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AWARENESS ABOUT APY AS A FINANCIAL & SOCIAL INCLUSION TOOL

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Abstract:

Atal Pension Yojana is a pension system provided by Government of India, particularly targeted at the unorganized sector. In India, a sizable portion of the workforce is employed in the unorganized sector. Employees working for unorganized sector businesses have less job security, less opportunities for career advancement, no paid time off, and less protection from unfair or illegal hiring practices. When a person is no longer employed, a pension provides them with a monthly income. Other reasons why a person needs pension can be;

- *Reduction in income earning potential after a certain age.*
- *Growth of the nuclear family and the movement of those with jobs.*
- *Increase in living expenses.*
- *Lengthened lifespan.*
- *Guaranteed monthly income guarantees an honorable retirement.*

However, till many years the concept of pension was confined to only those with Government jobs. In the year 2015 Govt of India decided to launch APY which stands for Atal Pension Yojana, a pension programme for people, primarily targeted at employees in the unorganized sector. Depending on the subscribers' payments, a guaranteed minimum pension of Rs. 1,000, Rs. 2,000, Rs. 3,000, Rs. 4,000, or Rs. 5,000 per month will be provided under the APY at the age of 60.

This research paper is an attempt to find out awareness & knowledge level of individuals about Atal Pension Yojana as a Social Inclusion tool.

Key Words: *Pension, Financial Inclusion, Unorganized Sector, Lifespan, Inflation*

Introduction:

Obtaining financial assistance for the poor and vulnerable groups is extremely difficult. This is due to a variety of factors such as a lack of banking facilities for this group, ignorance about the schemes available to them, a lack of a regular or substantial income, and so on. Furthermore, banks place a greater emphasis on meeting their financial targets. As a result, they concentrate on larger accounts. It is not profitable for banks to make a profit on small loans. Hence, the need for financial inclusion is felt.

What is Financial Inclusion?

Financial inclusion refers to making an all-inclusive strategy that ensures that even the most vulnerable, economically challenged members of society and those who live in the most isolated areas of the nation, get free

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access to formal financial services like loans, deposits, payments, insurance, and pensions. Additionally, these services ought to be reasonably priced.

The Rangarajan Committee (2008) defines it as *"The process of ensuring access to financial services and timely enough credit, if needed, by vulnerable groups such as weaker portions and low income groups at an reasonable cost"*

In lieu of the above many schemes were launched by Govt Of India offering coverage and financial security in the areas like; insurance and pensions such as;
(1) Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)
(2) Pradhan Mantri Suraksha Bima Yojana (PMSBY)
(3)Pradhan Mantri Jan Dhana Yojana
(4) Atal Pension Yojana (APY)

This research paper attempts to understand the awareness for APY as a Financial Inclusion tool to avail fixed monthly pension in the future post the age of 60 years.

In order to help the working poor in India save for their retirement, the government is concerned about the stability of their income in old life. And, wishes to address the longevity risks among unorganized sector employees and motivate them to voluntarily contribute for their retirement. As a result, the GoI launched a brand-new programme in the 2015–16 budget dubbed the Atal Pension Yojana (APY). The unorganized sector is the main target of the APY. The Pension Fund Regulatory and Development Authority (PFRDA) manages the programme using NPS architecture.

Government Co-contribution:

In addition, the GoI will match 50% of the subscriber's contribution or Rs. 1000 annually, whichever is less. For persons who are not paying income taxes and are not covered by any statutory social security schemes, the government offers co-contribution. For a period of five years, the GoI will co-contribute to each qualifying subscriber who joins the initiative between June 1 and December 31, 2015. For all subscribers, including migrated Swavalamban beneficiaries, the benefit of five years of government co-contribution under APY will not exceed five years.

Exit from APY:

Exit is when the subscriber turns 60 years old. Exit prior to the age of 60 is not authorized, but it is allowed in rare cases, such as in the event of a beneficiary's death or a serious illness. At the age at which 100% of pension wealth has been annuitized, the APY may be terminated. The subscriber would have access to their pension upon leaving. If a subscriber passes away for any reason, their spouse is eligible for a pension, and if both of them pass away—the subscriber and their spouse—the pension corpus is given back to the subscriber's nominee.

