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COVERAGE AND FISCAL PRESSURES OF PENSION SYSTEM OF INDIA — A STUDY OF GOVERNMENT SECTOR PENSIONS IN KERALA

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Abstract: *Pensions are regular payment made by the Government to the people of or above the retirement age and also to some widows and disabled people as a means of financial security in their future life. The pressure of pensions on the central and state government is becoming burdensome as the total pension expenditure in respect of the central and state government as a proportion of the revenue receipts is increasing over the years. In this context Kerala with lowest age of retirement and high life expectancy of the people shows period of service has becoming less as compared to that of pension adding to the fiscal pressures of state government The aim of this study is to provide an original research on the analyzing the major fiscal constraints faced by the Kerala Government and problems in pension coverage. This study also fulfills the need to create a social awareness on healthy retirement.*

Key Words: *Pension, Retirement, Superannuation, Demographic pressure. Defined Benefit scheme.*

INTRODUCTION

In many countries including India people are living longer and enjoying better living conditions than before as a result of increased life expectancy and medical advancements. By 2050 the size of global elder population is expected to reach close to 1.6 billion (United Nations, 2005).This increase in the demographic population demands more attention towards socio economic implications it holds for the society. This implies increase in required care and concern for the elderly people. But in India such benefits are lacking and a huge number of elderly are still deprived of these benefits and are still living in various insecurities. Most Indians lack financial resources for their retirement and they rely on their families whereas family is becoming a less reliable source of support in old age due to decreasing fertility and increasing mobility of the young (Simone, 2011). Thus there is a strong need to increase the pension coverage for the population that largely consist of informal sector workers.

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Pensions are viewed as means of transferring purchasing power from the working phase to the retirement phase of the life cycle (Algoed and Spinnewyn, 2000). As the population ageing gets accelerated the pension system gets affected by the high incidence of pension expenditure which contribute sizeable part of the Government expenditure. Thus the state sponsored pension system has to bear a greater economic liability adding to the fiscal pressure of the Government. The Pension stringency in India occurred in different states as the impact of demographic achievements and coverage of pension system looks distinctly different in different states of India. Moreover Kerala with a higher proportion of government employees and organised workforce with retirement age for the state government service fixed at 55 years coupled with higher average life expectancy at old age creates lot of imbalances in the society .Thus with lowest age of retirement and high life expectancy of the people and also with low period of service results in an increased pension burden and fiscal stringency of the state treasury with an immense drain of the resources for pension payment (Shyam Prasad, 2012).

PROBLEM OF THE STUDY

The problems confronted by various countries on account of pension liabilities are not uniform (RBI, 2005). In India retirement benefits in one form or the other are currently available to only about 11 per cent of the working population, including Government employees. This leaves 89 percentage of the working population in unorganized sector uncovered. The pressure of pensions on the central and state government is becoming burdensome as the total pension expenditure in respect of the central and state government as a proportion of the revenue receipts is increasing over the years (Union Budget, 2011). In this context Kerala with lowest age of retirement and high life expectancy of the people shows period of service has becoming less as compared to that of pension adding to the fiscal pressures of state government and also Kerala Government has now decided to shift from old pension to new contributory pension system. Therefore an examination of the extend of financial security ensured under old and new pension system, major fiscal constraints, and the problem of inadequate coverage assumes significance. The present study is a modest attempt in this direction.

OBJECTIVE

1. To study whether financial Security is ensured under both old (DB) and new (DC) pension system.
2. To study the fiscal constraints of the present pension system in India with special reference to Kerala
3. To analyse the problems and extend of coverage of the present pension system.

