In Search of Sustainable Pension Systems: A Contrast between Sweden and India

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Abstract

Rapid urbanization, breakaway from traditional/informal arrangements and demographic transition has pushed the question of sustainable pension systems to the center stage of policy. As a result, India has to pre-emptively act ahead of the curve and establish institutionally sustainable pension systems. On the other hand, Swedish pension system has been considered as the best-case practice through the international community. In this light, the case study of India and Sweden provide a striking contrast in terms of pension systems and reforms. The research objective focuses on under what conditions reforms are successful. More specifically, can India learn lessons from the Swedish pension reforms to move towards a sustainable system? The methodology of comparative case study and descriptive statistical tools assist in drawing lessons from Sweden for India. The hypothesis is confirmed that the current reforms in both countries are infused by socio-economic factors that are embedded in institutional commitments and actors' preferences. The theoretical framework of institutional and power-resources approach explains the process of reforms. The empirics confirm that institutional preferences and path dependency shape the reform outcomes in pension systems. Through the analysis of the two countries, there are lessons India can draw from Sweden, however contextuality is important. Nevertheless, this thesis does not advocate for policy transfer or emulation of the Swedish model. The main findings/lessons are focused on increasing coverage, aligning institutional preferences for political support, increasing levels of financial literacy and involvement of key actors is important for the sustainability of the system.

Acknowledgements

This research is my attempt to investigate the different challenges faced by pension systems in developing and developed countries. My curiosity for this field emerges from the classes I took at Central European University. The pages that follow illustrate my attempts to grasp the intricate process of pension reforms.

From the nascent stage of this project to the final stages, I am indebted to my advisor, Professor László Csaba for his guidance and patience with this research. His feedback and intellectual insights have shaped the project and without which this would not have been possible. The questions and feedback I received from him challenged me to question my arguments and assumptions about the field. My interest in International Political Economy is a reflection of the conversations and classes I have attended with him. I would like to express my gratitude for guiding and mentoring me for this project and beyond.

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Introduction

Most of us are widows or separated or have been abandoned by our families. The pension is the only thing that helps us lead a decent life. But in today's scenario, the amount is inadequate.[1]

In advanced and developing countries, increasing transformation of socio-cultural systems such as traditional and informal arrangements for old age income security---has pushed the discussion towards what the role of the state and financial systems should be to guarantee security. In India, rapid uneven economic growth, increased urbanization and breakdown of traditional and informal arrangements has created new pressures. As India continues its rapid integration into the world economy, the questions of inclusivity and protection of the vulnerable looms over the country.

The discussions focusing on the link between advancement of capitalism and investment in human capital for inclusive growth is divergent in developing and developed countries. Thomas Marshall viewed protection based on citizenship as a check for the excessive nature of capitalism. Marshall was interested in equal rights, rather than equal outcomes.[2] Nevertheless, from the time Marshall was penning his thoughts to now, there has been an emergence of extensive literature focusing on variations in regimes of welfare states. Yet, it was not just capitalism that has been the sole driver of welfare demand, the struggles of social classes, and social organization of production became dominant after the 1990s.[3] Drawing from numerous

[1]'Noon Meal, Anganwadi Workers Demand Pay Hike, Pension - The Hindu', accessed 1 May2018, http://www.thehindu.com/news/national/tamil-nadu/noon-meal-anganwadi-workers-demand-pay-hike-pension/article17668744.ece.
[2] Paul Pierson, ed., *The New Politics of the Welfare State*, Repr (Oxford: Oxford Univ. Press, 2009).
[3] Ibid.

studies, Wilensky rightly concluded that 'economic growth and its demographic and bureaucratic outcomes are the root cause of the general emergence of the welfare state.'[4] It is plausible that the transformation of economic growth into stagnation has become a driving factor behind the call for reforms in welfare systems.

The Swedish Welfare state transcends into characteristics of the ideal type---rooted in its social and altruistic structures that achieved an advanced competitive economy with a universal welfare state. The characteristics specifically of pension reforms, provides the most striking comparison for developing countries. Moreover, much of the scholarship focuses extensively on the development, transformation and current status of the welfare states for the advanced countries.

On the other hand, the scope and variations of welfare states in the Global South have received little attention. Through the mid-1990s, most of the countries in the region emerged as important players through extensive economic reforms, the move towards open economies and to democratization.[5] So far, the literature on the welfare states and variations in emerging countries have focused regionally on Latin America, East Asia and Eastern Europe. Although the paths of these countries are important to focus upon----there has been little attention towards South Asia and the scope of welfare states. Regionally, India emerges as the most likely case for cross-country comparison. The ideation of the welfare state is envisaged in the Preamble of India. The Preamble of India acts as an interpretive tool and serves as an additional source of authority when interpreting the provisions relating to social welfare in the Constitution of

[4] Wilensky in Chris Pierson, ''Late Industrializers' and the Development of the Welfare State', in *Social Policy in a Development Context*, ed. Thandika Mkandawire (London: Palgrave Macmillan UK, 2004), 215–45.
[5] Stephan Haggard and Robert R. Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe* (Princeton: Princeton University Press, 2008).

India.[6] Part IV (Article 36-51) of the constitution provides that the state shall strive to promote the welfare of the people by securing and protecting a social order based on social, economic and political justice.[7] Due to the domestic political factors and historical trajectories, the interventions in response to larger economic transformations influenced the shape and consequences of social policy.[8]

In this context, pension systems of the countries are demonstrative of the institutional preferences, actors' interest and the politics underscoring the paradox between the equality of benefit distribution. The domestic institutional factors interact with the economy to produce outcomes that shape the social policies priorities. The path-breaking report by the World Bank, focused on designing a blueprint for the optimal pension system in developing countries. The central policy issue identified in the report was 'the system design should achieve the balance among the redistributive, saving, and insurance functions of old age security programs and the role of the government within these functions.'[9] This has been a central motivation for this research.

In context, the research objective of this thesis focuses on what constellation of institutional and political dynamics determine the reform objective and outcomes of pension systems. The central question that motivate this research is: under what conditions are reforms in pension policies successful? More specifically, can India learn lessons from the Swedish pension reforms to move towards a sustainable system? The challenges of economic slowdown,

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[6] Constitution of India Act, 1950.
[7] Constitution of India 1950, art. 36-51.
[8] Louise Tillin and Jane Duckett, 'The Politics of Social Policy: Welfare Expansion in Brazil, China, India and South Africa in Comparative Perspective', *Commonwealth & Comparative Politics* 55, no. 3 (2017): 257.
[9] World Bank, ed., *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, 1. print, World Bank Policy Research Report (Oxford: Oxford Univ. Press, 1994), 234.

sluggish unemployment, atypical employment, fiscal pressures and informal sectors—all represent a threat to pension systems.

Much of the existing scholarship focuses on the within-region comparisons for conceptualizing the welfare state and specifically pension policies. This develops a wider gap in the analysis that overstates the exceptionalism or universalism of their cases (or set of cases).[10] Within this scope, this thesis aims to contribute to the scholarship focusing on the drivers of pension reforms for developing countries. In seeking recommendations and policy lessons, it is important to demonstrate and contrast cross-country analysis on a broader global level. The significance arises from bridging the scholarship gap between the literature on pension policies in developing and developed countries. There is a requirement for extensive social policies to stabilize the implications of the transformations in the economy which might lead to propagating inequalities.

In Sweden, the challenges are very different to India. Nonetheless, the questions surrounding the pension system are directed at the sustainability of the system. This produces different realignments in the socio-political and economic structures of the societies. The theoretical framework follows the historical institutionalism and power-resources approaches to analyze pension systems in the cases. As emphasized by Esping-Andersen, citing Polanyi, the institutional approach insists that any effort to isolate the economy and political institutions will destroy human society. Fundamentally, Polanyi views social policy as one necessary precondition for the reintegration of the social economy.[11] The economy does not function in

[10] Ibid, 254.
[11] Gøsta Esping-Andersen, 'The Three Political Economies of the Welfare State', *International Journal of Sociology* , no. 3 (1990): 14.

generalized principles, and to provide a fitting analysis it is important to understand the embedded nature of social communities.

The point of departure is that institutional change is a deliberate process shaped by the perceptions of the actors about the consequences of their action. The institutional approach also provides the incentive structure that dictates the kind of skills and knowledge perceived to have the maximum payoff.[12] This implies that in order to create institutional preferences to maximize profits, the players have to interact in a more coordinated and cohesive network, rather than in fragmented networks that will lead to increased competition with no inclusive outcomes. Consequently, for pension systems, the reforms are not influenced solely by the social or economic, rather are shaped by the institutional commitments that enhance or decrease the scope of the system. Hence, the institutional approach is the best suited.

Moreover, the interest of actors are embedded in institutions that explain the outcomes. The actors will be: trade unions, political alliances, industrial policies, government institutions such as the Ministry of Labor; the interest will be the strategies and response towards pension reforms. The institutional framework determines the incentive structure of the society, and the interplay of the demography, the stock of knowledge, and institutional framework that shape the economy.[13] Employing the framework of institutional analysis, it aims to investigate the critical junctures in pension reforms vis-à-vis the changes in institutions and government. The dependent variable is pension policies outcomes; the independent variables include macro-

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[12] Douglass North, *Institutions, Institutional Change and Economic Performance*, 27. print, Political Economy of Institutions and Decisions (Cambridge: Cambridge Univ. Press, 2009).
[13] Ibid.

economic trends, institutional preferences, distribution of power of the actors and ideological inclinations in domestic politics.

Following the conception of best-case practices, Swedish case provides useful insights into the process. In contrast, the Indian case is remarkably different and the pursuit for analyzing the multiplicity of concepts and variables will provide important lessons. One of the fundamental differences is the defining approaches to welfare: Sweden is universalistic, and India is targeted/means-tested. Acknowledging the limitations, the pursuit of better policies responding to the social needs assumes that there are lessons that can be drawn for nascent pension systems from the best-case practice. The rationale behind the contrast of the two cases is embedded in drawing lessons and pre-emptively implementing lessons that leverage institutional structures to enhance equity.

In this scenario, the two divergent countries provide the framework for a systematic analysis and emphasize certain key developments such as consensual-approach to reforms, which provides significant insights into the interplay between the dependent and independent variables to achieve sustainable systems. Moreover, tracing the process of reforms through the theoretical framework opens up the possibilities to analyze the differences or similarities behind the motivations that pushed for reforms. Due to the divergence in the cases, it helps in identifying the key challenges of pension systems to devise recommendations. Nonetheless, this research does not propagate for emulations, policy transfer or larger generalizations from the Swedish system. The objective is to descriptively analyze the differences whilst drawing lessons from the best-case practice of pension reforms.

In relation to the quantitative methods, through utilizing descriptive statistics—the independent variables that will be focused on are trends in life expectancy, government expenditure, labor market trends, and union density for contrasting the cases. To do so, this thesis will use national statistics and policy reports that provide evidence and a central unit of analysis to contrast the cases. This includes data from the *Statistiska Centralbyrån* (statistics Sweden), *Pensionsmyndigheten* (Swedish Pension Agency), Pension Fund Regulatory and Development Authority (India), Ministry of Finance and Central Statistics Office (India). It is pertinent that the empirical data provides the framework in which the pension policies are analyzed, and recommendations can be formulated. Moreover, the time frame for this research is from the 1980s until 2018. Pension systems are a long-term investment for governments and the 1980's marks the 'golden age' for Sweden, and India's move towards liberalization. This illustrates the transformations in socio-economic structures, and identification of the critical junctures of incremental changes within pension system.

In the course of this research, the expected outcomes are, due to the consensual-approach towards reforms—-Sweden was able to undertake politically painful reforms in its mature pension system. The intersection of politics, state of the economy, institutions and actors influenced the design of the new pension system. Additionally, there are key findings for India from Sweden which suggest numerous traps to avoid and opportunities to maximize the pension system.

The first chapter begins with an outline of the exceptionalism and paradoxes in the two countries. The second chapter outlines the pension system in Sweden, the macro economic trends using descriptive analytical tools and the theoretical framework, it maps the politics underscoring reforms. The third chapter outlines the Indian case and additionally focuses on the question of why a relatively young country such as India should focus on pensions. The fourth chapter familiarizes the reader with the current development through the strength and challenges of the Indian National Pension System. The conclusion is comparatively driven and focuses on deriving policy recommendations, lessons for the India case and potential areas of recommendations for the Swedish Case.

Swedish Exceptionalism and the Indian Paradox

> *The issue at stake in a reform of social policy that appears to go beyond economically or politically functional minima, in fact it concerns the nature of actors behind such changes more than they do their motives.*[14]

The reforms and reconstruction configured new critical alignments of the independent variables---moving away from initial policy choices and the value-based construction of the welfare state. The lens of international variation in social rights, created a welfare state regime through characterizing arrangements between state, market and family.[15] Pension systems emphasize these characteristics of different arrangements between state, market and family. Due to the nature of pension systems, undertaking incremental reforms can be politically painful and can hamper long term investments.

Within this context, the variations in pension systems creates national differences which are often under scrutiny of the beneficiaries and other stakeholders. The foremost theorist of analyzing institutions is Douglass North, he suggests five propositions that describe institutional change as a deliberate process, which shapes the perception of actors and their interests.[16] Stating that institutional change is typically incremental and path dependent[17] enhances the scope of analyzing pension policies. Building upon this hypothesis, scholars such

[14] Peter Baldwin, *The Politics of Social Solidarity: Class Bases of the European Welfare State.* (Cambridge: Press Syndicate,1990),11.
[15] Esping-Andersen, The Three Political Economies.
[16] North, *Institutions.*
[17] Ibid.

as Esping-Andersen, Korpi and Pierson focus on whether politicians in Sweden could introduce incremental pension reforms or were constrained by the path dependency.

Therefore, the formal and informal institutional structures at the center of analysis can provide explanation in the variation of outcomes and the institutional preferences that guide the outcomes. The outcomes of this institutional framework do not imply that pension systems are inherently universalistic or grounded in solidarity. Furthering this proposition, Baldwin states that an egalitarian approach is inherent to social policy, however it was far from being universally realized.[18] To assess the macro-economic trends, institutional evolution coupled with the emergence of strong actors' preferences can define how social justice and rights became central for policy making. The interaction between the institutions, organizations and actors' preferences have influenced the politics of reforms and outcomes as well.

1.1.Swedish Exceptionalism

In Sweden, the domestic ideation and political development illustrates in what way the welfare state became an integral part of their development experience, specifically in the provisions for old age. According to the Global Competitiveness Index 2017-2018, Sweden ranks 7th/ 137, with high tax rates and regulations as pre-eminent factors causing hindrance in doing business.[19] The development of the Swedish model is an intermix of the industrialization experience that influenced its direction towards universalism and social solidarity.[20] The exceptionalism arises from fundamental preference of universalistic over means-tested programs that acted as a

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[18] Baldwin. *The Politics of Social Solidarity*,3.
[19] 'Country/Economy Profiles', *Global Competitiveness Index 2017-2018*, http://wef.ch/2wcPmeh. Accessed 10 May 2018.
[20] Ari Koko's work on the development process of Sweden is specially detailed. He states decisive policies and structural conditions made it possible for Sweden to achieve both a highly competitive and high level of social welfare.

catalyst in the evolution and reform of social policies. Moreover, the development in Sweden emphasize that complementing the involvement of key actors are institutions which important for successful outcomes.

