preparedness. **Hence, there is an immense need to make the millennials accept the responsibility of their old age financial security on their own and push them to design adequate pensions for themselves.**

The following are the broad implications derived from the research that are observed to be relevant to the middle- and high-income millennials –

1. There is a need to make all efforts to enhance financial and pension literacy of the millennials and to influence their intertemporal consumption choices so as to prevent them from getting into the debt traps and make them invest exclusively for old age.
2. The millennials working in the formal sector need to be enlightened to understand and ascertain their retirement benefits/ pensions and the service conditions related thereto.
3. There is a need to enhance awareness among the millennials, especially from the unorganized sector, to secure their old age through active retirement planning **exclusively with the investment in pension products**.
4. The millennials need to be educated to verify the adequacy of their retirement provisions (pensions) by **rationally estimating their life expectancy, healthy life expectancy** and **the consequent longevity risks** and to purchase pension supplements, if necessary.
5. There is a need to ensure availability of reliable and sustainable pension products that suit most of the old age needs of the millennials with respect to returns, convenience and other features like flexibility of investments and vesting age for pensions etc.
6. To promote pension preparedness, the awareness enhancement activities or suitable product marketing activities need to be targeted to the millennials through the medium of their choice e.g. internet, social media – especially short videos on YouTube. The employers can also play a vital role for the same. However, for designing of retirement plans or during the actual purchase actions of pension products by the millennials, they must be handheld by human intermediation to help them to understand the complex pension products and also to ensure post-sales support.

7. There is a need to provide a user-friendly platform to the millennials to enable them to understand the risk-return relations with retirement planning, to compute the required pension and pension corpus, to compare various pension products, to arrive at the required periodical investments and to get the options for investment avenues and personal guidance through human intermediation, all at one place.
8. To take into consideration the lack of awareness/ interest among the customers about pension products and to ensure that the consequent extra efforts the intermediaries need to take for sale of such products, the remuneration/ commission structure of these products is to be reviewed by the stakeholders with a practical approach.

5.6.1 Implications as regards National Pension System

> *"… NPS is a well thought out initiative but not a very well-designed programme. In the present form, it may not solve the old age income problems. Leaving the fate of investors in the hands of fund managers may not safeguard the interest of investors. There is a need for more involvement of the government. There is a necessity to introduce the "Minimum Pension" and the "Minimum Return Guarantee". To attract the investors, the current model also requires to be modified…"*[12] –
>
> ***Dr. H. Sadhak***

1. **Basically,** NPS product (Government Model/ Corporate Model/ All Citizens Model) needs to be revamped and simplified to make it acceptable by a large section of the millennials as a reliable tool to plan their financials/ pension during their retired life.
2. **In its new form, 'NPS' needs to be exclusively positioned as a 'Pension Product' - to serve its basic desired purpose.**
3. There is a scope to enhance awareness of NPS among the millennials even from the affluent sections of the society.
4. There is a great need to give wide publicity to NPS and to disseminate correct knowledge of NPS through the mediums like internet/ social media, short videos on YouTube for the millennials. The employers also need to accept and bear this responsibility.

5.7 Suggestions to the Stakeholders

5.7.1 The need to make the Millennials Realise their Personal Responsibility for their Retirement Planning

Surpassing all the odds, an effective 'Retirement Planning' would take care of all sorts of financial needs to lead a financially independent and secured old age. As discussed earlier, a regular stream of sufficient periodical (preferably monthly) income, known as a 'pension', is very essential. However, not all millennials are covered under the 'defined benefit' pension that is related to their last drawn salary. While on one hand, with improving longevity, increasing inflation and rising medical expenses, the pension quantum required during old age has been on the rising side and on the other hand, the millennials are either inadequately covered under 'defined contribution' pensions or they are not at all covered under any of the pension schemes.

Ultimately, in the changing socio-economic scenario, it is required that the millennials must realize that 'Retirement Planning' is no more the duty of their employer alone, of their family or of the government. Rather, to secure their old age, the millennials must accept and embrace 'Pension Planning' as their personal responsibility that needs to be carried out earnestly.

Ideally, every citizen must start designing his/ her pension right from the first earnings, irrespective of the family and financial status at the beginning of the earning career and the expected working life. The following are few suggestions for the stakeholders responsible for ensuring old age security of Indian citizens and for the effective functioning of the 'National Pension System' in India.

The suggestions are believed to help fulfil the core objectives of the pension systems – to encourage the citizens for consumption smoothing and to protect them against old age poverty.

5.7.2 General Suggestions

1. Pension business under one Regulator

The life insurance products cover the mortality risk and the pension products take care of the longevity risk. The millennials under the study have indicated there can be some customization of the pension products in the areas like vesting age for pensions, provisions like 'Embedded pension' or 'Index-linked pension', flexibility to merge or to switch to another product or provider of choice etc. They expect detailed messages on every contribution that indicate the accumulated corpus and the balance investment required to achieve the targeted pension. The millennials expect seamless buying and servicing support for pension products.

The pension market in India today, requires special attention and innovations, both in accumulation as well as decumulation phases of pension products. Along with regulatory control, the annuitization phase is more in need of a developmental push. Hence, the whole pension business in India (by NPS and the life insurers) is to be brought under one regulator for better control and efficient and healthy development of the sector as a whole.

2. One-shop-stop for all Pension Products

Similar to the initiative 'Bima Sugam' by the IRDAI, an online platform of pensions is to be created under the control of the proposed pension sector regulator. The e-portal should include pension products of all insurers as well as the NPS and with the cutting-edge technology it should provide seamless purchase and servicing experience to the customers. It should provide the educational information of financial markets, retirement planning, retirement products and hands-on like pension calculators, how to assess adequacy of pensions etc. This portal should also provide access to agents/ brokers for personal consultation. **The Pension Awareness Campaign should direct the potential customers to this portal.**

3. Pension Awareness Campaign

The awareness of Finance/ Pensions is basic to retirement planning. Various financial literacy initiatives are being taken by the Government of India. The Reserve Bank of India (RBI) has launched the National Strategy of Financial Education (NSFE) 2020-2025 as well as the National Centre for Financial Education (NCFE) in collaboration with PFRDA and IRDAI that aim to teach financial literacy concepts to ordinary people to encourage them to save actively and to boost their participation in the financial markets.

To achieve the desired objectives of pension literacy in the most effective way, **a pan-India 'Pension Awareness Campaign' of at least 1 year duration** consisting of **the phases of "Awareness-Adequacy-Actions" is required to be launched and implemented** targeting the millennials through all appropriate media. **The awareness campaign should essentially focus on to immediately convert the awareness so created in the individual millennials to their financial planning for retirement and eventually end with the purchase of appropriate pension product.** The campaign is to be undertaken with the coordinated and collaborative efforts of various stakeholders like the Government of India, the PFRDA, the RBI, the IRDAI and others and also all the Life insurers dealing with pension products.

Public Private Support - Key to NPS Success[17]
Dr. H. Sadhak

(Excerpts from the article published in The Financial Express, August 24 -2009, New Delhi)

The national initiative NPS can be made a successful vehicle of retirement savings only through its national ownership and therefore, a national-level confidence building and awareness developing ***Financial Education Programme*** *is necessary, the core component being NPS. To encourage retirement savings, this* ***National-Level Literacy Mission*** *should have the major objective of creating awareness about the adverse impact of ageing and population explosion, the necessity for financial savings, long-term impact of early savings for retirement, understanding and analysing individual risk tolerance level, taking informed need based and risk-based retirement savings decision and the benefits of NPS.*

The coordinated efforts and actions by the public and private entities *are essentially required to implement NPS successfully. To effectively achieve the desired goal, we need to clearly spell out the ownership, responsibility and accountability of the stakeholders. Since NPS is a national programme, it needs to be owned by a cross-section of entities in addition to the government and the regulator. The responsibilities of the intermediaries like the sponsors of fund managers, pension providers, point of presence, central record keeping agency etc. - who have opted to be a part of NPS, after knowing its architecture, business model and other business considerations -are critical. These stakeholders have the important role to play in the process since in the course of time, they would receive financial and non-financial benefits directly or indirectly. Corporates have also an important role to play for making NPS a success, since it would provide retirement benefit support to their workers.*