Literature Review:

The source for Primary data has been minimum **3 point Likert Scale Questionnaire** prepared specially for the purpose and supplemented by secondary data. The primary questionnaire was circulated amongst the sample size of 200 hailing from a more or less identical demography. The age group ranged from 17 to 40. This paper also explores the main challenges connected with APY which is The multi-decade time horizons involved are the primary characteristic that sets pension fund investments apart. With the "magic of compounding," over extended time periods, tiny gains in the rate of return have a magnified effect on pension wealth at retirement. APY being government instrument may not entice contemporary investors as APY is limited to the rate of wage growth, but private company bonds and stocks would yield the capital's marginal output. In most cases, the capital's marginal product will be greater than the rate of wage increase. Thus, using assets issued by private companies in their pension portfolios allows individuals to generally achieve far higher levels of pension wealth than APY. The government's intention to guarantee that a member receives at least an Rs.1000 pension after making regular contributions appears to be the driving force behind the APY.

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Shah (2003) emphasizes on the 3 basic guarantees considered when designing any pension scheme. Like **Guarantee No 1** which states that pension structure to be designed in a manner in which the availed would be able to easily $1 per day.

Guarantee No 2 it relates to lower risk to the capital / principal amount due to long term horizon and considers returns in the form of annuity.

Guarantee No 3 pertains to first monthly pension to be above 50% of the last drawn salary.

Balamurugan, J. (2022) states the need for awareness to make the current generation financially independent.

Prasad and Sahasranaman (2015) express the general unwillingness to invest in APY as it is non market linked and does not consider inflation which may affect the corpus and returns based on that.

P Arulmurugan states importance of Social Security and believes that access to such schemes may improve financial standing of people.

Annexure A released by **PIB Govt. of India 2023** showed steady and growing awareness about increasing State wise enrollments in APY and the total number of nationwide enrollments.

Rationale of Study:

Provision of Social Security can improve the social inclusivity amongst masses. Based on the primary analysis of Sample size it was found that only 42 % of respondents are aware about Pension Scheme and only 14 % are aware about APY Scheme. The long term horizon, mandatory annuity, set returns in the future that do not consider inflation are the factors that have dissuaded many from opting for this scheme. Yet 40 % of sample size displayed willingness to invest as this is a govt backed product that is safe with fixed and certain returns. APY is now a complete Social Inclusion Tool as it is now open only for non-tax payers as per the latest **Gazette Notification of India.** This Pension Scheme guarantees less than a dollar per day to the subscriber in the form of monthly income on attaining the age of 60 proving it to be beneficial for those working in unorganized sectors. There is a need to increase mass promotions amongst PMJDY Account Holders to subscribe to the scheme this can be done by promotion of this scheme amongst masses at grassroots level.

Objectives:

- To understand the level of keenness to avail fixed monthly income amongst the sample size
- To study the general levels of awareness about APY as a financial inclusion tool
- To understand the willingness in people (sample size) to be a part of APY
- To understand the willingness to invest a fixed monthly sum that can be availed in the form of annuity after the age of 60

Data Analysis & Interpretation:

The study also revealed that a sizeable percentage of people had not yet signed up for the programme, primarily because they are uneasy with the application process and the financial system. Moreover, respondents thought the program's return rate could be a little higher. Many people from sample size still expressed their desire to be financially independent but haven't taken any active steps towards it. 45 % of respondents are not excited at the prospect of getting a fixed monthly pension. 55 % of respondents said that they are aware of some Govt pension scheme but are not really aware about APY. 62 % of respondents also expressed their willingness to invest INR 42/- 42 % feel safe as the scheme is backed up by Govt of India.

Hypotheses:

Many people expressed desired returns from Investment but without having a proper strategy. Pension is not even considered by many. Many respondents are aware about some Pension Scheme run by Indian Government but are not aware about APY. Despite of minimum per month contribution 40 % respondents are uncertain to go ahead. There is a greater need to promote the scheme to increase awareness on its prevalence. Little support even in the

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form of Annuity linked returns can provide a massive support to Middle Class in the future post retirement.

Research Design & Methodology:

Research was based on inferences collected via Primary and Secondary sources aimed at understanding awareness, willingness towards APY and the general perception towards Pension.

Primary Sources:

Collected from respondents majorly belonging to similar demography. Sample Size was 200 where majority belonged to non-tax paying category, thus making them eligible for APY.

