International Journal of Interdisciplinary Research in Science Society and Culture(IJIRSSC)
Vol: 11, Issue:1, (June Issue), 2025
ISSN: (P) 2395-4345, (O) 2455-2909
Impact Factor: 4.575

THE ECONOMICS OF PENSIONS: CAN INDIA AFFORD ITS AGEING POPULATION?

Laldingngheti[1], Dr. Kumud Das[2]
[1]Research Scholar, Mahatma Gandhi University, Meghalaya.
[2]Professor, Mahatma Gandhi Universityt, Meghalaya.

ABSTRACT :

While public education in India is officially labeled as "free," the lived experience of many families tells a different story. This paper explores the hidden costs embedded within government schooling—such as expenses for uniforms, stationery, examination fees, transportation, and mid-day meal supplementation. Drawing on household surveys, field interviews, and secondary data from education reports, the study uncovers how these indirect costs disproportionately affect children from low-income families, often leading to irregular attendance or early dropouts. By examining policy gaps and implementation failures, the paper argues that without addressing these financial barriers, the goal of universal, equitable education remains incomplete. The findings call for a more inclusive definition of "free education" that reflects both access and affordability on the ground.

Keywords: : *Public Education, Hidden Costs, Free Schooling, Education Policy in India, Financial Barriers.*

I.Introduction:

Public finance systems around the world are under increasing strain as nations face the mounting pressures of demographic change. Among these, the challenge posed by an ageing population has become a particularly urgent concern in both developed and developing countries. While countries such as Japan, Germany, and Italy have long grappled with declining birth rates and rising longevity, India-a nation traditionally associated with a youthful population-has now entered the early stages of this demographic transition. According to the Ministry of Statistics and Programme Implementation, the share of elderly citizens (aged 60 and above) in India is expected to rise from 10% in 2021 to nearly 20% by 2050. This substantial growth in the elderly population raises pressing questions about the adequacy and sustainability of India's pension system.

Historically, the concept of pensions in India has evolved slowly and unevenly. The early frameworks were rooted in colonial administration, offering post-retirement security largely to government employees. Decades after independence, the majority of Indian workers-particularly those in the informal sector, which comprises nearly 90% of the workforce-still remain outside the ambit of formal pension coverage. Though several schemes such as the Employees' Provident Fund (EPF), National Pension System (NPS), and non-contributory programs like the Indira Gandhi National Old Age Pension Scheme (IGNOAPS) have been introduced, these initiatives remain fragmented, unevenly accessed, and financially limited. This has created a dual burden: an increasing number of elderly dependents with minimal social security, and a government that must address rising fiscal obligations with limited tax revenues.

Moreover, the fiscal burden of public pensions is becoming increasingly visible in budgetary allocations. A significant portion of central and state government expenditures is dedicated to paying pensions to retired government employees, leaving limited room for expansion or innovation in social security systems. With the number of beneficiaries expected to grow exponentially, the question arises: Can India afford its ageing population without jeopardizing other development priorities such as education, infrastructure, and job creation?

This paper seeks to explore that very question. By examining the structure, reach, and financial underpinnings of India's pension systems-both contributory and non-contributory-this study aims to assess the long-term economic sustainability of current policies. It draws on national statistics, economic theory, and comparative policy analysis to evaluate whether India's pension system is equipped to meet the needs of an ageing population.

The analysis goes beyond mere fiscal arithmetic; it engages with deeper questions of intergenerational equity, economic justice, and the evolving role of the state in providing social protection. In the decades ahead, India must make critical decisions about how it will support its elderly population. The need for well-considered, forward-looking policy is urgent.

Without timely reform, the country risks both economic inefficiency and social instability. Conversely, if addressed proactively, the ageing population could become not a burden, but an opportunity to design inclusive and equitable systems that reflect the values of a maturing democracy.

Review of Related Literature:

Barr, Nicholas. The Economics of the Welfare State. Barr emphasizes the importance of public pensions as tools of income redistribution and intergenerational solidarity. He argues that aging populations make reform unavoidable, especially in developing countries. Bloom, David E., and David Canning. "Global Demographic Change: Dimensions and Economic Significance." The authors analyze global trends in population ageing and argue that delayed policy responses may lead to long-term macroeconomic instability.