The National Awareness Programme requires ***huge budget*** *and the owners need* ***to translate ownership into responsibility*** *through financial contributions. Further, since it is a national priority programme, contributions from other profitable entities may also be accepted. The government may provide suitable tax benefits for such contributions. The program would cover all - young and old, educated and illiterate, organised and unorganised. It would cover schools, colleges, higher education institutions, factory offices, labour force etc.*

> ***The transmission mechanism for awareness program needs to be crafted carefully**. The presentation material and the mode of delivery should be uniquely designed to suit the purpose of specific sections to be covered. As NPS is a socioeconomic programme, the trainers need to be highly skilled and purpose oriented. A special band of trainers drawn from all entities involved in execution of the programme should be trained first, who in turn would take the NPS education to the society. Media and journalists are also to be trained, since they play a critical role in educating their readers and audience.*
>
> *Also, we need to set up a **National Coordination Committee** drawing experts from the stakeholders of public and private sector. It would have immense beneficial impact on NPS in terms of increasing awareness, enrolment and contribution. In most of the countries, **Pension Awareness Programmes** were launched along with the pension reforms.*

To achieve the vision of 'Making the millennials accept their old age responsibility on their own', the awareness campaign needs to have the following broad objectives–

1. Transform the prevailing mental frame of the common Indians, to make them give up the idea of intergenerational dependence and to induce **the need** to plan for their personal old age financial security.
2. Enhance the financial awareness amongst the millennials to prevent them from falling deep into various debt traps.
3. Influence the millennials for their **early actions** for active old age planning.
4. Enlighten the millennials to appreciate the importance of adequate savings and influence them to smoothen their consumption and save appropriate proportion of income for a better post-retired life.
5. Encourage the millennials to make long-term commitments and plan for their retirement exclusively with pension products.
6. Encourage the millennials working in the unorganized sector to lock enough money for their old age financials, **right from the first earning they receive, similar to their formal sector counterparts**.
7. Educate the millennials to prepare a well-documented retirement plan.
8. Make them decide at what age they want to retire and at what retirement income. Make them aware of the trade-off between early retirement and the amount of pension. Lower

the expected age of retirement, the more the remaining life span, the more the need for financial arrangement, however, the lower the retirement corpus.

9. Educate them about the increasing longevity of Indians. Make them aware about the longevity risk and the importance of rational and precise estimates of their life span after retirement to avoid shortfall in retirement finances.
10. Caution them about the widening gap in 'Life Expectancy' and 'Healthy Life Expectancy' of Indians that indicates increasing span of ailing life and signals increased medical care expenses at old age.
11. Educate the labour force from the organized sector to understand the nature, quantum and eligibility conditions of the retirement benefits of the organization they are working with and verify the availability and quantum of such benefits for them.
12. Educate the individuals covered under various retirement benefits/ pension schemes to verify the sufficiency of their retirement benefits/ pensions in the light of their actual future needs and purchase supplementary financial instruments in advance, if necessary. Educate them about the risk exposure and responsibility with coverage under 'defined contribution' pension schemes and the challenges of rising inflation.
13. Make the millennials aware that their mindset to change the employment makes their retirement preparedness more tough as the retirement benefits are normally linked to the span of employment with a particular employer.
14. Remove misconceptions about buying pensions, such as - retirement provision is not a topic to be thought over in the younger ages, pensions products are not affordable for common people, pension products are complicated to understand and investment for pension needs a lot of knowledge to begin with.
15. The professionals like doctors, lawyers or other self-employed individuals face the uncertainty of income during their working life. Enlighten them to take advantage of pension products to enjoy the certainty of a regular flow of income in their old age when it is needed the most.
16. **Enhance awareness of NPS and other pension products amongst the millennials.**
17. Involve the formal and informal employers, various associations, social groups and opinion makers for spreading awareness of retirement planning amongst the millennials.
18. Create an everlasting environment that would welcome and enable retirement planning.

Action Plan of the proposed awareness campaign may take the following shape -

- Conduct Pre-campaign Consumer Research with select sample across the country to understand awareness about the need of pension amongst millennials and decide upon the effective ways of targeted actions and communications to enhance the awareness as well as action levels amongst the millennials.
- Based on the inputs, identify target groups and design suitable phase wise 'Awareness-Adequacy-Action' strategy. In the first phase, initiate focussed communications and actions to heighten pension awareness levels. In the next phase, the focus will be to check adequacy of existing pensions. In the last phase, focus the actions and communications to convert awareness into actual pension purchase actions by the millennials.
- Ensure readiness of the concerned website/ portal to handle increased e-traffic. Ensure availability of the required educational and support information and material like pension calculators on the concerned portals.
- At the same time, ensure enhanced awareness, willingness and capacity of matching levels at the operational points to absorb the increased queries, questioning, demand for products and servicing of pension products.

*****Based on - Four Year National Pension Awareness Campaign (2003-2006, Ireland)**

4. Inclusion of the Concept of Pension Planning in School Curriculum

Financial literacy in children is also very important as they can influence their families by sharing their knowledge. CBSE has come out with financial literacy books for Class VI and Class VII students, curated with the support of NPCI. The pension regulator may join hands with these entities to include the concepts of old age financial security in the series of books on financial literacy. The regulator may also have tie-ups with schools – for conducting 'Financial and Pension Literacy Programme' for students.

5. Tax concession for Investment in Pension Plans as well as Pension Outgo

To encourage old age financial security with active retirement planning by the individuals and to bring the market competition on equal footing, the government of India needs to provide **suitable exclusive (slab-wise) tax concessions for investment in pension plans (similar to the NPS) and the pension outgo as well.**

*(September 29, 2022, Posted by **China Briefing**, Written by **Arendse Huld**)*

China Update:

The private pension scheme seeks to address an urgent need for pension reform as China goes through one of the most extreme incidents of population aging seen in the world. China's existing pension system is ill-suited to address these demographic changes and the current state and employer-sponsored pension plans fall short. As the population continues to age, the first two pillars of the pension system are coming under considerable pressure and may be unable to support the population in a couple of decades' time. The state-sponsored pension is partly funded by individual income tax, but this source will become smaller as the working-age population shrinks.

Meanwhile, the employer-sponsored pension scheme only covers approximately 20 million employees, according to a report by McKinsey. According to the report, the majority of small and medium-sized enterprises (SMEs) are unable to pay annuities to employees due to high operational costs, and many don't even pay the mandatory social security for their employees. The third pillar of private pensions is therefore urgently needed to ensure financial security and stability for the country's elderly population.

At the weekly State Council meeting on September 26, 2022, Premier Li Keqiang announced new tax incentives to spur the development of private pensions. The new tax incentives are pre-tax deductions of up to RMB 12,000 (US$1,667) from the annual taxable income of participants in private pension schemes and a reduction of the tax burden on pension benefits from 7.5 percent to 3 percent. In addition, income from investments will not be taxed for the time being. The new tax policy will be implemented retroactively from January 1, 2022.

6. Provision of Innovative Pension Options with Annuity Development Program

The Systematic Withdrawal Plan (SWP) for pensions may provide a good option for the elderly as it maintains the scope for capital growth even during the decumulation phase. However, in this option, the market risk as well as the longevity risk is borne by the elderly.

The millennials of today also expect innovative pension options such as index-linked/Step-up pensions. However, the life insurers or the annuity providers of NPS can accept the longevity risks of the annuitants for such products only with the support of desirable instruments in the developed financial markets.

Annuity Development Programme[11,18]

India has introduced NPS in the form of 'Defined Contribution Pension' and all the attention has been focused on the accumulation phase. Fund management at the collection stage is a more glamorous business proposition than the pay-out phase, because during accumulation, the fund managers virtually bear no investment risk and these risks are borne by the investors.

The pay-out through annuitization is a critical business because of the unlimited risk involved in annuity payments arising out of longevity and demographic risks and these risks need to be borne by the pension providers. However, this unattractive pay-out phase is the core to the survival and success of a pension system like NPS.

India has adopted partially mandatory annuitization for the post-accumulation phase of NPS. Mandatory annuitization has several advantages. It forces the individuals to invest full or a part of the accumulated savings to ensure regular income during retirement period and reduces the risk arising from unwise spending of accumulated funds. It enables the individuals to transfer the longevity risks and in some cases market risks to the annuity providers. It also works on the insurance principle of pooling risks and provides avenues for low-cost risk management.