Korpi asserts that ‘the distribution of power resources in society is of crucial importance. In the tripartite societal bargaining between state, labor, and capital, the distribution of power resources and the political inclinations of the government can reflect the pattern of coalition formation in this triad and the outcomes of the bargaining.’[21] The tripartite societal bargaining is created by the institutional structures. The outcomes of the bargaining reflect the patterns of reforms undertaken by the government which is based on a compromise agreed on by both labor and capital.

Therefore, combining the two approaches---this research investigates the interactions between institutions, and multiple actor preferences (Power-Resources Approach; PRA) through the outcomes of the cases. It acknowledges that the path dependency in institutions do not function in isolation, rather the influence of actors and the reflection of their interest informs the formation of effective or ineffective institutions.

Sweden provides a heuristic account of the roles of actors, governments and institutions that has achieved global competitiveness with a universalistic welfare state. Korpi explains ‘that the Swedish case indicated that a coordinated market economy needs not be an outcome of virtuous circles generating equilibrium outcomes; instead it may often involve rather intensive class

[21] Walter Korpi in Christopher Pierson and Francis Castles, *The Welfare State: A Reader*. (Cambridge, UK: Polity Press, 2000), 88.

conflicts mixed with exchange.'[22] Hitherto, this experience elucidates that the role of trade unions is equally important in explaining the emergence and expansion of the welfare states, specifically pensions.

Concurrently, the interplay between the value of universalism, altruistic culture rooted in society at large, and the strength of actors such as trade unions are explanatory of the outcomes. The path of Swedish exceptionalism is built on consensus of all the major players: actors, institutions and interests that were included in the reform agenda, and through this consensual approach emerged the quintessentially middle way. Contradictorily, Esping-Andersen argues that the Swedish 'middle way' does not exist anymore.[23] This is plausible, yet the concern for developing countries should not be emulation of the Swedish Model. The evolution of the belief and patterns place further constraints on institutions for reforms in the system. The options for changes and reforms are limited and directed from the choices made in the formative years of pension systems.

The interaction between institutions, actors, interest groups, labor market participation, and the role of the state has generated support for the welfare state. To further the institutional paradigm, this thesis will focus on pension policies, specifically in India and Sweden, through combining the two approaches.

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[22] Walter Korpi, 'Power Resources and Employer-Centered Approaches in Explanations of Welfare States and Varieties of Capitalism: Protagonists, Consenters, and Antagonists', *World Politics*, (2006).
[23] Gøsta Esping-Andersen, ed., *Welfare States in Transition: National Adaptations in Global Economies*, Reprinted, n.d.

1.2. Paradoxes in Indian Social Security

The paradox of Indian growth finds itself embedded in the concepts of social justice, human capabilities, and economic growth. The paradox is further captured in the developmental discourse. The paradox emerges from the cross-roads in the strategies and experiences of improving governance and effectiveness of public institutions.[24] The intersection of social justice, human capabilities and economic growth are at the core of the institutional reforms in delivering and implementing social policies and welfare.

Interrelated to the paradox, Subramanian's work sheds light on the debate whether institutions are failing in India. He divulges that unequal growth has had a subtle effect on institutions. Dynamic growth leads to better public institutions and demands increase for the same. Contrarily, if growth is much more concentrated at the upper income level, there is the distinct possibility that Albert Hirschman's 'exit' is occurring: the rich opt out of the public system, turning to the private sector to get essential services such as private schools, and private hospitals.[25] Since the pressure and interests diverge, this leads to poor quality services and propagates social inequalities. This has been a part of the model, and reforms has been demanded by the actors whose interests are dependent on the national run services.

Since liberalization, inclusive economic growth has found itself at the core of policies. The paradox emerges from the lack of trickle down of the economic growth and poor governance. The recent Development Update emphasizes in order to recover growth, the structural reforms

[24] Ishtiaq Jamil, Steinar Askvik, and Tek Dhakal, 'Introduction', in *In Search of Better Governance in South Asia and Beyond*, ed. Ishtiaq Jamil, Steinar Askvik, and Tek Dhakal (New York, NY: Springer New York, 2013), 1–11.

[25] Arvind Subramanian, *India's Turn: Understanding the Economic Transformation* (New Delhi: Oxford Univ. Press, 2008), 137.

undertaken have to interlink the collective role in the implementation of the reform agenda.[26] The recent reforms in fighting corruption and unifying the market through Demonetization and Goods and Services Tax, 2017 was conducted under the gambit that the slow growth will transform into inclusive growth. In the Global Competitiveness Index, India's rank is 40th/137, becoming the strongest in the South Asian region.[27] The index further highlights that the scores across most pillars have increased, specifically in public investment and institutions. Employing Acemoglu and Robinson's hypotheses, the heritage of institutional development in India, were the key to India's long-run growth but neglecting institutional reforms specifically in providing welfare entitlements, would lead to the growth engine coming to a halt.[28]

The poverty head count ratio at $1.90 a day (2011 PPP) went down from 31.1% of the population in 2009 to 21.2% in 2011.[29] The poverty ratio has substantially decreased. However, there is indication towards lack of investment in human capabilities and enhancing social equity. Sen and Drèze define capability as the combinations of *'functionings'* from which a person can make a choice.[30] The association of capabilities with freedom is reflected in the range of options that a person has to decide how to lead his/her life.[31] As mentioned by the authors, poverty is not just quantitative, but qualitative as well. In this respect, the social and structural constraints also guide the social security programs in India.

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[26] World Bank, 'India Development Update' (New Delhi: The World Bank, 2018) ttp://documents.worldbank.org/curated/en/814101517840592525/pdf/123152-REVISED-PUBLIC-MARCH14-IDU-March-2018-with-cover-page.pdf..

[27] 'Country/Economy Profiles', *Global Competitiveness Index 2017-2018* , accessed 10 May 2018, 2018. http://wef.ch/2wcPmeh.

[28] Acemmoglu and Robinson in Subramanian, *India's Turn*, 136.

[29] 'Poverty & Equity Brief: India' (The World Bank, 2018).

[30] Jean Drèze and Amartya Sen, *India: Development and Participation*, 2nd ed (Oxford: Oxford University Press, 2002).

[31] Ibid.

Nevertheless, Drèze and Khera, among many others, note that Indian social security historically was largely confined to the formal sector.[32] The social security initiatives undertaken in India are targeted, means-tested towards identified segments. The formal institutional structures such as the Supreme Court of India, have extended national legislation on social security programs, except in the public pensions pillar. Nonetheless, the legal institutional framework does not necessarily translate into delivering these rights. Moreover, with the high corruption rates (transparency index- 40, 2017), leakages in funds and missing/few backward and forward linkages influence and shape institutions, both formal and informal—there is a requirement for incremental reforms.

One of the key debates in India and other developing countries revolve around the extension of social security.[33] The role of partisan politics, institutions, formal and informal norms do influence the expansion of social security and welfare efforts. The diverging experiences of the states in India demonstrate the historical legacies that shaped the ideologies and outcomes of the institutions. However, relatively fewer studies have focused on the emergence and expansion of social policies and the welfare state in emerging countries, specifically in South Asia. Within this context, the work of Stephan Haggard and Robert Kaufman, traces the historical origins of welfare in three regions and illustrate the legacy of reforms and the influence of developmental models and globalization.[34] Advancing from the theoretical framework employed to analyze Western welfare states, they build their argument on three lines: the significance of distributive coalitions and economic interests on economic performance exerts a crucial influence on social policy, particularly through its effect on the fiscal capacity of the state, and political institutions constitute the factor which affects social

[32] Ibid.
[33] See Drèze and Khera "Recent Social Security"
[34] Haggard and Kaufman, *Development, Democracy, and Welfare State*.

policy.[35] Although the literature focuses on the regions which are distinctly variant from South Asia, the work provides an outline for extrapolating a theoretical framework that can be used to evaluate the implications of pension system reforms.

Conclusion

Pension systems are demonstrative of different arrangements between the state, market and family. Within the paradigm of different arrangements, trends of state intervention emerge that are descriptive of the type of policies that a country adopts---whether it is universalistic (Sweden) or means-tested (India). The Swedish Model highlights that the welfare state became an integral part of economic development, and the power of actors involved in decision making and policies are significant.

In contrast, up until now the Indian social security system is extremely fragmented. The economic growth that the country has been experiencing is unevenly redistributed. This has created a degree of polarization. The shifting discourse in India towards welfare is politicized. The above discussion and the survey of the literature provides the normative and theoretical framework of this thesis. The framework is illustrative of the interplay between the state, the regulatory institutions, informal and formal norms and the role of actors. The paradox that arises is when are reforms successful? What do the current pension policies tell us? And what lessons can India draw from Sweden?

[35] Ibid.

2. The Swedish Reform Experience

Pension systems are undergoing incremental reforms throughout the world, especially in mature democracies. The Swedish Pension System has a long experience in its trials and errors. The period of reforms started from 1935 and concluded in 2001. This experience of multiple reforms has nuanced the system, the sustainability of which is underpinned by institutional adequacies. Unique to Sweden is the tremendous success of the Social Democratic Party, powerful unions and one of the world's most comprehensive welfare state.[36] The Swedish Pension reforms signify that the road to achieving consensus is difficult, but not impossible. The pension reforms were driven by devising a system that would adjust to the short-term and long-term structural changes in the economy.

Moreover, it is not solely the politics, institutional structures, or the distribution of power-resources (between actors, the market, and state) that explains the success of the Swedish pension reforms. Complementary to the political atmosphere and institutions, the culture of altruism and ability of the state to collect high taxes have guided the pension system. It might be plausible that on a macro level, the homogenous culture and acceptance of high level of taxation is an agreement between the government and its people, in return for services and protections offered by the state.

The currency crisis of 1992 and budgetary constraints coupled with adverse demographic trends pushed the reform agenda onto the negotiating table. This atmosphere of crisis has been conceptualized by Pierson as the "new" politics of the welfare state. Retrenchment was classified as the 'new' politics (between 1991-2001) and expansion as the 'old' politics of the

[36] Pierson, 'The New Politics', 170.

welfare state (between 1935-1990). He goes on to state that a combination of economic changes, political shifts to the right and the rising cost associated with maturing states called for retrenchment.[37] Due to the politicized nature of pension reforms, the clashes in policy preferences leads to blame avoidance as a strategy for unpopular policies.

The pension system in Sweden did come under severe constraints, yet the institutional structures and the acquiescence of numerous actors helped in stabilizing the system and it did not lead to severe retrenchment. The deviations in pension reforms have different objectives and motivations behind, more so based on the constellation of the political parties, institutions, actors such as trade unions and pensioners, and other interest groups (specifically voters).

2.1. The Structure and Design of the Swedish Pension System

The New Pension System is a three pillar system that has Pay-As-You-Go (PAYG) notional defined contribution system (NDC), an advanced funded second pillar with privately managed individual accounts, and a guaranteed pension pillar for individuals with low lifetime earnings (figure 2.1).[38] The Income-pension is based on tightening the link between contributions and benefits. In the old system, the link was asymmetrical, redistribution was unsystematic, and incentive to work was low.[39] The new pension system is defined-contribution-based on the lifetime income principle. The earned pension entitlement is 18.5% of income up to a ceiling.[40] It emerged as both a distribution and a premium reserve system. The 2nd pillar: income-based

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[37] Ibid, 145.
[38] Edward Palmer, 'The Swedish Pension Reform Model: Framework and Issues', Working Paper, Social Protection Discussion Paper (Washington, D.C: The World Bank, 2010).
[39] Jan Selén and Ann Ståhlberg, 'Why Sweden's Pension Reform Was Able to Be Successfully Implemented', European Journal of Political Economy 23, (December 2007): 1178.
[40] Ministry of Health and Social Affairs, 'The Swedish Old-Age Pension System: How the Income Pension, Premium Pension and Guarantee Pension Work' (Government Offices of Sweden, 2017), 7.

pension account for pension entitlements on the individual's account, the 3rd pillar: offers a certain equalization of risk in that the old-age pensions will reflect both the rise in living standards in society and return on assets.[41]

Given the financial risk, it is based on the principle that the individual ensures themselves to choose a level of risk based on their personal situation.[42] The two pillars conjointly act as a distribution and reserve system. There are five different buffer funds (AP1, AP2, AP3, AP4, and AP6) out of almost 800 privately managed registered funds and the benefit is based on the performance of the funds selected.[43] If choice is not made, the contribution is by default pooled in the Seventh National Pension fund, owned by the state.

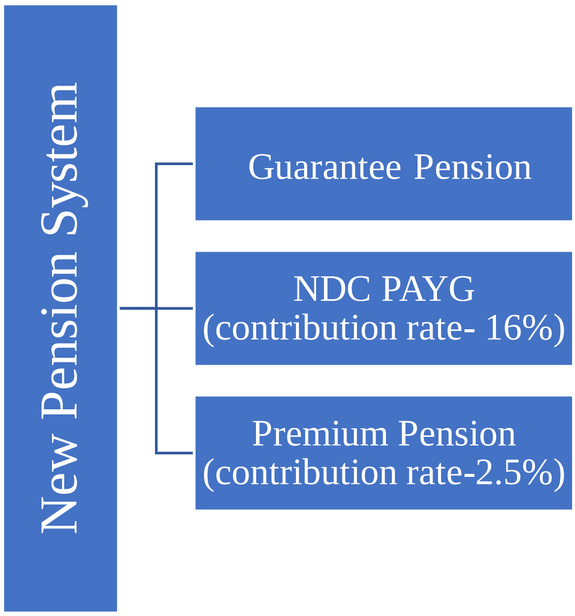

Figure 2 The New Pension System, Sweden. Source: Data adapted from Ministry of Health and Social Affairs, Government of Sweden.

Considering that the retirement age in Sweden is flexible, this creates an incentive for partial retirement so as to accumulate enough for smooth consumption post retirement. Moreover, the

[41] For more details see Edward Palmer.
[42] Ministry of Health and Social Affairs, 9.
[43] Ibid.

NDC has been appreciated for its design. Ideally it should adjust according to changes in life expectancy and has been appreciated for the design based on fair treatment.

2.2. Macro-Economic Trends

The trends explain the drivers behind the complete changeover of the pension system. The main goals of the reforms and outcomes are also aligned with commitment towards increasing effective governance and inculcate the habit of saving for old age.

