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770 individual

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Understanding the Emerging Micropensions Market in India

Abstract

Millions of informal sector workers in low- and middle-income countries are excluded from formal pension and social security systems, posing potential economic challenges for old age populations. Micropensions may help to address these challenges—but more information is needed about the demand for these products. In India, researchers conducted a survey examining the emerging micropensions market to better understand the behavioral, economic, and institutional factors that influence participation. A majority (80 percent) of respondents reported interest in the micropension and many valued product design features that would restrict early withdrawals.

Policy Issue

In low- and middle-income countries, economic insecurity is a considerable problem for old-age populations. As life expectancies rise and social structures change, ensuring adequate and secure income flows in the future is a formidable challenge.[1]. Workers in the informal sector, who comprise a vast majority of workers in many countries, are often excluded from financial services, and thus they may face particularly acute challenges in providing for their own retirement. The use of micropensions—products which involve fixed, small voluntary contributions to a savings account over a long period of time and can be designed specifically with informal workers in mind—may help to address this economic insecurity. In theory, micropensions offer low-income workers the ability to contribute to prepare for the future, while maintaining financial health in the present. However, in practice, less is known about demand for micropensions among informal workers, and about the specific product features that may encourage or discourage these workers from adopting them.

Context of the Evaluation

In India, 90 percent of workers are employed in the informal sector.[2] Additionally, the share of India's below-poverty-line population aged 60 or older is expected to increase from 8 percent in 2010 to 19 percent in 2050. Many of these people work in the unorganized sector, and as such, lack the identification and proof of employment documents required for accessing basic financial services. Nevertheless, current research estimates that about 80 million of these workers are capable of saving for retirement and the untapped savings could be worthare around US $2 billion (Shankar and Asher, 2011).[3]

The Government of India's National Pension System is designed to reach informal workers, making the country a prime location to study the market for micropensions. A micropension product launched shortly before this evaluation began aimed to provide a safe way for informal sector workers to save routinely for old age.This study was conducted in two districts in the state of Uttar Pradesh, Fatehpur and Siddharhnagar, which together represent 2.7 percent of the state's total population and are among its most economically disadvantaged areas. Most survey respondents lived below the poverty line and worked in agriculture, either farming their own land or as laborers on other farms.

Details of the Intervention

In India, researchers conducted a pilot project to examine the demand for, and barriers to adoption of, a micropension product offered by the government's National Pension System. In the two districts in which the study took place, 15 villages that contained at least 50 below-poverty-line households were randomly chosen. The researchers then identified households with a household head under age 60 and randomly assigned half to participate in the study. The study consisted of two separate components, both of which aimed to highlight the behavioral, economic, and institutional factors influencing participation in the emerging micropensions market in India.

The first component was a market diagnostic—a survey to understand the supply and demand of micropensions in India. The second component was a lab-based pilot study, in which the researchers conducted a survey to measure the role of various factors in participants' hypothetical take-up of micropensions. The 770 individuals who participated in this component were split into two groups to test their responses to a variety of product variants.

Participants first heard about the basic micropension product already on offer. The product allowed participants to make monthly payments into the micropension until the age of 60, at which point they would begin receiving a monthly payment, or take out up to 60 percent as a one-time payment; the government would also match the participants' contribution at 100 percent for up to five years if the year contribution met a threshold level, and participants could choose to withdraw up to 20 percent before the age of 60.

Participants were then randomly assigned to two groups. One group responded to the following three hypotheticals:

- **Early eligibility:** The same product, but with eligibility beginning at age 55 instead of age 60.
- **Lower match:** This variant would have the government match individuals' contributions at 50 percent rather than 100 percent.
- **No withdrawal before age 60:** This variant would not allow a withdrawal of any percentage before age 60.

The other group responded to a second set of three hypotheticals:

- **Late eligibility:** The same product, but with eligibility at age 65 instead of age 60.
- **Higher match:** This variant would have the government match individuals' contributions at 150 percent rather than 100 percent.
- **Full withdrawal at age 60:** This variant would allow participants to withdraw the entire pension, instead of 60 percent, as a one-time payment upon turning 60.

Researchers focused on two specific dimensions of participants' responses: whether they were interested in adopting the products, and the amount of annual contribution that they expected to make to the product.

Results and Policy Lessons

Overall, results suggest that a majority of respondents were interested in micropensions, would be willing to contribute an amount that would cover a portion of expected expenses in old age, and valued restrictions on their abilities to access the pensions until a particular age.

Demand for micropensions was substantial. A majority (80 percent) of respondents reported interest in the micropension, and the amount they were willing to contribute would be enough to cover about 40 percent of their expected old-age consumption.

Respondents valued aspects of the product that constrained their ability to make early withdrawals. Participants were less likely to express interest in adopting the product, and reported smaller hypothetical contributions, when the product had early eligibility and withdrawal features. However, participants responded similarly to products that were more restrictive (late eligibility, no early withdrawal) than the baseline product.

Respondents contributed more when the government match increased. Increasing the match rate from 100 to 150 percent did not affect the rate of adoption, but for those who would adopt the micropension, respondents' hypothetical annual contributions grew by over 10 percent.

Results did not differ by participants' gender. This suggests that the demand for commitment is likely not driven by frictions in intra-household bargaining.[4]

Sources

[1] Bloom, David E., and Eggleston, Karen N. "The Economic Implications of Population Ageing in China and India: Introduction to the Special Issue." *Journal of the Economics of Ageing* 4 (2014), 1–7.

[2] Asher, Mukul G., 2009. "Pension Plans, Provident Fund Schemes and Retirement Policies: India's Social Security Reform Imperative." *ASCI Journal of Management* 39 (1), 1–18.

[3] Shankar, Savita, and Asher, Mukul G. 2009. "Micro-Pensions in India: Issues and Challenges." International Social Security Review 64 (2), 1–21.

[4] Asher, Mukul G., and Shankar, Savita. 2007. "Time to Mainstream Micro-Pensions in India." Working paper.

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