

9th IIEF Pension Conference 2009

**Governments and Expanding Coverage of New
Pension Programme**

Subhash Garg

Outline

State Civil Service Pension Reforms and Coverage

- *States' Intent and Commitment*
- *Progress*
- *What is holding on*
- *TFC Study*
- *Way Forward*

Efforts/ Opportunities for expanding informal sector coverage

- Rajasthan & AP models
- New Opportunities

State Civil Service Pension Reforms and Coverage

States' Intent and Commitment

Recognising that current and future salary and pension expenditure is largest part of their fiscal expenditures and Defined Benefit Pension Entitlements expose them to highly uncertain pension liabilities

- *States (barring a few) have announced adoption of New Pension Scheme very early after NPS introduction by GOI*
- *Quite a few States have institutionalised the process of making deduction of employee contribution and make their own contributions*
- *Such States are holding pension corpuses and paying interest on accumulations*
- *Many States have entered into agreement with NSDL as CRA and some have started transferring data and contribution also*
- *States commitment to NPS is complete*

Progress is quite slow

- Some States have not moved beyond announcement
- Some States are faltering on contribution collection, accounting and data (some states are even regressing)
- Some States- mostly ADB TA states- have developed institutional mechanism to collect contribution, post them to a ledger and provide individual accounts
- Only four-five states have succeeded in their 'nodal offices' register with CRA and get PRAN accounts opened (partially)
- Only two states have started uploading contributions to CRA
- And, NPS funds of any State are still to be invested by regulated fund managers

What is holding up?

States are struggling with

- *Building in with appropriate rules/ systems to adopt and implement NPS*
- *A highly inflexible CRA architecture*
- *How to align their systems with CRA's requirements,*
 - *CRA has limited understanding of States' System and*
 - *has an agreement which States do not understand*
- *States with centralised records have best potential but have no advantage in the deal*
- *How to deal with Fund Managers, Trustee Banks and Banks*

Recognising States' System and Building Institutional Capacity of States is Key

- States have varying systems and institutional capacity
- Several States have weak IT and data collection capacity
- GOI and PFRDA needs to adopt developmental role
- ADB TA helped some States
- TFC Study

Objectives/ Scope of TFC Study

- Making an objective assessment of quality of existing employee and pensioner databases, salary and pension administration and disbursement management systems and procedures at the level of individual States,
- Suggesting an approach to and road-map for building and automatically updating reliable employee and pensioner databases as well as data management systems,
- Recommending minimum essential data fields as well as other necessary reforms for institutionalizing proposed databases, and
- Estimating the likely cost and implementation time-frames for building reliable datasets and data management systems by individual States including the cost of technical assistance and an implementation and evaluation mechanism

Employee Databases in Five ADB States

Five States (Assam, MP, Chhattisgarh, Bihar and Jharkhand) have created an Employee Database but each State adopted a unique approach

- *Jharkhand used DDOs for feeding in employee data; Treasuries adopted an electronic pay bill system,*
- *Assam, Chhattisgarh and Bihar compiled data from scratch*
- *MP linked and updated its employee database with an electronic payroll process*
- *Jharkhand, MP and Chhattisgarh payroll is linked to their employee data but Assam and Bihar are yet to achieve this*

Uttrakhand

Successfully created employees' and pensioners' databases

- *Introduced system of pay-roll at treasury to disburse salaries*
- *Treasuries also disburse pensions*
- *Employee database created for salary pay-roll updated on the basis of authorised communications from DDOs*
- *Direct payment into employees' accounts by treasury*
- *Pension database at treasuries constructed and used for disbursing pensions directly into pensioners' bank accounts*
- *NPS database in place*
- *Databases are centralised at regular intervals*

Recommendations

- Standard definition of 'employees', reforms in pay-bill/ pay-rolls, transactional updating of databases, centralised databases
- Process of creating accurate and updated employee and pensioner databases and data management system to be completed by March 2013
- TFC to create a Database Creation Facility Grant
- A part of the Grant to be used for a central expert technical assistance team to facilitate experience and information sharing across States and undertake periodic implementation M&E / review.
- 14th Finance Commission to accept salary and pension expenditure data and projections from States using the new data management systems
- Government of India to embark on a similar effort at building an integrated employee and pensioner data and payroll management system

Way Forward

- Full NPS implementation in States will have to be taken as Developmental Challenge- 'D' part of PFRDA
- States will have to be helped to develop Institutional Capacity to
 - Have right kind of Rules and Regulation
 - Develop IT capacity and Payroll system to collect contribution and data
 - Collect and compile data and contribution at one central location or at best upto regional/ district level
- Have a fair and functional arrangement with CRA and Fund Managers
- Central Government with the help of upcoming TFC facility and multilaterals will need to work to make States to implement the NPS
- Will have to examine other low cost record keeping arrangements
- States' role in servicing employees need to be defined

Co-Contribution Programme

Rajasthan Programme

- Vishwakarma Scheme
- Implementation through Private Sector
Professional Institution and NGOs
- Has interested some other States

AP Pension Scheme

- Coverage to 10 million Self Help Group Women
- Rs 1 contribution every day
- Rs. 500 minimum pension upon reaching 60 years of Age

Other Opportunities

- NREGS workers
- Honorary/ Part-time workers of States - Anganwari Worker,
Asha
- Urban Local Bodies
- States' Societies
- States' Contractual Workers

How to make NPS for Informal Sector Workers work

- Present system of providing NPS services through select PoS with Banks will at best reach professional and high income individuals
- For informal sector poor segments
 - Different delivery channels will be required
 - More cost effective method will need to be found
- Co-Contribution/ Cost Contribution by States/ Centre for informal sector will need to be bought in
- Pension Service Providers on the lines of Insurance Service Providers/ Mutual Funds Service Providers

Thanks