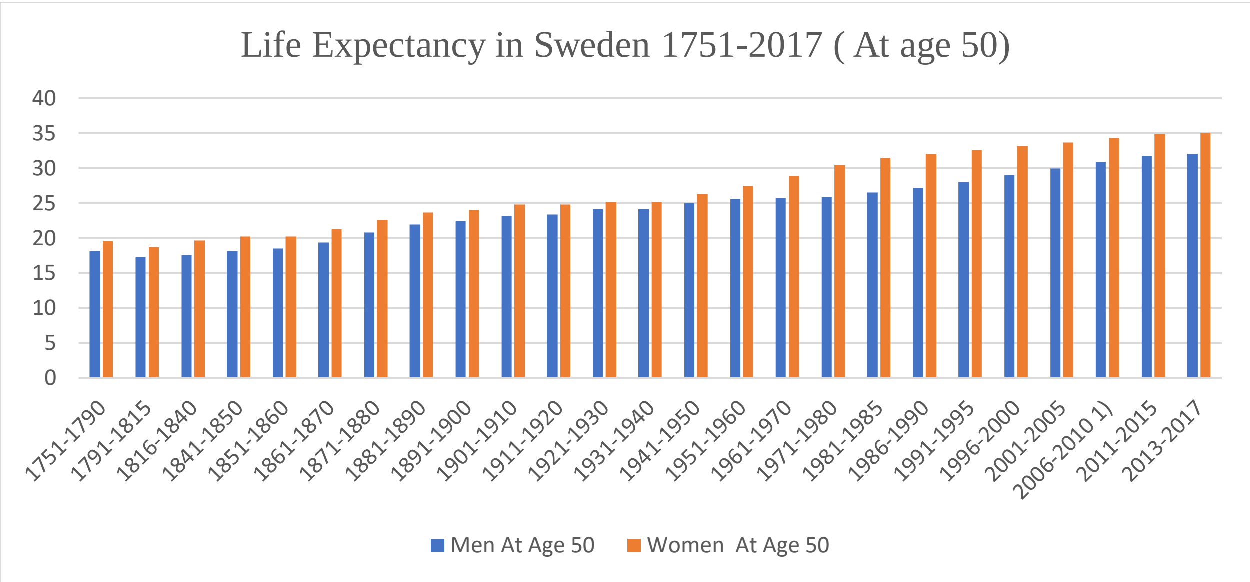

Figure 2.2a Life Expectancy in Sweden, 1751-2017. Source: Data adapted from Statistics Sweden, Government of Sweden

As highlighted by figure 2.2a, the trends in life expectancy in Sweden have shown a gradual increase. As individuals live for longer, the diversification of risks and consumptions have to be spread out over their lifetimes. The demographic transition towards increasing longevity transition has important socio-economic implications that are decoupled with decreasing fertility rates. In the year 2014, the percentage of population aged 65+ age was 20%.[44]

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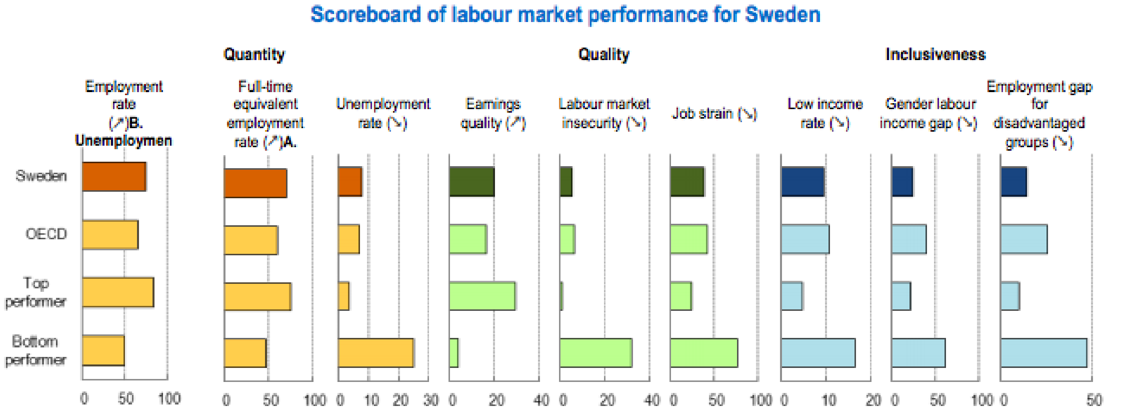
[44] Ibid.

With changing demographic structure, the government focused on increasing its state capacity by raising spending and taxes for the services. Currently, the contributions amount to 31.42% of the gross salary, and 10.21% accounts for the pension contribution.[45] Due to the demographic trends, the long-term deficit accumulated by the unfunded pension system and increasing taxes, the policymakers realized the urgency for reform. According to the estimates, the tax rate would have needed to be as high as 36% by 2025.[46]

However, the radical shift in the pension system brings to the core the question of 'employability' in the system. Until the 1990s, the use of the Rehn-Meidner model for wage equalization as a form of industrial policies was functioning. Yet, the changing global environment and structures of employment brought about different sets of challenges to the Swedish pension system. According to the Employment Outlook, Sweden's labor market conditions are improving, with employment rate returning to its pre-crisis rate in the first quarter of 2017.[47] Moreover, the report highlights that unemployment rate was at 6.7% in April, slightly above its pre-crisis level in 2007.[48] The new OECD scoreboard shows the relative strength and weakness of the Swedish Labor Market (see figure 2.2b). However, Sweden generally scores above the OECD average and is close to the top performers.

[45] 'Sweden Payroll and Tax Overview', https://www.activpayroll.com/global-insights/sweden.
[46] Karl Scherman, 'The Swedish Pension Reform', Discussion Paper (Geneva: International Labor Office, 1999).
[47]OECD, *OECD Employment Outlook 2017*, 2017, https://www.oecd-ilibrary.org/content/publication/empl_outlook-2017-en.
[48] Ibid.



Note: An upward ↗ (downward ↘) pointing arrow for an indicator means that higher (lower) values reflect better performance.
Earnings quality: Gross hourly earnings in USD adjusted for inequality. *Labour market insecurity*: Expected monetary loss associated with the risk of becoming unemployed as a share of previous earnings. *Job strain:* Percentage of workers in jobs characterised by a combination of high job demands and few job resources to meet those demands. *Low income rate*: Share of working-age persons living with less than 50% of median equivalised household disposable income. *Gender labour income gap*: Difference between average per capita annual earnings of men and women divided by average per capita earnings of men. *Employment gap for disadvantaged groups*: Average difference in the employment rate for prime-age men and the rates for five disadvantaged groups (mothers with children, youth who are not in full-time education or training, workers aged 55-64, non-natives, and persons with disabilities) as a percentage of the employment rate for prime-age men.
Source and definitions: OECD calculations using data for 2015 or latest year available from multiple sources. See OECD Employment Outlook 2017, Table 1.2. for further details

Figure 2.2b Scoreboard of Sweden's labor market performance. Source: OECD, OECD Employment Outlook , 2017.

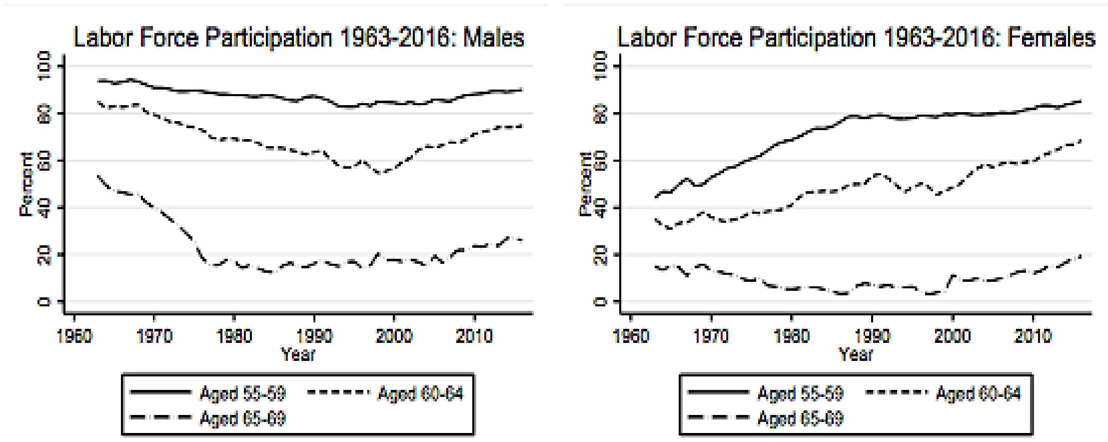


Figure 2.2c Labor Force Participation 1963-2010. Source: Lisa Laun and Mårten Palme, ‘The Recent Rise of Labor Force Participation of Older Workers in Sweden’, *The Institute for Evaluation of Labour Market and Education Policy*.

Contrastingly, numerous reports provide evidence of segregation and discrimination in the labor force, particularly for migrants. This is one of the main challenges. One of the most contentious claims is that labor mobility revolves around the extent to which migrants come in search of generous welfare benefits.[49] However, the basis of the Swedish model faces risk as immigrants are treated as a homogeneous group, which forms the basis of their exclusion.[50] The prevalence of discrimination in the labor market is well documented.

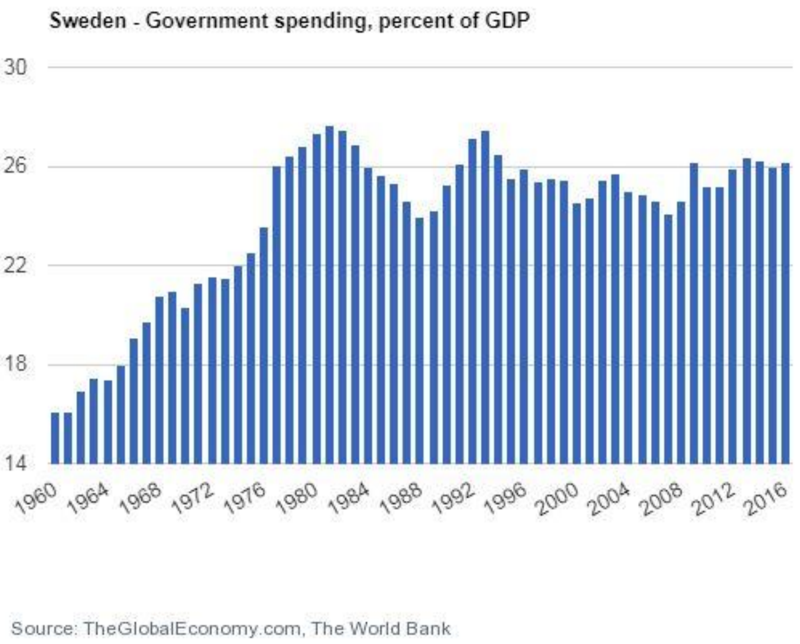


Figure 2.2d Government Spending, percentage of GDP 1960-2016. Source: The World Bank. 'Sweden-government spending % of GDP', 2016.

Contrastingly, the increasing government size and intervention ideologically is biased towards maintaining income equality and ensuring high competition. However, as a share of GDP, the percentage expenditure for social protection fell from 36.1% in 1993 to 29.5% in 2016 (see figure 2.2d).[51] Additionally, the largest expenditure item was the elderly at 42%.[52] The

[49] Mikkel Barslund et al., 'Labour Mobility in the EU: Dynamics, Patterns and Policies', *Intereconomics* 49, no. 3 (2014): 2.
[50] Mia Latta, 'Ethnic Discrimination in Swedish Labor Market', *Eurofound,* 2005.
[51] Statistics Sweden. Social Security in Sweden 1993-2013. Government of Sweden. (accessed April 23, 2018) https://www.scb.se/en/.
[52] *Statistiska Centralbyrån. Increased Expenditure for Social Protection.*(accessed April 20 2018) https://www.scb.se/en/finding-statistics/statistics-by-subject-area/national-accounts/national-accounts/social-

government capacity has also played an imperative role in shaping the behavior towards savings. The increasing longevity, share of spending on old age, and old-age dependency ratio will likely push for changing saving and investing behavior to smooth out consumption during old age.

The trends highlight Sweden's demographic transition, an increasing old-age dependency ratio and increased government spending was conducted with the aim of effectively managing and expanding state capacity. However, the pensions entitlements are lasting expenditures, and the increasing share of expenditure in old-age indicates the politically-sensitive nature of reforms undertaken by the governments.

Aforementioned, Sweden conducted the most comprehensive policy-measures not limited to managing the rounds of crisis, rather it is coupled with achieving fiscal soundness of the pension systems.[53] It was not just slow-growth of the economy and the crisis that pushed the government to put pensions on the table. Despite the financial crisis and growing instability of the economy, the state was able to deliver the traditional focus of social equality due to its ideological preferences.

2.3. Current Developments in the Notional DC System

The implementation of a market-based pension system possess significant challenges. One of the fundamental challenges for the pillars is the global economic environment. The significant and rapid fall in oil prices and deflationary shocks in 2015 led to decreasing interest rates for

protection-expenditure-and-receipts-in-sweden-and-europe-esspros/pong/statistical-news/social-security-in-sweden-19932015/

[53] Schludi, *The Reform of Bismarckian Pension Systems*, 91.

the AP4 funds---that are primarily equity-based funds.[54] Moreover in 2015 pension liability increased by SEK 375 billion or 4.6%.[55] This led to pension disbursements of the year exceeding pension credit earned for that year and the ATP points. The premium pensions in 2015, increased by SEK 84 billion.[56]

Six-Year Review
millions of SEK

	2011	2012	2013	2014	2015	2016
Fund insurance	394,468	472,437	603,540	761,156	841,332	962,304
Traditional insurance	8,870	10,868	12,907	18,091	20,784	26,029
In temporary management	30,191	31,455	32,039	32,899	34,260	36,034
Insurance assets	**433,529**	**514,760**	**648,486**	**812,146**	**896,376**	**1,024,367**
Pension liability	431,144	511,522	643,889	805,187	889,386	1,015,464
Net income/loss for the year	1,018	1,052	1,684	2,491	1,003	2,686

Figure 2.3a. Six-Year Review of Premium Pension. Source: ,'Orange Report 2015' (Stockholm: Swedish Pension Agency, 2016).

This highlights the strong market reliance of the pensions system. The NDC is efficient when the global economy is strong, however, shocks can impact the interest rate that individuals receive for their funds. As highlighted by Figure 2.3a and Figure 2.3b, the asset of the system depends on the both the pension liabilities of the retirees and the economically active. Hence, the funds are extremely volatile to economic and demographic shocks.

[54] Pensions Mydigheten, 'Orange Report 2015' (Stockholm: Swedish Pension Agency, 2016).
[55] Ibid.
[56] Ibid.

Six-Year Review
billions of SEK

Calculation year	2011	2012	2013	2014	2015	2016
Balancing year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Buffer fund, mean value[1]	865	908	963	1,067		
Buffer fund	873	958	1,058	1,185	1,230	1,321
Contribution asset	6,828	6,915	7,123	7,380	7,457	7,737
Total assets	7,700	7,873	8,180	8,565	8,688	9,058
Pension liability	7,543	7,952	8,053	8,141	8,517	8,714
Surplus/Deficit	157	-80	127	423	171	344
Balance ratio[2]	1.0198	0.9837	1.0040	1.0375		
Balance ratio[3]	1.0208	0.9900	1.0158	1.0520	1.0201	1.0395
Damped balance ratio					1.0067	1.0132

1 Mean value of the fund as of December 31 for the past three years.
2 Previous definition of balance ratio (based on three-year average of the buffer fund's market value as of December 31 of each year)
3 Balance ratio (based solely on the buffer fund's market value as of December 31 each year, formerly called financial position)

Figure 2.3b. Six-Year Review of Income (PAYG System). Source: 'Orange Report 2015' (Stockholm: Swedish Pension Agency, 2016).

The low-cost feature of the pension is a significant strength. The cost of administration, as emphasized by Figure 2.3c, is different for income and premium pensions. There is a slight decrease in the income pension cost over the years, whereas premium pension capital management cost and fees rose by just under 1% from 2015 to 2016.[57] However, increasing capital affects the cost of managing the capital.

