ATAL PENSION YOJANA: PROVIDING ADEQUATE SOCIAL SECURITY NET?

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ABSTRACT

The tradition of joint family system in India precluded the need for a social security cover for its people. The family itself provided the cover. But with industrialisation and consequent migration of people from rural to urban areas, the joint family started dissolving and nuclear families evolved. Thus developed the need for a social security cover by the government for its citizens. A large proportion of India still exists without any kind of health, accident or life insurance. In order to ensure an overarching universal social security system which will guarantee that no Indian citizen will have to worry about illness, accidents or pension in old-age, the present government introduced Atal Pension Yojana, a pension scheme especially crafted for the benefit of the unorganised sector workers who are otherwise not generally protected under any statutory social security scheme. As per the Scheme, a fixed monthly pension of any sum between Rs.1000 and Rs. 5000 will be paid once the subscriber attains the age of 60 years. The amount of pension will be based on the respective monthly contributions of the benefactors. The question is whether this Scheme is helpful if we take the rate of inflation into account. This paper tries to provide a detailed analysis of whether the Atal Pension Yojana as a Scheme will benefit the target groups (unorganised sector) in the long run or will help the government to invest more public money in order to generate more funds. It will also focus on the need for inflation indexation and a more optimal investment mix so as to provide adequate social security to each household.

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Introduction

A critical policy issue which is gaining top priority for the government in our country is how to provide adequate social security, especially through social insurance and social assistance, for the vast majority of the population engaged in unorganised-sector activities. In India, the question and debate for social security arrangement for the unorganised sector workers has gained prominence during the last decade.

Social security means any legislative measures taken by a government to maintain or provide for the income of a family or an individual. It may also be to provide for income when other sources of income are disrupted or when heavy expenses have to be incurred in case of healthcare, etc. It also covers cash benefits for sickness, disability, unemployment, failure in crops, death of income-earning spouse, maternity, care of young children or retirement.

Social security benefits may be provided in cash or in the form of various kinds of medical aid, rehabilitation, legal aid, funeral expenses, etc. Its object is to act as a facilitator – to help people plan their own future through insurance and assistance. The issue before a developing country such as India is to design effective social security measures for the unorganised sector which will serve as a guarantee against poverty and at the same time provide adequate retirement benefits. To ensure social security for people belonging to the unorganised sector, the current government has announced the Atal Pension Yojana (APY) (pension scheme). Thus, there is a need to analyse the policy, concepts, problems and effectiveness of the programme relating to social security of the unorganised workers in the country.

The Unorganised sector and the unorganised workers

The definition of the term ‘unorganised sector’ still remains ambiguous in character and suffers from a lack of precision. The Central Statistical Organisation (CSO) states that the unorganised sector comprises all those unincorporated enterprises and household industries (other than the organised ones) which are not regulated by any legislation and which do not maintain annual accounts or balance sheets.[1] According to this concept, more than 90% of the workforce and about 50% of the national product is accounted for by the informal economy.[2] As per CSO, the unorganised workers include agricultural labourers, share croppers, small and marginal farmers engaged in agricultural operations and also workers from other allied occupations such as forestry, hunting, fishing, etc. The unorganised workforce in the industrial sector includes rural and urban artisans, home-based workers and self-employed persons in household industries. The National Commission on Labour in India,[3] submitted that the unorganised labourers are described as those workers who have not been able to organise the pursuit of a common objective because of constraints such as the casual nature of employment, ignorance and illiteracy, small size of establishment in view of the number of persons employed, scattered nature of establishment and the superior strength of the employer operating singly or in combination.

The International Labour Organisation (ILO)[4] uses the term informal sector in place of unorganised sector. ILO's definition of informal sector is not specific but descriptive of a sector characterised by small-scale operations, family ownership, and reliance on indigenous resources, labour intensive and adoptive technology.

The 15th International Conference of Labour Statistics held in January, 1993, at Geneva adopted a resolution on informal sector statistics which was subsequently endorsed by the UN Statistical Commission. The national accountants in India have basically attempted to cover the whole economy as per the United Nations System of National Accounts (UNSNA). According to the UNSNA, the informal sector consists of units which are part of the household sector, entirely owned by households, and produce goods and services for providing income and employment for the persons so engaged. Their legal status and accounts make them different from corporations and quasi-corporations and they also do not enjoy a legal status independent of its members.