METHODOLOGY AND DATA SOURCE

The study will be both empirical and analytical .The nature and impact of the rising pension can be studied with reference to the finances of the government. The study relies heavily on secondary data. In order to analyse the finances of the Indian pension system secondary data sources including budget documents of Centre and State government selected pension statistics from websites of Finance Ministry ,PFRDA and various High level committee reports on the new pension system are used. For analysing the Pension liabilities of Kerala Government data from various Pay Revision Committee Reports,Expenditure Review Committee Reports, Budget Documents were used

Basic Calculations were made to analyse the data .System dependency ratio was estimated to study the long term stability of the present pension system.

$$System\,dependency\,Ratio = \frac{No\,of\;Pensioners}{No\,of\;employees\,in\;pay\,roll}$$

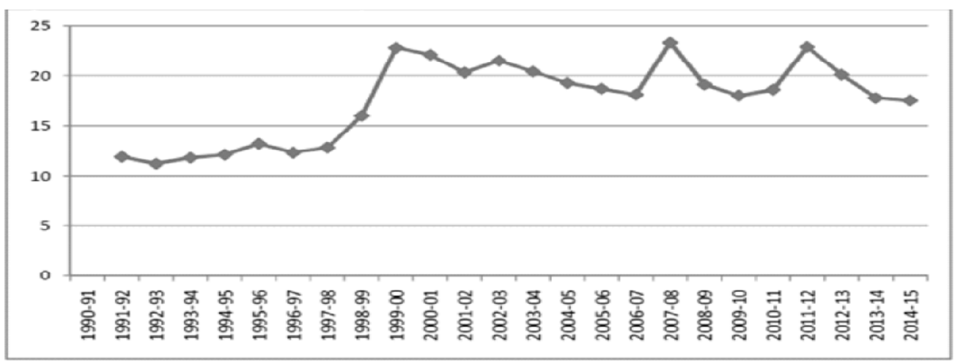
RELEVANCE OF THE STUDY

The issue of growing pension liabilities of the Government have been receiving attention from the policy makers regarding the fiscal deterioration of the states. Even though there are many past studies on pension system of India and reforms there were only limited works on assessing the pension liability and fiscal constraints of the Government. The aim of this study is to provide an original research on the analyzing whether the Government policies on adopting Defined Contributory Scheme from the Defined Benefit Scheme has turned from pro employee to pro employer way and also how financial security is ensured under both system. The study also focuses on the major fiscal constraints faced by the Kerala Government and problems in pension coverage. This study also fulfills the need to create a social awareness on healthy retirement.

FISCAL PRESSURE OF PENSION SYSTEM IN KERALA - ANALYSIS

According to the demographers Kerala state has reached final stage of demographic transition which is characterised by few birth and death rates .Beside this the life expectancy in Kerala is 74 against the national average of 66.More importantly the growth rate of "oldest old" (eighty plus) is also highest in Kerala .Another major consequence of the demographic transition in Kerala is that of financial insecurity of the aged. Moreover with a higher proportion of government employees in Kerala, the coverage of the workforce under various pension schemes is higher. Thus with the retirement age fixed for the Government at 55 years coupled with higher life expectancy create imbalances in the society i.e. the pensioners spend longer time in post-retirement and receive enhanced pension benefits from time to time .Thus causing an increase in the pension burden of the state and which in turn leads to a serious fiscal stringency on the state treasury leading to an immense drain of the pension payment resources.

Figure 5.1: Trends in Pension Payments of Kerala



Source: Government of Kerala Budget in Brief, George and Krishna Kumar (2012) and 10[TH] Pay Commission Report of Kerala.

The fig 4.1 shows that the pension payment in Kerala has shown a steep increase in the late 1990s from 11 per cent to over 22 per cent of Total Revenue Receipts in 2000-01.IN the next two years the it came down by a few points and hover around 20 per cent. Regular jumps were observed in the year 2002-03, 2007-08 and 2011-12. These regular jumps are caused mainly due to the hikes in the pay commission awards. Thus the overall