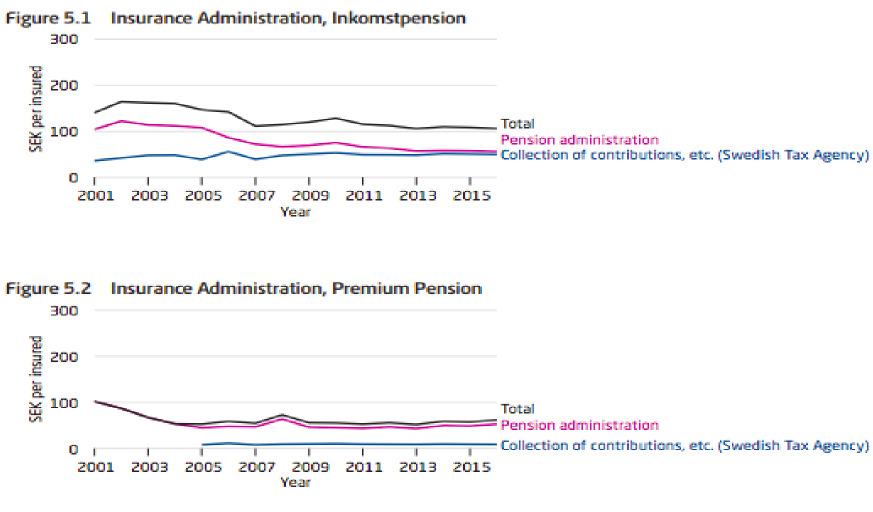


Figure 2.3c. Cost of Administration of the second and third pillar. Source: 'Orange Report 2016' (Stockholm: Swedish Pension Agency, 2016).

[57] Ibid.

In 2017, to increase returns and improve sustainability, the government decided to relax the investment rate for the four state pension funds.[58] It is still early to decipher the consequences of this incentive. Pension reforms introduced a system that resembles the market-based arrangement. The link between economic growth, demographic transition, and labor market trends has become exceedingly rigid. Although there is a significant risk attached to the second and third pillar, the initial payments will not be relatively higher.

2.4. Politics of Reform

The reforms are deliberative of policy preferences of political parties that are shaped by institutional preferences, driven by actors as well as macro-economic trends. In Sweden, the defining feature is marked by the support of institutional arrangements that have led to broad-based acceptance towards the consensual-approach to policies. Moreover, Pierson emphasizes that pension systems are essentially code of laws stipulating who may make claims on the state and under what conditions.[59] Consequently, it is for this reason that changing preferences would be strenuous and unilateral decisions would be rejected. To a large extent, this provides the basic conjecture for why the Swedish pension reforms have been successful.

The main themes that emerge through the reforms are the significant cleavages that were exacerbated through the process of reforms. The trade unions in Sweden emerged as one of the strongest actors. The ideological underpinning of the Social Democrats emerged as the institutional framework within which the interaction between insurance and redistribution was

[58] Reuters Staff, 'Sweden to Loosen State Pension Fund Investment Rules', *Reuters*, 2017.
[59] Pierson and Myles, 'The Comparative Political Economy', 321.

constructed. These factors have come together to underscore the path-dependency and institutional biases in the process. However, it does not confirm that the welfare state commitments are withering, rather they are changing.

The PRA approach views that in capitalist democracies, the driving force is not just the interaction between insurance and redistribution, but also class-mobilization. Korpi suggests that the PRA approach takes into account a much broader spectrum of life-course risk. Furthermore the debates and discussions about the reforms of pension systems were highly politicized in Sweden.[60] The ideation of the pension policies highlight class-conflict, partisan polarization, and politics of compromise. These similarities, specific to the peculiarity of the rise of Social-Democrats and strong unions, are also characteristics of an ethnically, linguistically, and culturally homogeneity which assisted in significantly reducing the cross-cutting cleavages.[61]

However, significant cleavages did form through the nexus between the labor, market, and state. The rise of the Social-Democrats was also marked with alliance with the trade unions, conventionally so, for the traditionally conservative partied marked loose ties with the confederation of industrialist and manufactures.[62]

In contrast, the big 'radical' reform in 1991, the New Pension System, came out of atypical patterns within the context of the consensual approach that characterized the Swedish Model. This period is classified as 'new' politics of the welfare state. Between 1991-94, the Bourgeois

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[60] Olli Kangas, Urban Lundberg, and Niels Ploug, 'Three Routes to Pension Reform: Politics and Institutions in Reforming Pensions in Denmark, Finland and Sweden, *Social Policy & Administration* 44, no. 3 (2010): 268.
[61] Esping-Andersen, *Politics against Markets* (Princeton University Press, 1985), 72.
[62] For a detailed account of the politics, see Martin Schuldi.

minority government appointed a new pension working group (*pensionsarbetsgruppen)* that included all party representatives and no interest-social groups.[63] The Bourgeois coalition, nevertheless, did not push for radically new changes in the pension policies following the blame-avoidance hypothesis.[64]

The Bourgeois alliance as well as the centralized and paternalistic path linked with dominance of the Social Democratic ideology had captured the path and institutional preferences. Towards the end, the cyclical process of consensus had returned and the interests, preferences of the actors, political parties and institutional structures seemed to benefit from this remarkable radical shift in a path-dependent country.

2.5. The Path Forward

The extrapolation of trends in policies and past developments confirms the hypotheses that institutions, actors, and historical ideological preferences towards egalitarianism have shaped the path dependency. Unique to the Swedish pension reforms is that different solutions were applied within the existing institutional structure, with outcomes having radical effects on the system. One of the main reasons that the reforms were successful was because it created more 'winners' while maintaining the complementary coordinating systems.[65] There has been a considerable degree of compatibility of institutions and power resources arguments. The established system did go through changes but kept up with the politics of solidarity and redistribution.

[63] Schludi, *The Reform of Bismarckian Pension Systems*, 101.
[64] Pierson, 'The New Politics of the Welfare State'.
[65] Ibid.

Conversely, the main actors that marked the exceptionalism that is the-trade unions, have experienced lower memberships. The union density among the share of Swedish workers who are members of a trade union has dropped in the last decade from 80% to 70%.[66] The outcome of the changing structures of actors and society cannot be predicted. The path-dependency emerges over ideological underpinnings that made the process difficult, subsequently, the old was replaced with the new market-based system.

The Swedish pension reforms were successful and sets precedent for consensual approaches to public policies- a system can be reformed to benefit the citizenry as well as enhance economic growth. However, the transferability of this experience is dubious.

[66] Anna Gustafsson, 'Sweden: Fall in Union Density', *Eurofound*, 31 August 2015.

3. India’s Journey to Pension Reforms

In India during the period of liberalization in the 1990s under former Prime Minister Narasimha Rao, began a preoccupation with economic issues, with a stress on growth but more crucially on the economy’s development.[67] With the encircling dilemmas over macro-systematic change and pace of reforms, Rao stated: ‘*my model is not Margaret Thatcher but Willy Brandt’*.[68] The effect of Rao’s policies on social and economic development is unanimous. However, the prevalent debate, still popular among India’s economics, is about the role of the government in the state’s socio-economic development.

The relative role of the state as a main actor for redistribution has been formative in the institutional structure. The move towards a defined contribution (DC) and market-based pension system, therefore is a remarkable deviation. The debate surrounding the adequacy and coverage of pension systems in India continues to swing between the extent to which the state ought to intervene and the extent to which market forces should be allowed to govern the economy more freely.

The choices of arrangement for income security after the individual becomes a non-economic agent have been sparsely distributed, if not limited. Initially, pensions were limited to public sector employees, that is state and central government employees. The ‘protective’[69] regime in India has been marked by multiple inadequacies that hinder the enhancement of productivity as well as social equity. The fragmentation of the labor market has created strong insider and outsider biases. This biases emerged explicitly with pensions starting with the public sector

[67] James Manor in Sanjay Ruparelia, ed., *Understanding India’s New Political Economy: A Great Transformation?* (London: Routledge, 2011), 206.
[68] Ibid.
[69] Rudra, *Globalization and the Race to the Bottom*.

employees such as central and state civil servants. Moreover, the social security structure in India is multi-layered, for this reason the focus of this chapter is on the National Pension System (NPS).[70] Admittedly, the historical legacy determining the institutional development was coordinated with the Indian growth story. Fragmented socio-economic development with an inherent pro-poor policies preference has generated support for means-tested, targeted programs.

The deeply fragmented nature of social protection in India is underscored by the diverging trends in expenditure and political promises for protection; the stakes are higher for those in informal/unorganized sectors and in rural parts of the country. There were multiple drivers that pushed the reform agenda onto the table. Respectively, the crucial driver has been rapid urbanization and break down of the traditional structures. This is especially highlighted in a respondent survey conducted on the requirement for pensions and social protection in rural parts of the country.

One of the respondents, Ganga Sahu, 69, male, stated:

> *The condition of the families in the village is such that nobody wants to take care of the older person. The condition is worse if children have migrated in search of employment and the spouse is dead*.[71]

The numerous respondent surveys and reports carried out by governmental and non-governmental agencies acted as a catalyst in an already growing consensus that social protection is crucial. This was one of the drivers behind transitioning from defined benefits to DC system, and partial-contribution based system for the unorganized sectors.

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[70] The other pension instrument are Employees' Pensions Scheme and Employees Provident Fund Scheme.
[71] Help Age India, 'The Social Pension in India: A Participatory Study on the Poverty Reduction Impact and Role of Mointoring Groups', Survey (New Delhi: Help Age India, n.d.).

The reforms aimed at not only breaking down the insider and outsider biases, but also at involving more stakeholders to smooth out consumption over life times, in addition to protecting the poor and maintaining old-age income, alleviating poverty, and increasing access to resources and redistribution of income. This is a critical juncture for social policies in India. The reforms are illustrative of the turn towards transforming this gap, though challenges remain.

3.1. The Structure and Design of the National Pension System

The National Sample Survey (NSS) (68th round) showed that employment grew strongly--the total workforce increased from 459 million in 2009-2010, to 472.9 million in 2011-2012.[72] Nevertheless, the growth of employment is not impressive given the aggregated unemployment rate in the country. According to the latest World Employment Outlook, ILO, the trend for unemployment rate since 2007-2019 has been at 3.5%.[73] In the rural areas, 66% of elderly men and 28% of elderly women are employed, while in urban areas only 46% of elderly men and about 11% of elderly women are employed.[74] Significantly, less than 14% of this total workforce is covered by formal retirement programs.[75] The statistics are illustrative of the urgency for broad-based reforms, specifically for those in the informal sector and rural parts of the country. There is a requirement for robust pension and social security systems that will require complementary to reforms in labor markets and in public financial management.[76]

[72] International Labour Organization, 'India Labour Market Update, July 2017', (ILO in Asia and the Pacific, 2017),

[73] Labor Market Trends and Policy Evaluation Unit, 'World Employment Social Outlook' (Geneva: International Labour Office, 2018).

[74] Central Statistics Office, 'Elderly in India- Profile and Programmes', Ministry of Statistics and Programme Implementation (New Delhi: Government of India, 2016), 10.

[75] Cheolsu Kim, ed., *Implementing an Inclusive and Equitable Pension Reform: Lessons from India's New Pension Scheme* (London: Routledge, 2012), 17.

[76] Mukul G. Asher and Azad Singh Bali, 'Social Security Reforms And Economic Development: The Case of India', in *Reforming Pensions in Developing and Transition Countries* (London: Palgrave MacMillan, 2014), 166.

The old pension system was based upon the government's defined-benefits pension, for which the government has budgeted 300 billion rupees ($4.8 billion), for pension and other retirement benefits for employees who continue to be part of the old pension system.[77] Recently, there have been growing demands from government employee associations to restore the old system which was non-contributory.[78] The Labor Minister however stated that the old system will not return as it has proved to be fiscally burdensome.[79]

Due to fiscal constraints, exclusion of the private and informal sector, and demographic transition, the objective of the reforms focused on increasing coverage to include private sector employees and other professionals. Moreover, the market-based system would have a dual benefit of---enhancing the capital markets as well as inculcating the habit of savings by tightening the link between contributions and distribution.[80] The NPS was introduced with effect from January 1st, 2004 and in 2003, the Government of India initiated the establishment of a new regulatory body-- Pension Fund Regulatory and Development Authority (PFRDA).[81] Initially, the NPS was introduced for new government recruits (excluding armed forces), but it expanded to include all citizens of India, whether in private institutions or the informal sector.[82]

The NPS has three main schemes running under it: NPS for the government officials, NPS for the corporate sector and NPS Lite for the informal sector. On 9th May 2015, PM Modi launched the Atal Pension Yojana, as a government- backed pension scheme targeted at the unorganized

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77 Pamposh Rana, 'India Moves to Transform Its Pension System', *The New York Times*, 19 September 2013.
78 'Difficult to Move Back to Old Pension System: PFRDA', *Financial Express*, 8 March 2017, https://www.financialexpress.com/money/difficult-to-move-back-to-old-pension-system-pfrda/579770/.
79 Ibid.
80 Asher and Bali, 'Social Security Reforms'.
81 Hira Sadhak, *Pension Reform in India: The Unfinished Agenda* (New Delhi: SAGE, 2013), 284.
82 Central Statistics Office, 'Elderly in India - Profile and Programmes' http://mospi.nic.in/sites/default/files/publication_reports/ElderlyinIndia_2016.pdf.

sector. It comes under the regulation of the Pension Fund Regulatory and Development Authority. [83]

The NPS is a fully funded DC pension system based upon individual contribution. As highlighted by table 3.1a: the NPS for the formal sector has two pillars—Tier I (this resembles the second pillar according to the World Bank framework) and Tier II (this is a voluntary and is for wealth accumulation).[84]

Table 3.1a. Two Pillars of the National Pension System.

Particulars	Tier I	Tier II
Option of selection of the Account	Mandatory	Optional
Withdrawal Facility Available	Conditional & Restricted Withdrawal	Yes
Minimum Contribution at the time of A/c opening	Rs. 500	Rs. 1000
Minimum amount of subsequent contribution	Rs. 500	Rs. 250
Minimum Contribution Required per year	Rs. 1000	-
Minimum no. of contribution per year	One	-
Frequency of contribution permitted	Unlimited	Unlimited

Source: PFRDA.

The entry and accumulation phase is between 18 to 60 years and 60 to 65 years, however annuity/pension phase can start from 60 years onwards.[85] The stakeholders other than the

[83] PFRDA, 'NPS Lite: The Low Cost Model for "Groups"', Offer Document (New Delhi: PFRDA), accessed 25 April 2018.
[84] Sadhak, *Pension Reform in India*, 236.
[85] PFRDA, 'National Pension System Architecture' (New Delhi: Government of India, 22 September 2014).

PFRDA include NPS Trust-Beneficial Owner, Points-of Presence (POPS), Trustee Banks, Pension Fund, Custodian, Central Recordkeeping Agency (CRA), Annuity Service Provider (ASP), and Retirement Adviser.[86] Moreover, the Tier I is mandatory for government and state employees, with contributions of 10% of the basic salary. Respectively, private sector employees have the benefits of: flexibilty, transparent cost structure, tax savings and portable.[87] The fund allocation patterns are in equity, corporate bonds, government securities and alternate investment funds.[88]

However, if choice of fund is not made by the subscriber, then the funds are managed on the pattern of a lifecycle fund, and investment options can be changed twice in a financial year.[89] Tier II does not have any tax incentives and there are no limits to contribution or withdrawal. However, to open a tier II account, there is a requirement of a pre-requisite of tier I account.[90]

3.1.1. NPS Lite: Pensions for the Unorganized Sector

Unlike many countries in Latin America, India retained its existing defined-benefit system. Under the umbrella system, NPS lite is for those in the informal sector.[91] The NPS lite broadly has similar functionalities as the NPS. However, the government makes a contribution towards the account.[92] It is a group driven concept driven by aggregators who play a role in advertising the scheme and bring investors under one umbrella.[93] The role of the aggregator is to expand the coverage and play the role of POPs. Moreover, the charges to open an account under NPS

[86] Ibid, 6.
[87] Ibid.
[88] PFRDA, 'National Pension System Architecture'.
[89] Ibid, 11.
[90] Sadhak, *Pension Reform in India*, 236.
[91] Ibid, 271.
[92] PFRDA, 'NPS Architecture'.
[93] Sadhak, *Pension Reform in India*, 271.

lite are low.[94] However, the role of the aggregator is imperative for the success of this scheme, and the PFRDA has outlined the rules and regulations.