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[1] 'CSO' (1980)
[2] Report of the Committee on Unorganised Sector Statistics' (National Statistical Commission, Government of India 2012)
[3] 1969
[4] 'ILO'(1999)

Thus, the National Accounts Statistics, Government of India follows that enterprises that do not belong to the public (government) sector or private corporate sector within the meaning of the Companies Act, 1956[5] and co-operatives and manufacturing units registered under the Indian Factories Act, 1948 or Beedi and Cigar Workers Act, 1966 and recognised educational institutions form the informal sector.[6]

Considering the above definitions, the unorganised sector workers can be identified by two methods - (a) self-employed approach and (b) worker-based approach. The self-employed approach signifies that the owner himself is the worker who runs his own business in the informal sector at the household level using family labour. He is in non-wage employment that includes own account workers, i.e., independent workers and dependent workers or home workers. Under worker-based approach, the self-employed may hire few labourers who are his/her employees. Thus, the workers are in wage-employment condition, whose pay and benefit do not conform to the existing labour regulations. Under the latter approach are also included independent wage workers attached to more than one employer, for example masons, carpenters, porters, chowkidars and maid servants. Today, the term 'unorganised worker' has been defined under the **Unorganised Workers' Social Security Act, 2008**, as a self-employed, home based worker working in the unorganised sector.

Concept of Social Security

The term social security came into general use only after 1935, when the United States passed the Social Security Act. This concept has since spread rapidly and it has now been widely accepted throughout the world. Social security is a cover against various contingencies of human life such as sickness, unemployment, old-age, dependency, industrial accident against which the individual cannot be expected to protect himself and his family by his own ability.[7]

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[5] The Companies Act, 1956 got replaced by the Companies Act, 2013.

[6] R. MUTHUSAMY, *A Study on Social Security and Welfare Schemes of the Unorganised Workers in Namakkal District* (2013) 4 – 4.

[7] Watkinson (1949)

Initially, the ILO took a narrower view by limiting its applicability to contingencies of the formal-sector employment.[8] But later it reviewed its earlier notion and now it is viewed as a series of legislative measures provided to protect against economic and social hardships which may be caused due to insufficient income, lessening or complete stoppage of income, that may have been caused by sickness, maternity or injury during work, including occupational diseases, unemployment, absence of employment, underemployment, destitution, old age, social disability, death and also to provide health facilities, including preventive measures.[9]

Social security may consist of two forms — protective social security and promotional social security. The former is concerned with the task of preventing a decline in the living standards. It is a safety net measure that guarantees relief from deprivation. The latter refers to the enhancement of normal living conditions and to the expansion of basic capabilities of the population and will primarily have to be seen as a long-term challenge. It aims at improving real income, social consumption and seeks more directly to avert deprivation in specific ways. The Indian social security system is a blend of these two characteristics.[10]

India's Social Security System

India seeks to promote the prosperity and security of the people. The Constitution of India obliges the state to ensure effective social security measures for the people of the country, which is evident from the Directive Principles of State Policy (DPSP). The DPSP are designed to usher in a social and economic democracy in the country. These principles obligate the state to take positive action in certain directions in order to promote the welfare of the people and achieve economic democracy through various schemes.

Article 38(1) of the Constitution of India directs the state to strive "to promote the welfare of the people by securing and protecting as effectively as it may a social order in which

[8] 'ILO' (1942)
[9] 'ILO' (1997)
[10] Muthusamy R, "*A study on social security and welfare schemes of the unorganised workers in Namakkal district*", 2013 Pp 9

justice, social, economic and political, shall inform all the institutions of the national life." Article 38(2) directs the state to strive "to minimise the inequalities in income and endeavour to eliminate inequalities in status, facilities and opportunities, not only amongst individuals but also amongst groups of people residing in different areas or engaged in different vocations." Thus, Article 38 envisages not only legal justice but socioeconomic justice as well. The Supreme Court has explained the idea of social justice as follows: "The Constitution commands justice, equality, liberty and fraternity as supreme values to usher in the egalitarian social, economic, and political democracy. Justice is the genus, of which social justice is one of its species."[11]

Reading Articles 21, 38, 42, 43, 46 and 48A together, the Supreme Court has concluded in Consumer Education & Research Centre v Union of India,[12] that "right to health, medical aid to protect the health and vigour of a worker while in service or post-retirement is a Fundamental Right."