The effective implementation of mandatory annuitisation depends on a vibrant and dynamic life insurance sector that can supply appropriate annuity products. Since 1956, Indian life insurance industry has travelled a long way, witnessed a significant growth in life insurance business, moved from monopoly to competitive market environment. But the annuity market has remained virtually nonstarter and dormant, as compared to the growth of life insurance industry. Annuitisation also needs the support of a debt market to facilitate long-term investment of pension assets in instruments like long-term inflation-linked bonds.

In practice, the forecasting of enhanced longevity that guides the annuity providers to assess the long-term risks, often proves wrong. This problem has further been compounded with the **underdeveloped long-term securities markets** needed to invest retirement savings by the annuity providers.

According to Dr. Sadhak, success of NPS in India would be significantly determined by the effective and efficient implementation of an "Annuity Development Programme"

that would initiate actions in a cohesive and strategic manner, with a holistic view. In 2008, he suggested one such programme that includes – cautious selection of annuity providers by the authority, guidance to pension investors for selecting annuity products, balanced pricing of annuity products, liberal tax incentives for annuity market, ensuring availability of long-term capital market instruments to hedge the market risk and introducing flexibility while commencement of annuities to manage the timing risk.

To develop an annuity market and promote a well-meaning annuity programme for NPS, proactive actions and participation of all the regulators of financial sector are required, since it involves a whole range of issues like regulating annuity business during pension pay-out phase, designing annuity products, designing new financial instruments and overseeing the interest of pensioners during the post accumulation period. - **Dr. H. Sadhak**

Hence, again the government of India and the financial regulators in the country need to back the issuance of sustainable long-term instruments with desired features. A holistic 'Annuity Development Program' needs to be implemented for overall growth of the market.

5.7.3 Revamping the National Pension System

1. Withdrawal of Tier II Account

As far as NPS is concerned, it is supposed to take care of the retirement needs. Ideally, retirement benefits should be in form of 'part lumpsum and part pension'. Hence, it is reasonable that on maturity, NPS -'Tier I' provides lump sum up to 60% of the accumulated corpus and at least 40% of the accumulations are to be used to purchase an annuity. (However, the percentage to be annuitized requires to be revised upwards to ensure adequate pension to meet the longevity risk and live healthy.) This is to have a reasonable liquidity every month during the retired days.

The two components - 'Locking money for retirement' and 'Creation of emergency fund having due liquidity'- are equally important from the point of view of personal financial planning. However, these two aspects are exactly opposite to each other and need not be mixed in any way under any intention of protecting the interests of the customers. A pension product cannot be intended to take care of the entire liquidity needs of individuals.

Hence, the inclusion of Tier II in NPS supposedly to provide liquidity during the active employed days, appears unwarranted. In case of emergencies like treatment of fatal illness, the individuals should not withdraw their own money invested in IPP products or NPS Tier I, but should have sufficient liquid money in their savings bank account or any mutual fund schemes. It appears that the twin account design of NPS affects the product focus, increases the product cost and invites repulsion from the customers because of its perceived complexity added to the fact that being a pension product, it already lacks a pull from the individuals.

Hence, the Tier II account of NPS should be withdrawn with immediate effect. It would remove the complexity around NPS and more importantly, it would help all the stakeholders to concentrate on the core business of Tier I in a better way.

In no way individuals should be encouraged to use NPS as a 'Mutual fund scheme'. **NPS should be structured, positioned and branded exclusively as a reliable and lasting pension product.** NPS should be defended strongly for its features desirable for a pension product by creating awareness in the society rather than entertaining public demands that would dilute the structure of NPS to increase subscriptions.

Report of the Committee to Review Implementation of Informal Sector Pension (CRIISP) 1 July 2011, page 43

Tier II account should continue for the moment…

5.48. NPS should ideally work as a long-term investment. Liquidity is not important for the pension product. And, therefore, the Tier-II account should ideally be withdrawn from the NPS scheme. This would save the cost of infrastructure, fund management expenses, the cost of risk capital and also offer the illiquidity that investors look for in a pension scheme.

5.49. However, in its meetings with various stakeholders, including aggregators representing the small savers, this committee was told repeatedly that liquidity was a desirable product feature given the myriad uncertainties that could arise in the lifetime of an individual, which gets compounded in the case of many account holders who do not have surplus capital for allocation to alternative savings channels. This committee, thus, feels that it might make sense to continue with the Tier-II for the moment.

5.50. The only complication that can arise is over regulatory jurisdiction. In its core characteristics, Tier-II can be seen either as a savings bank account or a liquid mutual fund, with the added layer of a pension feature added to the product. In this age of hybrid financial products, Tier-II can also be treated as a hybrid financial product, with overlapping regulatory domains. This committee suggests that PFRDA put in place adequate regulatory safeguards for this product in consultation with the Reserve Bank of India (with regard to the savings bank characteristic of the product) and the Securities and Exchanges Board of India (from the viewpoint that the funds management activity takes on the features of a liquid mutual fund).

2. Redesigning and enhancing Additional Tax Concession for NPS Tier I

The present deduction of Rs. 50,000 from taxable income (u/s 80 CCD) seems to limit the yearly contribution to NPS Tier I to Rs. 50,000. It does not result in the desired accumulations that are required to provide a substantial pension on maturity and hence it does not encourage actual retirement planning (NPS merely works as a Tax Saver).

Hence, the tax benefits for NPS Tier I may be redesigned and the quantum enhanced. The tax concession can be spilt over investment slabs. **However,** with the help of technology, care should be taken to reverse the tax benefit, if the corpus is not utilized for purchase of annuities.

IMP: The NPS must not be opted by the individuals to get tax benefit, but it is to be embraced by them for their old age security.

3. Ensuring better returns

The investment in EPF/ APF/ PPF provides guaranteed returns. An investor needs to lock-in money in Tier I of NPS up to 60 years of age. The NPS does not provide the guarantee of returns nor the industry's best returns. The better-off millennials have limited knowledge of the financial markets. For corpus building phase of pension, they look for options like mutual fund schemes, shares etc. in the financial markets that offer better returns than NPS and they expect to purchase immediate annuity on their own on retirement. The alternative investment options also have the flexibility of premature withdrawals (though not a favourable feature for retirement provision) or Systematic Withdrawal Plans of choice.

On this backdrop, NPS needs to be developed and projected as "the Best Pension Scheme" that clearly appreciates the need for reasonable certainty of old age financials and also the expectation of competitive returns by the millennials and hence, exhibits those features in its design. If the coverage under NPS is to be increased, the performance of NPS must be heightened to match the industry's best performance that would enhance its awareness automatically. **To achieve this, the NPS needs to shed off its image of being a 'Low-cost scheme'. In the competitive commercial world, no one should be expected to work for philanthropic reasons.** Hence, to attain the best possible level, instead of 'Low remuneration', the mantra of "Reasonable remuneration commensurate with the efforts and the quality of efforts" for all the participants of NPS architecture would work.

4. Minimum guarantee of returns

The retirement benefits/ old age pension requires a certain guarantee to plan for the old age. Hence, the funded NPS must provide a separate investment option with guarantee of returns (similar to EPF/ APF or the pension products of some life insurers) along with the flexibility to allocate specific proportions of the contributions to the "Asset class with guaranteed return".

5. Maturity Age of NPS

The present range of maturity age of 60 to 70 years for NPS may be reconsidered to make it acceptable for the millennials who expect to exit from their active working life around the age of 50 years.

6. Ensuring wider coverage of 'NPS – All Citizens Model'

As the millennials prefer digital ways of searching for information, the individual insurers and the NPS can drive aggressive advertisings (similar to ***'Sabase Pahale Life Insurance'*** by Life Insurance Council) and reach to youngsters with the concepts through social media and suitable short videos on YouTube. However, the human intermediaries having a strong knowledge are very essential for the close of the sale.

If an insurer/ the NPS is providing market linked pension products, the competition from mutual fund industry is inevitable. Hence, taking into consideration the product features and the commission structures of other competing financial products with a holistic view, the remuneration to the pension product intermediaries must be designed strategically.

