

# Developing Micropensions in India: Issues and Challenges

By

**Savita Shankar**

*PhD Candidate*

*Lee Kuan Yew School of Public Policy*

*National University of Singapore*

Email: [savita.shankar@nus.edu.sg](mailto:savita.shankar@nus.edu.sg)

**Mukul G. Asher**

*Professor of Public Policy*

*Lee Kuan Yew School of Public Policy*

*National University of Singapore*

Email: [sppasher@nus.edu.sg](mailto:sppasher@nus.edu.sg)

**March 12, 2009**

**Submitted for consideration to**

**Association for Public Policy Analysis and Management**

## **Abstract**

Micropensions refer to long term savings, by relatively low income, informal sector workers, with the objective of obtaining income security during old age. While the microfinance industry has shown rapid growth, micropensions are still in the early stages of development.

A micropension plan is typically designed as a defined contribution plan providing for small value, frequent contributions which are collected at a place convenient to the member. The plan needs to address longevity, investment and inflation risks specifically in the context of low income members.

Demographic trends underline the need for micropensions in India. The possibility of using microfinance institutions (MFIs) as a channel for organizing micropensions is analyzed. Case studies of two micropension plans launched recently in India are discussed.

The paper concludes that with appropriate regulation and more robust risk sharing arrangements, there is potential for micropensions to play a useful role as an integral component of India's social security system.