Article 39 requires the state, in particular, to direct its policy towards securing: (i) that the citizens, men and women, equally have the right to an adequate means of livelihood (ii) that there is equal pay for equal work for both men and women (iii) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength (iv) that children are given opportunities and facilities to develop in a healthy manner and in conditions of freedom and dignity and that youth are protected against exploitation and against moral and material abandonment. The Supreme Court has taken recourse to Article 39(a) to interpret Article 21 to include therein the "right to livelihood."[13] The Supreme Court has observed in Olga Tellis v Bombay Municipal Corporation[14] "If there is an obligation upon the State to secure to the citizens an adequate means of livelihood and the right to work, it would be sheer pedantry to exclude the right to livelihood from the content of the right to life."

[11] Air India Statutory Corporation v United Labour Union, AIR 1997 SC 669
[12] AIR 1995 SC 923
[13] Centre for Environment and Food Security v. Union of India, [2011] AIR SCW 231
[14] AIR 1986 SC 180

Though there are various provisions in the Directive Principles which direct the state to ensure a complete social security cover for its citizens, there have not been any proper policies for the same. The unorganised sector is particularly in need of such a cover and the APY is one such scheme which is directed towards this sector.

APY: Through the Lens of History

The Government of India is extremely concerned about old-age income security of the working poor. In order to address the longevity risks among workers in the unorganised sector who constitute about 88% of the total labour force[15] and to encourage these workers to voluntarily save for their retirement as they do not have any formal pension provision, the government had started the Swavalamban Scheme in 2010-2011. However, the coverage under the said scheme was inadequate mainly because of the lack of clarity of pension benefits at the age after 60.

The Finance Minister of the present government, therefore, announced a new initiative called APY in the Budget 2015-16. The APY is focussed on all citizens in the unorganised sector, who join the National Pension System (NPS) administered by the Pension Fund Regulatory and Development Authority.[16] The members should hold bank accounts or create a new one and must not be a member of any statutory social security scheme. Under the APY scheme, the contributions of the subscribers will determine the fixed monthly pension they will receive, i.e., Rs 1000 per month, Rs 2000 per month, Rs 3000 per month, Rs 4000 per month or Rs 5000 per month, on attaining 60 years of age. The contributions will vary depending on the age of joining the APY and the amount that the subscribers can contribute every month. The minimum age of joining APY is 18 years and the maximum age is 40 years. The government also guarantees a fixed pension benefit. Fifty per cent of the subscriber’s contribution or Rs 1000 per annum, whichever is lower, will be contributed by the government to the account of each

[15] 66th Round of ‘NSSO Survey’ (2011-12)
[16] ‘Press Information Bureau’ (Ministry of Finance, Government of India, March 2015)

eligible subscriber for five years (2015-2016 to 2019-2020) who do not come under the income tax net and who join the NPS before Dec 31, 2015. Also, unless the subscribers of Swavalamban Scheme opt out, they will be automatically migrated to APY.

The benefits provided under the said scheme have been given in the tables cited below.

Table 1: Contribution levels, fixed monthly pension of Rs. 1000, 2000, 3000, 4000, 5000 per month respectively to subscribers and his spouse and return of corpus to nominees of subscribers and the contribution period under Atal Pension Yojana-

Age of joining	Years of contribution	Indicative monthly contribution(In Rs)Either of the amount is to be paid	Monthly Pension to the subscribers and his spouse (in Rs) respectively according to the contributions made	Indicative Return of Corpus to the nominee of the subscribers (in Rs)respectively
18	42	42, 84,126,168	1,000,2000,3000,4000,5000	1.7Lakh,3.4 Lakh, 5.1 Lakh, 6.8 Lakh, 8.5 Lakh
20	40	50,100,150,198	1,000,2000,3000,4000,5000	1.7 Lakh, 3.4 Lakh, 5.1 Lakh, 6.8 Lakh, 8.5 Lakh,
25	35	76,151,226,301	1,000,2000,3000,4000,5000	1.7 Lakh, 3.4 Lakh, 5.1 Lakh, 6.8 Lakh, 8.5 Lakh
30	30	116,231,347,462	1,000,2000,3000,4000,5000	1.7 Lakh, 3.4 Lakh, 5.1 Lakh,

