

Public Pensions in an Ageing State: Is Sustainability at Risk?

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Abstract

This paper critically examines Kerala's public pension system in the context of its advanced demographic transition and rising fiscal pressures. With the highest share of elderly population among Indian states and one of the most generous social security pension framework, Kerala exemplifies both the achievements and challenges of welfare-centric ageing support. The study maps the evolution of statutory and social security pensions, highlighting the state's expansive coverage, including over 34 lakh beneficiaries across general and elderly schemes. Further, using recent data it explores trends in pension expenditure (civil and social security pension), including its substantial share of total revenue outlays (nearly 17%). The analysis underscores how Kerala's inclusive but fiscally intensive model, though socially progressive, raises critical concerns regarding long-term sustainability. It calls for calibrated reforms that preserve equity while enhancing efficiency and sound fiscal policy in an ageing society.

Key Words: Pension system, Population Ageing, Fiscal Stance.

1. Introduction

Pension reform has become a pressing concern in many developing countries, including India, due to rising life expectancy and population ageing, changing economic conditions, and institutional challenges. These are further complicated by an increasing number of retirees compared to contributors, debates over shifting from pay-as-you-go to contributory systems, concurrent administration in federal structures, and the growing fiscal strain of pension obligations. As countries develop, they face difficult policy choices in crafting pension systems that balance fiscal sustainability with social equity. Barr and Diamond (2010) emphasize that successful pension reform must align economic feasibility, fiscal stance with social protection goals. Drawing from international experience- ranging from state-driven socialist models to market-oriented Anglo-American systems- the World Bank's (1994) three-pillar model, comprising public, occupational, and voluntary pension schemes, offers a structured framework to diversify pension sources while addressing long-term sustainability.

India's pension system has evolved over more than a century, from the colonial-era Royal Commission on Civil Establishments in 1881 and statutory provisions under the Government of India Acts of 1919 and 1935, to a broad-based architecture shaped by constitutional and developmental mandates. While initially limited to civil servants, pension coverage gradually expanded to the wider public sector and vulnerable populations. Anchored in the Directive Principles of State Policy, particularly Article 41 of the Indian Constitution, and falling under the concurrent jurisdiction of central and state governments, welfare pensions have become an essential pillar of India's social protection framework. Notably, several states pioneered old-age assistance schemes even before national programmes took shape. Today, India's old-age income security rests on a three-pillar system: statutory pensions for organised-sector employees, voluntary savings for informal and self-employed workers, and targeted social pensions for the poor and elderly. Recent reforms, including widespread adoption of the contributory National Pension System (NPS) by most states (except West Bengal and Tamil Nadu), underscore the dynamic interplay of political intent and demographic pressures.

