

# **Overcoming the Fiscal and Development Crisis of Kerala: Pension Reform as a Policy Option**

Jose Sebastian  
Former faculty, Gulati Institute of Finance Taxation

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## **Abstract**

Written in the backdrop of the acute fiscal stress and economic sluggishness that Kerala is undergoing, this paper enquires into the possibility of overcoming these by restructuring the expenditure side of state finances. It is argued that in the face of restrictions imposed by the Centre on borrowing and constraints in mobilising own resources, this is the only option. The paper questions the very foundation of statutory pension which accounts for 23.06% of total revenue in 2021-22. This is essentially a colonial legacy and therefore is outdated in the changed circumstances. It is one of the factors contributing to the growing inequality between communities and regions in Kerala. By changing over to a need based universal pension, it is possible to release enough public resources to pull out the sluggishness griped economy. Simultaneously, the state can introduce the necessary legal framework for a universal pension system modelled on western developed countries. This is expected to lead to a virtuous cycle of economic growth and revenue increase which in turn will help the government to pursue policies targeted to reduce inequality in Kerala society.

# Overcoming the Fiscal and Development Crisis of Kerala: Pension Reform as a Policy Option

## Introduction

It is indisputable that the finances of the state and economy of Kerala are in deep crisis. As a consumption driven economy, government expenditure plays a major role in keeping economic activity humming. Going by newspaper reports, Government of Kerala(GOK) runs an arrear to the tune of ₹ 50,000 crores to various sections of the society (Mathrubhumi, 2023, p.1). According to Niti Aayog, Kerala's rank in Fiscal Health Index is 15 among 18 major states( Niti Ayog, 2025, p.19). The fiscal crisis is fast transforming into a development crisis<sup>1</sup>. Against this backdrop, this paper argues that by reforming the present statutory pension system, it is possible to free public resources sufficient enough to finance the revival of Kerala economy which in turn will kick start a virtuous cycle of economic growth and revenue increase. The paper also puts forward a framework of reform that leads to a comprehensive universal pension system.

## Kerala's catch 22 situation

Kerala is in a catch 22 situation. In order to revive the recession gripped economy, the government is left with no option other than adopting the standard Keynesian prescription of increasing public expenditure. How to mobilise the required public resources to kick start this process is the million dollar question. The options before the Government are: 1. Mobilising more resources; 2. Borrowing; 3. Selective or across the board reduction in public expenditure 4. Restructuring public expenditure. We may briefly examine these options.

Coming to the first one, Kerala is a state with enormous fiscal capacity but over the years she wasted the opportunity for mobilising public resources ( Sebastian 2019). Table-1 presents the indicators of fiscal capacity and fiscal efforts for various periods/points in time.

**Table-1 Indicators of fiscal capacity and fiscal effort of Kerala**

Fiscal Capacity		Fiscal Effort	
Rank in per capita consumer expenditure among major states	Reference year	Share in own revenue of all states (per cent)	Reference period/year
8	1972-73	4.45	1957-58 to 1966-67
3	1983	4.37	1967-68 to 1976-77
1	1999-00	4.49	1977-78 to 1986-87
1	2011-12	4.32	1987-88 to 1996-97
		4.38	1997-98 to 2006-07
		4.50	2007-08 to 2016-17
1	2022-23	4.26	2022-23

**Sources:** worked out by the author using data from relevant rounds of NSSO

and Reserve Bank of India publications.

As the table shows, though the fiscal capacity registered consistent increase and remained on top of major states since 1999-2000, the fiscal effort has only deteriorated after a marginal improvement.

A question may be asked if untapped fiscal potential remains, what prevents the state from tapping it to overcome the present crisis. The answer is that a society achieves high tax-GDP ratio by inculcating tax consciousness over the years. It has been pointed out that the people of Kerala are accustomed to a light fiscal burden for quite some time (Sebastian, 2019, p.39) and as such it is an uphill task for the state to raise it in the short run. As the major source of revenue of states is indirect taxes on sale of goods (and services from 2017), the opportunity to bring them under tax is lost for ever. Kerala's request to raise the borrowing limit is pending with the larger bench of the Supreme Court. As for the third option namely selective or across the board reduction in expenditure, there are problems in the context of Kerala. The figures for 2021-22 show that almost 83% of total expenditure is committed items of expenditure namely salary, pension and interest payments. This means that the scope for across the board reduction in expenditure is very limited. Any across the board reduction in salary and pension expenditure will be staunchly resisted by the powerful unions of government employees of both the ruling front as well as the opposition front. The only option therefore is the fourth one, i.e. restructuring public expenditure. This paper advances an idea in this direction. It is argued that among the three items of committed expenditure, the statutory pension offers enormous scope for reform so as to free significant public resources for pulling out the recession gripped economy.