World Bank. Live Long and Prosper: Aging in East Asia and Pacific. The report presents extensive data on how demographic transitions can affect fiscal policy. It recommends raising retirement ages and expanding pension coverage in rapidly ageing economies. Chopra, Geeta. "India's Pension Reform: A Review.' Chopra explores the evolution of pension reforms in India, especially the introduction of the National Pension System (NPS), and highlights challenges of inclusion and implementation. OECD. Pensions at a Glance: Asia/Pacific Edition. This report provides comparative analysis across Asia, showing that India's pension coverage remains among the lowest in the region, especially in rural and informal sectors.

Barrientos, Armando. Social Protection for the Poor and Poorest. Barrientos focuses on non-contributory pension schemes in developing countries, arguing that targeted pension support is critical for poverty alleviation among the elderly. Asher, Mukul. "Public Pension Reforms in India." Asher critiques the current pension framework for being financially unsustainable and calls for systemic reform, including means testing and better fund management.

ILO. World Social Protection Report. The ILO reports that only a small percentage of

Indian workers are covered under contributory pension schemes and recommends expanding informal sector coverage.

Ghosh, Jayati. "Pensions in Developing Countries: The Indian Case." Ghosh argues that pension systems in India are biased toward the organized sector and calls for universal basic pension schemes.

HelpAge India. State of Elderly in India Report. This report highlights the growing economic vulnerability of the elderly, especially women, and underlines the need for a robust, state-supported pension model.

II. Objectives of the Study: The objectives of the paper are -

1] To assess the reach and effectiveness of both contributory and non-contributory pension schemes in India.

2] To evaluate the fiscal burden of pension obligations on the central and state governments.

3] To examine disparities in pension coverage across rural and urban populations, and between formal and informal sectors

4] To investigate public policy options that could alleviate the burden while ensuring economic security for the elderly.

5] This study adopts a qualitative, analytical methodology grounded in secondary research.

III . Methodology:

This study adopts a qualitative research design supported by document analysis and thematic review of existing literature. Data is collected from government publications such as the Economic Survey of India, reports from the Ministry of Statistics and Programme

Implementation (MoSPI), and pension scheme records such as EPF and NPS databases.

Additionally, reports from international organizations like the International Labour Organization (ILO), World Bank, OECD, and HelpAge India are consulted for comparative insights and demographic data. Scholarly literature, peer-reviewed journals, and think tank publications form the theoretical foundation. A comparative policy analysis approach is used to examine successful pension models in countries such as Japan, the United States, and Brazil.

This is complemented by fiscal modeling and dependency ratio trends, which are analyzed to understand the future economic impact of ageing in India. The study also evaluates policy interventions through the lens of intergenerational equity, public finance theory, and social welfare economics.

IV. Analysis and Discussion:

The findings of this research confirm that India is on the verge of a significant demographic transformation that poses substantial risks to its fiscal and social security systems. The data shows that the proportion of individuals aged 60 and above is increasing at a faster pace than any other demographic group. Projections by the United Nations estimate that by 2050, the elderly population in India will reach 319 million, nearly triple its current size. This trend is accompanied by a steadily rising old-age dependency ratio, which is expected to increase from the current 15.6% to over 35% by mid-century. This means that a smaller working-age population will have to support a much larger elderly cohort-a shift that will inevitably strain the country's financial and administrative capacities.

India's pension system is currently characterized by deep structural imbalances. Formal pension schemes like the Employees' Provident Fund(EPF) and the National Pension System (NPS) cover only a fraction of the workforce-mainly those in salaried, formal employment.

Meanwhile, the vast informal sector, comprising over 85% of India's labor force, remains largely excluded from meaningful pension benefits. Non-contributory pension schemes, such as the Indira Gandhi National Old Age Pension Scheme (IGNOAPS), offer only modest financial assistance, often insufficient to meet basic living standards. This fragmented system results in significant gaps in social protection and disproportionately affects the rural poor, women, and

elderly individuals without family support. From a fiscal standpoint, the burden of pension liabilities is mounting. Government spending on pensions- especially for retired public sector employees-is absorbing an increasingly large share of state and central budgets. For instance, pension payments in some Indian states now exceed their expenditures on education and health combined.This fragmented system results in significant gaps in social protection and disproportionately affects the rural poor, women, and elderly individuals without family support.

