

# Looming Old Age Income Security Crisis in India



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India is undergoing a profound demographic transition. According to the United Nations Population Fund (UNFPA) India Ageing Report, the old-age population (aged 60 and above) in India is growing at an annual rate of approximately 3.1%. The country's elderly population (aged 60 and above) is projected to double from 10.5% (149 million) in 2022 to 20.8% (347 million) by 2050. Parallel to this shift, the Old-Age Dependency Ratio (OADR)—defined as the number of senior citizens (aged 60 and above) per 100 working-age individuals (aged 15–59 years)—is escalating sharply due to two simultaneous forces- declining Total Fertility Rates (TFR, has dropped to 1.9) and rising average Life Expectancy (71 for Males and 74 for Females). The OADR is roughly estimated to cross 30% by 2050 implying each hundred active workers supporting more than 30 senior citizens. Other dimensions of this demographic transition are that unlike developed countries, India is ageing before

becoming affluent and its increased feminisation - as women live longer than men. At the same time, nearly 90% of population does not have access to a formal old age income security today. As per the latest 2025 Mercer CFA Institute Global Pension Index, China ranks 38<sup>th</sup>, Indonesia 43<sup>rd</sup> and India ranks 52<sup>nd</sup> out of the 52 global retirement systems evaluated.

## 2.1 Pension Architecture in India

India's pension architecture comprises a diverse set of schemes designed to provide income security to different segments of the population. It can broadly be categorised into 4 types, namely:

- **2.1.1 Old Pension System (OPS) – Unfunded but Defined Benefit pension system** for eligible Government employees, which guarantee a fixed post-retirement income.
- **2.1.2 National Pension System (NPS) – Defined Contribution with Market Linked Benefit pension arrangements** where individuals or/and employers contribute to retirement savings.
- **2.1.3 Employees' Pension Scheme (EPS) - Statutory payroll-linked schemes** for organised private-sector workers that mandate employer and employee contributions.
- **2.1.4 National Social Assistance Programme (NSAP) - Tax-funded social assistance pensions**, which support elderly, widowed and vulnerable individuals with limited or no formal income sources. Their number as on March 2026 is approximately 4.33 crores (2.91 Crores NSAP Beneficiaries and 1.42 Crores State Pension Schemes Beneficiaries)

## 2.2 Pension Coverage in India\*

According to the latest Ministry of Statistics and Programme Implementation (MoSPI) Periodic Labour Force Survey (PLFS) and the Economic Survey, India's total working population stands at 61.6 crore individuals. Of this massive workforce, only about 10.15 crore workers (approximately 15%) are structurally locked into contributory retirement frameworks (NPS & EPFO). This leaves an estimated 51.4 crore informal and unorganised individuals exposed to long-term retirement vulnerabilities as the national demographic profile ages.

| The Workforce vs. Pension Coverage Matrix |                         |                                                                               |                                                                                         |                                             |
|-------------------------------------------|-------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|---------------------------------------------|
| Employment Segment                        | Workforce Size (Est.)   | Active Pension Coverage Base                                                  | Primary Regulatory Platforms                                                            | Coverage Penetration Rate                   |
| Organised Private Sector                  | ~6.5 crore to 8.0 crore | 7.98 crore active members                                                     | Employees' Pension Scheme (EPS via EPFO)                                                | ~95% - 100% (within statutory formal firms) |
| Govt Sector NPS                           | ~1.05 Crore             | 1.05 crore NPS accounts + 68.72 lakh Central Government legacy OPS pensioners | NPS (Govt), Unified Pension Scheme (UPS) via PFRDA and Legacy Old Pension Scheme (OPS). | 100% (Universal structural coverage)        |

|                                                                                                        |                                   |                                                                        |                                                                                  |                                                                  |
|--------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------------|
| <b>Private Sector NPS comprising Corporate Sector + Private Sector Citizens Voluntary Contributors</b> | <b>~2.0 crore</b>                 | <b>1.13 crore</b> NPS accounts                                         | Corporate Sector + Private Sector Citizens Voluntary Contributors via PFRDA      | <b>55% to 60%</b> Formal as well as informal workers             |
| <b>Unorganised / Informal Sector</b>                                                                   | <b>~51.4 crore to 53.0 crore</b>  | <b>8.24 crore</b> active subscribers (9.00+ crore gross registrations) | 7.46 Crores Atal Pension Yojana (APY), 52.99 Lakhs PM-SYM and 24.88 Lakhs PM-KMY | <b>~14.5%</b> (Leaves ~44 crore informal workers unprotected)    |
| <b>Social Welfare Net</b>                                                                              | (Non-working / Destitute Elderly) | <b>4.33 crore</b> senior beneficiaries                                 | National Social Assistance Programme (NSAP) + State Top-ups                      | Safety net targeted purely for below-poverty-line (BPL) elderly. |