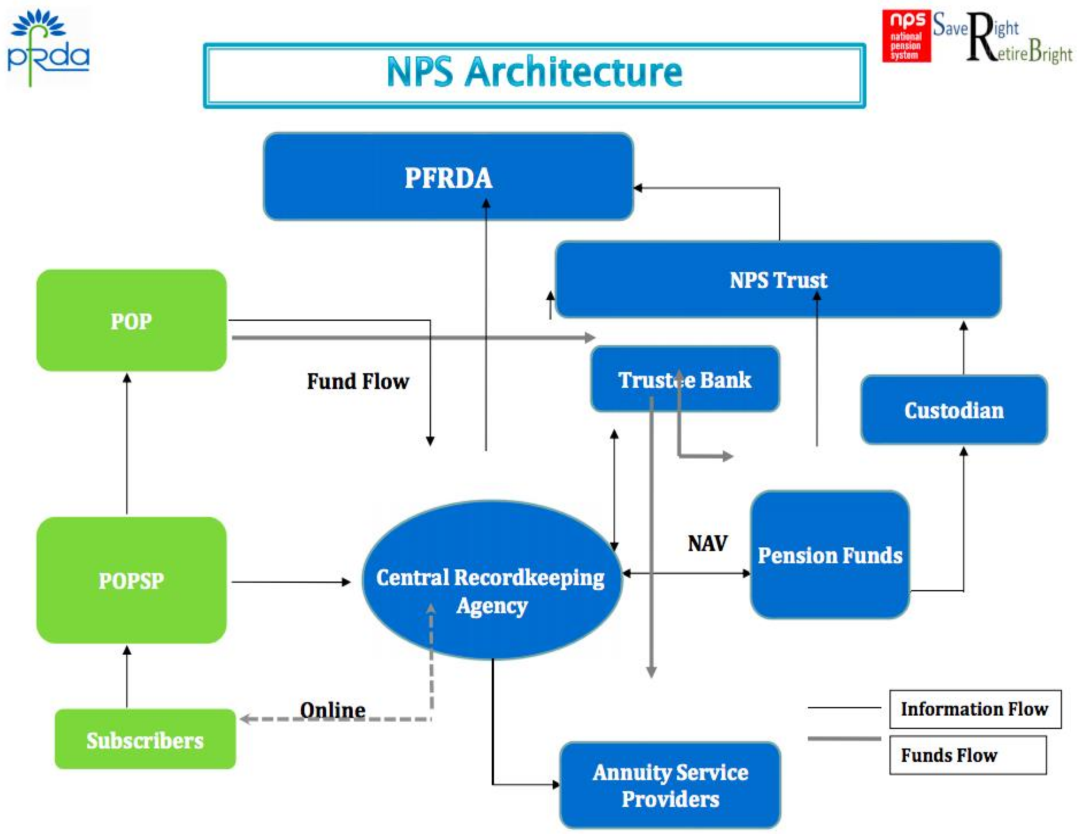

Figure 3.1.1a. National Pension System Regulatory Structure. Source: PFRDA.

The NPS Lite have six pension fund managers, and the POPs, play the role of aggregators as well based on their constituent area.[95] As highlighted in figure 3.1.1b, the aggregators are multifaceted in their role.

[94] Ibid, 271–75.
[95] Ibid.

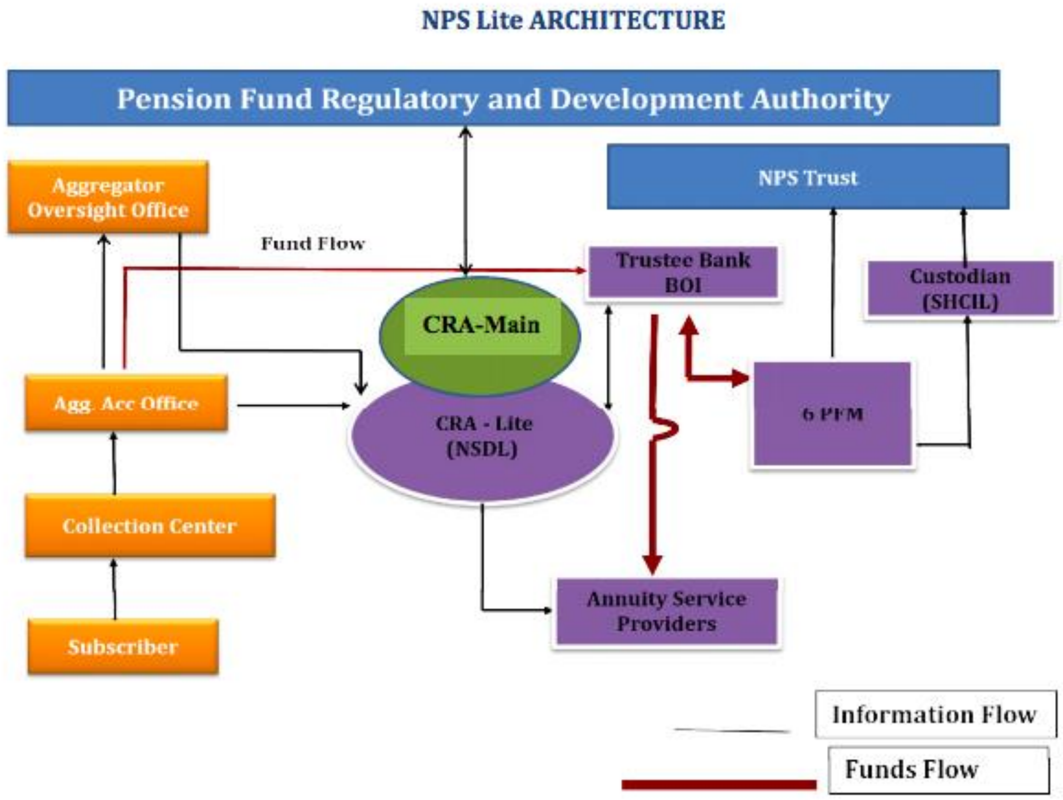

Figure 3.1.1b. Representation of NPS Lite. Source: PFRDA.

Consequently in February 2010, the Union Finance Minister, expressed his concern about the need for more low cost schemes for the unorganized sector and encouraged them to join NPS lite.[96] The promise made was that the government would contribute Rs.1000 for every NPS lite account opened in 2010-2011, under the *Swavalamban scheme (replaced* in 2015 *with Atal Pension Yojana)*. However, the benefit could be availed for individuals who already made contributions to their accounts.[97]

[96] Ibid.
[97] Ibid.

The structure and design of National Pension System is a step towards income security and linking contribution, and insurance under one system. Moreover, the components of NPS is somewhat aligned with the World Bank's recommendations.

3.2. Macro-Economic Trends

The focus since independence has been towards tackling the biggest obstacles--reducing poverty and income disparities. Capitalizing on this vision, the *Bharatiya Janta Party* (BJP)[98] enacted multiple structural and economic reforms when it came into power in 2014. In his recent speech addressing the World Economic Forum, Narendra Modi, delivered a strong message against protectionism and pitched for creating a "*heaven of freedom', free from divisions*."[99]

In line with the message of the speech, the Modi government conducted sustained banking reforms which helped move India to the top 100 nations club.[100] Apart from that, the implementation of demonetization had severe impacts on the informal sector specially the small and medium-sized enterprises. The GST with the aim of increasing the tax base is still being debated, the impact of which disrupted the economy in the short-term with continuing ramifications on the informal sector.

The country reports states that India's real GDP growth to average will be 7.7% a year in 2018-22.[101] This is also due to recapitalization of the banks, and expansion of tax reforms to support

[98] Bharatiya Janta Party (center-Right) and the Indian National Congress (center-Left) are the two most prominent political parties in India.
[99] Express Web Desk, 'Full Text: PM Narendra Modi's Keynote Speech at Plenary Session of WEF in Davos', *The Indian Express*, 24 January 2018, sec. India, http://indianexpress.com/article/india/full-text-pm-modis-keynote-speech-at-plenary-session-of-davos-wef-5036533/.
[100] World Bank, 'India Jumps Doing Business Rankings with Sustained Reform Focus', Press Release (New Delhi: World Bank, 31 October 2017).
[101] EIU, 'Country Report: India', 5.

private investment.[102] Moreover, the report also expects private consumption to make the largest contribution to growth, and public spending ahead of the parliamentary and state election to be a key source of support. Government spending will be moderate over the latter forecast period.[103] This is expected in the political climate, specifically with respect to the move from structural reforms to increasing spending. The National Health Protection Scheme was announced as a part of the Budget 2018, and aims to cover 10 crore 'vulnerable families'.[104]

Figure 3.2a Real GDP Growth (% change). Source: World Economic Outlook, International Monetary Fund.

With the aim of transforming India, the government undertook several structural reforms. However, there is a misalignment in the experience of this transformation. While the trends illustrate the move towards more structural and economic reforms, the persistence of income

[102] EIU, 16.
[103] EIU, 6.
[104] Times of India, 'Modicare to Be Launched on August 15 or October 2: Sources', *Times of India*, 2 February 2018, https://timesofindia.indiatimes.com/india/national-health-protection-scheme-to-be-implemented-from-oct-2/articleshow/62757339.cms.

inequality, poverty, and other socio-economic issues requires urgent attention. Without redistribution, and increasing investment in human development, this growth will continue to be exclusionary and unsustainable.

Moreover, numerous studies have concluded that within the next seven years, India will overtake China to become the world's most populous country.[105] In the next few decades, India will experience significant ageing. According to figure 3.2c below, the transition will reach the middle phase by 2050. The recent population census provides a snap-shot of the increasing numbers of the aged (60+). Furthermore, as highlighted by table 3.2b, the elderly population increased from 24.7 million in 1961 to 103.8 in 2011. The increase is also concentrated in rural India.

Table 3.2b. Elderly Population (aged 60 years and above) in India

Table1.1. Elderly population (aged 60 years & above) in India

(in millions)

Source	Total			Rural	Urban
	Person	Female	Male		
Census 1961	24.7	12.4	12.4	21.0	3.7
Census 1971	32.7	15.8	16.9	27.3	5.4
Census 1981*	43.2	21.1	22.0	34.7	8.5
Census 1991**	56.7	27.3	29.4	44.3	12.4
Census 2001***	76.6	38.9	37.8	57.4	19.2
Census 2011***	103.8	52.8	51.1	73.3	30.6

Source: Population Census Data

* The 1981 Census could not be held in Assam owing to disturbed conditions. The population figures for 1981 of Assam were worked out by 'interpolation'.

** The 1991 Census was not held in Jammu & Kashmir. The population figures for 1991 of Jammu & Kashmir were worked out by 'interpolation'.

*** The figures include the estimated population of Mao Maram, Paomata and Purul sub-divisions of

Source: Central Statistics Office, Ministry of Statistics and Programme Implementation (Government of India, 2016).

105 For more detail see, United Nations Economic and Social Affairs Unit's *World Population Prospects 2015*.

This trend is not unique to India but it will have an impact on its economic growth and development. It will influence the labor structure of the country. Moreover, increasing longevity and changing social and cultural norms will impact the demographic transition. The large absolute numbers will not only require high capacity in routine administration tasks, but also require substantial reforms in India's system of old age protection.[106] Further there are vast regional variations that will increasingly sharpen the lines of redistribution and income insecurity. In a short span, the old age dependency (%) is increasing from 11.4 % in 2000 to 19.3% in 2030.[107] Additionally life expectancy increases from 64.2 years in 2005-10 to 69.9 years in 2025-30. [108] However, given the current state of pensions and income insecurity, there is an urgent requirement to undertake incremental reforms in the country.

Given the current institutional structure and regional disparity, the reforms responded to the need of the hour. The start of the demographic transition will have a significant impact unless broad-based reforms in guaranteeing income security are not undertaken. Although India is young, it will require extensive investment into its human capabilities and provide safety nets so as to ensure the elderly as well as the young are not being pushed into poverty.

[106] Asher and Bali, 'Social Security Reforms'.
[107] Ibid, 163.
[108] Ibid, 163.

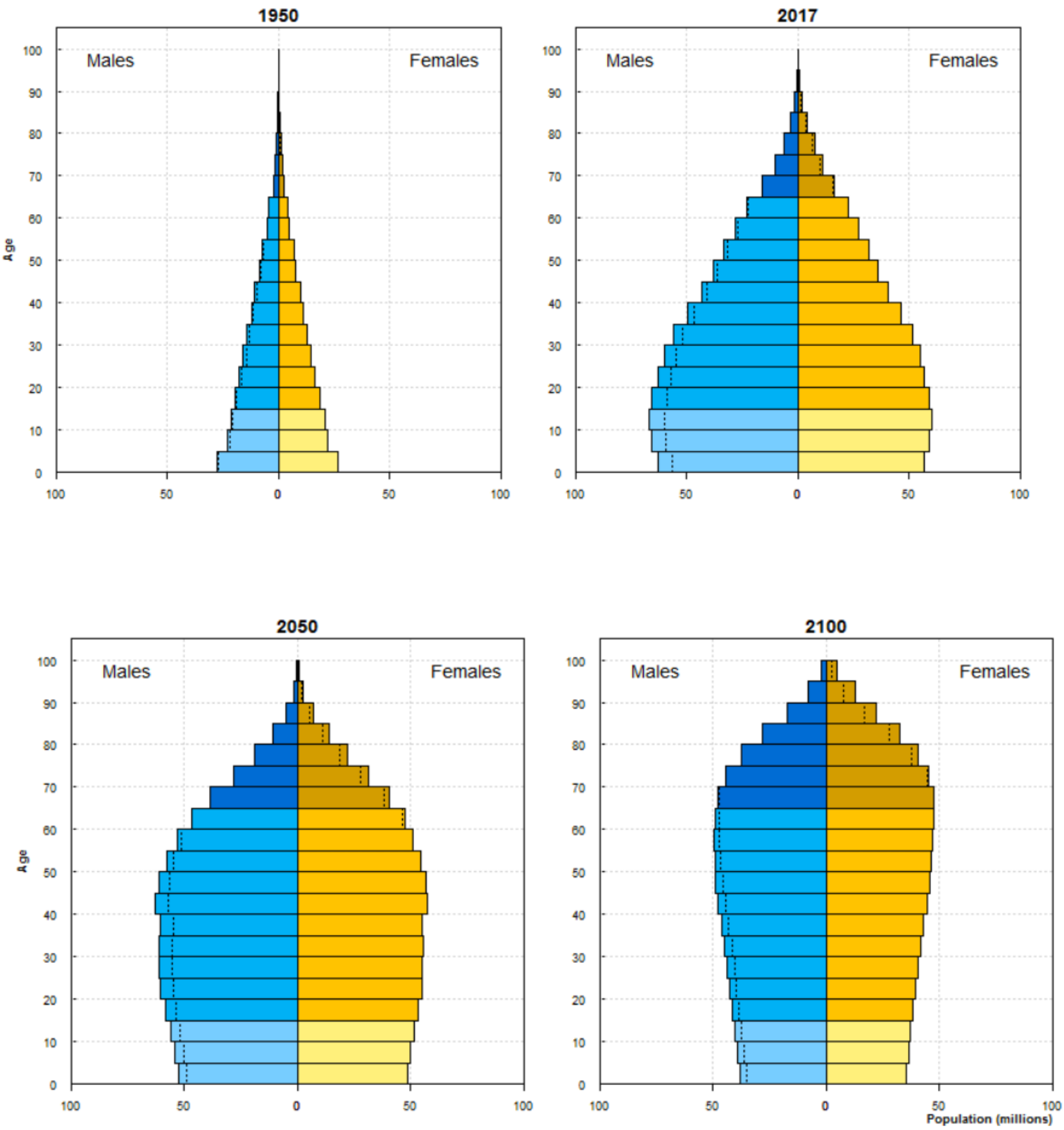

Figure 3.2.c. Demographic Change in India between 1950- 2017 and projections for 2050-2100. Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision.