7. NPS- Government Model

The pension modules might be OPS or NPS, but as the governments could default on the pension liabilities, the government pensions must always be funded (never PAYG) and the concerned governments must always contribute towards the past and the current liabilities. Though it would be unwise to revert to the era of 'defined benefit' pensions, it appears essential to pay heed to the demands of the millennials about the NPS model.

For the government NPS, ‘a separate investment option with a suitable guaranteed return’ or ‘a minimum guaranteed rate (supported by sovereign guarantee) for all the contributions’ may be adopted to limit the investment risk of employees.

A suitable minimum death/ disability/ family pension may be provided with an appropriate financial aid from the government or by launching a Group Insurance scheme to exclusively take care of such kind of pensions.

On the lines similar to GPF, suitable withdrawals and loan facility only within the withdrawable NPS corpus (not from the portion to be annuitized) may be allowed to fulfil the mid-term liquidity requirements of the members.

NPS Corporate Model

The suggestions related to better returns and the guaranteed rate of return are equally applicable to NPS- Corporate model. The module may be made more attractive by suitably increasing the tax benefits for the employers under ‘Business expense’ thus providing a scope to increase co-contribution. Similar to insurance cover (of total Rs. 7 lakh as of now) under EDLI scheme (linked to EPF), a suitable insurance cover needs to be provided for employees, to increase acceptance for the scheme by both, the employees and the employer.

5.7.4 Conclusion

The provisions for financial well-being during old age is critical for both - the individuals as well as the society. It is estimated that by the end of the year 2050, India will feel the heat of socio-economic repercussions of ‘population aging’ in its full vigour. As an essential proactive measure, the Government of India has adopted pension reforms since 2004. The new ‘National Policy for Senior Citizens’ is also under finalization to ensure sustenance of old age security for the citizens and for the economic growth of the nation as well.

To secure the elderly from the lower income strata, the government needs to expand the coverage and scope of various social security schemes. However, to smoothen the severe effects of demographic decline in an effective way, the citizens need to be enlightened to give up their traditional intergenerational dependence and **actively plan for their retirement especially with pension products.** Retirement planning includes provision for old age financial security that depends on the estimations of expected longevity, expected standard of living, medical expenses, family responsibilities, dependence of family members for education or medical needs, the rising inflation and the volatility of interest rates.

The "millennials of today" is the perfect target to begin with the implementation of the action plans to inculcate the culture of planning for pension by the centenary of Indian independence. The middle- and high-income millennials in India seem to be aware of the need for pension and to plan early. **However**, it is found that their awareness has not resulted into actions because of lack of knowledge about retirement planning and about the importance of pension products on one side and because of loan liabilities and income constraints on the other. Unfortunately, it is observed that the National Pension System launched by the government to catalyse and support the pension preparedness of Indians seems to have not been successful to attract and encourage the millennials for pension planning.

Hence, it is felt that there is a need for the stakeholders to take control of the situations and steer them by taking all necessary actions to educate, encourage and support the millennials to actively plan their old age financials. To bring the control and development of the whole pension sector under one authority, revamping of National Pension System, development of innovative pension products and their strategic marketing, launch of an easy to navigate pension portal, implementation of a long duration nation-wide Pension Awareness Campaign, restructuring the taxation on investments/ contributions in pension plans and pension outgo and Annuity Development Program - can be some of the essential and timely initiatives to realize the vision of a "Pensioned and Progressive India".

CHAPTER 6
LIMITATIONS OF THE STUDY

Based on the wisdom extracted from secondary data, in-depth interviews of industry experts and the responses to the survey conducted on 458 millennials, the research study has attempted to derive some findings and implications. Though the findings are generalized for the whole strata of Indian middle- and high-income millennials and the suggestions are put forth accordingly, the research team acknowledges the limitations of their efforts.

It was essential for this exhaustive study to delve deeper into the perception of the millennials about their retirement preparedness and hence, the research questionnaire was framed with more than 30 questions. It justifies the sample size of 458. However, the number appears small against the whole population of middle- and high-income millennials in India.

Also, most of the respondents of the survey belong to the urban areas from western and southern parts of India. As the culture, upbringing of individuals, intergenerational influence and dependence and financial awareness varies from region to region across India, the sample may not be considered as representative of the whole strata of the better-off millennials, in a perfect way.

Even the millennials comprise a broad range of individuals such as those working with the public or private sector, the self-employed and the professionals. Though the study has tried to balance the demographics of the sample to avoid any skewed observations, the data for various groups like urban-rural, organized-unorganized etc. may also be analysed separately to arrive at segment-specific results, useful for certain purposes.

As regards old age financials, the women are more vulnerable. They tend to live longer and need to save more than men. They have interrupted careers and tend to have less attachment to the labour market than men. Ideally, for a deeper study of retirement planning, the women may need to be treated differently from men as their involvement in financial decisions, planning, awareness and preparedness are different.

The generations themselves are inherently diverse and complex groups, not simple caricatures… and the differences within generations can be just as great as the differences across generations. The range of the millennials covers individuals between ages 26 to 41 years and the youngest and the oldest within this commonly defined cohort may feel more in common with the bordering generations than the one to which they are assigned. We need to keep in mind -'Generations' are a lens to understand societal change, effect on the attitudes and engagement rather than a label with which to oversimplify differences between groups.[10]

7. ANNEXURES

Annexure - 1

The World Bank Approach to Pensions Reforms: Conceptual Framework[6]

'National Pension System' is the set of pension plans, pension funds and pension entities that together constitute the approach of a nation towards the financial security of old age people.

The importance of national pension system to the economic stability of a country and the security of its aging populations has been increasingly recognized by countries at various levels of development. The core objective of any national pension system is – "Protection against the risk of poverty in old age and smoothing consumption from one's work life into retirement". Pension systems of many countries with a dominant publicly managed defined-benefit design had major fiscal consequences and were projected to be financially unsustainable over the long term failing to deliver on their social objectives. Some countries had not developed accessible and meaningful pension and retirement savings systems.

Hence, to address the need to strengthen social insurance, the World Bank became involved in reforming pension systems and supporting the development of contractual savings arrangements in an increasingly diverse range of economy settings throughout the world. The experience of World Bank suggests that **there are no universal solutions to the complex array of pension issues, nor is there a simple pension reform model that can be applied in all settings**.

However, the Bank has developed principles of analysis and a conceptual framework to guide its work in this area. The World Bank believes that a multi-pillared approach towards pension system modalities is the best way to address the needs of the target populations and provide security against the multiple risks of pension systems.

The World Bank's ***Five Pillar Framework*** is a conceptual overview of National Pension Systems around the world. The various pension plans for the provisioning of old age financial security in different countries can be broadly classified into five groups or pillars, depending on their funding mode and target population.

A. Assessment of Initial Conditions of a country

1. Inherited System

- Old age vulnerability & poverty prevalence in absolute terms, relative to other age groups

- Existing mandatory & voluntary pension systems, acquired rights of workers & retirees
- Existing social security schemes
- Existing levels of family and community support to retirees

2. Reform needs – such as modifying existing schemes in the face of fiscal unsustainability, coverage gaps, aging and socio-economic changes. The needs to be assessed against the primary and secondary evaluation criteria like adequacy, affordability, sustainability, equity, predictability and robustness of existing schemes.

3. Enabling environment

- Demographic profile
- Macroeconomic environment
- the capacity of administrative, regulatory and supervisory institutions
- the breadth, depth and efficiency of financial markets, particularly with respect to long-term instruments.

B. Modalities to achieve Pension System objectives: 5-Pillar approach.

The World Bank believes that a multi-pillared approach towards pension system *modalities* is best able to address the needs of the main target populations and provide security against the multiple risks facing pension systems. The overall framework includes:

(i) A *non-contributory "zero pillar"* that extends some level of old-age income security to all the elderly where social conditions warrant and fiscal circumstances can sustain such a system

(ii) An *appropriately sized mandatory "first pillar"* with the objective of replacing some portion of lifetime pre-retirement income through contributions linked to earnings, and which is either partially funded or financed on a pay-as-you-go basis;

(iii) A *funded mandatory defined contribution "second pillar"* that typically provides privately managed individual savings accounts establishing a clear linkage between contributions, investment performance and benefits, supported by enforceable property rights and which may be supportive of financial market development;

(iv) A *funded voluntary "third-pillar"* taking many forms

(v) A *nonfinancial "fourth pillar"* that includes access to informal support such as from families, other formal social programs such as health and housing, and individual assets.

