After the Dividend:Caring for a Greying India

Barik, Debasis and Agrawal, Tushar and Desai, Sonalde

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Debasis Barik
Associate Fellow
National Council of Applied Economic Research
dbarik@ncaer.org

Tushar Agrawal
Associate Fellow
National Council of Applied Economic Research
tagrawal@ncaer.org

Sonalde Desai
Professor of Sociology, University of Maryland College Park
And Senior Fellow, National Council of Applied Economic Research
Sonalde.desai@gmail.com

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After the Dividend: Caring for a Greying India

National euphoria about reaping the demographic dividend has blinded us to the drama that is unfolding almost out of our sights, slow ageing of the Indian society. As we race towards a demographic future in which the elderly form a larger and larger part of population distribution, India is also experiencing transformation in its economic and social life. Below we take stock of some of these changes and identify policy challenges lurking on the horizon.

In 1991, Indian population contained 57 million elderly; this population has now doubled to 104 million (Census of India 2011). Much of this increase is due to overall population increase but fertility decline has contributed to increase the proportion of the elderly in the Indian population from 6.6% in 1991 to 8.6% in 2011 (Census of India 2011). However, ageing in India is not uniform across states (Figure 1). States that began fertility decline early, have a higher proportion of the elderly than states that still show moderate to high fertility.

[Insert Figure 1 here]

According to Census 2011, the proportion of elderly in most of the states falls within the range of 7 to 10%. Only Kerala is at the high end. One in every eight persons in Kerala is over 60. Some other states such as Tamil Nadu, Punjab and Himachal Pradesh are also closely following the same path. Since proportion of elderly in any society is dwarfed by proportion of children until replacement level fertility is achieved, the proportion of elderly is smaller – about 7% - in high fertility states like Uttar Pradesh, Bihar and Madhya Pradesh but as these states experience fertility transition, they will also face the burden of an ageing population.

While the demographic scenario is propelling us towards inevitable ageing over the next fifty years, social transformation already under way is shifting the fundamental props of elderly support.

Income and Consumption across the Life Cycle

Figure 2, drawn from the research on the spread of income and consumption across the lifecycle documents two striking patterns (Lee and Mason 2011): (1) In any given country, the young and the old tend to consume more than they produce; (2) When we compare across countries, although there are some differences between the rich and the poor countries in age-specific consumption and income patterns, the most striking divergence appears in consumption at the old age.

[Insert Figure 2 here]

Comparison over the life course: In the early phase of demographic transition, the aggregate economic life cycle is dominated by the large life cycle deficit (consumption minus production) of the young. The net deficit in early ages is mainly due to the cost related to rearing of the children, and investment on education and skill building activities. This leads to a higher consumption in the absence of any income during these days. Over the course of the demographic transition, population's age and the life cycle deficit of the old become increasingly important. The deficit in the later ages is associated with a higher consumption due to high treatment cost of late life chronic morbidities and lower productivity.

Comparison across countries: Though the life cycle levels of income differ substantially between the rich and the poor nations, the patterns seem similar. However, when it comes to consumption, a huge difference can be observed between the rich countries like the US, Japan, Finland and Sweden and the poor countries like India, Indonesia, Philippines and Kenya (Figure 2). The increasingly higher consumption level in the later ages in the rich countries occurs due to health care costs and higher standard of living. The relatively low and downward sloping consumption curve on the poor countries reflects the lower ability to pay, mainly due to informal nature of work and absence of pension, lower accumulation of assets and negligible amount of support from the government. However, as health transition continues apace, the expenditure during old ages is likely to increase for the poor countries as well.

Thus, we must plan for a slowly ageing population where health care expenditure will inevitably rise with growing burden of Non Communicable Diseases (NCD) like cancer, diabetes and heart conditions that require expensive laboratory testing, continued care and monitoring and frequent hospitalisations. While this has been recognized in the policy discourse (Planning Commission 2011), little attention has been directed at the fact that source of income and nature of financial support for the elderly are also changing. Below we consider the importance of the three pillars of support for the elderly – own work and savings, help from extended family and support from the government. Looking at the trends between 2004-05 and 2011-12, we find that each of these three pillars is undergoing substantial changes and is likely to affect the wellbeing of the coming generations of older Indians.