### **Statutory pension system in India**

The civil service pension system under the Central and state governments is known as statutory pension system. India was in fact continuing the pension system that existed during the colonial rule. Under this system, there is no deduction from the salary of the employee and pension is paid out of current revenue. Pension is calculated in such a way that an employee who puts in 30 years of service is paid half of the last drawn salary. When the pensioner dies the survivor is eligible to draw 45% of the pension till death. A pensioner is eligible for dearness allowance and revision along with pay revision depending on whether pension is revised once in five years or ten years as the case may be.

The assumption underlying the statutory pension is that pension is 'deferred salary'. Supreme Court of India in its decision in *Deokinandan Prasad v State of Bihar* (1971) 2 SCC 330 held that pension is deferred salary. This decision is the basis of subsequent decisions of Supreme Court and various High Courts. The meaning and purport of this decision is that pension is paid out of the deferred portion of the salary. It was incumbent on the government to deduct a portion of the salary for paying pension on retirement of the employee.

This is in sharp contrast to the system prevailing in most developed countries. Eligibility to receive pension is the responsibility of the citizen. In almost all countries, there are laws which mandate citizens to join public pension funds or private pension funds and contribute towards pension. Those who cannot afford to contribute fully to be eligible to receive minimum guaranteed pension are also provided it and this is financed through high taxation (for a detailed discussion, see Appendix-1).

But the governments at the Centre and states did not realise the fiscal implication of statutory pension until 2004 when Centre introduced contributory pension. Those who entered service till 2003 are under statutory pension. The decision to pay pension from current revenue appears to be based on the following circumstances. At the time of India's independence from the colonial rule, the size of the

bureaucracy was very small. The salary they drew might have been modest. Deducting pension contribution from the salary might have further dented the take home pay of government employees. Another factor was life expectancy at birth. According to Census 1951, life expectancy at birth was 32 years. This meant that many government employees would have died while in service and those who retired would live for another five to seven years. Therefore pension was not a big burden on the exchequer.

## **National Pension System**

The outflow from current revenue towards statutory pension assumed alarming proportions at the Centre and states. Government of India realised the gravity of the situation and decided to switch over to contributory pension system. National Pension System(NPS) was introduced for Central Government employees vide Ministry of Finance(Department of Economic Affairs) Notification N 5/7/ 2003- ECB & PR dated 22<sup>nd</sup> December 2003. NPS was made mandatory for all new recruits to Central Government Services (Except Armed Forces) from 1<sup>st</sup> January 2004. A Central government employee had to mandatorily contribute 10% of the salary and dearness allowance and an equal amount of 10% was to be contributed by Government to the pension fund. With effect from 01-04-2009, the matching contribution by Government in the case of Central government employees was raised to 14%. Recently Government of India introduced Unified Pension System(UPS) which ensures 50% of the last drawn salary to employees at the time of retirement by raising government contribution to 18.5%. Except Tripura and West Bengal, rest of the states have joined NPS. Majority of states joined by 2005.

Though NPS appeared to stabilise, challenges have emerged in recent years. Five state governments – Rajasthan, Chhattisgarh, Jharkhand, Punjab and Himachal Pradesh- have reverted to the Old Pension Scheme(OPS). The promise to revert to OPS has become a populist slogan during elections in many states. Recently Reserve Bank of India undertook a study on the fiscal risk of reverting to OPS (Solanki et.al., 2023). The study found that in terms of fiscal risk, Kerala stands third among major states.

The United Democratic Front(UDF) government of Kerala introduced NPS in 2004 but the Left Democratic Front(LDF) government that came to power in 2006 reverted to statutory pension. The UDF government that came to power in 2011 again introduced NPS in 2013. Though the LDF came to power in 2016 promising to revert to NPS, till date, they have not reverted to NPS. A Committee was appointed to study the issues in detail but the government did not act upon the report or bring the report to public domain. On the basis of a Supreme Court order, the report was recently brought to public domain. The committee has not specifically recommended either to revert to statutory pension or continue with contributory pension. The Committee however, highlighted the fiscal risks of reverting to statutory pension. In between, government has appointed a ministerial committee to study the report.