Secondary Sources:

Collected from various sources like;

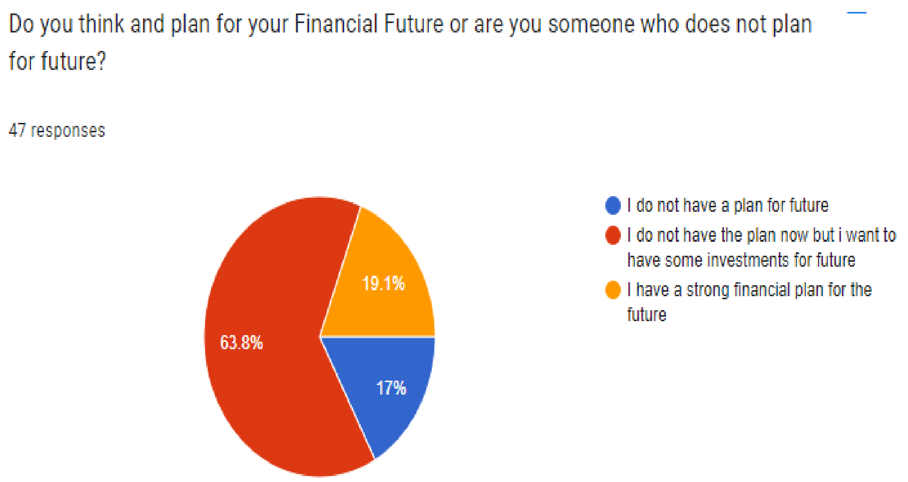
- Articles from Financial Dailies
- Gazette of India
- Books, Protean website

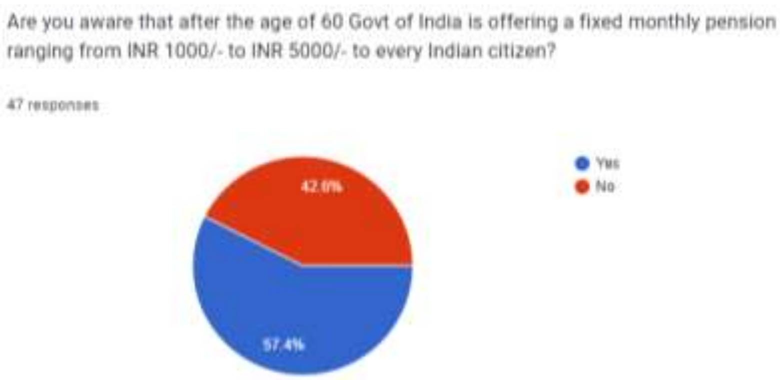
Designing Questionnaire:

3 Point Likert Scale questionnaire designed, circulated and used to collect the information from the Sample size and thereafter analyze the collected data from Sample Size.

Research Limitation:

Number of respondents was limited as some respondents did not participate in the survey. Many respondents were also Alumni who now fall under the Tax Bracket making them ineligible to be a part of the scheme despite them being keen on the investment. They can join NPS (National Pension System) a market linked Pension scheme by Government of India for all its citizens.





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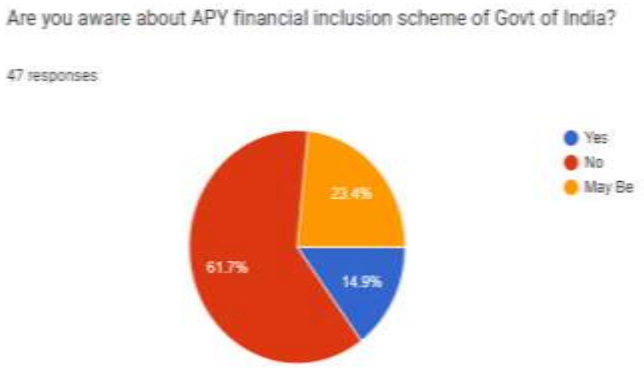

In her research, **Sudindra (2015)** observed that although the number of participants in these programmes is growing, it is still crucial to properly implement the social security system for a greater segment of population. **Mitchell (2000)** notes that many elderly persons in both developed and developing nations rely on pensions. An unofficial pension programme is one method of preventing poverty.

