INNOVATION TO BRIDGE THE PENSION DIVIDE


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HOW can the proverbial *chaiwala* in India plan for his pension today? Technically, he can invest in the National Pension System (NPS). But that requires him to make a number of relatively complex calculations, and even then, it does not tell him how much he needs to save to ensure that he gets the desired purchasing power when he retires.

This uncertainty is also at the heart of the debate between the Old Pension Scheme and the NPS, a debate that is only for *suitwalas*. Beneficiaries of NPS do not necessarily expect it to be worse off than the OPS—rather, it is that the OPS was predictable and indexed, and allowed planning for a certain standard of living, while NPS is doubly uncertain, subject to both market and macroeconomic risks, like inflation and interest rates.

Is the *chaiwala* asking for too much when he wants a product that will tell him that if he saves x now, he will be assured an inflation-protected amount y, when he retires?

The answer to that question is a resounding 'No'. Such a product is available. Brazil introduced it a year ago and India can do so soon, if it chooses to.

Enter InDIAS—inflation-linked, deferred-income, annuity-like securities—a simple, liquid, low-cost, government-issued instrument. It is easy to understand even for a financially unsophisticated individual. It matches the desired real retirement income of individuals with their current savings and is a variation of the RBI's existing IINSS or Inflation Indexed National Saving Securities. However, it is simpler and easier to access for retail investors, unlike the government bond market. And it requires the *chaiwala* to answer questions he is competent to answer.

InDIAS will pay people when they need it and how they need it. It starts paying investors upon retirement (that is, forward-starting), and pays a real income, that is, an amount indexed to standard-of-living indices (for example, ₹50 a month in today's value) for a period of 20 years (the average life expectancy post-retirement). InDIAS can cover both inflation risk and standard-of-living improvements by using a GST-linked index to determine nominal payments. The payouts will start from a fixed future date—say, January 1, 2050—and occur monthly on the same date that government pensions are paid. The price of a particular InDIAS will change over time—less expensive now, but potentially becoming more expensive as the date of payout gets closer, depending on interest rates. Individuals can buy InDIAS through their working life to acquire the desired retirement cash flow stream, in amounts that can be as small as 100 at a time, maybe using their UPI accounts. India's high degree of digitalisation can ensure widespread adoption and access.

Delegating retirement planning decisions to individuals is risky as it is complex

> Votaries of the old and new pension schemes have been at loggerheads over the pros and cons of the two systems. InDIAS or inflation-linked, deferred-income, annuity-like securities may help. It is a liquid, low-cost instrument that seeks to pay people when they need it and how they need it

and beyond the scope of many financial professionals. Many do not save enough and may not be financially sophisticated to invest their assets to maximise the probability of achieving their goals. For example, to preserve one's standard of living, retirement planning requires forecasting inflation, a daunting task even for sophisticated individuals. Those who work in the informal sector—our *chaiwala*—face additional challenges like access. InDIAS will change that, for both the *chaiwala* and the suitwala, and use digitalisation to improve financial inclusion.

If a 25-year-old in 2024 wants to guarantee ₹50,000 monthly, risk-free for 20 years in retirement at 60, she would need to buy 1,000 InDIAS (₹50,000 divided by ₹50) over her working life. No more complex calculations are needed as InDIAS embed accumulation, decumulation, compounding and inflation. The 'pension salary' from InDIAS can be locked in as real income payments, guaranteed by the government, unaffected by changes in the economy, interest rates and stock markets—that is, it would be an individualised, defined-benefit plan. Should the owner die early, his or her heirs will inherit these bonds.

InDIAS have good provenance. It satisfies the key goals of debt management and stable debt structure identified by the RBI in its Payments Vision 2025, as also the *atmanirbhar* goal for funding infrastructure. The RendA+ or Retirement Extra bond issued by Brazil last year is a similar instrument.

Brazil's RendA+ uses a simple app that requires only one's date of retirement and target monthly income in today's money. R$1.4 billion of RenDA+ has been sold to over 77,000 investors, and over one-fifth of investors are first-time buyers of securities, indicating financial inclusion. This is important in India, where less than 10 percent of the population engage with the stock market and less than half of those invest in mutual funds. In addition, 60 percent of the initial investors in Brazil have already made more than one transaction, with rising median investment ticket size, suggesting improved savings behaviour.

InDIAS help the government too. By broadening the investor pool, it increases demand for government debt, allowing it to access patient long- term funds at lower cost to fund infrastructure investments. The discipline of making inflation-protected payouts for borrowing via InDIAS will also steer government spending towards a more productive direction, and linking payments to GST leads to better balance sheet management.

Correspondingly, by leveraging UPI and JanDhan accounts, it makes secure instruments available to the hitherto financially excluded *chaiwala*, and lowers the risk of individuals retiring poor. InDIAS are thus a win-win for all. The sooner the government acts, the lower will be the cost of ensuring retirement security for both *chaiwalas* and *suitwalas* and building the infrastructure that India needs to realise its 2047 dream. *(Views are personal)*