## **Deficiencies of statutory pension system**

Statutory pension system suffers from the following deficiencies.

### 1. Statutory pension system is outdated

As we have seen, statutory pension system is the fall out of an *ad-hoc* choice made by the Indian society at a particular point in its trajectory under given socio-economic circumstances. The intent and purpose of statutory pension was to provide retired employees financial support sufficient enough for a decent retired life may be for five to ten years. It was not intended to provide huge monetary gains at the expense

of the larger public. In the subsequent years, the good intentions of statutory pensions were defeated by the following developments. First, the number of government employees at the Centre and state levels swelled over the years. Pay was revised in every 10 years at the Centre while it was revised once in five years in states like Kerala. Life expectancy at birth consistently increased to reach the present level of 70 years across the country and 73 years in Kerala.

## 2 statutory pension is not pension but a form of 'salary'

Statutory pensions have become a kind of 'salary' for all practical purposes. With dearness allowance and periodic revisions, the sum that a statutory pensioner receives becomes double of the last drawn salary in 20 years<sup>2</sup>. Pension by definition is to be financed by the contribution of employees or the fiscal provision made by the employer for paying pension. When it is financed out of the current revenue, it assumes the character of salary.

## 3. Statutory pension goes against justice

We have seen that if pension is financed out of the current revenue, it assumes the character of salary. There is no economic rationale or moral justification for paying 'salary' to employees who have drawn salary for many years. If pensions are paid out of current revenue, all senior citizens have equal right to receive pension.

The underlying assumption behind the pressure of statutory pensioners is that government is sitting over unlimited resources. The fact is that public resources are scarce and difficult to mobilise. When it is shared through collective bargaining rather than through some predetermined criteria based on justice, some sections of the society are able to appropriate a disproportionately high share of it and only the balance will be available to the rest. The fact that the latter does not realise it is not a justification to perpetuate it. John Rawls famously said:

“Justice is the first virtue of social institutions as truth is of systems of thought. A theory however elegant and economical must be rejected or revised if it is untrue; likewise laws and institutions no matter how efficient and well arranged must be reformed or abolished if they are unjust(Rawls1971, pp.3-4).

One of the constitutional objectives of India is to reduce inequality through redistribution of wealth and income. Statutory pension system exacerbates inequality in the country.

## 4. Statutory pension does not promote economic activities and revenue growth

Only a small portion of the statutory pension reaches the market for the following reasons. First, pensioners are a section of the society who have almost withdrawn from consumption. Second, vast majority of pensioners have other sources of income like interest from fixed deposits, dividends from share market investments, income from business or agriculture and rental income. If universal pension is introduced scrapping the statutory pension, the additional purchasing power that flows to the poor and marginalized will immediately reach the local market which in turn will rejuvenate economic activities at the local level. In the GST regime, the state can mobilize more public resources if only people spent on goods and services.

## Statutory pension burden: An inter-state comparison

Table-1 presents wages, salary and pension as a percentage of total revenue of 18 major states in 2022-23, the latest year for which we have final figures.

**Table- 2 Salary, wages and pension as percentage of total revenue of major states-2022-23**

							(₹ crore)
State	Total revenue	Wages and salary	Col.3 as a % of col.2	Pension	Col.5 a % of col.2	Salary, wages and pension total	Col.7 as a % of col.2
1	2	3	4	5	6	7	8
Andra Pradesh	1,57,768.04	49,260.0	31.22	22,583.96	14.31	71,843.96	45.54
Bihar	1,72,688.02	26,327.7	15.25	23,107.87	13.38	49,435.57	28.63
Chattisgarh	93,877.14	25,864.2	27.55	7,661.46	8.16	33,525.66	35.71
Goa	17,282.47	N.A	---	2,119.03	12.26	---	----
Gujarat	1,99,408.32	41,557.0	20.84	22,435.20	11.25	63,992.2	32.09
Haryana	89,194.69	24,624.6	27.61	12,493.83	13.91	37,118.43	41.62
Jharkhand	80,245.22	14,425.2	17.98	7,803.17	9.72	22,228.37	27.70
Karnataka	2,29,079.75	50,061.0	21.85	24,019.54	10.49	74,080.54	32.34
<b>Kerala</b>	<b>1,32,724.65</b>	<b>39,503.4</b>	<b>29.76</b>	<b>26,090.04</b>	<b>19.66</b>	<b>65,593.44</b>	<b>49.42</b>
Madhya Pradesh	2,03,986.19	48,506.5	23.78	19,690.61	9.65	68,197.11	33.43
Maharashtra	4,05,677.93	N.A	---	43,108.66	10.63	----	---
Odisha	1,50,462.34	31,976.1	21.25	18,595.66	12.36	50,571.76	33.61
Punjab	87,615.59	32,170.9	36.72	18,214.25	20.79	50,385.15	57.51
Rajasthan	1,94,987.93	59,917.6	30.73	25,381.00	13.02	85,298.60	43.75
Tamil Nadu	2,43,749.34	68,588.2	28.14	32,177.50	13.20	1,00,765.70	41.34
Telangana	1,59,350.30	36,161.5	22.69	15,816.14	9.93	51,977.64	32.62
Uttar Pradesh	4,17,241.50	1,22,055.5	29.35	58,966.77	14.13	1,81,022.27	43.39
West Bengal	1,95,544.17	60,305.8	30.84	24,624.72	12.59	84,930.52	43.43
<b>Average(%)</b>	--	---	<b>25.98</b>		<b>12.75</b>		<b>38.88</b>