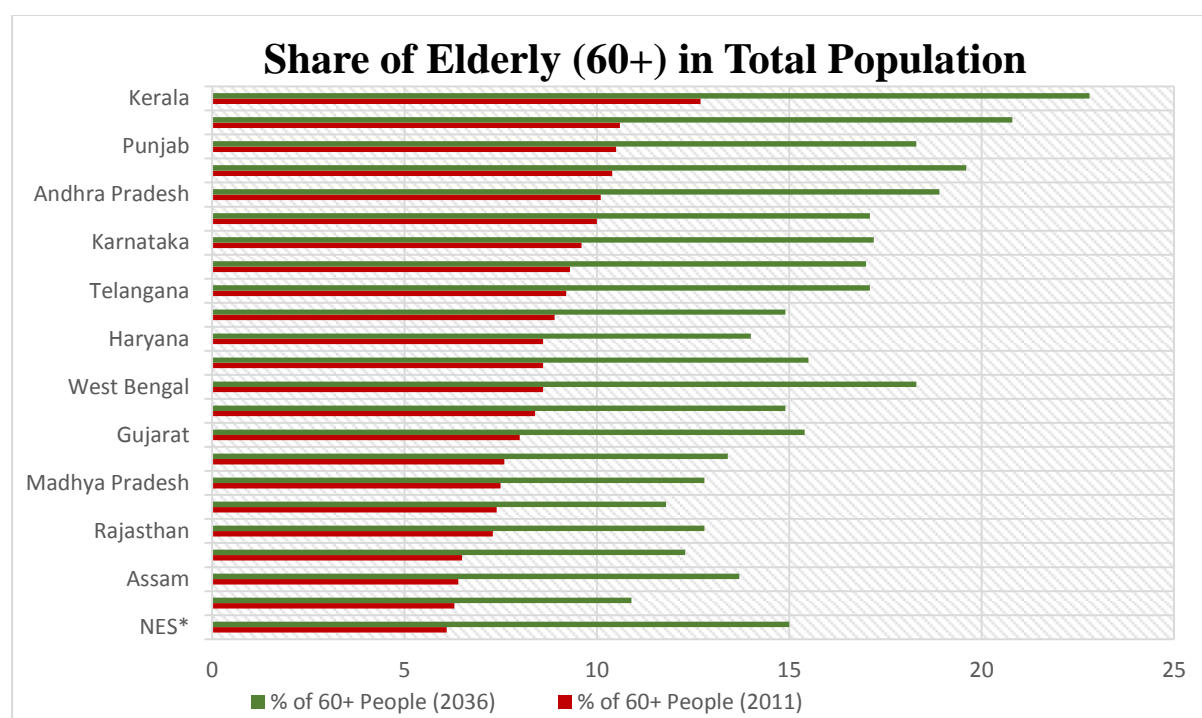
Of all major Indian states, the evolution of the pension system has become particularly critical in the case of Kerala, owing to its distinct demographic trajectory and ideological stance on pension reform, rooted in the broader Kerala Development Model. According to Census 2011 and the Report of the Technical Group on Population Projections (2019), Kerala

has the highest proportion of individuals aged 60 and above, coupled with the highest life expectancy in the country. Projections indicate that by 2031, the elderly will comprise 20.9% of Kerala's population, the highest among all states. While these demographic indicators are often viewed as hallmarks of human development (Zachariah & Rajan, 2011), they also pose serious concerns for the long-term sustainability of the state's pension architecture. The increasing share of the elderly and rising longevity are set to place mounting fiscal stress on both statutory pensions and social security schemes, raising urgent questions about how Kerala will balance its commitment to welfare with fiscal prudence.

Against this backdrop, the present study seeks to critically examine Kerala's demographic transition, the status and trends of elderly pension schemes, and the fiscal implications of a publicly funded pension system. It also aims to explore the emerging challenges to the fiscal sustainability of these programmes in the context of the state's evolving demographic realities. The paper is organized into the following subsections: an overview of Kerala's ageing profile, an analysis of pension schemes and their expenditure trends, a discussion on fiscal liabilities and sustainability concerns, and finally, a policy-oriented evaluation of the system's long-term viability.

2. Kerala's Demographic Turn: The Rising Challenge of Population Ageing

According to the 2011 Census, India's population was 121.08 crore, projected to reach 147.8 crore by 2031 (Technical Group on Population Projections, 2019). Kerala already stood out in 2011, with more than 12% of its population aged 60 and above, whereas most other major states barring Punjab (11.2%) and Andhra Pradesh (10.6%) remained below the 10% threshold. By 2031, Kerala's elderly population share is expected to rise sharply to nearly 24%, far ahead of states like Punjab (18.8%), West Bengal (17.5%), and Andhra Pradesh (18.3%), which hover in the mid-to-high teens. In contrast, states such as Madhya Pradesh (13.5%), Rajasthan (12.7%), and the North-Eastern States (11.5%) are projected to remain well behind, highlighting the starkly uneven demographic transition unfolding across India's federal landscape. Figure 1 clearly illustrates this divergence, emphasizing Kerala's early and steep ageing trajectory relative to other Indian states.