C. The primary criteria for evaluating pension systems within this framework:

(i) an ***adequate*** system provides benefits sufficient to prevent old-age poverty (at a country-specific absolute level) to the full breadth of the population in addition to providing a reliable means to smooth lifetime consumption for the vast majority of the population;

(ii) an ***affordable*** system is one that is within the financing capacity of individuals and the society and does not unduly displace other social or economic imperatives or have untenable fiscal consequences;

(iii) a ***sustainable*** system is one that is financially sound and can be maintained over a foreseeable horizon under a broad set of reasonable assumptions;

(iv) an ***equitable*** system is one that provides the income redistribution from the lifetime rich to the lifetime poor consistent with the societal preferences in a way that does not tax the rest of society external to the system and provides the same benefit for the same contribution;

(v) a ***predictable*** benefit is provided by a system where the benefit formula is specified by law and not subject to the discretion, the defined benefit formula is designed to insulate the individual from inflation and wage adjustments prior to retirement or the defined contribution investment policy can insulate the beneficiary from material effects on benefits from asset price adjustments prior to retirement; and the benefit is automatically indexed during retirement so as to shield the worker from effects of price adjustments

(vi) a ***robust*** system is one that has the capacity to withstand major shocks, including those coming from economic, demographic and political volatility.

A central tenet of the approach is the view that because pension benefits are claims against future economic output, it is essential that, over time, pension systems contribute to growth and output to support the promised benefits.

Annexure -2

Table 34: 'Five-pillars of Indian Pension System' as per the World Bank approach

Pillar	Description	India
0	A **non-contributory** basic pension from public finances (Social Pension or General social assistance)	**Indira Gandhi National Pension Schemes for people Below Poverty Line (BPL)** • Indira Gandhi National Old Age Pension Scheme (IGNOAPS) for age > 65 yrs • Indira Gandhi National Widow Pension Scheme (IGNWPS) for age above 40 yrs • Indira Gandhi National Disability Pension Scheme (IGNDPS) and • Various State Social Assistance Schemes **(All non-contributory)**
1	A **mandated public pension** plan that is publicly managed with contributions linked to earnings	• **Employees' Pension Scheme (EPS), 1995** administered by EPF (Defined benefit plan) • **Private Pension Plans by employers**
2	**Mandated defined contribution**, fully funded occupational or personal pension plans with financial assets and options for its management and investments	• **NPS for CG and SG (Defined Contribution)** (From 01.01.2004 for CG and SG employees, except some states)
3	**Voluntary** and fully funded occupational or personal pension plans with financial assets, individual savings, essentially flexible and discretionary	• **NPS-Corporate Sector Model** (December 2011, all public and private sector employees, portable) • **Group Pension Schemes with the insurers** • **Private funded Pension Plans by employers** • **NPS for all citizens** • **IPPs of Insurers** • **Atal Pension Yojana, May 2015(not flexible)** • **Pradhan Mantri Kisan Mandhan Yojana** • **Pradhan Mantri Shram Yogi Mandhan Yojana** • **NPS for Traders and self-employed persons**
4	**A voluntary system outside the pension system** with access to a range of financial and non-financial assets and informal support such as family support, formal social programs e.g. health care and housing.	• Reverse Mortgage Schemes • Ayushman Bharat and various Health Insurance Schemes • CGHS (Central Government Health Scheme) • ESIS (Employees' State Insurance Scheme) • Various Awas Yojanas

Annexure - 3

Position of India in Global Retirement/ Pension Indices[19,20]

It is not only the ageing populations that represent challenges, but the current economic environment with reduced wage growth, historically low interest rates and reduced investment returns in many asset classes - are placing additional financial pressures on the existing retirement-income systems around the world. Though the retirement-income regimes are diverse and there is no single pension system that can be transplanted from one country to another, there are certain characteristics across the range of pension systems that are likely to lead to improved financial benefits, better sustainability and a greater level of community trust and confidence in the system. Hence, it is important to understand the features of the better pension systems in the world with a comparative framework. (MCGPI)

A 'Global Retirement/ Pension Index' is a comparative tool that examines retirement income systems of various countries on the factors that drive retirement security of individuals. It highlights the best practices as well as shortcomings of the retirement policies of the countries covered under the Index. It also suggests the possible areas of reform that would provide more adequate and sustainable retirement benefits for the citizens to protect against longevity risk.

Natixis Global Retirement Index

Since 2012, the French corporate and investment bank- Natixis publishes the composite welfare index - 'Natixis Global Retirement Index', annually. This index includes the countries under International Monetary Fund (IMF) advanced economies, members of the Organization for Economic Cooperation and Development (OECD) and the BRIC countries.

It considers the characteristics of the older demographic retiree groups from different countries to assess and compare their retirement security levels. It incorporates 18 performance indicators based on a reliable data from the range of international organizations and academic sources. The indicators are grouped into four thematic categories that cover the following key aspects for welfare in retirement: - the material means to live comfortably; access to quality financial services to help preserve savings value and maximize income; access to quality health services; and a clean and safe environment. The indicators are then used to create a percentage score for each category and the countries are ranked by the score. Based on a consistently tracked data, the sub-indices provide insight into what characteristics are driving an improvement or worsening the position of a country year-over-year.

In the years 2021 and 2022, Iceland and Norway ranked the top of the index with 83% and 81% scores respectively, while India remained the last consecutively at 44th position with exceptionally low scores. Table no. gives Natixis Global Retirement Index as in 2022.

Table 35: Natixis Global Retirement Index 2022

Rank	Country	Health Index	Finances in Retirement Index	Quality of Life Index	Material Wellbeing Index	Global Retirement Index
1	Norway	91%	69%	87%	79%	81%
2	Switzerland	90%	74%	86%	69%	80%
3	Iceland	88%	68%	86%	77%	79%
4	Ireland	89%	70%	80%	67%	76%
5	Australia	88%	72%	77%	66%	75%
6	New Zealand	85%	71%	81%	64%	75%
7	Luxembourg	91%	59%	81%	72%	75%
8	Netherlands	89%	56%	80%	78%	75%
9	Denmark	86%	54%	88%	76%	74%
10	Czech Republic	76%	64%	68%	84%	73%
11	Germany	87%	55%	80%	71%	72%
12	Finland	84%	55%	89%	63%	71%
13	Sweden	90%	56%	87%	59%	71%
14	Austria	86%	54%	82%	69%	71%
15	Canada	87%	67%	74%	58%	71%
16	Israel	82%	66%	74%	60%	70%
17	Korea, Rep.	80%	73%	59%	68%	70%
18	United States	85%	67%	72%	56%	69%
19	United Kingdom	83%	55%	82%	61%	69%
20	Belgium	85%	51%	74%	70%	69%
21	Slovenia	82%	51%	69%	77%	69%
22	Japan	91%	51%	67%	72%	69%
23	Malta	78%	63%	61%	72%	68%
24	France	90%	48%	78%	57%	66%
25	Estonia	68%	68%	68%	60%	66%
26	Poland	66%	61%	57%	75%	64%
27	Singapore	82%	76%	51%	52%	64%
28	Portugal	74%	59%	67%	57%	64%
29	Cyprus	74%	51%	64%	62%	62%
30	Slovak Republic	66%	51%	64%	67%	62%
31	Italy	83%	52%	72%	46%	62%
32	Hungary	59%	48%	57%	70%	58%
33	Lithuania	60%	54%	64%	49%	57%
34	Chile	69%	72%	61%	31%	55%
35	Latvia	54%	52%	61%	49%	54%
36	Mexico	46%	62%	54%	37%	49%
37	Russian Federation	44%	56%	44%	53%	49%
38	Spain	85%	59%	74%	15%	49%
39	China	50%	65%	37%	45%	48%
40	Greece	72%	46%	63%	15%	42%
41	Turkey	60%	43%	32%	20%	36%
42	Colombia	60%	62%	56%	6%	34%
43	Brazil	56%	57%	59%	4%	29%
44	India	4%	62%	3%	13%	9%

Mercer CFA Global Pension Index (MCGPI)

Since 2009, annual comprehensive research is conducted by CFA Institute, a global association of investment professionals and Mercer Consulting, a global management consulting firm to examine and rank the pension systems globally. It uses about 50 indicators to highlight their key strengths around 3 sub-indices - adequacy, sustainability and integrity.