Source: Worked out using data from “ State Finances: A Study of Budgets of 2022-24”, Reserve Bank of India, December 2024.

As table-2 shows, among 18 major Indian states, Kerala stands second in expenditure on pension as a percentage of total revenue. It may be noted that 18% Dearness Relief(DR) to pensioners is now pending in Kerala. If that is also taken into account, the figure will be anywhere between 23-25% and Kerala will be on top. It may be noted that it was 23.06% in 2021-22 even with two instalments of DR pending.

Table-2 however presents only part of the story. In most states, universities and public utilities like State Electricity Boards receive government grants and pay statutory pensions to the retired employees which do not get reflected in the pension expenditure of governments. We collected the statutory pension

expenditure of universities and Kerala State Electricity Board (KSEB) through Right To Information (RTI) requests. We have excluded Kerala State Road Transport Corporation(KSRTC) and Kerala Water Authority as periodic revision of statutory pension is pending in these organisations. In table-3 we have presented the statutory pension drawn by government employees, the employees of Kerala State Electricity Board (KSEB) and universities.

**Table-3: Total number of statutory pensioners, pension expenditure and average monthly pension in 2021-22**

Category	No. pensioners	Pension expenditure{₹ crore.}	Average monthly pension{₹}
KSEB	35,898	1293.96	30,037
Kerala University	2758	130.25	39,356
M.G University	1370	61.63	37,479
Cochin University	998	53.89	44,996
Sanskrit University	165	11.24	56,743
Calicut University	2058	113.88	46,113
Kannur University	144	7.96	46,052
Pensioners drawing Pension through treasury	5,73,469	26,868.69	39,044
<b>Total</b>	<b>6,16,860</b>	<b>28,541.50</b>	<b>38,558</b>

Source: All data except pension expenditure of pensioners drawing pension through treasury are based on reply received to RTI requests submitted by the author to the respective organisations. While the number of pensioners is based on RTI request from Directorate of Treasuries, the expenditure on pensioners drawing pension through treasury is taken from Budget in Brief 2023-24, Finance Department, GOK.

### **Factors contributing to high pension burden of Kerala**

Following are the factors contributing to the comparatively high pension burden of Kerala.

1.High social and community services: Right from its formation, Kerala has been setting apart comparatively high proportion of public resources on social and community services like health and education. The health professionals and teachers appointed in successive five year plans continued on the pay rolls of the state after the expiry of each plan period. The state could have avoided this by hiring educational and health professionals on contract basis. But there has been pressure on successive popular governments to accommodate as many people as possible in the government sector in the face of high level of educated unemployment.

### 2. Pay revision once in five years

Unlike in most Indian states and Central government, in Kerala, pay and allowances of government employees and pensioners are revised once in every five years.

### 3. Aided educational institutions

Perhaps no other Indian state has as many aided educational institutions as that of Kerala. Aided educational institutions account for 30-32% of salary and pension expenditure (table-4).