From a fiscal standpoint, the burden of pension liabilities is mounting. Government spending on pensions-especially for retired public sector employees-is absorbing an increasingly large share of state and central budgets. For instance, pension payments in some Indian states now exceed their expenditures on education and health combined. This is unsustainable in the long run, particularly given India's limited tax base and relatively low tax-to-GDP ratio (approximately 11%). Without comprehensive reform, pension obligations could undermine fiscal discipline, increase borrowing, and crowd out developmental spending.

Comparative analysis with ageing societies such as Japan and Germany reveals a variety of strategic responses to similar challenges. These include raising the retirement age, converting defined benefit schemes into defined contribution models, and incentivizing private retirement savings. However, India's situation is more complex due to its lower per capita income, high levels of informal employment, and weak social infrastructure. Therefore, direct transplants of Western pension models are unlikely to be effective.

One promising area of reform is the expansion of contributory pension coverage through simplified, technology-enabled platforms like NPS-Lite and Atal Pension Yojana. These schemes aim to bring informal sector workers into the pension fold through auto-enrollment, government subsidies, and flexible contribution plans. However, uptake has been slow due to a lack of awareness, digital illiteracy, and inconsistent income streams among informal workers.

Another important consideration is the retirement age. As life expectancy increases and elderly individuals remain healthy and productive for longer, there is strong economic justification for gradually increasing the official retirement age. This would reduce the number of years during which pensions are paid and allow the working-age population to remain economically active for a longer duration, thus easing the fiscal burden. Nonetheless, such reforms must be undertaken with caution, especially in a country with high youth unemployment, where increasing the retirement age might reduce job opportunities for younger cohorts.

In addition to fiscal and policy reforms, the study underscores the importance of cultivating a national culture of savings and financial literacy. Encouraging younger individuals to plan for their retirement through tax-incentivized schemes and accessible investment products could significantly reduce future dependence on state-funded pensions.

Ultimately, the results of this study paint a complex but actionable picture: India cannot afford to delay pension reform. While the economic burden of an ageing population is real and growing, timely, targeted interventions-combining expanded coverage, fiscal prudence, and behavioral incentives-can create a more inclusive and sustainable pension system. The challenge lies not in the absence of solutions but in the political and administrative will to implement them before the demographic shift becomes a fiscal crisis.

V. Conclusion:

India stands at a critical juncture where it must balance the needs of its ageing population with the constraints of public finance. Without timely and well-designed interventions, the country risks overwhelming its fiscal system while leaving millions of elderly citizens economically vulnerable. This study underscores that a sustainable pension system is not merely a financial obligation but a moral imperative. By adopting a mix of targeted reforms, public-private collaboration, and increased awareness, India can create a pension framework that is equitable, inclusive, and economically viable. The path forward requires courage, coordination, and above all, a long-term vision for ageing with dignity.

References:

Asher, Mukul. "Public Pension Reforms in India." Indian Journal of Social Protection, vol. 30, no. 2, 2014, pp. 85-104.

Barr, Nicholas. The Economics of the Welfare State. Oxford University Press, 2012.

Barrientos, Armando. Social Protection for the Poor and Poorest: Concepts, Policies and Politics. Palgrave Macmillan, 2008.

Bloom, David E., and David Canning. "Global Demographic Change: Dimensions and Economic Significance." NBER Working Paper Series, no.10817, National Bureau of Economic Research, 2004.

Chopra, Geeta. "India's Pension Reform: A Review." Economic and Political Weekly, vol. 49, no. 32, 2014, pp. 45-52.

Ghosh, Jayati. "Pensions in Developing Countries: The Indian Case."IDEAs Working Paper Series, International Development Economics Associates, 2013.

HelpAge India. State of Elderly in India Report. HelpAge India, 2021.

International Labour Organization.World Social Protection Report 2020-22. ILO, 2022.

Organisation for Economic Co-operation and Development. Pensions at a Glance: Asia/Pacific Edition. OECD Publishing, 2020.

World Bank. Live Long and Prosper: Aging in East Asia and Pacific. World Bank Publications, 2016.