APY Monthly Contribution Chart:

Indicative Monthly Contribution Chart

Age of Entry	Monthly pension of Rs 1000.	Monthly pension of Rs2000	Monthly pension of Rs3000	Monthly pension of Rs4000	Monthly pension of Rs5000 .
18	42	84	126	168	210
20	50	100	150	198	248
25	76	151	226	301	376
30	116	231	347	462	577
35	181	362	543	722	902
40	291	582	873	1164	1454

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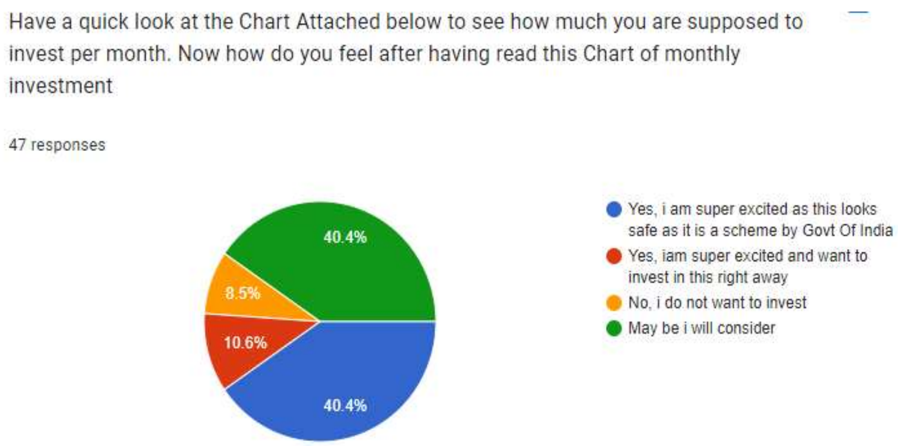

Pro's of APY Scheme:

Government Backed:

Scheme is backed and operated by Government's arm named PFRDA Pension Funds Regulatory Authority, making it safe and less risky.

Corpus Accumulation:

Accumulated Corpus with APY generates a fixed sum and one can exactly know how much pension will the contributor get.

Support for Unorganized Sector:

Scheme will offer financial support to those employed in unorganized sectors thus enabling them to become financially independent in later years of life.

From October 2022 Ministry of Finance has exclusively extended the scheme to unorganized sector with exclusion of Income Tax payers.

Nominee Benefits:

The benefits of scheme accumulated can be availed by the nominee in case of death of subscriber. The nominee can avail entire corpus in lump sum or may choose to avail monthly pension (in full amount) just as original beneficiary.

Potential Disadvantages of APY:

Inflation:

Assured returns to be paid to the subscriber based on the corpus accumulated does not consider the Inflation as a main factor. So, APY is not Inflation adjust scheme.

Taxable or Non Taxable Returns:

Also, it is not stated in the Atal Pension Yojana whether the interest you would receive after the age of 60 will be taxed or not.

Lack of Mass Awareness:

Many are likely unaware of the scheme's specifics because youngsters aren't interested in investing in public pension plans. However, government advertisements do not effectively convey this information to the public because they only highlight the pensions that would be provided and give no other data.

New Mandate:

Atal Pension Yojana will no longer be open to income filers as of October 1, 2022, according to a recent announcement from the Center. According to the most recent amendment, if a subscriber who joined on or after October 1, 2022, is later discovered to have paid income taxes on or before the date of application, the APY account shall be closed, and the subscriber shall receive the total amount of pension wealth accumulated up to that point.

Subscribers to the APY who entered APY prior to October 1, 2022, may continue to invest and take advantage of the tax advantages. They may claim returns on their tax deductions under Section 80CCD(1) of the Income-tax Act of 1961.

Findings, Suggestions & Recommendations:

- Local Administration at District and State levels must be entrusted with the responsibility of undertaking Mass Awareness campaigns about APY

- Local Post offices can be an ideal avenue for APY Promotion and also accounts activation center
- Govt. must ensure strong promotional activities in secondary schools, colleges, banks and more to raise awareness levels.
- Financial Literacy training programs must promote Social Security schemes and lay special emphasis on Pension component
- As 48.9 % respondents responded with uncertainty and 10.6 % responded negatively when asked about whether a thought of getting monthly pension excites them or not, this shows the lack of knowledge on the Benefits, that Pension corpus can provide. (Attached Pie Chart) To overcome this challenge govt may weave off Pension based education in School and College curriculum.

Conclusion:

Majority of respondents in the two separate occupations had signed up for the APY scheme. Also, it was discovered that they have a positive attitude regarding various APY scheme components. It was noted that some respondents, however, have not yet enrolled for the plan because they are unfamiliar with the banking system and are demotivated due to low interest rate. Hence, more coordination between pension plans is required to guarantee universal coverage. Scheme will not give subscribers healthy future returns considering a positive present value pegged at 8%, 7.5% interest, or 6.5% incentive. Government must chart out a strategy for co-contribution to meet the needs of unorganized sector's labor.

APY still needs a promotional push by the government. Govt must makes every attempt to spread awareness of APY that includes schools, colleges and local communities.

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