**Table 4: Salary and pension expenditure of aided educational institutions**

(₹ crore)

Year	Salary	Pension@	Total (col. 2 + 3)	Col. 4 as a percentage of total expenditure on salary and pension
(1)	(2)	(3)	(4)	(5)
2000-01	1431.49	614.93	2,046.42	31.87
2005-06	1886.37	962.5,0	2,848.87	33.64
2010-11	3555.19	1852.52	5,407.71	32.12
2016-17	8613.73	4691.58	13,305.31	30.71
2021-22	12,771.27	7719.92	20,491.14	28.70
2025-26(BE)	12,513.60	8357.75	20,871.35	28.37

BE denotes Budget Estimates

@ Pension expenditure relating to aided institutions is not separately available. Therefore we have derived it by assuming that the share of salary due to aided institutions in total salary expenditure will be the same in the case of pensions as well. This assumption however, is not entirely correct as we shall see below.

Source: Budget in brief, GoK, relevant issues.

### **Pitfalls of statutory pension in the context of Kerala**

#### **1. Statutory pension exacerbate inequality in Kerala**

Studies have shown that among Indian states, Kerala is the state where inequality is increasing at an alarming rate (Oommen 2014; Sreeraj and Vakulabharanam 2016). This has again been confirmed by the latest thick sample Household Consumer Expenditure Survey of National Sample Survey for the year 2022-23. In urban and rural areas, Kerala is second and first respectively in inequality. This is despite the tall claims about the benevolent state that takes care of the poor and marginalised. One possible reason could be the imbalance between public resources drawn from the poor and marginalised and the same flowing back to them in various forms of public expenditure. Four items- liquor, lottery, petrol and motor vehicles -account for over 61% own revenue of the state. This puts disproportionately high fiscal burden on the poor and marginalised. The volume of public resources flowing to them is likely to fall consistently as the share of committed expenditure items like salary, pension and interest payments keep an upward trend. It has been pointed out that the real value of welfare pension has fallen over the years (Sebastian 2010, p.6). A glance at table- 5 will bear this out.

**Table-5 A Comparison of farm worker's pension and the pension of an Additional Secretary in the Secretariat service for selected years**

(₹)

Year	Monthly welfare pension of the farm worker	Pension of the Additional Secretary	Number of times figures in col. 3 higher than that of col. 2
(1)	(2)	(3)	(4)
1981	45	900*	20
1993	80	2800*	35
1998	100	9150*	92
2004	120	16850*	140
<b>2009</b>	<b>250</b>	<b>30750*</b>	<b>121</b>
<b>2020</b>	<b>1300</b>	<b>67680#</b>	<b>52</b>
<b>2022@</b>	<b>1600</b>	<b>75000#</b>	<b>47</b>

\*Excluding dearness allowance # including dearness allowance

@ Approximate

Sources: For 1981 to 2009, Oommen(2018), p.132. For 2020, Sebastian (2020), p.88.

While the difference between the two was only 20 times in 1981, in 2022, it is as high as 47 times.

## 2. A source of silent transfer of wealth

Perhaps the biggest pitfall of statutory pension is that it has become a major source inequality between communities and regions of Kerala. As we have seen, nearly 30% of total salary and pension flows to communities owning aided educational institutions. If aided educational institutions were small in number and equally distributed across communities and regions, it would not have caused regional and communal inequality. But that is not the case is evident from table-6.

**Table 6: Region- wise and community-wise ownership of aided educational institutions**

Community	Malabar		TC		Kerala	
	Schools (No.)	Colleges# (No.)	Schools (No.)	Colleges (No.)	Schools (No.)	Colleges (No.)
Christian	387(5.42)	11(5.39)	2209(30.94)	84(41.18)	2596(36.36)	95(46.57)
Muslim	1174(16.44)	29(14.22)	210(2.94)	9(4.41)	1384(19.38)	38(18.63)
Hindu	1866(26.13)	15(7.35)	1091(15.28)	48(23.53)	2957(41.42)	63(30.88)
Others@	77(1.08)	7(3.43)	126(1.77)	1(0.49)	203(2.84)	8(3.92)
Total	3504(49.08)	62(30.39)	3636(50.92)	142(69.61)	7140(100.00)	204(100.00)

# Aided colleges include arts and science, engineering, polytechnic, homeo and ayurveda colleges. @ 'Others' indicate institutions run by co-operatives and trusts whose members are drawn from all communities.

Figures in the bracket are percentages to total aided schools and aided colleges in Kerala.

Source Sebastian (2020), p. 100.

Table-6 shows that Christians who form only 18.4% of the population account for 36.36% of the aided schools and 46.57% of aided colleges. The share of other two communities is much below their share in population.