# Number for State Government OPS employees not readily available as 6 State Governments have discontinued NPS and reverted back to OPS

- 3 Old Pension System for government employees:
- 3.1 A substantial segment of India's pension landscape continues to be shaped by defined-benefit pension arrangements, paid to Government employees. For the Central Government, it includes more than 34 Lakhs Defence and 14 Lakhs Railways pensioners. The payout is fifty per cent of the last pay drawn, is inflation adjusted and payable to eligible family member on the death of the employee.

| <b>Consolidated Central Government OPS / Defined-Benefit Landscape</b> |                                              |
|------------------------------------------------------------------------|----------------------------------------------|
| <b>Institutional Sector</b>                                            | <b>Active Pensioner Base (Coverage Vol.)</b> |
| Defence (Armed Forces)                                                 | 34,23,266                                    |
| Indian Railways                                                        | 14,95,722                                    |
| Civil Ministries & CAPFs                                               | 11,91,956                                    |
| Telecommunications                                                     | 4,79,335                                     |
| Postal Network                                                         | 2,81,848                                     |
| <b>Total Central Footprint</b>                                         | <b>68,72,127</b>                             |

\*Source: <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2258761&reg=3&lang=1>  
Press Information Bureau, Govt of India and Ministry of Finance, Government of India  
Similarly, employees of the State Government and some PSUs are also covered by the OPS with similar features.

- 3.2 While NPS was introduced for newly recruited employees, OPS continues for all Government employees who were on the Government rolls prior to January 1, 2004. However, in the last five years six State Governments have, under political pressure, announced reverting back to the old DB pension scheme. Even the Central Government has announced a modified scheme called the Universal Pension Scheme, effectively guaranteeing the payout similar to the old DB scheme.

#### **4 National Pension System:**

##### **4.1 Birth of National Pension System (NPS)**

Based on the recommendations of the OASIS PROJECT report, Government of India introduced a new Defined Contribution Pension System that came into effect on January 1, 2004 mandatorily for the new entrants to Central Government service, except the Armed Forces. It replaced the existing provision of Defined Benefit Pension System for the new employees. The then existing employees and pensioners continue to get the benefits of OPS. State governments took their own time to implement NPS for their employees. It was opened for all citizens of India on a voluntary basis with effect from 1st May 2009. Although the Interim Pension Fund Regulatory & Development Authority (PFRDA) was established through an Ordinance in August, 2003, it took another 10 years for the enactment of the PFRDA Act in 2013. Successive Governments were content at succeeding in capping the fiscal outgo on their employees' pension and hardly any action was taken to promote its adoption by the general public.

**4.2** The PFRDA started the NPS with individual retirement accounts. Workers would exercise their individual investment choices, access their pension balances and switch from one to another permissible scheme or the Pension Fund

Manager, PFM as they liked. A strong system was provided through the NPS Trust, CRAs and the PFMs. It has undergone continuous changes in products, structure and investment guidelines. For example, the maximum exposure up to 75% in equity is permitted (for Government employees up to 25%) and each subscriber is free to choose his own investment pattern or the PFM who can manage his funds. Investments in gold/silver ETFs, REITs/InvITs, AIFs and Listed and proposed to be listed credit rated Municipal Bonds are also permissible within prescribed sub-ceilings. Efforts to increase liquidity before retirement to meet important family requirements of the subscriber have also been now provided by permitting partial withdrawal of up to 25% of the contribution made for certain needs. Another issue in the earlier years of NPS was mandatory annuitisation of 40% of pension assets at retirement. This was a disincentive in view of lower returns in annuity and lack of a fully developed competitive annuity markets. Now, up to 80% can be withdrawn either in one shot or through systematic lumpsum withdrawals by non-Government employees. This has reduced the requirement of compulsory annuitisation to 20%.

#### 4.3 Atal pension Yojana, APY:

In 2014, Government of India launched Atal Pension Yojna through PFRDA with dual features of Defined Contributions and Defined Benefits. The subscribers could opt for a targeted Pension of Rs.1000- Rs.5000 and accordingly, contribute the indicated amount. This scheme has met with success as far as the number of Subscribers are concerned. But, it is also worth noting that more than about 85% of the subscribers have opted for a targeted pension of Rs.1000/- per month which may not be material at all in their retirement years.