Table 2
Share of Pension Expenditure in Total Expenditure

Year	*Pension Expenditure (in Crores)*	*Percentage Share in Total Expenditure*
2000-01	1930	16.2
2001-02	1838	15.8
2002-03	2283	15.5
2003-04	2409	15.5
2004-05	2601	15.1
2005-06	2861	15.5
2006-07	3295	15.8
2007-08	4925	18.1
2008-09	4685	15.2
2009-10	4706	13.8
2010-11	5767	14.9
2011-12	8700	17.1
2012-13	8867	15

Source: Kerala Public Expenditure Committee Report trend in Pension bill as a proportion of Total Revenue Receipts is almost doubling over a period of 15 years. Over one fifth of all the revenue mobilised by the state goes for paying pension of the Government employees retired in the past and the family members who are eligible for family pension.

The Table 2 reveals that there has been a tremendous increase in the pension expenditure of Kerala between 2000-01 and 2012-13.It can be seen that the total out go of the pension was hovering between 15-18% of the total expenditure over the years. This shows that pension expenditure constitute a major part of the total expenditure of the state. The growth in pension expenditure is a serious issue to be addressed because it seems to the major reason for the financial stringency faced by the state today.

Trend in Pension expenditure and state revenue

The table 3 reveals the growing trend in pension expenditure and its share in state revenue for a period between 2001-02 to 2014-15.It is evident from the table that the share of pension in the states revenue receipts was hovering around 20%. There has been a significant increase in the growth rate of pension expenditure during 2011-12 where the growth rate for that year was 50.86%. These increased rates is mainly due to the impact of Pay and Pension revisions. The Annual Pension expenditure of the state has risen from 1838 crores in 2001-02 to 11515 crores in 2015-15. The revision of pension rates once in five years, the frequent DA revisions, and increase in number of pensioners have contributed to the steep increase in pension payments. As autonomous bodies like KSRTC, Universities etc. have to revise the pension rates at par with Government staff, the pension liability is emerging as a major financial problem to them. Currently, KSRTC and some state universities are facing acute crisis in pension payments. In order to mobilise resources for pension payments, the successive Governments have not taken any serious steps. However, the Local Self Government Institutions (Gram Panchayat, Municipalities etc.) are contributing 15 per cent of the basic pay of the staff to the state Government as pension contribution. A few universities in Kerala have created pension fund for mobilising resources for pension payments. In this context the state Government autonomous bodies like KSRTC, Universities etc. may create a pension fund for meeting the expenses connected with payment of retirement benefits and monthly pensions to the retired staff, who comes under the statutory pension scheme.

GROWTH AND SHARE OF PENSION EXPENDITURE ON VARIOUS CATEGORIES OF PENSION

A person who is retiring from service is eligible for a number of benefits such as superannuation and retirement allowance, commutation of pension,

Table 3
Trend In Pension Expenditure and State Revenue (in crores)

Year	*Expen-diture on Pension*	*Annual Growth Rate*	*State's own revenue Receipt*	*Growth Rate*	*Pension payment as % of revenue*	*Total Revenue Receipts*	*Growth rate*	*Pension Payment as % of total revenue*
2001-02	1838		5923		31.03	9056		20.30
2002-03	2283	24.21	7303	23.30	31.26	10637	17.46	21.46
2003-04	2409	5.52	8089	10.76	29.78	11815	11.07	20.39
2004-05	2601	7.97	8964	10.82	29.01	13500	17.26	19.26
2005-06	2861	10.00	9779	9.09	29.26	15295	13.30	18.71
2006-07	3295	15.17	11942	22.12	27.59	18187	18.91	18.12
2007-08	4925	49.47	13669	14.46	36.03	21107	16.06	23.33
2008-09	4688	-4.81	15990	16.98	29.32	24512	16.13	19.13
2009-10	4707	0.38	19477	21.81	24.16	26109	6.52	18.02
2010-11	5767	22.5	23652	21.44	24.38	30991	18.70	18.61
2011-12	8700	50.86	28311	19.70	30.73	38010	22.65	22.89
2012-13	8867	1.92	34275	21.07	25.87	44137	16.12	20.09
2013-14	9971	12.45	37570	9.61	26.54	49177	11.42	20.28
2014-15	11515	15.48	46168	13.03	27.12	63588	29.30	18.11