It is not ownership *per se* but the mode of recruitment in aided educational institutions that is at the root of inequality. Managements are free to appoint qualified teaching and non-teaching staff in aided schools. Though 50% of vacancies in aided colleges are to be filled through open competition, by and large, the communities manage to recruit teachers within the community (Sebastian 2020, p.99). The communities owning larger number of aided institutions and having larger number of students (in the case of schools) and larger number of courses (in the case of colleges) receive a larger share of salary and pension.

The share of pension flowing to the employees in aided institutions is disproportionately higher for another reason also. Government servants are recruited through Public Service Commission(PSC). The recruitment process of PSC is very time consuming due to the delay in reporting vacancies, conducting tests and finally publishing the selection lists. As a consequence, only very few government employees satisfy the full pension requirement of 30 years of service. This is not the case with teachers in the aided institutions. A vast majority join the schools or colleges immediately after passing the qualifying examination. As a result, the length of service is often more than 30 years. Therefore, the pension figure derived in Table -4 may not be correct.

The regional dimension of the statutory pension is reflected in the imbalance between Malabar and Travancore-Cochin in the distribution of aided colleges. Of the total number of aided colleges, 69.61% belong to Travancore- Cochin(TC) districts. Of this, 64.71% belong to Christians and Hindus. This however does not reflect the financial implications as the colleges in TC region are larger in terms of courses and number of teachers. This coupled with the educational backwardness of Malabar has caused disproportionately low share of total salary and pension flowing to the Malabar region. It has been pointed out that during the ten year period from 2006-07 to 2015-16, 74.78% of total salary and pension were disbursed in TC region. Only 25.22% was disbursed in the Malabar districts (Sebastian 2020, p.96).

In order to analyse the role of aided educational institutions, community-wise distribution of pensioners was attempted. The names of pensioners drawing pensions above ₹40,000 per month was collected from the Treasury Department of Government of Kerala through RTI request. Since it may not be always possible to ascertain the community from the name of a person, there can be one percent error in the results presented in Table-7.

**Table-7: Community-wise distribution of pensioners drawing pension above ₹40,000 per month in 2019**

Pension class(₹)	Hindu		Muslim		Christian		Total
	No.	%	No.	%	No.	%	
40,000 - 50,000	5,175	63.92	732	9.04	2,189	27.04	8,096
50,000 - 60,000	5,630	58.68	689	7.18	3,276	34.14	9,595
60,000 - 70,000	2,164	54.30	319	8.01	1,502	37.69	3,985
70,000 - 80,000	520	63.88	60	7.37	234	28.75	814
80,000 - 90,000	68	72.34	9	9.57	17	18.09	94
90,000 - 1 lakh	23	74.19	3	9.68	5	16.12	31
1 lakh - 1.10 lakh	16	69.57	4	17.39	3	13.04	23
1.10 lakh-1.20 lakh	2	50.00	Nil	---	2	50.00	4
1.20 lakh-1.30 lakh	1	50.00	1	50.00	Nil	--	2
< 1.30 lakh	1	100	Nil	--	Nil	--	1
<b>Total</b>	<b>13,600</b>	<b>60.06</b>	<b>1,817</b>	<b>8.02</b>	<b>7,228</b>	<b>31.92</b>	<b>22,545</b>

Sebastian (2020), p.102

As table-7 shows, 31.92% of those receiving pensions above ₹40,000 are Christians who form only 18.4% of Kerala's population as per 2011 Census whereas the corresponding figures for Muslims are 8.02% and 26.56% .

Thus statutory pension has become a system that militates against the communities which did not possess adequate resources to set up aided educational institutions. The communities which had an initial advantage are now poised to reap the benefits for years together.

### **Misconception about contributory pension**

There is a widely held view that with the introduction of contributory pension system from 2013, the pension burden of Kerala will ease as it is a matter of a few lakh employees who are under the statutory pension system. This is far from true. The number of statutory pensioners will swell in the coming years as life expectancy in Kerala which is 73 years now will increase in the coming years. The contributory system will take effect only in 2039 assuming 25 years of service on an average. The last batch of statutory pensioners will retire only in 2042. Assuming they will live for an average 25 years, there will be statutory pensioners even in 2067. If life expectancy increases further, it is possible that there will be statutory pensioners even in the 2070s and 2080s.

## **The way forward: Reforming the pension system**

From the above analysis, it is clear that statutory pension is a big lie. It does not have any sound economic rationale or foundation in justice. Any attempt to continue with it has serious economic and welfare costs to the Kerala society.