				6.8 Lakh, 8.5 Lakh
35	25	181,362,543,722	1,000,2000,3000,4000,5000	1.7 Lakh, 3.4 Lakh, 5.1 Lakh, 6.8 Lakh, 8.5 Lakh
40	20	291,582,873,1164	1,000,2000,3000,4000,5000	1.7 Lakh, 3.4 Lakh, 5.1 Lakh, 6.8 Lakh, 8.5 Lakh

*Source- Press Information Bureau, Government of India, Ministry of Finance, March 2015

How is APY different from the Swavalamban Scheme?[17]

The Swavalamban scheme is a defined contribution scheme whereas APY is a defined benefit scheme. In the Swavalamban scheme, the subscriber's contribution was defined and was invested in government securities, corporate bonds, equity instruments, etc. The scheme didn't guarantee fixed returns to subscribers. In contrast, the APY is a defined benefit scheme that will provide the subscriber with fixed monthly incomes between Rs. 1000 and Rs. 5000 based on the respective monthly contribution amounts which will vary depending on the age and the saving potential of the subscribers.

Secondly, under the APY, the government will co-contribute either 50 per cent of the subscriber's contribution or Rs. 1000, whichever is lower (initially for a five-year period till 2019-20). This is a major change made to the pre-existing scheme where subscribers who contribute below Rs. 1000 also receive a (less than equal) matching contribution.

[17] Under NPS scheme of Government in 2010-2011

Thus, the APY is a much improved version of the Swavalamban scheme as it ensures fixed returns to its subscribers in the long run. But the question remains whether the amount guaranteed would serve the objective of the scheme, i.e., will it provide adequate means of livelihood in the long run at the age of retirement (60 years). Now let us try to view APY in the context of the Keynesian model. For this, we need to take a quick look at Keynes' theory of the Demand for Money.

Keynes Theory of Demand for Money

Keynes formulated the theory of demand for money in his well-known book, 'The General Theory of Employment, Interest and Money' in 1936. Keynes puts forward the theory that though financial assets other than money earn interest in the market, yet people tend to hold money over the other assets available in the market. This is because money is the generally accepted means of payment and is perfectly liquid. A perfectly liquid asset is one which can be readily converted into cash and is also easily accessible.

In order to prove his contention, he pointed out that money is demanded due to three main motives[18]- (a) The transactions motive (b) The precautionary motive (c) The speculative motive. The transaction motive gives rise to the demand for cash by the public to meet their current expenditures. This assumes the use of money as a medium of exchange. The precautionary motive makes people hold money to meet unforeseen contingencies which require sudden heavy expenditure. The speculative motive is the motive for holding cash by the public instead of investing in interest-earning bonds in the market. This maybe because people expect bond prices to fall to such an extent in the future that their loss in foregone interest that could have been earned, appears smaller. Thus, this motive suggests that people will hold cash waiting for bond prices to fall. They will, therefore, expect to have avoided capital losses and only invest in bonds when the expected bond prices have actually been realised.

[18] John Maynard Keynes, The General Theory of Employment, Interest, and Money (International Relations and Security Network).

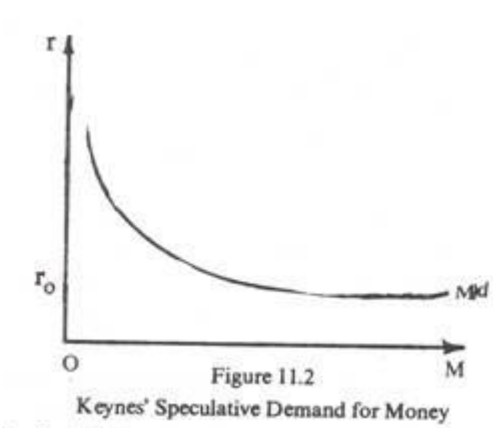
Keynes gives a clear view that if people keep the surplus money with themselves and wait for the bond prices to fall in the market where there is a cent percent chance that in the near future the price will again increase and they will invest their money in purchasing the bonds during the period when their price falls then the profit will be more in the future compared to the loss incurred during the waiting period.