Source: Finance Accounts

leave encashment of benefits etc. The table.4, 5 and 6 shows the growth and share of pension expenditure on various categories of pension and other retirement benefits for a period from 2007 to 2013. he superannuation and retirement allowances of service pensioners account for major share of the expenditure in 2012-13 (53 per cent). Pension to the retired staff of the aided educational institutions is the second major item accounting for 16 per cent of the pension expenditure. Commuted value of pension accounts for 10 per cent. Of the pension expenditure, 10 per cent is spent on family pension and 6 per cent on gratuities. During 2011-12, there had been an unprecedented growth in pension expenditure (51 per cent). During 2012-13 the major items which witnessed a substantial increase in expenditure were family pension, pension to employees of state aided institutions and legislator

The table 7 reveals that there has been an unprecedented growth in the number of pensioners for a period between 2000-2013.In 2013 the number of pensioners were 4, 69,041.This is increase in the number of pensioners is due to the increase life span of the people which is achieved mainly through the advancement in medical field and also due to better living standards of the people.

Table 4
Pension Expenditure on Various Categories of Pension

Names	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Superannuation and Retirement Allowances	161301	235366	242336	291334	321806	462713	473341
Commuted Value of Pension	50624	80807	58719	22581	50290	99443	89070
Compassionate Allowances	16.33	20.13	26.7	25.6	336.44	51	121
Gratuities	32058	49982	42010	22648	38012	60667	57183
Family Pension	28919	40385	41419	48797	56421	79949	87979
Contribution to Pension and Gratuities	17.97	23.78	41.01	9.01	3.4	5	22
Contribution to Provident Funds	0.29	0.96	1.51	1.72	2.28	3	0
Pension to employees of state aided educational institution	39417	61696	62460	72777	85250	124889	141193
Pension to legislatures	339.81	355.24	374.98	1142	1231	530	726
Leave encashment benefit	11963	18705	15610	5573	17692	25574	21947
Other Categories	4726	5005	102.75	103.07	125	290	126
Other Pensions	75	107.18	5543.1	5559	5481	15918	15050
Total	329558	492453	468643	47050	576649	870030	886689

Table 5
Growth

Names	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Superannuation and Retirement Allowances		45.92	2.96	20.21	10.45	43.79	2.30
Commuted Value of Pension		59.62	-27.33	-61.54	122.70	97.74	-10.43
Compassionate Allowances		23.27	32.64	-4.11	1214.21	-84.71	135.92
Gratuities		55.91	-15.94	-4.608	67.83	59.60	-5.74
Family Pension		39.65	2.55	17.81	15.62	41.70	10.04
Contribution to Pension and Gratuities		32.33	72.45	-78.02	-62.26	47.94	335.19
Contribution to Provident Funds		231.03	57.29	13.90	32.55	15.79	-97.73
Pension to employees of state aided educational institution		56.52	1.23	16.51	17.13	46.50	13.06
Pension to legislatures		4.54	5.55	204.49	7.80	-56.98	37.06
Leave encashment benefit		56.36	-16.54	-64.30	217.49	44.55	14.18
Other Categories		42.88	-4.13	0.31	21.27	131.94	-56.70
Other Pensions		5.90	10.74	0.28	-1.39	185.20	-5.45
Total		49.47	-4.83	0.40	22.54	50.85	1.91