Distribution of Pensioners across five Pension Slabs as on 30<sup>th</sup> November 2025 are as under:

| Distribution of Pensioners across five Pension Slabs as on 30/11/2025 |                  |            |
|-----------------------------------------------------------------------|------------------|------------|
| Pension Slab                                                          | Gross Enrolments | Percentage |
| 1000                                                                  | 7,34,79,553      | 86.91%     |
| 2000                                                                  | 25,34,949        | 3.00%      |
| 3000                                                                  | 11,86,898        | 1.41%      |
| 4000                                                                  | 4,46,102         | 0.53%      |
| 5000                                                                  | 68,69,917        | 8.15%      |
|                                                                       | 8,45,17,419      | 100.00%    |

Source: Ministry of Finance

Source:<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2204271&reg=3&lang=1>

The total number of active subscribers in APY as on 31/03/2026 is about 7.46 crores.

4.4 The detailed segment wise breakup of NPS as on March 31, 2026 is as under:

| NPS in terms of Number of Subscribers and growing AUM as on 31st March, 2026# |                                 |                       |                       |
|-------------------------------------------------------------------------------|---------------------------------|-----------------------|-----------------------|
| S.No.                                                                         | Segment                         | Number of Subscribers | AUM (Rs. In Crores)   |
| 1                                                                             | Central Government NPS          | 27,29,408             | ₹ 4,06,866.00         |
| 2                                                                             | State Government NPS            | 76,19,094             | ₹ 8,16,119.00         |
| 3                                                                             | Central Government UPS          | 1,02,067              | ₹ 22,563.00           |
|                                                                               | <b>Sub Total (Govt. Sector)</b> | <b>1,04,50,569</b>    | <b>₹ 12,45,548.00</b> |
| 4                                                                             | Corporate Sector                | 27,56,368             | ₹ 2,64,674.00         |
| 5                                                                             | Unorganised Sector              | 50,16,387             | ₹ 78,608.00           |
| 6                                                                             | NPS Lite (Swavlamban)           | 33,49,169             | ₹ 6,159.00            |
| 7                                                                             | NPS Vatsalya                    | 2,15,124              | ₹ 267.00              |
|                                                                               | <b>Sub-Total (Pvt. Sector)</b>  | <b>1,13,37,048</b>    | <b>₹ 3,49,708.00</b>  |
| 8                                                                             | Atal Pension Yojana             | 7,45,84,915           | ₹ 51,416.00           |
|                                                                               | <b>Total</b>                    | <b>9,63,72,532</b>    | <b>₹ 16,46,672.00</b> |

# Source: <https://www.npstrust.org.in>

#### 4.5 Returns under NPS:

The returns under NPS in different Asset Classes Equity ( E ), Corporate Bonds ( C ) and Government Securities as on 31st March 2026 has been as under:

| Scheme                                                                                          | Last 3 Year Returns (CAGR%) | Last 5 Year Returns (CAGR%)  | Last 10 Year Returns (CAGR%)  |
|-------------------------------------------------------------------------------------------------|-----------------------------|------------------------------|-------------------------------|
| NPS Scheme E Tier I                                                                             | 11.86%                      | 11.18%                       | 12.61%                        |
| Large Cap Mutual Fund Regular Category Average                                                  | 11.43%                      | 10.45%                       | 11.73%                        |
| NPS Scheme C Tier I                                                                             | 7.92%                       | 6.73%                        | 8.13%                         |
| Medium to Long Term Mutual Fund Category Regular Average                                        | 6.17%                       | 5.32%                        | 6.45%                         |
| NPS Scheme G Tier I                                                                             | 6.42%                       | 5.61%                        | 7.71%                         |
| Gilt Mutual Fund Category Regular Average                                                       | 5.85%                       | 5.15%                        | 6.90%                         |
| <b>Returns generated for investors having Aggressive, Moderate &amp; Conservative Portfolio</b> |                             |                              |                               |
| Investor<br>↓                                                                                   | Last 3 Year Returns (CAGR%) | Last 5 Year Returns (CAGR %) | Last 10 Year Returns (CAGR %) |
| Investor A (Aggressive)<br>E:C:G (75%:25%:0%)                                                   | 10.88%                      | 10.07%                       | 11.49%                        |
| Investor B (Moderate)<br>E:C:G (50%:25%:25%)                                                    | 9.52%                       | 8.68%                        | 10.27%                        |
| Investor C (Conservative)<br>E:C:G (25%:25%:50%)                                                | 8.16%                       | 7.28%                        | 9.04%                         |

Source: Internal Calculations based on NAV declared by PFMs on their website and NPS Trust website: <https://www.npstrust.org.in>

It is important to note that NPS Schemes have mostly outperformed their competitors from Mutual Fund Industry in each asset class. The returns generated for investors with different asset allocation pattern (Aggressive, Moderate & Conservative) have been mostly superior to EPFO and PPF.