The state finances which is already under severe strain cannot afford to wait anymore. Pension reform for Kerala is not a matter of choice but a bare necessity. The only option before Kerala is to restructure the pension system and move over to universal pension system modelled on western developed countries. This paper advances two proposals which are to be implemented simultaneously. They are Need- based Universal Pension(NUP) for those receiving statutory pension and those above sixty years of age and Universal Pension(UP) for those below 60 years of age. We may briefly explain both in some detail.

### **Rationale and ethical basis of NUP**

Public resources are scarce and extremely difficult to mobilise. It is the contribution of the entire population and all citizens have equal right over it. Pension is the magnanimity of the society to senior citizens to lead a decent life till death. Each senior citizen is ethically bound to extract from the public kitty only minimum required as pension. This is because if some section appropriates more of it, only less will be available to others. Society has every right to assess the need of each senior citizen to lead a decent living and responsibility to provide for it. Society is fully empowered to have a fresh look at the existing system and go ahead with any alternative which is beneficial to majority of the people.

Based on the above premise, Kerala society can go ahead with the concept of NUP. The total available resources for paying pensions is nearly ₹ 30,000 crores. Out of this ₹ 29,000 is now going to statutory pensioners and nearly ₹10,000 crores is going to welfare pensioners. This can be pooled together and considered as a fund available for paying pensions to all senior citizens. All senior citizens can be given Guaranteed Minimum Pension(GMP). Towards this, every senior citizen will have to submit a declaration regarding monthly income other than statutory pension / welfare pension such as income from agriculture, property, rent, interest income, dividends etc. Over and above the MGP, discretionary pension can be given to eligible senior citizens based on economic status and need. A Committee can be formed to evolve objective and measurable criteria for deciding economic status and need of such senior citizens. The state will provide a comprehensive health insurance which covers hospitalisation expenses of all senior citizens.

The implication of Need-based Universal Pension is that the society decides to give up statutory pension system and move over to a pension system which is based on economic rationale and justice. It reflects a new level of social and economic consciousness among the citizens.

### **Universal pension**

The ultimate objective of pension reform is universal pension modelled on western developed countries. Steps towards this will be started side by side with NUP. Kerala should form a public pension fund modelled on developed countries. The initial corpus can come from monetising public assets. Two public assets which can be monetised are public sector enterprises and government land.

## Public sector enterprises

The net worth of Kerala's public sector enterprises is ₹ 28,356.85 crore (GoK 2023, p.45). It can be converted to financial products so as to mobilise a part of the corpus.

## Government land

According to the data obtained from Kerala Land Bank, Government of Kerala possesses 75,645.92 hectares of land. Assuming an average price of ₹ 50,000 per cent of land, the value of land is a staggering ₹ 94,557.4 crore. There are different ways of monetising government land (The Hindu 2023, p.14). If 50% of land is monetised, it will add a substantial amount to the corpus.

## **Enabling legislation to make people to take ownership of their old age**

Next step is passing a legislation in the state legislature mandating every working person above the age of 18 to be part of state pension scheme or some privately owned pension fund and contribute a certain percentage of salary/ wages/ income to the pension fund. This way every working person will be compelled to take ownership of their post-retirement life. It should be stipulated that to qualify oneself for GMP, a person should have made contributions to the pension fund for a stipulated number of years. As in developed countries, the state government should ensure that those who are not able to contribute due to valid reasons are also made eligible to receive GMP. The resources required will have to be mobilised through higher taxation. Special cesses can also be levied for this purpose.

## **Impact of NUP universal pension**

Since the groundbreaking land reforms, NUP and universal pension will be a game changer in Kerala economy and society. With introduction of NUP, money will flow to the lower income sections of the society which in turn will flow to the local market raising trade, loading and unloading and local production of agricultural products and products of micro and small scale industries. This will simultaneously pull out the economy out of recession and state finances out of the present crisis. A virtuous cycle of economic activity and revenue growth will be set in motion.

From the welfare point of view, it will mark a paradigm shift in the attitude of people towards work, saving and life and may result in faster economic growth. It will lead to a new work culture which may help to retain the young people who are leaving the state in droves to foreign countries. Once implemented, it can serve as a model for Indian states and perhaps to Government of India.