Table 6
Distribution

Names	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Superannuation and Retirement Allowances	48.95	47.79	51.71	61.91	55.81	53.18	53.38
Commuted Value of Pension	15.36	16.41	12.53	4.80	6.59	6.97	6.45
Compassionate Allowances	0.01	0.01	0.01	0.01	0.06	0.01	0.01
Gratuities	9.73	10.15	8.96	4.81	6.59	6.97	6.45
Family Pension	8.78	8.20	8.84	10.37	9.78	9.19	9.92
Contribution to Pension and Gratuities	0.01	0.001	0.01	0.00	0.00	0.00	0.00
Contribution to Provident Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pension to employees of state aided educational institution	11.96	12.53	13.33	15.47	14.78	14.35	0.00
Pension to legislatures	0.10	0.007	0.08	0.24	0.21	0.06	15.92
Leave encashment benefit	3.63	3.80	3.33	1.18	3.07	2.94	0.08
Other Categories	0.02	0.02	0.02	0.02	0.02	0.03	2.48
Other Pensions	1.43	1.20	1.18	0.95	0.95	1.83	0.01
Total	100	100	100	100	100	100	100

Source: Kerala Expenditure Committee Report various issues

Table 7
No of Pensioners in Kerala

Years	*No of Pensioners*
2000	3,39,000
2001	3,46,500
2002	3,53,200
2003	3,58,245
2004	3,81,156
2005	3,91,007
2006	4,16,815
2007	4,35,828
2008	4,41,011
2009	4,29,282
2010	4,26,074
2011	4,38,754
2012	4,59,432
2013	4,69,041

Source: Kerala Expenditure Committee Report various issues

Table 8
No of Pensioners Category wise

Categories	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Service Pensioners	235034	249594	245553	237644	251548	237780	287551
Family Pensioners	94816	87795	87896	87617	88810	93015	83772
Other Categories	105978	103622	95833	100813	98396	128637	97768
Total	435828	441011	429282	426074	438754	459432	469041
		Growth in Per cent					
		2008	*2009*	*2010*	*2011*	*2012*	*2013*
Service Pensioners		6.9	-1.69	-3.22	5.85	-5.47	20.93
Family Pensioners		-7.4	0.12	-0.32	1.36	4.73	-9.99
Other Categories		-2.22	-7.52	5.2	-2.4	30.73	-24
Total		1.19	-2.66	-0.75	2.98	4.71	2.09

Source: Kerala Expenditure Committee Report various issues

Expenditure on pension of retired Government staff and employees in the private aided educational institutions and others accounts for 15 per cent of the total expenditure. There are three categories of pensioner's viz., service, family and other categories. Service

pensioners are the category of pensioners who become eligible for retirement benefits and monthly pensions for their past service. In the case of death of service pensioner, a monthly family pension is paid to the wife or other dependents of the diseased pensioner. Monthly pension is also paid to other categories like ex-members of the Kerala Legislative Assembly, artists, literary persons, scholars and persons who participated in the freedom struggle etc. Table 8 gives the number of three categories of pensioner's viz., service, family and others and also their growth per cent for the years from 2007 to 2013.

Table 9
Percentage distribution of various categories of pensioners

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Service Pensioners	53.92%	56.60%	57.20%	55.78%	57.33%	51.76%	61.31%
Family Pensioners	21.75%	19.91%	20.48%	20.48%	20.24%	20.25%	17.85%
Other Categories	24.31%	23.50%	22.32%	22.32%	22.43%	28.00%	20.84%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Kerala Expenditure Committee Report various issue

From the Table 9 it is evident that of the total pensioners 61 per cent is service pensioners, 18 per cent is family pensioners and 21 per cent is other category pensioners in March 2013. During the year 2012-13 there has been a substantial increase in the number of service pensioners.

Table 10
Age Group in years

Age wise details of Service Pensioners	
Age group 9 in years	*No of pensioners*
56 to 60	55660
61 to 65	75234
66 to 70	67002
71 to 75	41599
76 to 80	29608
81 to 85	14481
86 to 90	5263
91 to 95	1535
96 tp 100	392
Above 100	0
Total	290774

Source: 10th Pay Commission Report Kerala, 2015

From table 10 it is evident that majority of the pensioners fall in the age group 61 to 75 .This was in tune with the life expectancy rate of Kerala which is 74 years .This alarming number of pensioners has added to the growing burden of pension liability. So the only solution to this major problem is increasing the retirement age and also the period of service.

