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Changing the Way India thinks Tomorrow H Sadhak



One of the basic goals of a social security system is to provide a secure and broad based source of old age income. Active ageing is a right of every citizen who has contributed to the growth and development of a nation while they were young and working. However, while providing for their old age, a nation also has to keep in mind the resources it has at its disposal.

Improved living conditions and better medical services have resulted in increased longevity for people. This has created imbalance in the ratio of workers to social security beneficiaries, putting a question mark on the sustainability of the existing models of pension. Therefore an intense debate has been going on the world over about right type of pension reform models.

Three main reform models have emerged in the process - Parametric Reforms, Systemic Reforms and Notional Defined Contributions. While the implicit objective of all these reforms is to enhance pension entitlement, the difference pertains to the entities who would shoulder the Longevity Risk . In the parametric reforms the risk is born by the pension providers while in case of systemic reforms longevity risks are transferred to the pensioners through a shift from Defined Benefit (DB) system where pension benefits are given as per a pre defined formula, to Defined Contribution (DC) systems where contributions are paid into an individual account for each member, these contributions are invested, for example in the stock market, and the returns on the investment (which may be positive or negative) are credited to the individual's account. On retirement, the member's account is used to provide retirement benefits. The Notional Defined Contribution reforms integrate some characteristics of DB and Dc systems.