## **Summary**

Written in the back drop of the acute fiscal stress and recession that the Kerala economy is undergoing, this paper enquires into the possibility of overcoming these by restructuring the expenditure side of state finances. It is argued that in the face of restrictions imposed by the Centre on borrowing and constraints in mobilising own resources, this is the only option. The paper questions the very foundation of statutory pension which is essentially a colonial legacy and therefore is outdated in the changed circumstances. By bringing all statutory pensioners under NUP system, it is possible to release enough public resources to pull out the recession griped economy. The paper puts forward two stages of moving over to a universal

pension system modelled on western developed countries. This is expected to lead to a virtuous cycle of economic growth and revenue increase.

### Notes

1. Two visible signs of the recession are the closed shutters of small provision and stationary shops and small tea shops and hotels across the state. Anecdotal evidences show that land and property prices have registered a steep fall across the state and especially in Thiru-Kochi districts. While a host of factors have contributed to it, a major factor appears to be the chain reaction of state's fiscal crisis.
2. Discussions with a few aged pensioners revealed that in their case the statutory pension doubled in 17 to 19 years and trebled in 24 to 27 years. One nonagenarian revealed that his pension is almost ten times his last drawn salary.
3. The criteria are: 1 Those who are drawing widowhood pension should certify that they have not remarried; 2. Annual income should not be above ₹ 1 lakh; 3 Should not possess vehicles above 1000 CC engine power; 4. Should not be receiving any other pension.

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## Appendix-1

### Various Forms of Pensions

A pension can broadly be defined as a fund into which a sum of money is added during an employee's service period and from which payments are drawn to support the person's retirement from work in the form of periodic payments. A pension may be a 'Defined Benefit plan' or 'Defined Contribution plan'.

A Defined Benefit(DB) pension plan is a plan in which employees or workers accrue pension rights during their working years and upon retirement, the employer pays them benefit that is a function of the employee's tenure and his/her earnings. In other words, a DB plan is a plan in which the benefit on retirement is determined by a set formula, rather than depending on investment returns. The statutory pensions at the Central and state governments in India are examples of DB plan. A traditional form of DB plan is the final salary plan under which the pension paid is equal to the number of years of service multiplied by the employee's salary at retirement multiplied by a factor known as accrual rate. The final accrued amount is paid as monthly pension. In most countries, the employee is permitted to commute a portion of the monthly pension for a few years and receive as a lump sum amount at the time of retirement.

Defined benefit plan may be funded or unfunded. In a funded plan, contribution from the employee and sometimes with a matching contribution from the employer are invested towards meeting the benefits. In unfunded defined benefit pension, no assets are set aside and the benefits are paid by the employer. In India, the statutory pensions are unfunded and are paid from the current revenue.

A Defined Contribution (DC) plan on the other hand is a pension plan where employers set aside a certain proportion of the employee's earnings in an investment account along with or without matching contributions and the employee receives this savings and any accumulated investment earnings upon retirement. The contributions are invested, for example, in the stock market and the returns on investment(which may be positive or negative) are credited to the individual account. On retirement, the member's account is used to provide retirement benefits, sometimes through the purchase of an annuity which then provides a regular income. Defined contribution plans have become widespread all over the world in recent years and are now the dominant form of pension plan in the private sector in many countries.

## **Pension System in developed countries**

In developed countries especially in European Union countries, pension is part of the 'cradle to grave' social security system. Though there is difference between the pension systems of various countries, there are certain common features. Almost all pension systems in developed countries encourage citizens to work and save for the old age. The system ensures that the responsibility to be eligible to receive pension at old age lies with the individual. The laws governing pensions in these countries ensures that irrespective of the fact whether a citizen is working in private or government sector, all join pension plans. Those desirous of higher pensions on retirement should contribute higher amount each month to the pension system. This system is known as Pay As You Go(PAYG).

The pension system in most developed countries ensures Minimum Guaranteed Pension to all citizens. Minimum Guaranteed Pension is paid to all retired persons at the same rate in most of the European Union countries. Going by the contribution made by such individuals to common pension funds, they may not be eligible to receive Minimum Guaranteed Pension. Or they may be eligible only for a lower pension. The pension system of these countries ensure that such individuals also receive Minimum Guaranteed Pension. The resources required for this is found through general taxes. It may be noted that the Tax-GDP ratio of these countries is as high as 35% to 40%. There is high degree of redistributive content in the pension systems of developed countries.

Pension systems in developed countries have undergone a sea change in recent years. Countries now permit citizens to join private pension funds along with public pension funds. Since pension funds are invested in stock market, pensions are susceptible to fluctuations. Citizens have the option of selecting defined pension schemes to protect themselves from such fluctuations.