Table 11
No of Pensioners drawing pension from treasuries and banks

No.	*Retirement Period*	*Age Range*	*No of Pensioners drawing pension from Treasuries*	*No of Pensioners drawing pension from Bank*	*Total*
1	Before1965	100+	576	39	615
2	1966-70	95+	1114	334	1448
3	1971-75	90+	3497	1154	4651
4	1976-80	85+	9344	3234	12578
5	1981-85	80+	20143	7538	27681
6	1986-90	75+	35598	13253	48851
7	1991-95	70+	57492	17276	74768
8	1996-00	65+	83060	20032	103092
9	2001-05	60+	93280	19828	13108
10	2006-10	55+	99787	7204	106991
11		<55	14398	1500	15898
12		Unknown	18282	332	18614
	Total		436571	91724	528295

Source: Kerala Expenditure Committee Report various issues

From table 11 it is evident that in 1965 out of 615 pensioners only 39 draw their pensions from bank whereas rest 576 pensioners had drawn their income from treasuries. But the scenario has completely changed in 2005-10 where the total number of pensioners who draw their pension from both banks and treasuries accounts to 1, 06,991 out of which 99787 draw their pensions from treasuries and 7204 draw their pension from banks .Another interesting fact is that majority of the pensioners who draw their pensions from both banks and treasuries come in the age group of 55+. Thus altogether the number of pensioners who draw pensions from both banks and treasuries accounts to 528295.

Table 12
System Dependency Ratio

Years	*System Dependency Ratio*
1970	34.47
1980	34.75
1990	45.95
1995	48.09
2000	45.65
2003	46.67
2008	87.64
2013	92.59

Source: Calculated on the basis of pensioners and employees in various years, Finance Department, GoK

In the state the system dependency of the pension system is on an increase as the financing of the pension is unsustainable for the long run. The system dependency ratio is given by the ratio of pensioners to the employees in the payroll.Symbollically it can be written as

$$System\, dependency\, ratio = \frac{Number\, of\;\; pensioners}{Number\, of\;\; employees\, in\;\; payroll}$$

From the table it is evident that the system dependency was hovering around 35 during seventies and then shot up to 45 in the beginning of the nineties and it was estimated at 46.67 in 2003-04 The system dependency shows an unprecedented growth since 2008 and highest in 2013 because the number of pensioners in 2013 is 4,69,041 and the number of employees in the payroll in 2013 is 5,06,556 (Kerala Public Expenditure Committee Report) then the system dependency ratio will 92.59. .With an increased life expectancy ,the public pension met out of the government is unsustainable in Kerala.

Contributory Pension in Kerala

As per the G.O. (P) No. 20/2013/Fin dated 07.01.2013, National Pension System (NPS) has been implemented for the State employees of Kerala who are appointed on or after 01.04.2013. As such, those employees who are appointed on or after 01.04.2013 would come under the ambit of the NPS, even if they had been appointed in another post under the State Government on or before 31.03.2013. In this connection, various representations have been received requesting to retain, those who are appointed up to 31.03.2013 in Government service, aided institutions and institutions where Part Ill, Kerala Service Rules is applicable, in the Kerala Service Rules, Part III Pension Scheme when they get fresh appointments in other categories. Thus the Government, after having examined the matter in detail, are pleased to implement National Pension System in the State with effect from 01.O4.2013 and issue the following further orders:

(i) The NPS would be mandatory for all appointments made on or after 01.04.2013.

(ii) The NPS will work on a defined contribution basis and will have two Tiers. viz. Tier I and Tier II. Contribution to Tier I will be mandatory for the employees whereas Tier II will be optional and at the discretion of the Government servants.