Data

We document changes in elderly support structure using two rounds of the India Human Development Survey (IHDS), conducted by the National Council of Applied Economic Research (NCAER), New Delhi and the University of Maryland. The first round of the survey was conducted during 2004-05 and the second, during 2011-12. IHDS is a multi-topic panel survey enumerating more than 200,000 individuals from about 42,000 households. It is a nationally representative survey which covers 33 states and union territories of India. The data collected through the survey appears to be of high quality and at par with other national level surveys like the National Sample Surveys and the National Family Health Surveys.

The period covering the two rounds of the survey has been an important phase of the Indian economy since during this period various flagship programmes like the National Rural Employment Guarantee Act, National Rural Health Mission, Janani Suraksha Yojana and the Right to Education Act were initiated by the central government and many other programs like National Old Age Pension Scheme were expanded substantially.

The IHDS collects information on various factors related to the well-being of the older population such as living arrangements, health conditions and health care expenditure, participation in productive work (whether paid or unpaid), and their participation in government sponsored pension programmes etc. In addition, IHDS is unique in that it allows us to capture the intergenerational transfers of income and assets among household members.

The second round of the survey has a sample of 21922 elderly (aged 60 or above) out of which around 68% are from rural areas and 32% from urban areas. The recent round has around 4000 more elderly than in the previous round. However, due to the ageing of the original sample, the IHDS sample contains a slightly higher proportion of elderly than the national census. For example, the percentage of elderly recorded in IHDS 2011-12 was 10.8%, which is about 2.2 percentage points higher than the recent Census 2011 figures.

Economic Security of Elderly in India

Unlike developed countries, with the exception of formal sector workers, few elderly see their later years as a time of retirement that allows them time to enjoy leisure with family, friends and relatives. Given the nature of work, elderly people do during the early years of life, and the lack of savings mechanism and pension system, a majority of elderly in India continues work beyond the legal retirement age for formal sector workers. When they are unable to work, they are usually dependent on the familial transfers in the absence of a sound government support system.

In any society, the economic security of the older population is based on three main sources: (1) Own income and savings; (2) Support from the extended family, particularly children; and (3) Support from the state. Below we examine trends in each of these.

(1) **Work and income as a source of old age income security**: When we think of the sources of economic support for the elderly, it is important to recognize that own income and assets consist the largest proportion of income security for the elderly (Figure 3). A large proportion of the elderly households depends on income comes from salaried or wage work; about 87% of the households receive any income from agricultural/business/wage work. Close to 29% of the elderly lives in households which receive income from pensions, interest

income and renting property. This also includes rent or crops received for leasing out farmland. These numbers are not surprising since only formal sector workers have access to some form of pension. A large number of workers who are self-employed in family businesses, farming, or in manual labour at daily wages, do not have this benefit, and their continued employment is mainly driven by lack of alternative income in the form of pensions. Income from property and pension are highest among the better-off segment of population namely educated, affluent income class, high caste Hindu/other religion and those reside in urban areas.

[Insert Figure 3 here]

A significant proportion of the older population in India is economically active. These include salaried or business work, cultivation, farm and non-farm labour, and animal care. Nevertheless, the nature of work done by the elderly varies by age, sex and place of residence. About 61% of the older male population in rural areas continues to engage in some economically productive work compared to 31% of their female counterpart (Table 1). In contrast, the elderly in urban areas are less likely to work in their later life. Low rate of labour force participation in urban areas is not surprising since women's work participation rate (for all age group) in urban areas is lower than in the rural areas. Women (25%) are less likely to work than men (55%) in old ages.

[Insert Table 1 here]

Labour force participation among elderly men and women declines with age as one can expect. The rural elderly are mostly engaged in cultivation and farm related activities including animal care. On the other hand, most of the urban elderly are engaged in family business and salaried activities. A significant share of the elderly in both rural and urban areas is engaged in non-farm activities. In rural areas, salaried work among elderly men and women is almost negligible. Formal sector work imposes much greater entry and exit regulations than work that is family based, such as work on family farms and in family businesses (Desai et al. 2010).

An interesting finding is that there is a substantial increase in non-farm employment in rural areas for both men and women between 2004-05 and 2011-12 (Table 1). This could be attributed to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). It is possible that many households choose the older members to work in MGNREGA while younger members work in more labour intensive work (Joshi et al. 2014).