#### 4.5 Areas of improvement:

As on 31/03/2026, the NPS assets stood at Rs.15,95,256 Crores ( leaving out the assets under APY). However, only Rs.3,49,708 Crores is the non-Government sector asset, which is a true reflection of subscribers voluntarily choosing NPS for their retirement savings. The number of subscribers is 2,17,88,617 of which 1,13,37,048 belong to non-Government sector. Major efforts to increase the coverage are required. PFRDA has recently enhanced the fees for PFMs. It has also launched Multiple Scheme Framework (MSF) in September 2025. Combined with the fact that there still some special tax advantages for the NPS under the Income tax Act 2025 and the inbuilt flexibility in the scheme, its transparency and performance track record, NPS is now at the take-off stage. The Mutual Fund industry, which is now at over Rs.83 lakh crore was in 2012 at less than Rs.6 lakh crore. It took off after regulatory provisions were made more transparent, incentives were given to the distributors from smaller cities and massive awareness campaigns were launched by SEBI as well as by AMFI. The pension industry appears to be at the same stage today. The Government may also think of additional tax and policy measures targeted for low income employees.

### 5 Employees Pension System, EPS:

5.1 The **Employees' Pension Scheme (EPS-95)** is managed and operated by the **Employees' Provident Fund Organisation (EPFO)**. It functions as a pooled social security fund designed to provide a guaranteed monthly pension to organized sector employees after retirement.

There is no Direct Employee Contribution in EPS. The fund is built through a split of the employer's statutory contribution and a small government subsidy. The Employers contribute 12% of the employee's basic salary + dearness allowance (DA) towards the EPFO. Out of this 12%, **8.33% is automatically diverted into the EPS account**. The remaining 3.67% goes into the Employees' Provident Fund (EPF). The Central Government adds a contribution of **1.16%** of the employee's basic wage directly to the pooled pension fund. Contributions are capped at a standard statutory wage ceiling of **₹15,000 per month**. Therefore, the maximum standard monthly diversion into an individual's EPS account is **₹1,250** (15,000 × 8.33%).

5.2 An Individual's Pension starts when he/she reaches 58 years of age provided a minimum of 10 years of continuous eligible service has been completed. The monthly payout for individuals retiring after fulfilling the 10-year service mark is determined using a standardized formula:

$$\text{Monthly Pension} = \frac{\text{Pensionable Salary} \times \text{Pensionable Service}}{70}$$

**Where Pensionable Salary** is the average of the employee's monthly basic pay over the last 60 months of service (capped at the ₹15,000 ceiling unless higher contributions were specifically permitted) and **Pensionable Service** is the actual number of years worked. If an employee completes more than 20 years of service, they get a **bonus of 2 additional years** added to their service calculation.

5.3 EPF has demonstrated a robust growth, with membership expanding to 7.98 crore members as of April 2026. It reflects continued expansion in formal sector employment and compliance. However, its administration needs massive improvement. The costs are very high compared to NPS, individual accounts details are not easily available, entire corpus is invested in one uniform pattern, individual workers do not have the option to choose their own-which is available to the NPS contributors. Switch from EPFO to NPS is not permitted to a worker. The rates of returns for EPFO are artificially calculated. When EPFO was created, capital preservation of EPFO funds was the primary driver. The Government finances were under strain and a developed financial market from where the Government could borrow for its own programmes was not in existence. For decades, EPFO became the easy captive source for the Government to borrow from. As a result, EPFO corpus was disproportionately mandated to be invested in Government Securities. Corporate Bonds were also allowed. Investment in the equity markets was allowed only after 2015. Even now, only up to 15% of inflows is allowed in the equity market in the benchmark indices, resulting in subdued returns compared to NPS for the workers.