(iii) In Tier I, the Government servant shall make a contribution of 10% of his / her Basic Pay + Dearness Allowance which will be deducted from his/ her salary every month by the Treasury Officer / Drawing and Disbursing Officer concerned. Government will also make a matching contribution. The amount so deducted from the salary of the Government servant and the amount of matching contribution will be transferred to a pension account in order to invest the same as per the provisions of Government of India / Pension Fund Regulatory and Development Authority (PFRDA), a statutory body constituted by the Government of India. The entire amount under Tier I (Government servant contribution + matching Government contribution +investment returns) will be kept in a non -withdraw able pension Tier I account.

(iv) Tier II contribution will be kept in a separate account that will be made available at the option of the Government servant. Government will not make any contribution to Tier II account.

(v) The pension funds of the Government servants will be managed by Pension Fund Managers (PFMs) nominated by the PFRDA and the records will be maintained by the National Securities Depository Ltd.(NSDL) that functions as the Central Record keeping Agency (CRA) of the Scheme.

(vi) A Government servant can exit at the retirement age from Tier I of the Scheme. At exit, it would be mandatory for him/ her to invest 40% of pension wealth to purchase an annuity which will provide for pension for the lifetime of the individual and his/ her spouse/ dependent parents. The Government servant would receive a lump sum of the remaining pension wealth, which the individual would be free to utilize in any manner. In case of Government servants who leave the Scheme before attaining the retirement age the mandatory annuitization would be 80% of the pension fund.

(vii) The Scheme will apply to all employees to whom Part III, KSR is applicable.

(viii) It will apply to all PSUs where pensionary benefits as per Part III,KSR are granted.

Major Challenges faced by the new Contributory (NPS System) in Kerala

The contributory National Pension Scheme for government servants brings uncertainty about future pension benefits of government employees and makes government jobs less attractive. Though this scheme will not affect serving employees who would continue to be eligible for statutory pensions. It will be the new recruits who would be hit by the pension scheme. The government argues that more than 80 per cent of its revenues were now being spent on salaries and pensions. Though the pension scheme will only cause an immediate increase in government spending with a ten per cent contribution to be made to the pension fund, it will free the government from paying pensions to the new recruits two to three decades from now. The government also says that there was four-fold increase in pension liabilities over the last decade. However, this is in proportion to decadal increase in revenues and borrowings of the government. This is not to say that the level of expenditure on salaries and pensions are justified. It rather points to continuing inefficiencies of administration in checking expenditure and tax collection, despite availability of new tools such as computers. Large scale leakage of revenues remains unplugged. The employees too had not been helpful in this regard. Over-staff and idling are not rare in government service. The government as well as employees contributions into the pension fund are to be deposited in government securities, public sector bonds and in mutual funds. When the deposits are made in government securities, the government itself would be paying interest on its own contribution and employees' contribution. This is not going to improve government finances. Like salaries and pensions, interest payments are also a heavy burden on the State government.

Mutual funds offer no guarantee of reasonable returns. Some of the pension funds run by them have not performed well, giving some indication of what would happen to the money of employees. Thus the introduction of the New Pension System for new recruits of the Central Government/ State Governments is a positive step in the direction of reforming the pension sector in India. The road ahead has many challenges, which need to be tackled effectively for the system to spread wide enough to cover the unorganized sector, agriculture workers, temporary and casual workers and self-employed persons.

The level of financial literacy and preponderance of rural aged make the task daunting. Sex ratio of the workforce and economic status of women pose special problems in the design of pension systems. Designing an effective, efficient and accessible system, which caters to the requirement of a heterogeneous work force, nearly 88 per cent of which is not covered by any pension or old age security scheme, is the immediate priority of those concerned with pension reform process in India. The challenges of translating the design into reality will arise thereafter and, will take a while to be overcome.