(2) **Family and remittances:** Family is considered to be the ultimate source of economic, social and emotional support during old age in a society. With the exception of a few areas like Meghalaya and parts of Karnataka and Kerala, India remains a mostly patrilineal society in which sons are expected to take care of their parents. This reciprocal

obligation is bolstered by the fact that in spite of legal reforms, sons continue to inherit parental property, particularly the agricultural land and family residence and in return continue to live with their parents. This tradition is also often held responsible for the strong son preference in India. However, with the gradual decline of employment in the traditional sectors (like agriculture), opening up of new jobs in global settings, and growing individualism, it is often argued that the multigenerational family system is under increasing stress. IHDS finds some support for these expectations and reports five percentage points decline in the elderly co-residence during the last seven years.

Nevertheless, most elderly persons (72%) continue to live with their children and other family members (Table 2). Only 19% men and 16% women live either alone or with their spouse, the remainder live with children or other family members. The younger elderly often take care of their single and dependent children. But at a later stage in life, co-residence involves living with married sons and their wives. 66% of the elderly men and 77% of the elderly women lives with married children or other members of the family. Living in joint family during old ages is quite common among the richer households and in households with nominal education. Again, elderly in the higher age groups are more likely to be in the joint family than the young elderly, perhaps due to decline in health.

[Insert Table 2 here]

It is important to note that men and women face aging differently. The recent round of the data shows that among elderly while 57% women are widows only 17% men are widowers. The longer life expectancy of women, on an average, and the normative age gap between husband and wife make widowhood more likely for women than for men. This also accounts for the fact that more women live with their married children than women.

Declining co-residence (about 6% percentage point between 2004-5 and 2011-12) does appear to be a harbinger of doom for the Indian extended family. Children continue to provide financial support for their parents even when they do not co-reside. About 18% of the elderly households received any income from remittances in 2011-12, up by 7% in 2004-5. Remittances seem more likely for couples or single individuals whose children live elsewhere. When the elderly live with family members, they receive help via co-residence and do not receive monetary transfers (Desai et al. 2010).

Nonetheless, remittances do not replace co-residence in ensuring incomes of the elderly households. We find that though the proportion of households receive any income from remittances has gone up significantly during the last seven years (Figure 3), the amount received from remittances has remained more or less the same (Rs. 40651 in 2011-12 compared to Rs. 36332 in 2004-5) (Table 3). At the population level, the total amount received from remittances is Rs. 7,158.

(Insert Table 3 here)

(3) **Public Transfer Schemes**: Though evidence suggests that work and family are the major supports for the elderly, the government sponsored safety net programs also play a little role in it. India has a social safety net program, National Social Assistance Scheme (NSAP) that has functioned since 1995 and the National Old Age Pension Scheme (NOAPS) is an integral part of it since the inception. Under the NOAPS, a central contribution of Rs. 75/month was given to the destitute elderly aged 65 years or above. States supplement this, although the amount state supplement varies between states. Over time, the coverage, the criterion of destitution and pension amount has changed with the change in its jargon. The Indira Gandhi National Old Age Pension Scheme (IGNOAPS) provides support to the elderly of age 60 years or above who belong to a BPL household. The pension amount by the central has increased to Rs. 200/month up to age 79 years and Rs. 500/month to the oldest old (age 80 years or over). Eligible elderly also receive 10 kilograms of food grains per month with no cost through Annapurna Yojana.

The role of public transfers in elderly households has grown sharply in recent years. The recent round of the IHDS shows that 42% per cent elderly households receives any government benefits such as old age pension, widowhood pension, disability pension etc., up from 17% in 2004-5 (Figure 3). Increasing proportion of elderly receiving income from IGNOAPS -- 7% vs. 18% -- plays an important role. In recent years eligibility for IGNOAPS has changed from 65 years to 60 years and greater efforts have been made to enroll eligible beneficiaries. Most government schemes appear to be targeted towards the vulnerable sections of the society; rural residents, females, Dalits and Adivasis are more likely to receive government assistance. However, payments through these schemes are only modest in size. For households that receive transfers, annual benefit is Rs. 4965 on average; for population as a whole it is Rs. 2102 per year.