The determinants of the demand for money

Keynes made the demand for money a function of two variables, namely income (Y) and the rate of interest (r). Keynes proposed that the speculative motive gives rise to the speculative demand for money. The speculative motive, in turn, is influenced by the changes in the interest rates in the market and their uncertain nature, where Keynes assumed perpetual bonds to be the only other non-financial asset in the economy which people can invest in.

Money earns no income to its holders but has a fixed capital value. As against this, bonds yield interest. Keynes pointed out that more the rate of interest given the more people will invest in the bonds the lesser the interest given the more will the subscribers be willing to hold the money with them. Thus, the aggregate speculative demand curve for money is a downward-sloping curve, with respect to the rate of interest, as derived by Keynes is as follows:

Figure 1: Keynes' Speculative Demand for Money



r = rate of interest, M = demand for money, O = Origin

Effectiveness of the Atal Pension Yojana

In order to understand the actual advantage of the mentioned scheme, we have to compare the proposed benefit of the pension scheme with the average monthly expenditure incurred by individuals in the lowest income quintile. Therefore, we divide the population into five equal groups based on their income. For this paper, we will assume that the subscribers fall within the first income quintile as the main target groups under this scheme are the unorganised workers.

Table 2: Average Monthly Expenditures for One Person and two Persons Falling Under Respective Income Brackets

	Income Quintile 1	Income Quintile 2	Income Quintile 3	Income Quintile 4	Income Quintile 5
Average monthly expenditure for one person	628	765	902	1056	1368
Average monthly expenditure for two person	1256	1530	1804	2112	2736

*This analysis has been given in NSS 72nd Round (July 2014-June 2015)

As the pension scheme is designed for a household, we take the monthly expenditure of two persons in our study. Secondly, the scheme provides for defined monthly pension ranging between Rs. 1000 and 5000 at the age of 60 years. In order to understand the benefit of this type of a pension scheme in the long term, we have to take into account the rate of inflation and how much of the average monthly expenditure it will cover. Thus, the real income received by the beneficiaries (subscribers) will be much less than the promised nominal amount.

Now, if we compare the real pension with the average monthly expenditure then we can get a more realistic representation of the actual value of money the households will actually get. Thus, the authors have calculated the extent of shortfall in percentage. The following tables give a detailed analysis of the real income and the shortfalls of subscribers subscribing Rs. 1000 and Rs. 5000 monthly pension, respectively. Here, the authors have taken 4% as the rate of inflation.[19]

Table 3: Real Monthly Income and the Extent of Shortfall for Subscription of Rs. 1000

Age of joining	Years of contribution	Indicative monthly contribution	Monthly pension to the subscriber	Real monthly pension to the subscriber (discounted at 4%) Discounted Present Value= Future Value * (1 + R	Extent of shortfall- Real monthly pension/Average monthly expenditure of the lowest quintile)

[19] The authors have taken 4% as the rate of inflation as the government previously had a target of 4 % inflation rate which, however, has not been achieved.

				/100) $^{-t}$	
18	42	42	1000	193	15%
20	40	50	1000	208	17%
25	35	76	1000	253	20%
30	30	116	1000	308	25%
35	25	181	1000	375	30%
40	20	291	1000	456	36%

*When the pension is Rs. 1000 per month

Table 4: Real Monthly Income and the Extent of Shortfall for Subscription of Rs. 5000

Age of joining	Years of contribution	Indicative monthly contribution	Monthly pension to the subscriber	Real monthly pension to the subscriber (discounted at 4%) Discounted Present Value= Future Value * (1 + R /100)$^{-t}$	Extent of shortfall- Real monthly pension/Average monthly expenditure of the lowest quintile)
18	42	210	5000	963	77%
20	40	248	5000	1041	83%
25	35	376	5000	1267	101%
30	30	577	5000	1541	123%
35	25	902	5000	1875	149%
40	20	1454	5000	2282	182%

*When the pension is Rs. 5000 per month.