Figure 1: Share of Elderly (60+) in Total Population Across Major Indian States

Source: Population Census 2011 Report of the Technical Group on Population Projections November 2019, Population Projections for India, and States 2011-

**NES-North Eastern States*

Kerala's steep ageing trajectory, set to have one in four residents aged over 60 by 2031, presents pressing social and fiscal challenges. As the working-age population contracts, the demand for stable old-age income, healthcare, and elderly-centric services is set to rise sharply. Addressing these needs will require Kerala to recalibrate its social protection architecture. This calls for timely, state-specific pension reforms, enhanced resource mobilisation, and closer integration of pension systems with broader welfare and health frameworks to ensure elderly well-being and avert long-term social pressures.

3. Trends and Patterns of Public Pension System for elderly in Kerala

India's old-age income security system includes statutory pensions for organized sector employees, voluntary schemes for the self-employed and unorganized sector, and targeted social assistance for the poor. This study focuses on the first and third types, statutory public pensions (excluding provident fund and gratuity) and welfare pensions for economically vulnerable groups, which together form a major component of central and state pension expenditures.

India's statutory pensions, falling under Pillar II of the World Bank's framework, were historically dominated by the Old Pension Scheme (OPS), an unfunded model that raised intergenerational equity concerns (Aiyar, 2022; Rajaraman, 2006). A major shift occurred in 2004 with the introduction of the National Pension System (NPS), a market-linked, contributory scheme aimed at reducing long-term fiscal liabilities. While all government employees were earlier entitled to defined pensions under OPS, post-2004 recruits are now covered under NPS. Though primarily a fiscal reform, state-level decisions to adopt or retain pension schemes remain politically driven. All states except West Bengal and Tamil Nadu have adopted the NPS, with Kerala being the last to join in 2013.

In the context of India's shift toward contributory pension models, Kerala presents a distinctive case. As of 2023, Kerala had 7.42 lakh subscribers under the National Pension System (NPS), placing it in the mid-range among Indian states. However, its enrolment under the Atal Pension Yojana (APY), a contributory scheme targeting informal sector workers, is notably low, with just 1.43 lakh subscribers, far below states like Uttar Pradesh (19.98 lakh) or Bihar (9.72 lakh). This subdued participation in APY reflects Kerala's preference for state-funded, welfare-oriented pension schemes and the limited traction of voluntary contributory models, despite a large informal workforce. Given Kerala's rapidly ageing population, the relatively modest adoption of APY and delayed NPS entry (adopted only in 2013) raise important questions about the long-term sustainability of its pension model, especially in light of fiscal pressures and demographic realities.

On the other hand, India's social security pension system plays a crucial role in safeguarding the economic security and dignity of the elderly, disabled, and economically vulnerable. Rooted in the Directive Principles of State Policy, particularly Article 41 of the Constitution, it obligates the state to provide public assistance within its financial capacity. As a concurrent subject under List III of the Seventh Schedule, welfare pensions are administered jointly by the central and state governments. Historically, state governments-initiated welfare pensions, initially targeting the elderly and gradually expanding to include other vulnerable groups. In the 1990s, the central government sought to harmonize efforts through the National Social Assistance Programme (NSAP), which currently includes the Indira Gandhi National Old Age Pension Scheme (IGNOAPS), Indira Gandhi National Widow Pension Scheme (IGNWPS), and Indira Gandhi National Disability Pension Scheme (IGNDPS). Today, all states and union territories implement these schemes either through NSAP-aligned frameworks, particularly for elderly or independent state-run schemes, leading to significant

variation in coverage, benefits, and administration. These differences are shaped not just by state-level fiscal capacity, but also by political ideology and leadership commitment to social welfare (Dey, 2021).

Kerala currently implements two major elderly-specific social security pension schemes: the centrally supported IGNOAPS under NSAP, and the fully state-funded Agricultural Labour Pension Scheme (APL). In addition, the state offers category-specific pensions for vulnerable groups such as circus artists and members of the Vishwakarma community. Kerala also operates around 44 Welfare Boards catering to informal sector workers, with varied funding structures, some rely entirely on government grants, others on a combination of own revenues and state support, and a few are self-financed. As of now, almost all social security pensions are uniformly set at Rs.1,600 per month. For IGNOAPS, the central government contributes Rs.200 (Rs.500 for beneficiaries aged 80 and above), with the state topping up the remainder to meet the standard amount.