Caring for the Elderly in a Changing World

Over the last two decades, several states of India have achieved Total Fertility Rates below 2.1 (known as below replacement fertility). Even the most populous states like Uttar Pradesh and Bihar are also showing a rapid decline in fertility rate, which eventually leads the Indian society towards its ageing phase. However, declining fertility is also associated with declining co-residence and declining proportion of working age adults per elderly household. In IHDS data, average number of working adults of ages 15-59 have declined from 2.9 in 2004-5 to 2.5 in 2011-12. This declining in workers per household coupled with declining co-residence suggests a need to rethink our reliance on extended family for economic and social support of the elderly.

Each of the three pillars of economic support in the old age – work and personal savings, extended family and state – must be prepared for increasing demands in the decades to come. Below we outline some of the issues that deserve consideration.

(1) **Work and Savings:** With some exceptions, retirement ages around the world have been rising (Lee and Mason 2011). Even in India, retirement age in some sectors such as universities have risen. We may want to think about increasing retirement ages in formal sector jobs. Economic growth and labour shortages in some sectors provide us with an opportunity to do so. More importantly, we may also need to create vehicles for increased private savings and investment. A variety of schemes are currently available to the middle classes but safe and accessible methods of savings are often not available to the poor who must deposit small amounts and are often not financially sophisticated. Current discussion on financial inclusion should be expanded to include micro-savings. Improving financial inclusion will also aid the elderly households in receiving remittances from family members living elsewhere, a growing source of income as documented above.

Moreover, present inheritance laws and laws governing agricultural property make it difficult for the elderly to sell or borrow against property. Simplification of these laws and regulations and reduction of black money component from real estate transaction may make it easier for the older population to self-finance their old age.

(2) **Learning to Live with Declining Familial Support:** With declining fertility and increasing migration, the decline in extended families we have observed between 2004-5 and 2011-12 is simply the tip of the iceberg. We should expect more and more elderly individuals to live alone or with their spouses. In addition to day-to-day care, it may also affect their ability to obtain health care. Thus, as we develop health systems for diagnosis and treatment of ailments of older ages, particularly for non-communicable diseases like diabetes and heart diseases, we may need to think about the fact that many elderly patients will not have family members available to help them in negotiating access to health care.

(3) **Developing Infrastructure for Public Transfers:** While it seems unfeasible that India can provide substantial income support to all elderly via a social pension program, we can draw substantial lessons from the experience of other countries. Few countries have set up social security programs overnight. Development of social pension programs requires both building political support for these programs and developing administrative capacity. Thus, it may make sense to start with a universal program of modest pensions. Even now, a large number of elderly households receive transfer payments of some kind. For example, the IHDS data suggest that 42% of the elderly households receive modest transfers. Instead of a complex web of schemes such as Annapurna Yojana, IGNOAPS and income tax benefit schemes, it may make sense to consider a universal modest social pension program that benefits all elderly. This will form the backbone of a social security program as income of

the country grows and we seek to provide greater income security for the elderly. However, developing efficient transfer mechanisms via Direct Benefits Transfer or some other distribution channel will be essential in order to reduce corruption and leakage.

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Tables

Table 1: Labour force participation rate and type of activities (in %) among men and women ages 60 and above in India, 2004-12.

Kind of Employment	2004-05				2011-12			
	Rural Male	Rural Female	Urban Male	Urban Female	Rural Male	Rural Female	Urban Male	Urban Female
Salaried	3.00	0.70	8.60	2.30	2.80	0.80	8.90	2.90
Business	6.60	1.50	14.20	1.80	6.80	2.30	15.10	2.80
Cultivation	31.40	10.40	3.40	0.80	36.40	13.10	3.90	0.90
Farm labour	11.50	5.80	3.10	1.10	12.30	7.30	2.60	1.10
Non-farm labour	5.80	1.20	6.80	1.90	14.50	5.60	8.30	2.60
Animal Care	35.30	20.80	4.70	3.10	27.30	15.50	4.30	3.70
Doing any work	60.70	31.20	36.90	10.10	60.90	31.10	39.30	12.50

Source: Authors' calculations based on IHDS 2004-05 and 2011-12.

Table 2: Living arrangements (in %) of men and women ages 60 and above in India, 2004-12.

