Indian family: Here is why Indians are retiring poor with more debt and no pension

NEW DELHI: Indian families borrow and invest in very different ways than families in the US, UK or Germany, and even those in China. The depth of these differences, across all ages and economic levels, is revealed in a recent report on household finances prepared by the RBI.

It shows that a major proportion of household wealth in Indian families is kept as real estate or gold, even among younger families, and even by the poorest 40 per cent of population. This is not the case in other countries. Institutional borrowings by Indian families are low in early life and go on increasing leaving many retired persons with a debt overhang, unlike advanced countries where mortgages reduce after retirement.

And, pensions are virtually absent in India while in most Western countries they are a major asset in old age. More than three quarters of family wealth is invested in real estate (land and dwelling units) by an average Indian family compared to just 44 per cent in the US, and 37 per cent in UK and Germany. In China, about 62 per cent of wealth goes into real estate.

Even among the poorest 20 per cent of the population, 59 per cent have some land or dwelling unit in India, while in China, the similar proportion is 61 per cent. But in the rich countries a minuscule share of the poorest quintile has real estate — 4 per cent in US, and less than 1 per cent in UK and Germany.

This may sound bizarre considering India's poverty but here is the thing: average value of the main residence in the poorest Indian households is Rs 22,000, while it is Rs 15 lakh in Germany and Rs 3.7 lakh in the US. The RBI report is talking of proportion of different types of family wealth. Their absolute values are obviously very different.

Besides real estate, the other main target of investment in India is gold. About 11 per cent of family wealth goes into buying gold. Families in other countries spend virtually nothing on this, with the Chinese spending a mere 0.4 per cent of their wealth on gold. Indian families also have gold loans amounting to about 8 per cent of their total liabilities, again a feature not found anywhere else.

"Most households use debt to cope with emergency expenses, such as hospitalisation, or property damage due to a natural disaster. The interest rates on unsecured debt are very high. Therefore, households prefer to put their savings in real estate and gold, which can also be used as collateral," RBI's Household Finance Committee chairman Tarun Ramadorai of Imperial College, London, told TOI.

Detailed data on countries drawn from various surveys is available in a paper by Ramadorai and co-authors published in 2017. Although 73 per cent of families in India have financial assets like cash, bank accounts and pension accounts, they hold very small amounts adding up to just 5 per cent of their total wealth, he added.

Medical emergencies, especially among the elderly, are one of the main reasons why families in India seek loans at usurious rates from money lenders. Such unsecured loans make up nearly 56 per cent of all liabilities for Indian families, much higher than China at 26 per cent , US (13 per cent) and Germany (24 per cent).

The RBI report notes that "some of these risks could be mitigated through strengthening the public provision of health and social welfare services." Indian families are also exceptional in that housing loans are low in early life and rise beyond retirement ages. In other countries such loans rise in middle age but fall off at retirement.

This happens because Indian families borrow later in life and it is customary to bequeath property to future generations who in turn look after the elderly. These traditional structures are increasingly under pressure from shifting demographic patterns, social norms, and changing economic conditions, introducing risks to economic well-being especially as households age, the report says.

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