This financial support reflects in Kerala's extensive reach (See Table 1): as of 2023–24, the state had 4.58 lakh beneficiaries under IGNOAPS (funded by the central government) and a remarkable 27.5 lakh beneficiaries under additional state-funded old age pensions, one of the highest in the country. Notably, the coverage of another major elderly-specific scheme, the Agricultural Labour Pension (ALP), stands at 3.08 lakh beneficiaries, reinforcing Kerala's multi-tiered approach to elderly protection through both general and occupation-specific schemes. Unlike many states that adopt Below Poverty Line (BPL) criteria for pension eligibility, Kerala applies a more inclusive annual income limit of Rs.1,00,000, enabling wider coverage. This approach, while fiscally demanding, aligns with the state's welfare-oriented governance model and acknowledges the rising costs of living and healthcare in old age. In contrast, several other states offer lower pension amounts or limited coverage. For instance, Goa and Nagaland provide no state top-up to the central share, while even larger states like Uttar Pradesh report relatively lower additional beneficiaries (10.7 lakh) compared to Kerala, despite having a significantly larger population. This suggests Kerala's proactive and inclusive social protection model, even amid fiscal pressures, remains unmatched in its scale and depth of support for the elderly.

Table IV: State-UT-wise number beneficiaries under IGNOAPS(NSAP) 2023-24

Sl. No	States/UTs	State/UT-wise number IGNOAPS (NSAP) beneficiaries	State/UT-wise additional old age Pension beneficiaries
1	Andhra Pradesh	663736	678736
2	Arunachal Pradesh	5893	48722
3	Assam	695997	1271315
4	Bihar	3157256	3915991
5	Chhattisgarh	644429	653006
6	Goa	7308	78112
7	Gujarat	620548	148817
8	Haryana	259865	1527417
9	Himachal Pradesh	93178	430085
10	Jharkhand	985094	1435922
11	Karnataka	899422	3982109
12	Kerala	458813	2750224
13	Madhya Pradesh	1575079	841470
14	Maharashtra	1122920	2680443
15	Odisha	1418631	1591369
16	Punjab	112955	2126951
17	Rajasthan	823972	4821144
18	Tamil Nadu	1282504	263975
19	Telangana	480315	1170705
20	Uttar Pradesh	4722613	1078133
21	Uttarakhand	204557	288982
22	West Bengal	1281159	1689657
23	UT's and others	596730	1191845
	TOTAL	22130687	34665130

Source: - Lok Sabha Unstarred Question No. 1159 Answered On 11/02/2025

https://sansad.in/getFile/loksabhaquestions/annex/184/AU1159_RpZosw.pdf?source=pqals

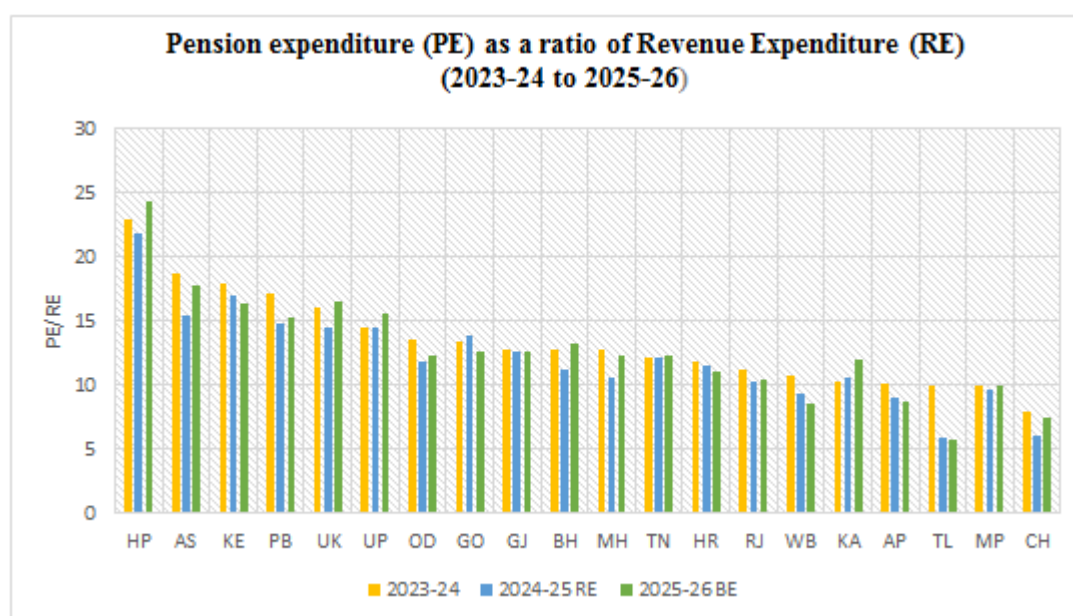
4. Fiscal Implications of Civil and Social Security Pension Schemes in Kerala