Family Type	Men		Women	
	2004-05	2011-12	2004-05	2011-12
Single	1.11	2.02	3.82	5.78
Couple	12.24	17.02	7.33	10.18
With Unmarried Children	15.81	14.88	5.73	6.76
With Married Children/Others	70.84	66.08	83.12	77.28

Source: Authors' calculations based on IHDS 2004-05 and 2011-12.

Table 3: Sources of income of the households with elderly member, 2004-12.

	Percent Households with Any Income From				Average Annual Income (in Rs.)							
					In Households with Elderly				In Whole Population			
	Agr./Bus./ Wage	Property Pensions	Remittances	Government Benefits	Agr./Bus./ Wage	Property Pensions	Remittances	Government Benefits	Agr./Bus./ Wage	Property Pensions	Remittances	Government Benefits
2004-05												
All India	89.4	25.9	10.7	17.1	93638	49440	36332	3267	83400	12138	3904	559
Gender												
Male	89.8	27.4	10.4	14.7	93734	52365	36417	3316	83921	13699	3769	489
Female	88.9	24.3	11.1	19.5	93539	46059	36251	3229	82867	10541	4041	631
Age												
60-9	90.4	25.5	10.6	15.8	91104	51256	34026	3186	82134	12467	3612	503
70-9	88.2	25.1	10.9	19.3	97482	49032	36884	3186	85704	11556	4011	614
80+	86.0	30.4	11.2	19.2	99186	40980	48326	3900	84850	11720	5404	749
2011-12												
All India	86.5	29.3	17.6	42.3	115962	67379	40651	4965	99731	19745	7158	2102
Gender												
Male	87.1	30.2	18.0	38.3	119884	74001	41179	5284	103759	22383	7417	2022
Female	85.9	28.4	17.2	46.2	112215	60736	40131	4716	95936	17259	6914	2177
Age												
60-9	88.4	28.0	17.6	39.7	112489	69097	40864	5060	98814	19354	7196	2010
70-9	83.6	32.0	17.4	45.9	119707	66288	38413	4896	99517	21206	6689	2246
80+	83.7	29.5	18.1	47.3	125841	61827	44771	4714	104965	18240	8093	2227

Source: Authors' calculations based on IHDS 2004-05 and 2011-12.

Figures

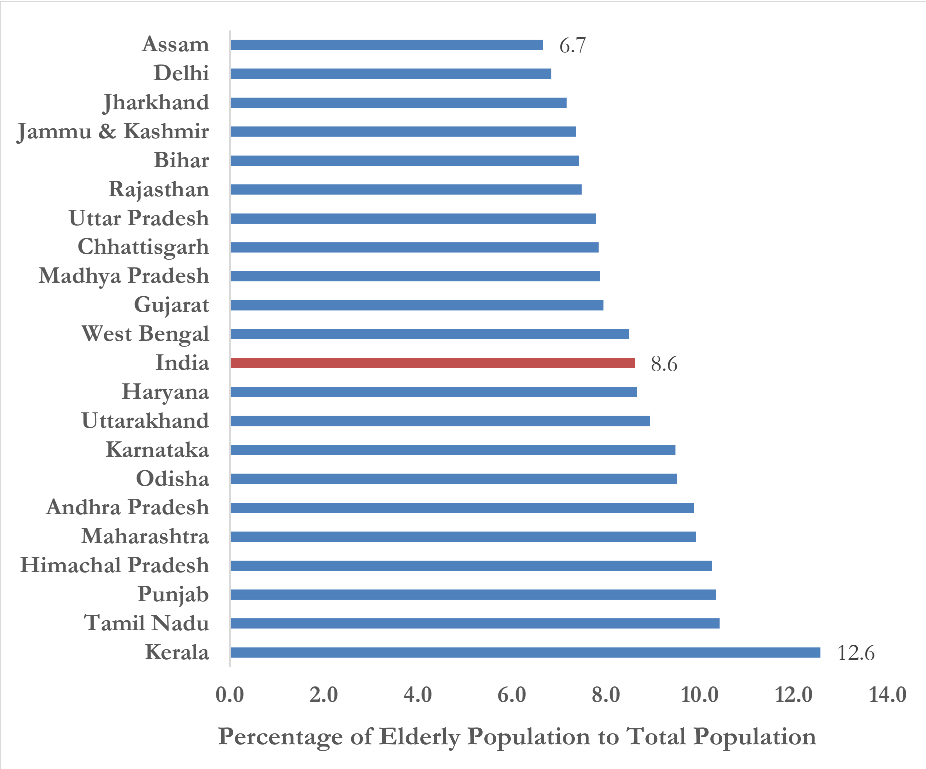

Figure 1: Proportion of elderly population (aged 60 and above) in India-2011

Source: Authors' calculations based on Census 2011 data.