Observations by the authors

Though the plan has been designed with the objective of providing social security cover from a very young age, it has many lags. The defined pension is no doubt a great initiative taken but can it promise the people of the unorganised sector a decent standard of living?

Firstly, the table above indicates that more the people join this scheme at a younger age the less beneficial this scheme would be to them. Thus, according to the indicative tables, an 18-year old who contributes Rs. 42 per month will result in a real monthly pension of Rs. 192 for the household. Thus, the defined benefit will cover 15% of his monthly expenditure. However, even if the 18-year old is able to contribute Rs. 210 per month towards pension, the defined benefit at retirement will yield a real monthly amount of Rs. 963 for the household (equivalent to a nominal monthly pension of Rs. 5,000) and will be sufficient to cover only 77% of his monthly expenditure. It is clear from the data collected that the subscriber should be at least in his 30s in order to ensure a social security cover for him. The policy makers should redesign the existing plan so that the bandwidth of the age group is increased from 18-40 to 30-50 in order to serve the objective ensuring social security.

Secondly, it can be seen that a mere amount of Rs. 1000 per month is not serving the purpose of ensuring a minimum standard of living. A person joining at the age of 18 for Rs. 1000 monthly pension plan can only ensure 15% of his monthly expenditure at the age of 60 while investing in this plan. Similarly, the person who joins the same plan at the age of 40 years will secure only 36% of his monthly expenditure. Thus, the policy makers should see to it that the minimum promised pension amount is not as less as Rs. 1000 but should be above Rs. 5000. Then only there is any point in investing in the current scheme.

If we contextualise the scenario following the Keynes' model as discussed, the lower the interest rate or lower the benefit given to the subscribers more will be the tendency to hold the money with them and not invest it in the above scheme. Therefore, the speculative demand for money will rise and people will want to hold more money with themselves.

Suggestions for some Effective Changes

There is a need for inflation indexation so that the benefits can keep up with the pace of inflation in our country. In order to do the needful, the government should index the subscribers' contribution as well as the matching contribution. The government should try to invest the corpus according to the current Swavalamban investment mix (upto 85% in government bonds and upto 15% in equity). If both the subscriber and government contributions are indexed annually, it can provide the subscriber with higher returns.

The NPS-Main scheme follows a lifecycle investment mix which can be adopted by the current APY scheme. The above-mentioned method invests 50% of a 20-year-old subscribers' corpus in equity, 30% in corporate bonds and 20% in government bonds. In his/her 30s, the respective share of equity and corporate bonds is reduced and transferred to the government bonds. This type of mix investment plan can ensure much higher corpus in the long run.

Lastly, the exit rules of the current scheme provides that

"in case a subscriber, who has availed Government co-contribution under APY, chooses to voluntarily exit APY before the age 60, he shall only be refunded the contributions made by him to APY, along with the net actual interest earned on his contributions (after deducting the account maintenance charges), whereas, the Government co-contribution, and the interest earned on the Government co-contribution, shall not be returned to such subscribers."[20]

[20] Rule 13 of Atal Pension Yojana notification, Ministry of Finance, Oct 2015, New Delhi

This rule violates the sole objective of the social security cover, i.e., to secure a social order for the promotion of welfare of the people.[21] The scheme is aimed for poor workers who are not covered by any social security scheme and for the unorganised workers. The monthly contribution made by them with the belief of getting defined pension along with the co-contribution should not be deprived to them just because they opted out from the scheme. The government should propose a minimum time period within which they can't opt out which should be as low as 10 years after which they would be refunded the contributions made by them along with the interests as well as the government co-contributions with interest.

Our country should adopt an easy entry and exit policy so that the citizens are free to choose where to invest and for how long. The fundamental rights guaranteed by our Constitution also give us the right to invest in schemes which are to the best interest for us.[22]

[21] Article 38 of the Constitution of India, 1950
[22] Article 19 (6) (ii) 0f the Constitution of India, 1950