Kerala continues to grapple with one of the highest pension burdens among Indian states, particularly from statutory pension liabilities. As shown in Figure 2, Kerala's pension expenditure as a share of total revenue expenditure was 17.3% in 2023–24, 16.4% in 2024–25 (RE), and is budgeted at 16.9% in 2025–26 (BE). While this marks a marginal decline, the state still ranks third-highest after Himachal Pradesh (24.2%) and Assam (18.7%), and significantly above the average for other major states such as Maharashtra (13.2%), Tamil Nadu (12.6%), and Madhya Pradesh (10%) (Budget Documents, 2025–26; RBI, 2023).

This comparative positioning highlights Kerala's structural fiscal vulnerability, where legacy obligations from the Old Pension Scheme (OPS) and a relatively late adoption of the National

Pension System (NPS) (in 2013) continue to exert pressure on its revenue spending (PFRDA, 2023). Importantly, the data excludes social security pensions for elderly, which, if included, would push Kerala's overall pension commitments even higher especially given its expansive welfare framework that covers nearly 30 lakh elderly through various schemes. Unlike several other states that have achieved greater pension rationalisation or earlier transitions to the NPS (e.g., Himachal Pradesh in 2003, Gujarat in 2005), Kerala's demographic maturity and ideological resistance to full pension marketisation have compounded its long-term fiscal stress (CAG, 2023). The state's case underscores the urgency of implementing state-specific pension reforms that can address both sustainability and equity in an ageing society.

Figure 2: Pension Expenditure as a % Total Revenue Expenditure



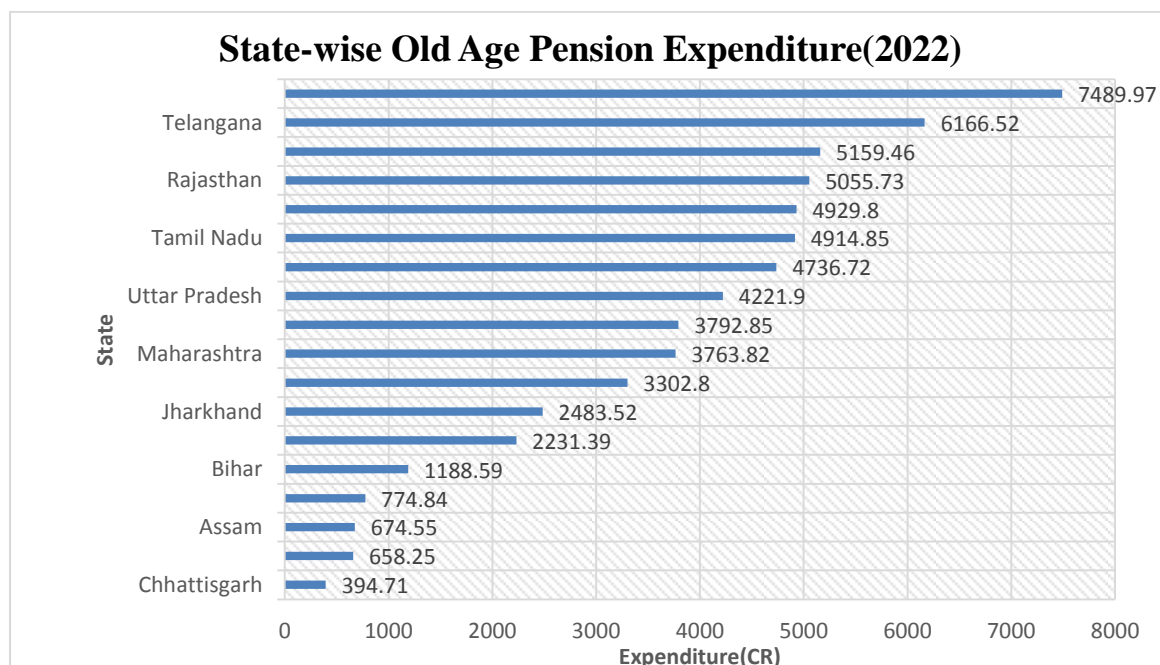
Source: Budget 2025-26, respective states