According to MCGPI survey 2021, Iceland was the highest globally, with an overall index value of 84.2. China and the UK showed maximum improvement in comparison to 2020 because of their significant pension reforms that improved the pension regulations and the outcomes for individuals. With an index value of 43.3, India ranked 40th among the 43 countries. In 2022, India ranked 41st out of 44 countries, with an index value of 44.4.

Though Indian pension system has some desirable features, its efficacy and sustainability are in doubt as it has some major weaknesses and/or omissions. With over 90% of the total workforce being in the unorganised sector and manages pension savings on its own, measures should be taken to cover a larger workforce under pension savings. The overall index value for the Indian pension system could be increased by:

- Introducing a minimum level of support for the poorest aged individuals
- Increasing coverage of pension arrangements for the unorganised working class
- Introducing a minimum access age to make it clear that the benefits are preserved only for retirement purpose
- Improving the regulatory requirements for the private pension system

India's policy landscape for retirement benefits continues to evolve, with an intent to improve take rates in the private sector. Yet, the overall coverage through pension is low due to minimal long-term public pension spending and low investment in NPS because of the absence of co-contribution, a lack of education and awareness and the different benefits and withdrawal terms of NPS as compared to the state managed pension fund.

Hence, the promise of a 'Secure Retirement' depends on the policymakers and industry stakeholders taking collective action to examine the strengths and weaknesses of pension systems, with the purpose of delivering better retirement benefits to every individual. While the National Pension System is gradually gaining popularity, radical and strategic reforms are needed in India to ensure the adequacy and sustainability of social security.

Table 36: Mercer CFA Global Pension Index (MCGPI) 2022

Ranking	System	Overall index value	Sub-index values		
			Adequacy	Sustainability	Integrity
1	Iceland	84.7	85.8	83.8	84.4
2	Netherlands	84.6	84.9	81.9	87.8
3	Denmark	82	81.4	82.5	82.1
4	Israel	79.8	75.7	81.9	83.2
5	Finland	77.2	77.5	65.3	93.3
6	Australia	76.8	70.2	77.2	86.8
7	Norway	75.3	79	60.4	90.3
8	Sweden	74.6	70.6	75.7	79.5
9	Singapore	74.1	77.3	65.4	81
10	UK	73.7	76.5	63.9	83
11	Switzerland	72.3	68.7	70.5	80.7
12	Uruguay	71.5	84.5	50.6	79.8
13	Canada	70.6	70.8	64.7	78.6
14	Ireland	70	75.9	53.5	83.7
15	New Zealand	68.8	64	64.7	82.1
16	Chile	68.3	60	70.3	78.9
17	Belgium	67.9	80.8	39.1	87.5
18	Germany	67.9	80.5	44.3	80.9
19	Hong Kong SAR	64.7	61.5	52.1	87.6
20	US	63.9	67.5	61.2	61.7
21	Colombia	63.2	65.2	55.3	71.3
22	France	63.2	84.6	40.9	60.1
23	Malaysia	63.1	57.2	60.2	76.9
24	Portugal	62.8	84.9	29.7	73.9
25	Spain	61.8	80	28.7	78.9
26	UAE	61.8	63.8	51.9	72.6
27	Saudi Arabia	59.2	61.4	54.3	62.5
28	Poland	57.5	59.5	45.4	71.2
29	Mexico	56.1	63.1	57.1	43.6
30	Brazil	55.8	71.1	27.8	70.5
31	Peru	55.8	54.7	51.5	63.7
32	Italy	55.7	72.3	23.1	74.7
33	Austria	55	69.8	22.7	76.5
34	South Africa	54.7	44.2	49.7	78.4
35	China	54.5	64.4	39.3	60
36	Japan	54.5	58	44.5	63
37	Taiwan	52.9	42	53.2	69.8
38	Korea (South)	51.1	40.1	54.9	63.5
39	Indonesia	49.2	39.3	44.5	71.5
40	Turkey	45.3	45.6	29.8	66.6
41	**India**	**44.4**	**37.6**	**40.7**	**60.4**
42	Argentina	43.3	55.6	29.4	42.9
43	Philippines	42	40.5	52.3	30
44	Thailand	41.7	41.3	36.4	50
	Average	**63**	**65.7**	**53**	**72.9**

Annexure - 4.

Indian Definition of Millennials[22]

Millennials are an age cohort conceived in America as those born between 1981 and 1996. In an article ‘Defining Generations: Where Millennials end and Generation Z Begins’, Pew Research says that “cut-offs of ages aren’t an exact science, but tools for allowing analysis, yet not arbitrary and based on political, economic and social factors". This means that before we adopt the American construct of “millennials" as a relevant tool for analysis, we need to test whether, by this definition, it makes sense to do so. And if not, what do we use then?

The markers for American millennials include being “old enough to grasp the historical significance of 9/11", growing up “in the shadows of the wars in Iraq and Afghanistan" with “huge polarization of the environment", the 2008 watershed election when youth played a major role, entering the workforce at the height of economic recession and with being the most racially diverse group in America’s history. Clearly, none of these markers apply to India.

So, what are India’s age cohorts that fit Pew’s criteria of being a good tool for analyses and yet not arbitrary? - “Liberalization” is a central event for Indians and certainly is the most impactful one for any **analysis of consumption**. The age cohort born between 1981 and 1996 - the Indian contemporaries of American millennials - is a distinctive one. They’re India’s first non-socialist generation, the first to have consumption encouraged, not curbed. 1981 to 1996 is the period when India’s transition happened from a closed economy to an open one. It heralded both a generational shift and so-called light reforms, while big-bang liberalization followed in 1991 executing the basic reforms (decontrolling) for the transition between 1991 and 1994.

While the Gen Z advanced in the midst of the internet revolution, the Indian millennials grew up with the TV and computer revolutions happening simultaneously. They are **enthusiastic about technology, very comfortable with it** and encourage usage of technology by their children, though unlike their children they are not digital from birth.

Studying the period between 1981 and 1996 also allows meaningful analysis of this cohort, which is today between 26 and 41 years old, all in the workforce and “full nest" householders. More than 85% are married, most have children presumably, and this is the first cohort of both parents and children with post-liberalization consumption sensibilities. That is why their large numbers—30% of the population—have fuelled India’s consumption growth, aided by gross domestic product-enabled income growth, more than any generation before.

Annexure - 5

National Pension System (NPS)

National Pension System (NPS) is a 'defined contribution' pension system introduced by the Central Government to replace the erstwhile 'defined benefit' old pension scheme for its employees who joined on or after 1st January 2004. Later on, many State Governments adopted it for their employees. On 5th December 2011, 'NPS-Corporate Model' is launched for the Corporates including Private Companies, PSUs and CPSEs to adopt NPS within purview of their employer-employee relationship and provide NPS benefits to their employees.

With effect from 1st May 2009, 'NPS-All Citizens model' has been made available for all.

Key highlights of 'NPS - All Citizens model'

- Lowest cost scheme in India, lowest fund management charges.
- Easy onboarding with Aadhar.
- Deduction of contribution to Tier I from taxable income of individuals up to Rs. 50,000 u/s 80CCD 1(B).
- Track record of reasonable returns in all four asset classes.
- Flexibility of quantum and frequency of investment.
- Auto-continuity in case subscriber does not exercise exit on attainment of 60 years.

Features of 'NPS -All Citizens Model'

- **Eligibility:** Indian Citizen (resident or non-resident) or Overseas Citizen of India (OCI)
- **Age at entry:** Between 18 - 70 years.
- **Exit age:** Flexibility from 60 years to 75 years.
- **Types of Accounts:**

  Tier I - Individual Pension Account with lock-in period and tax incentives.