The new pension system is an attempt to move away from the defined benefit pension plans to defined contribution based schemes. But this change is applicable only to the new recruits. The problem of financing the pension liability of those already under unfunded or partially funded schemes is likely to cause fiscal stress for the next two or three decades. Some parametric changes will, therefore, become necessary for effective and efficient discharge of this liability. Thus, apart from spread of the new pension scheme, introduction of parametric changes in the existing defined benefit mandatory pension systems is equally necessary for reducing the fiscal stress. Attempts to estimate the future pension liability arising out of the existing unfunded pension plans are at a nascent stage in India.

MAJOR FINDINGS

- An important factor generally cited as a reason for the need to shift to DC pension system is on account of the rapid growth observed in the Government sector pension payments which is likely to pose a serious threat on the fiscal sustainability .It is also feared that this sharp growth in such expenditure could crow out public investments in education, health and infrastructure .From the analysis of the finances of the Kerala Government it is evident that the share of pension expenditure is not mounting over the years because the percentage change of pension amount has in fact declined marginally over the years which clearly indicates that there is not much fiscal pressure on the side of the government. Thus the need to shift to DC (DefinedContributory) system from the traditional DB (Defined Benefit) system does not hold.
- Moreover the increase in the absolute amount of the pension expenditure in money terms is not so threatening as the value of money keeps on changing in par with inflation and other aspects. In this perspective the panic that the fiscal pressure of the government is mounting is either due to political reasons or it is a kind of escapism.
- DB system indicates a pro-employee system where the employees are able to enjoy all the pensionary benefits from the employer whereas DC system implies a pro-employer system where the employer doesn't hold the burden of pension liability and all the risks are borne by the employee himself. With a shift from DB to DC system the entire motive of the

Government changes from pro-employee to pro –employer that is the goal of the Government will change from welfare oriented one to that of profit motive one.

- Another interesting fact is that most of the pensioners in Kerala is comes in the age group of 60-75 .This was in tune with the life expectancy rate of Kerala which is 74 years .This alarming number of pensioners has added to the growing burden of pension liability. So the only solution to this major problem is increasing the retirement age 55 to 60 years and also the period of service which perhaps reduces the pension burden of the government and hence the fiscal pressure. By increasing the retirement age the burden of financing the pension for longer years can be reduced thus DB pension system can be sustained for a longer period of time without much burden without shifting to DC system.
- The system dependency ratio i.e. the ratio of the pensioners to the employees in pay roll is almost reaching 1:1 which shows heavy dependence of the pensioners on the system and this is a serious issue to be addressed. So the immediate solution to lower this heavy dependence is to increase the age of retirement to at least 60 years .It is true that increasing age of retirement is an easy solution in terms of economic but how to do it politically is the need of the hour to worry about.
- The most serious problem with present pension system is that it fails to reach the vast majority of population and no safety net exists for those who are not covered. Members for this group have been working for lower incomes while they are working for fewer resources on which to live in retirement. Moreover Existing pension schemes in India predominantly cover the organised sector workers constituting 10% of aggregate workforce. Exclusion of majority of workers engaged in unorganised sector is therefore a serious limitation of current pension system.

CONCLUSION

The Pension stringency in India occurred in different states as the impact of demographic achievements. Moreover Kerala with a higher proportion of government employees and organized workforce with retirement age for the state government service fixed at 55 years coupled with higher average life expectancy at old age creates lot of imbalances in the society . With increase in the retirement age to 60 years, a pensioner will be drawing pension for a period less than 20 years because the average life expectancy of a person in Kerala is around 74-78 years hence the burden of financing for a longer period can be reduced. Another important way to reduce the burden of DB system is through the revision of the basis of calculation of pension. Presently in most states including Kerala the pension is calculated on the basis of the average of last 1 month or in some states last 10 month. This can increase the ample scope for misusing the system through hasty promotions just prior to retirement to get higher pension benefits. Therefore by increasing the basis of average pay for the determination of basic pension for a longer period i.e. for 30-36 months, the misusing of DB system for hasty promotions prior to retirement can be avoided

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