In the other side of coin, the rising share of elderly population poses a significant concern for state finances, primarily due to the growing commitment to providing social security pensions for senior citizens. Additionally, the increase in life expectancy further intensifies the financial burden associated with civil pension expenditure. Civil pension expenditure in Kerala has exhibited a steady upward trend since the 1990s. While it accounted for around 11–13% of the state's revenue expenditure in the early 1990s, it has consistently remained between 15% and 20% in recent years, peaking near 20% in 2007, 2011, and 2018. The latest data 2023–24 to 2025–26 reveal a persistently high pension expenditure, consistently ranging between 15% and 18%. This rising trajectory of pension expenditure to total revenue expenditure reflecting the compounded fiscal impact of demographic ageing, increasing life

expectancy, and pension commitments. These high pension outlays significantly constrain fiscal space for capital investment and welfare expenditure, particularly in states with limited revenue buoyancy.

Figure III shows that Kerala spent roughly Rs.4,930 crore on old-age social-security pensions in 2022, the fifth-highest outlay among Indian states behind only Andhra Pradesh, Telangana, Haryana, and Rajasthan. What makes Kerala’s figure striking is its population base: with barely 2.7 per cent of India’s population but the highest share of elderly (about 16 per cent in 2020 and projected to exceed 20 per cent by 2031), Kerala’s per-senior expenditure is among the costliest in the country. Roughly eight out of ten older residents receive a state-funded pension, reflecting the state’s long-standing commitment to near-universal coverage. This generosity, though socially progressive, also underscores Kerala’s fiscal dilemma: pension outlays for barely three million seniors now rival the spending of much larger states, and will rise steeply as the elderly cohort expands. Sustaining such a high per-capita commitment will therefore hinge on broader revenue mobilisation and reform of delivery efficiencies even as Kerala’s demographic ageing accelerates.

Figure III: State-wise (major) Old Age Welfare Pension Expenditure (Social Security Pension)



Source: Author’s Compilation

5. Concluding Remarks

Kerala's pioneering efforts in elderly welfare and its commitment to near-universal pension coverage represent a progressive social model within India. However, this inclusive approach faces mounting fiscal pressure due to rapid population ageing, increasing life expectancy, and an already high pension-to-revenue expenditure ratio. Although Kerala adopted the National Pension System (NPS) in 2013, the state continues to shoulder a dual burden, financing legacy obligations under the old pension scheme (OPS) while simultaneously contributing to NPS accounts for new employees. This overlap has led to a sharp rise in pension expenditure. Over time, as NPS-covered employees begin to retire, the financial benefits of this transition are expected to materialize, contributing to fiscal consolidation by stabilizing civil pension outgo. Importantly, Kerala's efforts in elderly welfare are also influenced by the stance of the Union Government. In the case of social security pensions, the minimal financial contribution from the central government remains a critical concern. Moving forward, Kerala must strike a careful balance between its inclusive pension framework and fiscal sustainability. This will require better targeting of beneficiaries, integration of contributory and welfare schemes, enhanced delivery efficiency, and robust revenue mobilisation strategies.

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