5.4 The situation is better understood by considering the returns of the Indian Benchmark Index the S&P 500 Sensex. Taking the Sensex level around 76000 as on March 31, 2026 the Compounded Annual growth Rate, CAGR of Sensex (including dividend yield) has been around 12 percent for 10 years, 15% for 20 years, 16% for 30 years and 17% for 40 years. NPS allows an individual subscriber to invest up to **75% in equity**. Countries like USA, Canada etc. permit up to 75% to be invested in equity -including foreign equity.

**6 The non-contributory social pensions** form an important layer of income support. Central and State Governments keep launching schemes for the disadvantaged groups like old and poor, widows, persons with physical disability etc from time to time.

## 7 Other Pension Schemes:

SEBI registered mutual funds and IRDAI regulated insurance companies have multiple pension schemes. However, these schemes have had limited coverage and success. These are more by nature of investment schemes and have to compete with other schemes in the investment universe.

### 7.1 Unorganised workers:

Drivers, delivery partners, platform-based workers or other unorganised sector workers like house maids, vegetable sellers etc. do not have access to any traditional pension arrangements. The Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM) scheme was introduced in 2019 for the unorganised workers having no benefit of any other pension scheme, whose income is less than Rs. 15,000 per month and who are in the age bracket of 18-40 years. It is a voluntary and contributory scheme where the worker contributes between Rs. 55 to Rs.200 per month-depending upon the age of entry, and a matching contribution is given by the Government. The worker receives a minimum assured pension of Rs. 3,000. The scheme is managed by Life Insurance Corporation of India. Investments are made as per the guidelines of the Ministry of Labour. The coverage as on March 31, 2026, **is 52.99 lakhs**.

7.2 The Pradhanmantri Kisan Mandhan Yojana (PM-KMY) was also launched in 2019 with same features. It was targeted towards Small and Marginal Farmers (SMFs) who own **up to 2 hectares (5 acres) of cultivable land**, as per the land records of the respective State or Union Territory. The scheme is managed by Life Insurance Corporation of India under the guidance of the Ministry of Agriculture and Farmers Welfare. The coverage as on March 31, 2026, is 24.88 Lakhs.

## 8 Recommendations:

8.1 It is close to three decades since India commissioned the OASIS report. Since then, its economic growth, developments of its financial markets, learnings from different schemes, pension reform measure for over two decades, the emerging demographic challenges and developments in other countries in this field warrant a fresh and comprehensive evaluation of steps taken and assessment of possible measures required to be taken. Government of India should commission a fresh OASIS type study and take follow up action at the earliest.

Till such a study is conducted and action taken on it, following measures can be initiated:

### 8.2 NPS:

8.2.1 The default option for a young worker should be the scheme with maximum permissible equity component. Of course, the option for exercising a choice should exist.

8.2.2 International diversification: The Government of India and RBI should allow gradual diversification of investment choices for NPS by permitting investment in international equities. The same is allowed with certain limitations for mutual funds. USA, Canada, Japan and many other countries permit this diversification.

8.2.3 The artificial limitation on equity investment for Government workers should be removed and made at par with those for the non-Government workers. When subscribers have the right to exercise their choice, then creating artificial limitations in the investment universe is not required. The regulator has to ensure that the PFMs disclose the inherent risks transparently.

8.2.4 Creating mass awareness of the product and active marketing is necessary. The explosive growth of the mutual fund industry took place only after targeted incentive to distributors were provided in 2012 and concerted campaigns were launched for creating awareness. PFMs and distributors need that incentive at this stage.

### **8.3 EPFO:**

8.3.1 EPFO should change their current practice of account keeping to ensure that the individual statements of account of workers reflect the true/up to date value of their portfolio.

8.3.2 EPFO should increase, in stages, the current limit of up to 15% in equity and take it to much higher levels.

8.3.3 With the experience of NPS in maintaining and tracking individual retirement accounts, it is possible to do so in EPS as well. Workers should be given the freedom for their individual pension corpus to be managed as per their choice.

8.3.4 There should be an option provided to workers to transfer their corpus and be managed under NPS under PFRDA supervision.

### **8.4 PM-SYM and PM-KMY:**

8.4.1 Gig workers- Where it is possible to identify an employer or aggregator-which is the case for most of the workers in the gig economy, the employer/aggregator also must make a small contribution towards pension. PM-SYM then becomes an instrument for three-way contribution - employees, employers/aggregators and the Government of India.

8.4.2 PFRDA has been able to develop an excellent infrastructure for record keeping which works very well in case of portability from one job to another. It has already got the experience of managing APY. PM-SYM and PM-KMY can be transferred to PFRDA for their administration and management according to NPS principles and practices.

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