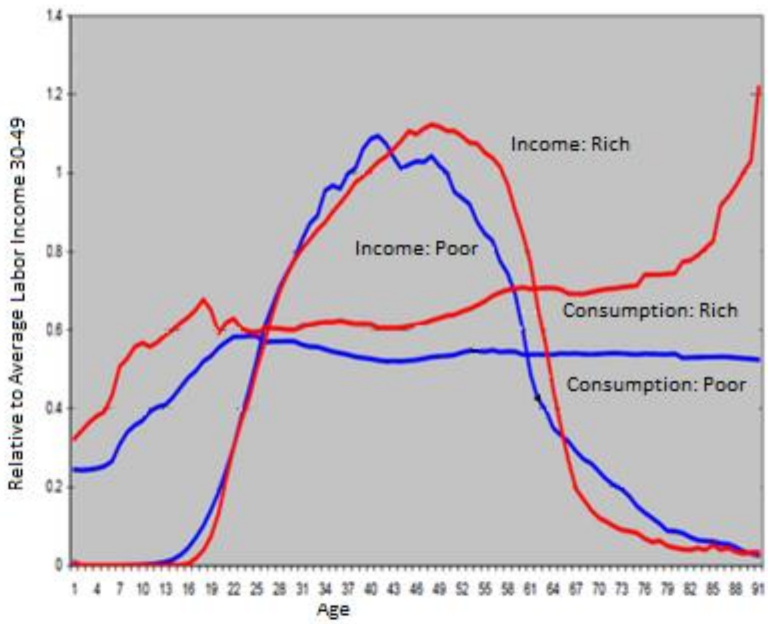

Figure 2: The economic life cycle of rich and poor countries: consumption and labour income

Source: Lee and Mason (2011, p. 82)

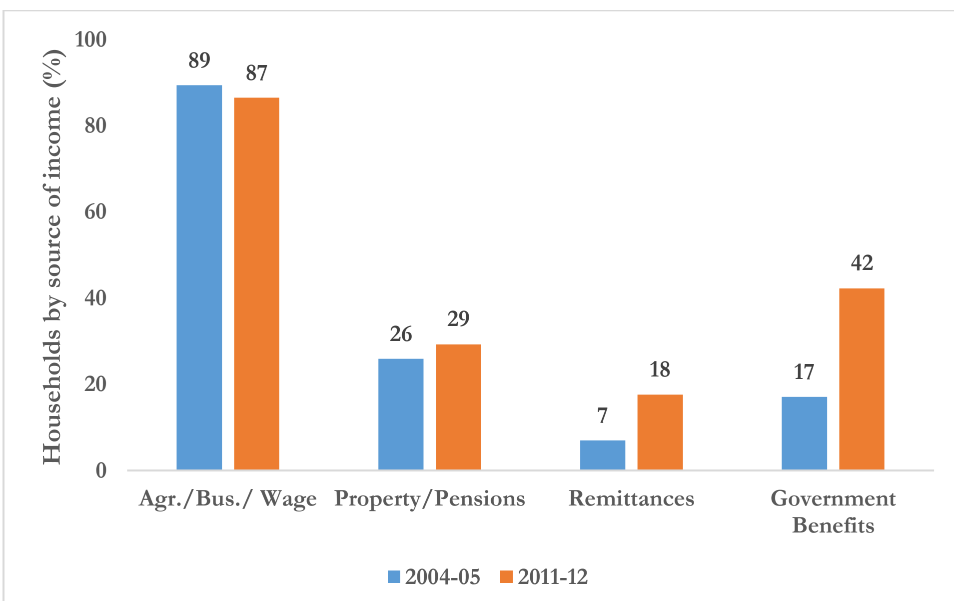

Figure 3: Proportion of elderly households by source of income 2004-12

Source: Authors' calculations based on IHDS 2004-05 and 2011-12.