  (Tier I Minimum investment: Rs. 1000 per year, Maximum investment: No limit)

  Tier-II - Optional investment account for a subscriber who has an active Tier-I account.
- **Maturity pay-out of Tier I** - If the accumulated corpus does not exceed Rs. 5 lakh, complete corpus can be withdrawn as a lumpsum. Else, tax-free lumpsum withdrawal up to 60% of the corpus and annuity purchase with at least 40% of the accumulated corpus as on the date of exit.

- **Pay-out on premature exit**: If the accumulated corpus does not exceed Rs 2.5 lakh, complete corpus can be withdrawn as a lumpsum. Else, an annuity plan needs to be purchased with at least 80 per cent of the corpus.
- **Enrolment in NPS**:
  Physical mode - Through 'Points of Presence (PoPs)' like Banks, NBFCs and Fin Techs.
  Online platform (eNPS) of NPS Trust – With Aadhaar or PAN & Bank authentication.
- **No. of subscribers per family:** No limit; non-earning members and housewives – eligible.
- **Flexibility in choice of pension fund managers, annuity providers and asset allocation**.
  - No. of Pension Fund Managers: 10 (30 April 2023)
  - No. of Annuity Providers: 14 (30 April 2023)
  - **Switching of PFM** - once in a year permitted.
  - **Types of schemes** -
    Scheme - E (Tier-I and II): Equities
    Scheme - C (Tier-I and II): Corporate Debt
    Scheme - G (Tier-I and II): Government Securities
    Scheme - A (Tier-I): Alternative Investments
- **Switching of scheme preference** - four times a year permitted.
- **Partial withdrawal** – After 3 years; up to 25% of the contribution, maximum 3 times during the tenure with a minimum gap of 5 years (except medical emergency) for the purpose specified under the PFRDA guidelines regarding the same.
- **Investment Choice for Asset Allocation (can change 4 times in a FY)**

  ➢ **Active Choice:** Subscriber actively decides allocation of funds across **E**quity (up to 75%), **C**orporate Bonds (up to 100%) and **G**overnment Securities (up to 100%).

  ➢ **Auto Choice:** The contributions by subscriber get invested across three asset classes in pre-determined proportion as per the age of subscriber. There are three options under Auto choice – Aggressive, Moderate and Conservative Life cycle funds, which can be chosen by the subscriber based on his/her risk appetite.

  ❖ **WhatsApp Micro pension** "Gift a pension" NPS Tier I A/c, Pinbox tied up with HDFC (Website: www.giftapension.com)

  ❖ **"Pension Sanchay website"** – A financial literacy initiative by PFRDA

8. REFERENCES

1. NSO (2021), *Elderly in India*, National Statistical Office, Ministry of Statistics & Programme Implementation, Government of India, New Delhi.

2. *Longitudinal Ageing Study in India* (LASI) Wave 1, 2017-18, India Report, International Institute for Population Sciences, Mumbai.

3. *Indian Household Finance*, July 2017 -Report of the Household Finance Committee

4. *Economic Survey 2021-22*, Government of India, Ministry of Finance.

5. OECD (2023), *Pension Markets in Focus 2022*, www.oecd.org/finance/pensionmarketsinfocus.htm.

6. Holzmann, Robert & Paul, Richard Hinz & Dorfman, Mark, 2008. *Pension systems and reform conceptual framework*. Social Protection Discussion Papers and Notes 46175, The World Bank.

7. *Population Projections for India and States 2011 –* 2036, July 2020, https://www.india.gov.in/population-projections-india-and-states-2011-2036?page=3

8. *Trend-setting millennials - Redefining the consumer story*. Retailers Association of India - Deloitte. February 2018.

9. Seth B, et al. *Long Run Saving - Investment Relationship in India*. Occasional Papers, Reserve Bank of India, 2020;41(2).

10. Dimock M. Defining generations: *Where Millennials end and Generation Z begins*. Pew Research Center. January, 2019. https://www.pewresearch.org/short-reads/2019/01/17/where-millennials-end-and-generation-z-begins/

11. Sadhak H. *Pension Reforms and the Emerging Annuity Market in India*. Asia Insurance Review. January 2009.

12. Sadhak H. *Emerging crisis of Ageing: Pension Reforms and Life insurance in India*. DS Actuarial Education Services. October 2010.

13. *The French Connection*. Times of India. 31 January 2023.

14. OECD. *Pensions at a Glance 2013: OECD and G20 Indicators*. OECD Publishing. Paris; 2013. https://doi.org/10.1787/pension_glance-2013-en.

15. Swarup D. *Pension Reform in India – A Social Security Need.*

16. Surabhi. *EPFO to overhaul pension scheme to make it viable*. Financial Express. 30 January 2023.

17. Sadhak H. *Public private support key to NPS success*. The Financial Express, 24 August 2009.

18. Sadhak H. *Pension Pay-out*. Asia Insurance Post, April 2009.

19. Natixis Global Retirement Index 2022.

20. Mercer CFA Global Pension Index (MCGPI) 2022.

21. Bijapurkar R. *Why India needs its own Definition of what it means to be a 'Millennial'*. People Research on India's Consumer Economy.31 Dec 2019.

9. BIBLIOGRAPHY

1. AEGON. A Retirement Wake-Up Call. *The Aegon Retirement Readiness Survey 2016, AEGON; 2016.* https://www.transamericacenter.org/docs/default-source/global-survey-2016/tcrs2016_sr_retirement_wake_up_call.pdf
2. AEGON. *The Changing Face of Retirement, The Young, Pragmatic and Penniless Generation,* AEGON; 2013.
3. Aggarwal R. Everything You Need To Know About RBI's Financial Literacy Week, India.com Business Desk; 2022. https://www.india.com/business/everything-you-need-to-know-about-rbis-financial-literacy-week-5236234/
4. AIR Team. *India: Insurance Education must go mainstream*, Asia Insurance Review; 2022. https://www.asiainsurancereview.com/News/View-NewsLetter-Article/id/791[18]/Type/eDaily/India-Insurance-education-must-go-mainstream
5. Asian Development Bank. *Implementing Pension Reforms in India, Asian Development Bank; 2010. https://www.adb.org/sites/default/files/publication/28601/ind-pension-reform.pdf*
6. Asli Demirgüç-Kunt, Leora Klapper, Dorothe Singer, Saniya Ansar. *The Global Findex Database 2021, Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19, World Bank Group; 2021. https:/openknowledge.worldbank.org/bitstream/handle/10986/37578/9781464818974.pdf*
7. Atkinson, A. et al. *Lessons from National Pensions Communication Campaigns*, OECD Working Papers on Finance, Insurance and Private Pensions, No. 18, OECD Publishing; 2012. http://dx.doi.org/10.1787/5k98xwz5z09v-en
8. Central Board of Secondary Education. Financial Literacy, Student Workbook Class-V, Central Board of Secondary Education; n.d. https://cbseacademic.nic.in/web_material/Curriculum22/publication/middle/financial_Literacy_classVI.pdf
9. Chatterjee I. The growing significance of financial literacy in India – Gaps and opportunities, Financial Express; 2022. https://www.financialexpress.com/money/the-growing-significance-of-financial-literacy-in-india-gaps-and-opportunities/2410548/
10. CMIE. *Unemployment in India – A statistical profile;* 2021. https://unemploymentinindia.cmie.com/