The Inclusive Development Index 2018, a metric by the World Economic Forum, ranks India 62nd out of 74 emerging economies.[109] The report further states that it performs best (44th) in terms of Intergenerational Equity and Sustainability. Yet, the incidence of poverty and inequality leave substantial scope for improvement. The report further states that labor productivity and GDP per capita remain strong, however employment growth has slowed down.[110]

As mentioned above, India has strong insider and outsider biases—these are sharply accentuated by the formal and informal sectors. However, the current demographic transition has the potential to provide India with significant advantages of 'demographic dividend'.[111] Additional, IMF reports that a projected increase in the global population aged 15-64 years between 2010 and 2040 will occur in India. The working age ratio in the country will rise to 69% by 2040. [112] According to the report, they find that poorest Indian states would benefit the most from the demographic transition, since they lagged far behind in both the transition and income growth.[113] However, labor reforms are politically sensitive and mostly no incremental changes have been undertaken given the sensitivity of the labor reforms.

This insider and outsider bias has strong implications for pensions and other social security initiatives. According to the NSS, 54th Round 1999-2000, out of the total employment of 396 million people, 346.20 million were employed in the informal sector and the rest 54.20 million were employed in the formal sector.[114] In the 61st NSS round 2004-05, the organized workforce

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[109] World Economic Forum, 'The Inclusive Development Index 2018' (World Economic Forum, 2018), https://www.weforum.org/reports/the-inclusive-development-index-2018.
[110] Ibid.
[111] Asher and Bali, 'Social Security Reforms', 165.
[112] Ashoka Mody and Shekhar Aiyar, 'The Demographic Dividend: Evidence from the Indian States' (International Monetary Fund, 2011).
[113] Ibid.
[114] Sadhak, *Pension Reform in India*, 164.

was 6.6 percent, whereas unorganized was 93.4% (see table 3.2d).[115] However, the organized sector remains relatively privileged, with secure jobs and steady income. The disparity in informal/unorganized sector is that the elderly continue to work on a contractual basis well beyond 60 years. [116]

Table 1.2d Workers in organized and unorganized sectors, 1987-8 to 2004-5.

Table 2: Workers in organised and unorganised sectors, 1987-8 to 2004-5

	Number (million persons)			% of total workforce		
	Organised	Unorganised	Total	Organised	Unorganised	Total
1987-88	25.4	301.8	327.2	7.8	92.2	100.0
1994-95	27.0	348.8	375.8	7.2	92.8	100.0
1999-00	27.8	371.2	399.0	7.0	93.0	100.0
2004-05	29.1	410.0	439.1	6.6	93.4	100.0

Sources: Organised employment figures are from annual report (1988) and Quarterly Employment Review (1994, 2000, 2004); unorganised employment figures are from different NSS rounds

Source: Rajan, 'Demographic Ageing and Employment in India', (ILO regional office for Asia and the Pacific, 2010), 13.

The social structure and the labor market are spaces of discrimination and guaranteed income security for elderly women and men, becoming a central policy concern. India also maintains a 'reservation policy' under which specific quotas are reserved for scheduled castes and scheduled tribes in government jobs, educational institutions, public housing, and several political institutions.[117] These 'quotas' have aimed to ensure that those who have been marginalized due to caste and other discriminatory practices, have a level playing field for employment and education. The success has been equity enhancing but there is a long road ahead.

[115] S. Irudaya Rajan, 'Demographic Ageing and Employment in India', Working Paper Series (Bangkok: ILO regional office for Asia and the Pacific, 2010), 13, http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_140676.pdf.
[116] Ibid.
[117] Rudra, *Globalization and the Race to the Bottom in Developing Countries*, 114.

Pension programs are required to match the demographic transition, labor market trends, and the economy. With respect to the economy, the focus should be on whether increasing growth rate is reflected in the trickle down that tackles the severe pockets of poverty. Providing income security should be one of the most important policy priorities. The NPS is a step in the right direction, however to understand the strength and weakness of the system, there is a requirement to understand the politics that underscored the reforms.

3.3. Politics of Reform

The unprecedented move towards transitioning to a DC scheme was motivated by the consequential rising of fiscal stress that arose from covering the civil service pension scheme. As noted by the Asian Development Bank's study, the fiscal stress emanating from civil service retirement benefits was imposing an annual expenditure of over $30 billion on the central and state governments and had created an implicit pension debt.[118]

The increasing fiscal burden set into motion the commissioning of a comprehensive and consultative policy report titled Project OASIS for pensions and income security.[119] The report provided a heuristic outline to shift from a defined benefits pension system to a DC system, and provided recommendations for reforms in different pension schemes that exist parallel to the NPS.[120]

As argued by Rogers, the institutions that were put in place in the period from 1930s to 1950s were influential and many particular aspects with respect to gender and caste were also deeply

[118] Cheolsu Kim and Gary Hendricks, *The Aftermath of Structural Pension Reforms* (Philippines: Asian Development Bank, 2011).
[119] Ministry of Social Justice and Empowerment, 'The Project OASIS Report' (Government of India, 2000).
[120] Ibid

rooted in them.[121] Integration into the global markets and liberalization in the 1990s, transformed the preferences of the institutions. These trends and established preferences in institutions also influenced the labor market structures and the ways in which the state began to intervene to provide protection to the vulnerable. As highlighted by Pierson and Myles, change is powerfully shaped by the constraints and opportunities presented in a distinctively constituted pension system.[122]

Consequently, reforms are politically sensitive and the process of reforms specifically for social security have to be made palatable to a democracy that has grown up with socialism as the dominant paradigm.[123] The characteristics that often leads to delay in reforms is the lack of political will within the central government and bureaucracy to effectively change the status quo.

Furthermore, the growth pattern generated different relations between the state, market, mobilization of masses and civil society. During the era of liberalization, the urban/industrial proletariat remained small. The gap between this group, informal and rural workers widened.[124] This split continues to persist in the country till now. The rift between the groups further hinder social redistribution as there is no united front, and when collective action is expressed, it is often weak. Unlike in the case of Sweden, the role of trade unions in India is marginal. This is illustrative in meetings held between the Ministry of Labor and Employment, employers, and trade unions in 2011.

[121] Gerry Rodgers, 'Inequality and the Labour Market: Comparing India and Brazil', *The Indian Journal of Labour Economics* 59, no. 1 (1 March 2016): 5.
[122] Pierson and Myles, 'The Comparative Political Economy'.
[123] Laveesh Bhandari and Sumit Kale in Ashima Goyal, ed., *A Concise Handbook of the Indian Economy in the 21st Century* (New Delhi: Oxford University Press, 2015), 11.
[124] Rodgers, Inequality and the Labour Market, 7.

The agenda of the meeting focused on strengthening this relationship but the trade unions were not the main players.[125] Given the vast informal sector and contractual workers, the business/employers have more avenues to leverage their interests. As substantiated by Sharma, employers have been able to find ways to reduce the workforce even with the 'restrictive' provisions in place.[126]

The employers are the actors with power to influences policies and specifically pension policies that have a direct impact on their functioning. According to North, past events and decisions appearing in institutions may persist for a long time and may restrain actors' potential decisions for the future.[127] These appear in institutions and can either restrain or enhance the role of actors. Thus in India economic growth plays a fundamental role, institutionally enabling businesses. The resistance from the trade unions and left-wing parties that the government received from shifting towards DC was unheeded. This can be observed in the following statements:

> *We will intensify our protest against the move to link hard-earned pension savings of the people to the vagaries of the market. - Communist Party of India (Maoist)*[128]

> *The United Progressive Alliance and the major opposition party, the BJP, are surrendering to the pressure of international finance capital. - Centre of India Trade Unions*[129]

Due to the fragmented nature of trade unions in India, and plausibly the embedded power of businesses, the opposition was not strong enough.

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[125] Ministry of Labor and Employment. New Delhi: Government of India.
[126] Alakh Sharma, 'Flexibility, Employment and Labour Market Reforms in India', *Economic and Political Weekly* 41, no. 21 (2006): 4.
[127] North, *Institutions, Institutional Change and Economic Performance*.
[128] Bureau, 'Left Parties, Trade Unions to Oppose Pension Fund Regulator Bill', *The Hindu*, 25 March 2011, Business Line edition.
[129] Ibid.

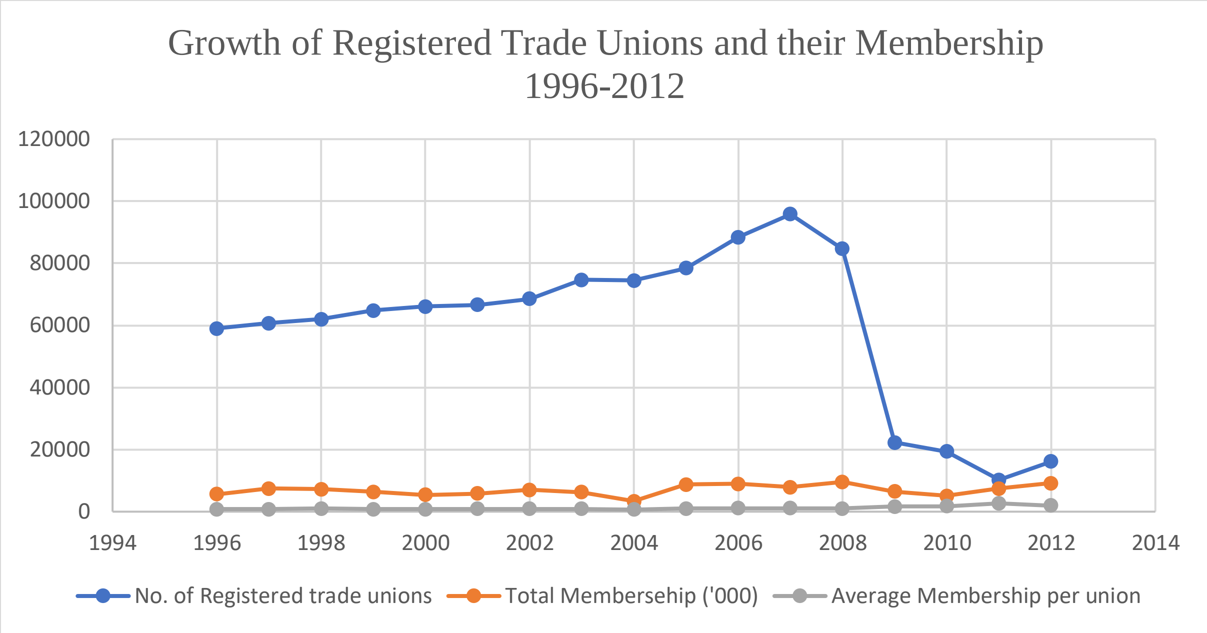

Figure 3.3 Growth of Registered Trade Unions and their Membership,-1996-2012. Source: Data adapted from Ministry of Labor and Employment, 'Trade Unions in India', Government Report, Labor Bureau (Chandigarh/Shimla: Government of India, 2015), 14

As illustrated by Figure 3.3, during the period 1996-2012, the number of registered trade unions did not increase drastically and the average membership was sluggish. Nevertheless, since 2011, the total membership ('000s) has been increasing. Whilst there has been an increase in the number of unions, labor leaders in India are far more focused on furthering their individual political interests and concerns of their affiliated groups rather than uniting to influence policies that affect the entire labor force.[130]

Perhaps the fundamental role of the state and policies for redistribution and protection becomes vital for pensions, the historical preference for which focused on targeted interventions for poverty alleviation and employment creation.[131]

[130] Rudra, *Globalization and the Race to the Bottom in Developing Countries*, 27.
[131] Rodgers, 'Inequality and the Labour Market', 15.

However, exceptional to the shift towards a multi-layered DC system was the axiomatic alignment between the two main political rival parties- the Indian National Congress and the Bharatiya Janta Party. Elected in 1999, the BJP set in motion the heuristic sketch and drafting of the National Pension System. However, in the next general elections in 2004, the United Progressive Alliance (UPA), spearheaded by the Indian National Congress were elected to office. Although the ideologies of the parties are divergent, the Congress government continued the reforms in the midst of opposition from its allied left parties.

UPA under Prime Minister Manmohan Singh, decided to continue with the reforms. The National Pension System established and implemented a dual objective---to accelerate the development of the pension sector and incentivize individual savings to limit pension liabilities.[132]

The opposition within the government was arising from the left-dominant states such as West Bengal, Tripura and Kerala. Even after 12 years since its inception, the erstwhile-Left government of West Bengal continues to resist the move towards DC. Peculiarly, Kerala in 2013-14 agreed to join the NPS, despite state-wide strikes and protest by employees.[133] The move towards DC is heavily motivated by the fiscal distress that both the center and state governments have been experiencing.

Aa mentioned above, the political parties in India have continued to use social policies and specifically pensions ahead of elections as a political instrument to pander to their vote banks.

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[132] Manoj Kumar, 'What Are the Prospects for Pension Reform in India?', *LiveMINT*, 2011. https://www.livemint.com/Politics/SCIph2MNONIzdUzFmw3UkI/What-are-the-prospects-for-pension-reform-in-India.html

[133]Surabhi, 'Tripura May Join NPS, Only Bengal Left', *The Indian Express*, 2015, http://indianexpress.com/article/business/business-others/tripura-may-join-nps-only-bengal-left/.

Predictably, the BJP-led government ahead of elections has been extensively focusing on social policies, and leaving the economic reform agenda behind. Moreover, this structural shift in pension burden has not been painless, and the pre-election months threaten this paradigm shift. Furthermore, the revert would be myopic and the spill-over effect of it would be difficult to mitigate.

It is plausible to assume that the lack of opposition from the main political parties towards privatization of pensions is because the scheme has been focused on enhancing the young pension sector of the country, and channeling investment in stock markets as well as in funding long-term assets.[134] One of the main goals of the move towards private pensions was to decrease the prevailing liabilities of the government and ensure that future liabilities do not arise. This would further rein in the fiscal deficit that has contributed to high public debt and is perceived to be a major constraint in achieving high sustainable growth.[135]

The governance and functioning of the NPS is headed by the PFRDA, the aim of which is to "effectively, regulate, promote and ensure the orderly growth of the pension markets. "[136] Compared to other reforms, the NPS was met with minimal opposition.

