

# 31st India Fellowship Seminar

## Hotel Sea Princess, Mumbai

### 4th & 5th July, 2019

Session No- 9

Pension & Annuity: Roadblocks, Suggestion and  
Way Ahead

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# Agenda



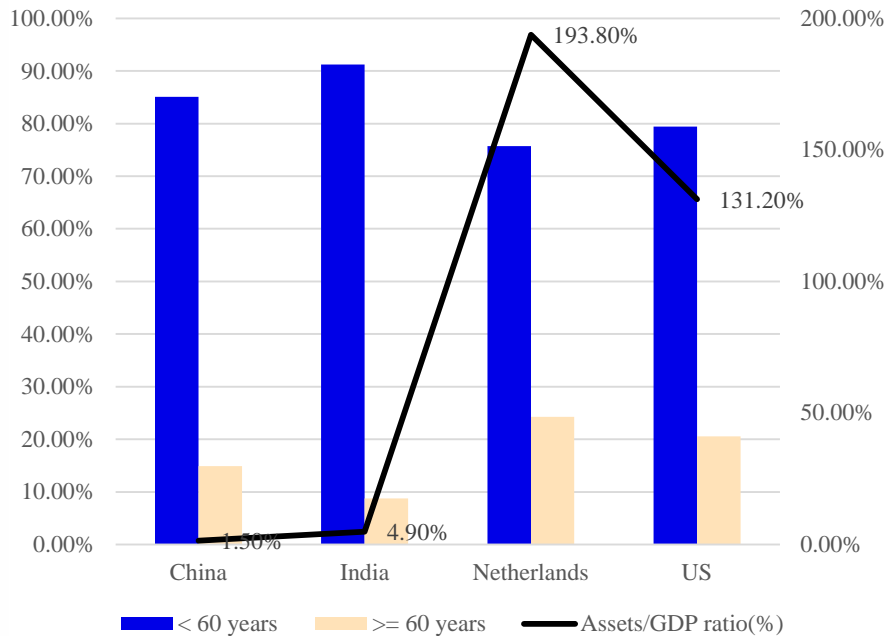
- Introduction
- Roadblocks for this business
- Suggestions to counter them
- Regulatory/ Legislation Changes required

# Introduction



- ❖ Nuclear Family:- Elders are less likely to be supported by their children
- ❖ Increasing life expectancy:- Gap between required and expected income due to inflation
- ❖ Population above 60 years projected to increase to 20% by 2050
- ❖ Pension Penetration in India within elderly population (24%) very low as compared to other countries (>70%)

# Introduction



- Good Example: Netherlands and the US : Who have Population as well as Pension assets significant for age above 60 years. India will be near to that by 2050.
- Poor Example: China : who has low pension assets as compared to India given higher 60 above population

## Other facts about India:

- ❖ Only 7.4% of working age population is covered under a pension program.
- ❖ Dominance of Informal sector in workforce (81%)

# Roadblocks



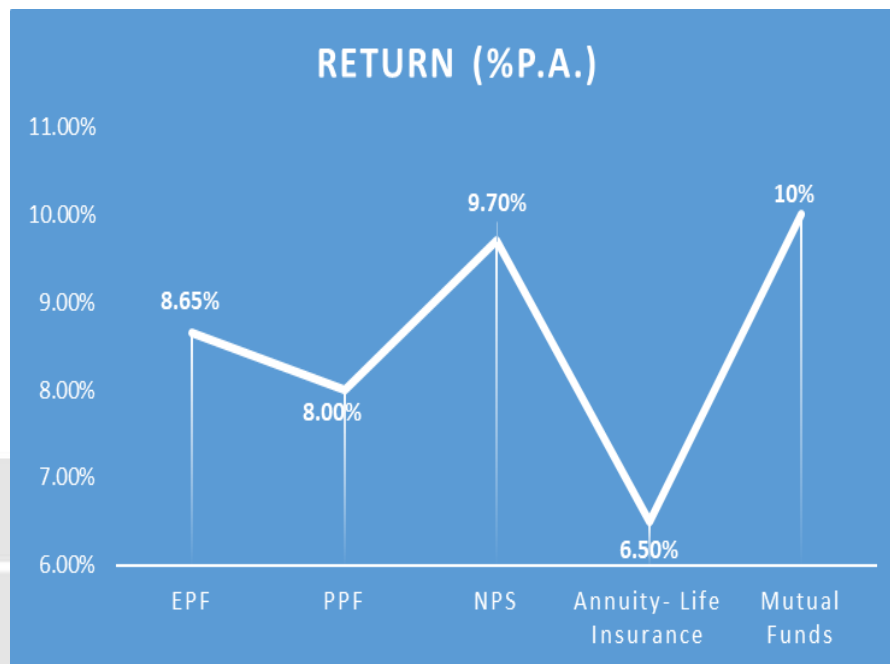
## For Customers:

- ❖ Lack of flexibility in products offered
- ❖ Inflation hedging missing after vesting
- ❖ Income from Annuity treated as income and fully taxable.
- ❖ Preference for physical savings (only 7% of total savings in pension)
- ❖ Lack of financial literacy (18% in India Vs. 33% world)

# Roadblocks

## For Customers:

- ❖ Low disposable income = low pension contribution (0.01% of India GDP vs. 1.6% in China)
- ❖ Low Returns on Annuity as compared to other financial instruments



- For Annuity, we have considered ROC option
- For MFs, average returns over 3 to 5 years for select funds have been considered

# Roadblocks

For Insurance Company:

- ❖ Increasing Longevity due to medical advancement

Year (INDIA)	Life Expectancy	Year (INDIA)	Life Expectancy
1990	57.92 Years	2010	66.62 years
2000	62.58 years	2018	68.8 years

- ❖ Lack of Long Term Assets (low return)

Year to Maturity	G-sec (June 2019)
24 year	7.15%
30 year	7.07%

Thinly traded

- ❖ Longevity swap market not developed in India.

# Roadblocks



## For Insurance Company:

- ❖ Lack of market awareness leads to channels like online not popular
- ❖ High Capital Strain
- ❖ Lack of Reinsurance support in India
- ❖ Lack of Data availability for pricing (Annuity table 96-98 still used, not updated)
- ❖ Competition from other financial products offering more flexibility.



# Recommendations



## Insurance Company:

- ❖ Fin-tech disruption: simplified entry and exit
- ❖ Sandbox Regulations (product open for pilot period)
- ❖ Innovative offering: Index linked, flexible payment/withdrawal, Impaired lives
- ❖ Marketing/Better visibility for products- Revolutionize the market

# Recommendations



## Regulators:

- ❖ Consistency: Non zero return g'tee on LI pension
- ❖ Pilot product mechanism to promote product innovation
- ❖ Parity of vesting benefit utilization b/w. EPF and NPS
- ❖ EoM relaxation to encourage investment in distribution
- ❖ Portability of UL pension
- ❖ Allow Settlement option in UL Pension
- ❖ Relaxation in Reinsurance Regulations for initial years.

# Recommendations



## Government:

- ❖ Consistency: Allow contribution for family members under 80CCC
- ❖ Micro Pension schemes for low income class.
- ❖ State run pension schemes to increase
- ❖ Increase in the retirement age for lower longevity risk
- ❖ Take measures for issuance and marketability of long dated bonds (30 years/40 years)