11. Dr Kumar Gaurav, Dr. Pallavi Seth. *Why financial literacy is important for children, Financial Express; 2021.* https://www.financialexpress.com/money/why-financial-literacy-is-important-for-children/2334907/
12. Employees' Pension Scheme, 1995; 2020. https://www.epfindia.gov.in/site_docs/PDFs/Downloads_PDFs/EPS95_update102008.pdf
13. Gupta, R. *Pension Reforms in India: Unresolved Issues and Policy Choices,* Vikalpa; 2003. https://doi.org/10.1177/0256090920030102
14. IBEF. *India's Growing Financial Literacy*, IBEF, Knowledge Centre; 2022. https://www.ibef.org/blogs/india-s-growing-financial-literacy
15. Marta Angelici, Maria Cristina Rossi, Daniela Del Boca, Claudia Villosio, Noemi Oggero, Paola Profeta. *Pension Information and Women's Awareness, IZA DP No. 13573, IZA – Institute of Labor Economics, Germany; 2020.* https://docs.iza.org/dp13573.pdf
16. Mercer | CFA Institute. *Global Pension Index 2021;* 2021
17. Moneycontrol News. *NPCI to launch financial literacy curriculum for Class VI students*, Moneycontrol News; 2021. https://www.moneycontrol.com/news/business/cbse-npci-to-launch-financial-literacy-curriculum-for-class-vi-students-7112041.html
18. Majumdar R. *Will WhatsApp Thrive In Micro-Pension Space, A Road Not Taken By Indian Fintech?* Inc 42; 2021. https://inc42.com/features/will-whatsapp-thrive-in-micro-pension-where-indian-fintech-hasnt/
19. Mohanty D. Perspectives on the Pension Sector in India, PFRDA(WPS):2022-23(1),Pension Fund Regulatory & Development Authority (PFRDA); 2022. https://www.pfrda.org.in/myauth/admin/showimg.cshtml?ID=2170
20. Mohindra S. *Why India needs a vibrant pension market*, Mint; 2022.
21. National Centre for Financial Education (NCFE). *Financial Literacy and Inclusion in India, National Centre for Financial Education (NCFE); 2019. https://ncfe.org.in/images/pdfs/reports/NCFE%202019_Final_Report.pdf*
22. National Centre for Financial Education. *National Strategy for financial education 2020-2025 – A multistakeholder led approach for creating a financially aware and empowered India; National Centre for Financial Education (n.d.) National Centre for Financial Education* https://www.pfrda.org.in/writereaddata/links/nsfe%202020%20-25271250f7-f683-4def-83bf-774dd77269ca.pdf

23. National Institute of Securities Market (NISM). *Financial Literacy and Inclusion in India, National Institute of Securities Market (NISM); 2013. https://ncfe.org.in/images/pdfs/nasional-surveyy/NISM_Final%20Report%20-%20All%20India.pdf*
24. NATIXIS. *Global Retirement Index 2021, NATIXIS Investment Managers; 2021. https://www.im.natixis.com/intl/resources/2021-global-retirement-index-full-report*
25. Netscribes (India) Pvt. Ltd.. *Pension Fund Market in India 2020; 2020.* https://www.marketresearch.com/Netscribes-India-Pvt-Ltd-v3676/Pension-Fund-India-13422347/
26. OECD. *Pensions at a Glance 2013: OECD and G20 Indicators*, OECD Publishing, Paris; 2013. https://doi.org/10.1787/pension_glance-2013-en.
27. OECD. *Recommendation on Principles and Good Practices for Financial Education and Awareness, OECD; 2005. https://www.oecd.org/finance/financial-education/35108560.pdf*
28. OECD. *The OECD Conference on Financial Education, India,* OECD; 2006. https://www.oecd.org/finance/financial-education/38208371.pdf
29. Pensions and Lifetime Savings Association. *An Employer's Guide to Talking About Workplace Pensions, Pensions and Lifetime Savings Association; 2021. https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2021/An-employers-guide-to-talking-about-workplace-pensions.pdf*
30. People Research on India's Consumer Economy (PRICE). *Household survey on India's citizen environment and consumer economy,* ICE 360 degree Survey; 2016. https://www.researchgate.net/profile/Rajesh-Shukla-7/project/ICE-360-2016-Survey-Household-Survey-of-Indian-Consumer-Economy-and-Consumer-Environment/attachment/5c150ab33843b006754b8172/AS:704103927787521@1544882866551/download/ICE360Survey2016_Brochure.pdf?context=ProjectUpdatesLog
31. Pushpa B.V. *Awareness of Pension Plans - A study of investors' in Bengaluru City*; 2021
32. Rana R. *The Importance of Financial Literacy: Why It Needs To Be Included In Our Education System? The Logical Indian Crew; 2021.* https://thelogicalindian.com/education/financial-literacy-32666?infinitescroll=1
33. Reserve Bank of India. National Strategy for Financial Inclusion 2019-2024, 2020. https://rbidocs.rbi.org.in/rdocs/content/pdfs/NSFIREPORT100119.pdf

34. Ramesh S. *Pension Plans: Awareness Among Private Sector Employees – An Empirical Study*, KIIT Journal of Management; 2017
35. Raj S. *Just Rs 11.57 lakh to retire? Survey shows young Indians grossly unprepared for old age,* The Economic Times; 2020 https://economictimes.indiatimes.com/markets/stocks/news/just-rs-11-57-lakh-to-retire-survey-shows-young-indians-grossly-unprepared-for-old-age/articleshow/78762745.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
36. Solarz S. *Public Awareness Campaign as an Element of Pension Reform, The Polish Financial Supervision Authority,* TAIEX expert mission, Tirana; 2009. https://amf.gov.al/pdf/publikime2/periodik/arkive/sigurime/Public%20awareness%20campaign%20as%20an%20element%20of%20pension%20reform.pdf
37. Sonig H. Rising Trends of Pension System in Asia-Pacific Region – The Indian Experience, OECD; n.d. https://www.oecd.org/pensions/private-pensions/2763631.pdf
38. Statista Research Department. *Retirement assets worldwide - statistics & facts, Statista.com; 2022. https://www.statista.com/topics/5170/retirement-assets-worldwide/#topicOverview*
39. Thinking Ahead Institute.*Global Pension Assets Study | 2022,* Thinking Ahead Institute, 2022. https://www.thinkingaheadinstitute.org/content/uploads/2022/02/GPAS_2022.pdf
40. United Nations Department of Economic and Social Affairs, Population Division (2022). *World Population Prospects 2022*: Summary of Results. UN DESA/POP/2022/TR/NO. 3.; 2022. https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/wpp2022_summary_of_results.pdf
41. Venkatesh Ganapathy. *Pensions: Serving Millennial Customers*, The Journal of Insurance Institute of India, 2019
42. Warhady P. Is pension, effective and adequate solution to the challenges of aging? The Journal of Insurance Institute of India. October 2020
43. World health statistics 2021. *Monitoring health for the SDGs, sustainable development goals,* Geneva: World Health Organization; 2021. https://apps.who.int/iris/bitstream/handle/10665/342703/9789240027053-eng.pdf

10. DEMOGRAPHIC DATA OF RESPONDENTS

- **Geographical area**

The data used for the study has representations from 23 states. However, the majority of the responses (399 out of 458) were received from seven states – namely, Maharashtra, Rajasthan, Karnataka, Gujarat, Kerala, Uttar Pradesh and Madhya Pradesh --- the western and southern parts of India.

- **Gender**

The data includes 80% (365) male respondents and 20% (93) female respondents.

- **Educational qualification**

Educational qualification	Number	Percentage (%)
10^{th} or less than 10^{th} Std	15	3%
12th/ HSC	64	14%
Graduate	156	34%
Postgraduate	223	49%
Total	**458**	**100%**

- **Occupation**

Occupation	Number	Percentage (%)
Presently unemployed	9	2%
Self-employment	59	13%
Professionals	85	19%
Business	105	23%
Employment (Service)	200	44%
Total	**458**	**100%**

- **Length of Service/ Occupation in years**

Length of service/ occupation in years	Number
Less than 6 years	145
Between 6 to 10 years	148
Between 11 to 15 years	120
Between 16 to 23 years	45

- **Income class**

Based on annual household income, the population of any country can be divided in three categories – poor, middle-income and high-income. India's National Council for Applied Economic Research (NCAER) identifies the 'middle-income' class as those with annual household income between Rs 2 lakh and Rs 10 lakh and the 'high-income' class refers to those with annual household income above Rs. 10 lakh.

The research data has 43% (198) responses from the middle-income millennials and 57% (260) responses are from the high-income millennials.

- **Household composition:**

Household composition	Number	Percentage (%)
Single	80	17%
Couple w/o child	107	23%
Couple with child/ren	136	30%
Joint family	135	29%
Grand Total	**458**	**100%**

NATIONAL INSURANCE ACADEMY

25, Balewadi, Baner Road, NIA PO,
Pune - 411 045 (India)
Tel.: +91-20-27204000, 27204444

Fax : +91-20-27204555, 29515710
Email : contactus@niapune.org.in
Website : www.niapune.org.in