3.4. The Path Forward

The exploration of the trends in policies and developments does confirm the hypotheses that young nations such as India should move towards reforming pension systems and taking pre-

[134] Kumar, 'What Are the Prospects for Pension Reform in India?'
[135] Asher and Bali, 'Social Security Reforms And Economic Development', 165.
[136] Kim, *Implementing an Inclusive and Equitable Pension Reform*, 40.

emptive action. Moreover, it also emphasizes the complexity of introducing reforms in a diverse country with multiple actors, institutions, and pre-existing, historical, ideological preferences. The relationship between economic growth and development is central to the multiple priorities in the provision for social security.

The demographic transition further is an important component that could benefit the economic growth of the country. This would enable broad-based economic growth and development: first, by increasing national savings and investment, enabling greater efficiencies and innovations in financial intermediations, and secondly, by enhancing intra-and intergenerational fairness.[137] However, the insider and outsider biases, lack of union power, and pre-elections atmosphere threaten the optimal benefits that can be achieved through partial privatization of pensions.

The move towards a privatized system in India witnessed an emergence of a new coalition in the politics of welfare. The opposition to the relatively young pension system continues to this date. However, the Indian state has acted ahead of the curve to introduce the habit of individualized savings for retirement, although the coalition is weakly embedded in the social and institutional structure. The primary responsibility of accepting central schemes, lies with the discretion of the state governments. The question looming is whether there would be a revert to the old system in the form of political promises for votes. The emergence of a new institutional set-up further has been iconoclastic of the reforms.

[137] Kim, *Implementing an Inclusive and Equitable Pension Reform*, 224.

4. NPS: What Has Happened So Far?

The policy interventions designed focused on achieving early, inclusive, and mass-scale voluntary enrollments in the NPS that is cross-cutting of the social and geographically inequalities.[138] Although the intervention encapsulated the increasing issues of the thin 'safety net'[139], the reforms were driven by the rising fiscal burden of the old system. The fiscal burden is illustrated by the trends in pension expenditure as a percentage of GDP. In 1964-65, it was 0.13% and increased to 0.93% in 2004 and peaked in 1999-2000 at 1.1% of GDP.[140] The past trends and patterns of pension-related expenditure from 1964-1965 until 2003-2003 experienced a significant increase of 18.43%.[141] At an overarching level, low economic growth and periods of crisis manifested as an explanation of the interventions in including the poor and workers of the unorganized sector.

Unique to domestic politics, the shift towards the DC was accomplished by a concerted bipartisan effort by two historic political rivals. The transition of power from the BJP to the Congress in 2004 and Congress to BJP in 2014 did not result in a breakdown of the steps taken towards a pensioned society. In this vein, this chapter focuses on investigating the current developments in the NPS. The limitation of this chapter is driven by the fact that the pension system is nascent and the mid-course modifications made by the PFRDA will take time to show its potential and effects in providing income security.

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[138] Kim, *Implementing an Inclusive and Equitable Pension Reform*, 54.
[139] Tillin and Duckett, 'The Politics of Social Policy, 256.
[140] Karnam Gayithri, 'Central Civil Servant Pension Payments in India: Issues and Concerns', *Pensions: An International Journal* 14, no. 3 (2009): 213.
[141] Gayithri, 210.

4.1. Mid-Course Achievements of the NPS

One of the key developments is the institutional framework that regulates and governs the pension sector. The mission of the PFRDA is to 'be a model regulator for promotion and development of an organized pension system to serve the old age income needs of people on a sustainable basis.[142] The institutional governance is a move towards increasing the implementation across the broad.

In order to increase the scope and subscribers, the PFRDA developed and introduced a simplified version of the NPS account for the unorganized sector.[143] In 2009, the system became voluntary to all organized, self-employed and unorganized sector employees.[144] To enlarge the scope of the system, the pension regulator is focusing on attracting non-resident Indians (NRI) to join the scheme. The decision to include the NRIs came with the approval and guidelines from the Reserve Bank of India.[145] The move towards inclusion led to a gradual increase in the number of subscribers, assets under management and total contributions (see table 4.1).

Table 2.1. Assets Under Management and Number of Subscribers

Year	No. of Subscribers*	Total Contribution (Rs in crore)	Assets under management (Rs in crore)
FY 2017-2018	11,571,941	181,065.47	230,761.02
End of FY 2016-2017	10,573,238	133,164.39	172,673.05
End of FY 2015-16 (cumulative)	9,750,406	95,696.11	118,303.78
End of FY 2014-2015 (cumulative)	87,48,649	63,838.36	80,855.12

142 PFRDA, 'Vision Statement' (New Delhi, n.d.).
143 Kim, *Implementing an Inclusive and Equitable Pension Reform*, 48.
144 Ibid.
145 ET bureau, 'PFRDA Roping in Banks to Tap NRIs for National Pension Scheme', *The Economic Times*, 2015, https://economictimes.indiatimes.com/wealth/personal-finance-news/pfrda-roping-in-banks-to-tap-nris-for-national-pension-scheme/articleshow/47899116.cms.

End of FY 2013-2014	65,06180	42,03092	48,104.54

* Number of Subscribers include Central Government, State Government, Corporate Sector, Unorganized sector employees as well as the NPS Swavalamban Scheme.

Number of Subscribers- As on 31/March/2018

Atal Pension Yojana	No. of Subscribers	Total Contributions (Rs in crore)	Assets under management (Rs in crore)
FY 2017-81 - 31/Mar/2018	9,605,713	3,601.71	3,817.85

Source: Assets Under Management and Number of Subscribers', *National Pension System Trust*.

Moreover, the introduction of co-contributory schemes like the Atal Pension Yojana to achieve early inclusion and coverage has been beneficial to a certain extent. The design, scope and role of entities is to address the requirements of those who are in the remote parts of the country and do not have accesses to financial institutions such as banks.

The second attractive incentive of joining the NPS is the low cost of administration and management of the accounts. Moreover, the increase in the age of joining the NPS by five years, is a move towards broadening the scope and will allow individuals to reap the benefits while planning for retirement.[146] Moreover, given the low levels of financial literacy, the PFRDA designed two choices- Auto Choice and Active Choice. In the Active Choice, the investor decides the asset allocation on the basis of their preferences and the Auto Choice that invest money based on the age of the subscriber.[147]

The third key achievements in the design and governance is the portability and multiple stakeholders involved in the governance and implementation of the system. The portability is

[146] Dheeraj Tiwari, 'PFRDA Increases Age of Joining NPS by 5 Years', *The Economic Times*, 2017, https://economictimes.indiatimes.com/wealth/personal-finance-news/pfrda-increases-age-of-joining-nps-by-5-years/articleshow/61409452.cms.
[147] Sadhak, *Pension Reform in India: The Unfinished Agenda*.

beneficial for the increasing inward migration and mobility within the labor market. This ensures continuous contribution into the accounts. The multiple stakeholders involved in the system- such as the aggregators for the unorganized scheme, ensure the transparency of the process and ensures timely execution of the transaction.[148] In line with the recommendations of Project OASIS, the PFRDA on 20th April 2018 announced that bank account details and mobile number are mandatory for subscribers.[149] Moreover, this step was undertaken for making the administration and operations of the NPS hassle-free for subscribers.

4.2. Challenges to the NPS

Currently, the challenges arise from coverage, lack of popularity and low incentives. However, structural and institutional challenges facing the expansion of the NPS can be summarized as follows. The first set of challenges arise from the lack of dominance in the market. There are a number of mandatory and voluntary retirement benefit programs established by employers for private and public sector salaried employees. The multiplicity of financial instruments and schemes has rendered NPS as not the first option. As a result, the competition that NPS faces is from the differential tax benefits that other instruments provide. In comparison to the Public Provident Fund, NPS has not been fully extended the EEE tax treatment—exemption from tax of contribution, exemption of returns during accumulation and exemption of benefits on superannuation.[150] According to the PFRDA, this is one of the main hinderance to the popularity of the scheme.

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148 Kim, *Implementing an Inclusive and Equitable Pension Reform*, 53.
149 IANS, 'Pension Regulator Makes Bank Account, Mobile Mandatory for NPS', *The Economic Times*, 20 April 2018,https://economictimes.indiatimes.com/wealth/personal-finance-news/pension-regulator-makes-bank-account-mobile-mandatory-for-nps/articleshow/63846493.cms.
150 PTI, 'National Pension System Needs Level Playing Field to Become Popular: PFRDA', *The Indian Express*, 2016.

Secondly, the recent involvement of the non-governmental organizations has been in the right direction. Yet, the PFRDA should increase the incentives of the entities such as NGOs and points of presence to extensively market the product. The PFRDA has taken steps towards the same. According to the official release, the fee for initial subscriber registration to a POP has increased from Rs. 125 to Rs. 200 and it states that 'it believes that the renewed incentive' will help in increasing the reach of pensions in India, through the POPs.[151] However, it is yet to be seen whether this traction will influence the membership and visibility of the NPS.

Lastly, the PFRDA has been focusing on increasing institutional capacity and the scope of the system. Furthermore, pivoting towards the diversification of the funds and increasing industry competition will lead to harnessing economies of scale. In addition to diversification, the PFRDA has been focusing on issuing foreign investment guidelines for the pension sector. This includes laying out guidelines for various instruments that qualify as foreign investment.[152] The focus towards increased transparency and regulations of the pension fund management would assist in advancing the landscape for development. In a recent diplomatic meeting between the Nordic Countries heads of state and PM. Modi, he invited Norway's pension fund to invest in new sectors in India citing the complementarity of the economies of the countries.[153] At the end of 2017, the pension fund had invested $ 11.7 billion, an increase of $2.5 billion from 2016.[154]

[151] Saikat Neogi, 'To Give National Pension System a Boost, Here Is What PFRDA Has Done; What It Really Means', *Financial Express*, 2017.
[152] M. Saraswathy, 'PFRDA Aims to Strengthen Its Bases', *Business Standard*, 2016, http://www.business-standard.com/article/economy-policy/pfrda-aims-to-strengthen-its-bases-116100100705_1.html.
[153] Press Trust India, 'PM Modi Invites Norway Pension Fund to Invest in New Sectors in India', *Hindustan Times*, 2018.
[154] Ibid.

The pension opportunities in India are extensive yet there are multiple polarities that require addressing. In large part, factors such as institutional capacity, financial market development and institutional development are aligned to the international experience. However, there are numerous adjustments have to be made for the system to achieve its full potential.

5. Two Divergent Paths: Devising Sustainable Pension Policies

In essence, the recommendations for pension systems are derived from comparative description of the cases. The effect of institutions and distribution of the power among actors are conditional on the distribution of underlying preferences over the policies in question.[155] This research acknowledges the limitation of contrasting the two countries. Due to the limited scope, it does not overstate the commonalities and lessons discussed below. However, focusing upon pension reforms as a substantial policy issue facilitates in drawing lessons and confirms that institutional alignment has to be pre-established.

The focus of this research has been on the cross-country variations to draw lessons for India from Sweden while maintaining the contextuality of the countries central to the arguments.

5.1. Reflections on the Swedish Model: From the Golden Age to Crisis Age

The Swedish Model has transitioned from the 'golden age' into the age of 'crisis'. The model, maintaining a comprehensive welfare state with favorable international competitiveness has spawned interest across the globe. The model followed Wagner's law, one of the interpretations being 'as the economy develops over time, the activities and functions of the government increase.'[156] He further states that this growth would be associated with the increasing use of government regulation of the economy.[157] However, the periods of crisis, and increasing international policy diffusion towards pension privatization marked a fundamental transformation in the role of the state. The idiosyncratic features of the model have been

[155] Haggard and Kaufman, *Development, Democracy, and Welfare States*, 15.
[156] Alan Peacock and Alex Scott, 'The Curious Attraction of Wagner's Law', *Public Choice* 102, no. 1 (2000).
[157] Ibid.

undergoing multiple adjustment to the new global economy. The shifting of these features and the malaise of that now afflicts the model are varied.

Anxo focuses on the impact of the global financial crisis on the Swedish model and sheds light onto the rationale emphasizing why the Swedish middle way does not seem plausible through the labor market developments. He claims that the Swedish model has been based on strong political commitment to the goal of full employment.[158] The pension reforms elucidate the reorientation towards individualization and privatization.[159] Although there is a new realignment, the path dependency in Sweden emerges from the original philosophy that is the fundamental core of the model: 'work first line'.[160] The 'work first line' aligned with the protestant work ethic shaping the development of the welfare state. The model is still embedded in the centralized and coordinated approach towards policies. However, the outcomes and incentives have seen a departure from the initial approach.

The principles behind the success of the Swedish pension reforms can be characterized as: high tax compliance- the pension system was built up on the high compliance and altruistic culture, lavish benefits, the ideation factors motivated by income-support, consensual approach and collective bargaining traditions. It can be claimed that model is changing; this is further evident through the decline in the lavish entitlements. As emphasized by the eligibility for unemployment benefits after the reform was based on the past 12 months' earnings instead of the past six months.[161] The neo-liberal reforms since 2010 have aimed at opening up public welfare services to competition.[162] Although the model has changed and further adjustments

[158] Dominique Anxo in Steffen Lehndorff, ed., *A Triumph of Failed Ideas: European Models of Capitalism in the Crisis* (Brussels: European Trade Union Inst, 2012), 27.
[159] Ibid.
[160] Ibid
[161] Ibid.
[162] Ibid,3.

are being made, the historical trends and institutional development towards redistribution and equality has been successful.

5.2. Reflections on the Indian Social Security Model

Much of the existing scholarship focuses on the impact of economic growth and the relationship vis-à-vis poverty and inequality reduction. Notwithstanding the economic progress, there is a requirement to revisit the social protection model in India. Income security has become a crucial social policy challenge. The development of social protection in India is characterized by immense variations and diversification in the approach. In the case of the pension systems, there is a distinctive pattern of risk management. However, distributive policies created multiple interest groups and institutional preferences focusing on safeguarding their preferences and entitlements, rather than favoring broad-based preferences or entitlements. This took place simultaneously with economic growth.

Past policies created not only beneficiaries but also complex institutional and interest group constraints on welfare reform: from civil servants and public service providers; to unions with an institutional stake in the welfare system; to an array of private actors from the financial sector and pharmaceutical companies to socially-oriented nongovernmental organizations.[163] Firstly, notable scholars have emphasized the role of pension reforms that could contribute to economic growth by enhancing its contribution to savings, which could then be used to increase investment rates.[164] However, India's growth success will not be sustainable without increasing investment in human capabilities. The previous chapters focused on the macro-economic trends that confirm the outcomes. Additionally, the interest of rights are weaker due to the

[163] Haggard and Kaufman, *Development, Democracy, and Welfare States*, 12.
[164] Asher and Bali, 'Social Security Reforms', 177.

fragmentation; between the informal and formal employment, urban and rural areas.[165] This fragmentation has suggested dramatic new ‘requirements’ for investment in education, pensions and health care.[166]

Secondly, the threat to economic growth comes from the future of democracy in India. Democracy can also foster the clientelist political machine.[167] Initially through the method of creating beneficiaries in the institutional structure and later on through the weak entitlement of social rights, especially for the vulnerable masses.[168] Incidentally, the idea of social justice is omnipresent. Yet, due to the fragmentation, repression or preference of certain actors, the rigid social structures and vote bank politics restrain favorable outcomes.

Ultimately, the aim of pensions and welfare in general is the means-tested/targeted rather than institutionally universalistic. The continuing threats above-mentioned and the massive pockets of poverty, income and social inequalities will hinder growth and focusing on optimal pre-emptive action is endorsed. The test of the pension reforms and the effect it has had towards poverty reduction and increased returns is hard to decipher as of now. Nevertheless, since the system is young it can afford to make adjustments through the course of its maturation.

[165] Ian Gough and Göran Therborn Francis Castles et al., eds., *The Oxford Handbook of the Welfare State*, 1st ed. (Oxford University Press, 2010).
[166] Ibid, 745.
[167] Ibid.
[168] Ibid.

5.3. Commonalities and Differences in Pension Systems

Through the empirical explanations of the two case studies in chapter two and three, this section draws out the commonalities between the pension systems. There are five key commonalities in the cases. Firstly, the *de facto* ideation of the systems draws extensively from socialist alignments. The outcomes generated from this ideation have deviated. The two countries underwent reforms facing similar macro-economic pressures: fiscal constraints, budget deficits and transitioning demographic pressures. Secondly, the commonality arises from the emergence of trade unions and collective bargaining through its enshrinement in labor and constitutional laws in India and Sweden. Through these legal avenues that sought to entrench collective bargaining within the legal institutional matrix, the trade unions have been able to exert considerable influence. Evidently in the Indian pension reforms, their collective bargaining power was weakened by the pre-dominance of the state and business preferences. The voice of the Indian trade unions have not been collective rather deeply fragmented.[169] The unions realizing their fragmentation are attempting to co-opt informal and contractual workers.[170] However, the experience in leveraging power is political.

Thirdly, the predominance of economic growth and performance specifically shaped the discussion towards reforming the pension systems. Additionally, the constellation of interest set in motion the creation of new institutional set-ups that centrally managed the development of the pensions. The Pension Regulatory and Development Authority in India, and the Swedish Pension Agency focus on the promotion, development and coordination of pension strategies.

[169] Rudra, *Globalization and the Race to the Bottom*.
[170] G. Sampath. 'Labor in the Twenty-First Century'. *The Hindu*, 2016.

Fourthly, the shift from public to privatization (partial or full) of pension reforms in both the cases marks the departure from the original philosophy. Lastly, both the systems have a default option that are pre-designed low risk portfolios. The aim being promotion of financial stability of the systems as well as owing to comparatively varying low levels of financial literacy, designing a default option for individuals who do not make an active choice.

In principle, the ideation and realities shaping welfare state development in Sweden is tremendously atypical for India. There are six key differences between the two cases. The historical, institutional, and political developments with interplay of class conflicts in Sweden has an imperative role in its development as an institutionalized universal welfare state. In contrast, the development of the welfare state in India characterized with interplay of conflicts with stark inequalities have not generated similar outcomes. The preferences through the historical, institutional and political developments have been tilted towards targeted and minimal welfare state. Secondly, the political coalitions in terms of pension reforms created different outcomes. The approach to social policies and welfare state have been remarkably different.

Thirdly, the ideation of the Swedish pension policies focused on maintaining incomes and accustomed standards of living. It is illustrative of the coalescence of the interests on a broad-based level that sustain political atmosphere. In contrast, the Indian pension policies ideation aligned to the remove barriers to growth and was pragmatic given macroeconomic pressures. Unlike the Swedish consensual approach, the central government did not heed the opposition and implemented the scheme. Fourthly, the state capacity to collect taxes is poor in India. Unlike the Swedish case, the high levels of tax compliance partially assisted the success of the new pension system. Moreover, the distortions in the tax structures in India has led to increasing income inequality—this is further exacerbated in the national pension system. The rich accumulate wealth in the third pillar without taxes that could plausibly be beneficial for the public pillar and enhance the capacity of the redistributive policies.

Fifthly, the pension system in India is mandatory for only civil servants and not for the private sector employees. In Sweden, the inculcated culture focuses towards applying for pensions ensuring high coverage. Lastly, the difference in the design of the two systems is elucidated in the principle of minimum guaranteed returns and the automatic balancing mechanism that adjusts to the economic fluctuations.[171] According to PFRDA reports, the NPS at this stage cannot offer the minimum guaranteed returns. The key differential of the two system is elucidated by the Melbourne Mercer Global Pension Index. The global grade for Sweden in 2017 is 72.0 and for India 44.9.[172] The index further states that for Sweden there is a sound pension system but still has scope of improvement. In contrast, for India there is a system that has some desirable features but also major weaknesses that have to be addressed without which the efficacy and sustainability are in doubt.[173] The key differences are highlighted in table 5.3.

In conclusion, the pension reforms and the policies that were put in place have been a reflection of the paradox between universalism and targeted policies. The commonalities and differences emphasize that the comparative analysis of pension reforms in divergent countries will assist in capturing the lessons for efficiency and robustness.

[171] Nicholas Barr, 'The Pension System in Sweden', Report to the Expert Group on Public Economics (Stockholm: Ministry of Finance, n.d.), 15.
[172] Australian Centre for Financial Studies, 'Melbourne Mercer Global Pension Index' (Melbourne, 2017).
[173] Ibid.

Table 5.3. Comparison between the Indian and Swedish Pension System

Criteria	National Pension System (India)	New Pension System (Sweden)
Type	DC System Tier I: Mandatory Account Tier II: Voluntary Account	A combination of *pay-as-you-go* notional DC, an advanced funded second pillar with individual accounts and guarantee pension
Eligibility	Any Indian Citizen	Any Swedish citizen
Contribution	Tier I: Government subscribers contribute 10% of their basic salary and dearness allowance. Non-government subscribers make a minimum contribution of Rs. 6000. Tier II: Subscribers have to make a minimum contribution of Rs. 1000 at the time of opening the account. Minimum balance has to be ensured of Rs.2000 at the end of the year.	18.5 percent pension contribution in total. 16% for the income pension 2.5% to the premium pensions
Retirement Age	On an average retirement age is 60 years. In 2017, the PFRDA, changed the maximum joining age for NPS-Private Sector from 60 years to 65 years of age.	Flexible retirement age (between 61 to 67 years)
Cost of Administration	Rs 200- one-time registration fees 0.025%- recurring cost for each investment Fund management- 0.1% per year of AUM Commission on investment- 0.25% of investment NPS Trust Charge- 0.01% per year of AUM	0.028% of account value for the NDC administration fees 0.38% of Asset value for premium pensions
Benefits	Employees own contribution for a Tax Deduction- up to 10% of the salary (plus DA) – ceiling of Rs 1.5 Lakh allowed under the Income Tax Act Self-employed person can also contribute 10 % of their gross salary in NPS Exact proportion of money can be invested into funds based on risk preference	Benefits can be claimed together or separately Pension benefits adjusted based on life expectancy and the economy The guaranteed benefits are indexed to prices and not wages The design feature focused on: sustainability, shifting of burden from state to individuals, and automatic stabilizing mechanism during economic downturns
Institutional Structure	Pension Fund Regulatory and Development	*Pensionsmyndigheten* (Swedish Pension Agency)

Number of Registered Fund Manager	Eight Fund Managers ICICI Prudential Pension Fund LIC Pension Fund Kotak Mahindra Pension Fund UTI Retirement Solution Fund HDFC Pension Management Company DSP BlackRock Pension Fund Managers	For premium pensions in 2013- 850 funds managers. For the income pension- the system's assets consist partly of the so-called contribution assets (86 %) and partly of the AP Funds capital (14%).

Source: Data adapted from https://www.pensionsmyndigheten.se/ and http://www.pfrda.org.in/.

5.4. Lessons for India

The experience of the Swedish pension reforms suggests numerous traps to avoid and opportunities to maximize the system. The politics that underscored the reform can provide four valuable lessons. The two features of the reform that limits the potential of the NPS includes the absence of the first pillar that may induce a relatively high share of participants to opt for a conservative asset allocation, as subscribers seek to minimize their risk under unfavorable ex post returns on their assets.[174] Secondly, a reform largely limited to new government workers may not generate sufficient critical mass early on to kick start the financial market development.[175]

The abovementioned findings reveal two critical issues that should be addressed: the adequacy and coverage of the system. Firstly, one of the main lessons that emerge from the Swedish case is the broad-base coverage of the pensions. This is overwhelmingly driven by the institutional collective agreements and the emphasis particularly lies in the culture that is further embodied through the pension reform processes.[176] The system is effectively mandatory for most

[174] Helene Ward, 'Financial Market Implications of India's Pension Reform', (The International Monetary Fund, 2007).
[175] Ibid.
[176] Kent Weaver and Alexander Willèn, 'The Swedish Pension System after Twenty Years: Mid-Course Corrections and Lessons', *OECD Journal on Budgeting* 2013 (2014).

employees and the occupational pension system covers over 90% of the workforce.[177] By contrast, the workforce in India is fragmented and divisions between organized and unorganized sectors are sharp. To address this the products offered by the NPS should focus on providing similar tax incentives to the work force. However, evasions will be specifically prevalent in the informal sector.[178] For this reason, it would not be advisable to make the system mandatory for the informal sector. The alternative would be establish the first pillar, the goal of which would be to prevent poverty, the second and third pillar can focus on inculcating the culture of promoting an income foundation for post-retirement, at which point the tax incentives will be beneficial. [179] Additionally, the introduction of a minimum level of support for the poorest old would ensure the fairness of the system and would be beneficial to reduce the poverty pockets. The second and third pillar tax incentives would further contribute towards factors that shape the saving patterns and behavior of the population.[180]

Secondly, the alternative approach on an institutional and structural level, would be to influence the myopic visions with respect to pension policies. Similar to the Swedish case, the system should be reformed and adjusted keeping in mind the sustainability and employing policy instruments such as progressive taxation and labor market policies that ensures participation. The key lesson would be to ensure and invest in capacity-building. As highlighted in Table 5.1, there are eight fund managers in India against 830 in the Swedish case. The PFRDA should develop and build the financial market that provides individuals with multiple options for investment. All companies licensed to operate in Sweden and /or the European Union, are allowed to participate and are required to follow the rules and regulations set up by the Swedish

[177] Palmer, 'The Swedish Pension Reform Model'.
[178] World Bank, *Averting the Old Age Crisis*.
[179] Kim, *Implementing an Inclusive and Equitable Pension Reform*, 47.
[180] Ibid.

Financial Supervisory Agency.[181] This further ensures increased industry competition and reasonable costs.

Thirdly, focus on the low levels of financial literacy and attitudes towards savings in financial instruments. By comparison evidences in Sweden suggest that the Premium Pension Agency has promoted financial literacy campaigns to facilitate active choices of pension funds—the orange envelope is one such example.[182] This is important for India that substantially has lower levels of financial literacy and the attitudes towards savings are focused on traditional methods- such as through bank accounts, gold and silver.[183] Educational campaigns should be focused towards not just towards the organized sectors but also the unorganized sector/ rural parts of the country. The PFRDA should identify and address the prevailing bottlenecks and impediments towards financial institutions and inclusions. Moreover, this uptake towards financial inclusion should be focused towards the demand and the supply side of the scheme.

Lastly, focus towards the successful implementation is achievable through broad political support and the representation of the key interest groups. The Swedish pension reforms accentuate the possibility to undertake politically painful reforms in a manner that is participatory and representative of interests. Due to the broad-based consensual approach this facilitated the coordination and sustainability of the system. By contrast, the key threats faced by the pension system in India are grounded in the lack of consensus and coordination. The central government is an active voice, however the lack of consensus from the actors,

[181] Palmer, 'The Swedish Pension Reform Model'.
[182] Anette Nyqvist, *Reform and Responsibility in the Remaking of the Swedish National Pension System* (New York: Palgrave Macmillan US, 2016).
[183] Kim, *Implementing an Inclusive and Equitable Pension Reform*, 48.

specifically trade unions, has been a hinderance. Moreover, the quasi-federal structure allows the states to adopt or reject the central government schemes.

The lessons are focused on -institutional and structural challenges- broadening of the framework and establishing networks of coordination that will lead to substantial improvements. Certain elements have to be reviewed through the lens of the design of the system and the target audience that the system has identified. The developments of which should be monitored closely. Nevertheless, the key lessons abovementioned plausibly could be useful to enhance the efficiency of the system.

5.5. Potential Areas of Improvement for Sweden

The core principles that guided the reform process was achieved. The Swedish pension system is sound in design, and has emerged as a system in which the key stakeholders have ensured that the system does not erode. However, the system was set up in the background of acute economic crisis, the political economy now has changed---this has three further implications for the model.

Firstly, the labor market has produced unfavorable outcomes for the youth and the non-natives. The spillover effect threatens the most notable achievements of the Swedish case that has been strong social cohesion. Moreover, Barr, states that the risk sharing in not equal across the cohorts, rather each cohort is self-financing.[184] The two principles imply that cohorts that live through economic booms would benefit and have more contributions than those who live through economic bust. The government focus should move towards ensuring the

[184] Barr, 'The Pension System in Sweden'

intergenerational fairness. Moreover, the universal 'guarantee' pension age requires to reflect the increasing life expectancy.[185]

Secondly, multiple scholars have questioned whether the design of the 'brake mechanism' is optimal. Barr sheds light on the two ill-effects of the brake mechanism. He states that it operates sharply and without acknowledging the distinction between macroeconomic turbulence between wage growth and balance ratio.[186] Secondly, the brake and catch-up has unintended distributional effects across cohorts that are often arbitrary.[187]

Thirdly, the premium pension system might create inequalities in terms of investments. Individuals with high financial literacy would choose funds that are higher performing, whereas individuals with lower financial literacy will not make the same choices. This creates varying levels of engagement of the premium pensions with different social groups.[188] This extensively relies on rational choice that does not necessarily create optimal outcomes. It can be overwhelming and further more choices do not translate into better choices.[189] In specific, the outcomes that the system is creating has to be focused on the issues mentioned, and assess the emergence of variation in the types of inequalities.

5.6. Conclusion

The abovementioned discussions highlight that the institutional, key interest groups, economic models and origins of the welfare state have produced different outcomes in the two countries.

[185] Australian Centre for Financial Studies, 'Melbourne Mercer Global Pension Index'.
[186] Barr, 'The Pension System in Sweden', 22
[187] Ibid.
[188] Weaver and Willèn, 'The Swedish Pension System', 19.
[189] Ibid.

Although there are fundamental commonalities- maintenance of macro-economic stability, representation of trade unions and collective bargaining, and economic performance. Nonetheless, ideation and the institutional path dependency in the two countries produced different solutions and challenges for pension systems. The lessons for India and Sweden emphasize that the country experiences and differences are not merely hypothetical.

Nevertheless, the Swedish pension system highlights how sustainable pension systems do not mean adequate pension systems.[190] Given the design issues, there are further agendas that have to be discussed to make the system adequate to the dynamic macro-economic and social structure. The original philosophy of 'work first' is changing, considering that the transition of the young and non-natives into the labor market has been difficult. As noted by Esping-Andersen, the stress on human capital investment and its guise of 'productivity social policy' has officially been the dogma of the Swedish model.[191] Moreover, the system is still grounded in the principals that made it exceptional. Yet 'creeping privatization' in the domain of social insurance has altered the model. There are further implications in alteration of the initial social contract. Both the countries would benefit from facilitating adjustments through public debates, and surveys that would enhance the public understanding to invest in their income-security, specifically in India.

[190] Barr, 'The Pension System in Sweden', 14.
[191] Andersen, *Welfare States in Transition*.

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