International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume:11, Issue:05 "May 2026"

Pension Expenditure of Kerala and its Utilisation by the Retired Government Employees

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DOI: 10.46609/IJSSER.2026.v11i05.016 URL: https://doi.org/10.46609/IJSSER.2026.v11i05.016

Received: 14 April 2026 / Accepted: 19 May 2026 / Published: 26 May 2026

ABSTRACT

While Kerala excels in social and human development and consistently ranks among the top-performing states in terms of social indicators, mounting fiscal stress and limited revenue sources pose serious economic challenges. Committed expenditure on social development programmes and public-sector wages is a significant challenge to the state's proactive efforts towards fiscal consolidation. Moreover, with a declining birth rate, a lengthening lifespan, and a surge in emigration among the youth, Kerala has begun to face second-generation development issues related to population ageing faster than anticipated, necessitating the productive engagement of the elderly. From this perspective, it becomes critical to understand the retirement lives of state government employees, who are the most skilled and resourceful among the elderly. At present, most government employees in Kerala are exiting organised employment at least 4 years earlier than their counterparts employed by the government of India or other state governments. With the improvement in average lifespan, a retired employee is expected to experience a longer non-working period, which has a direct bearing on public finances. The present study utilises secondary data from various budgets and economic reviews to understand the trend in the state's pension expenditure. The study also proposes to examine the utilisation of pension income of government employees by collecting data randomly from 100 respondents within the Kozhikode district. The retired employees primarily use pension income to meet their day-to-day expenses, and a part of their income is saved for future contingencies.

Keywords: Pension expenditure, Pension income, Resources, Retired government employees, Utilisation

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1. Introduction

Kerala has been witnessing a crippling fiscal stress since the mid-1980s. Unlike many other states, Kerala has given the highest priority to social development in its public investment initiatives, which has contributed to impressive performance with social and human development indicators but has brought about daunting economic growth (Sheel, 2009). As a result, widening revenue deficit and mounting public debt became major concerns. From the expenditure side, the main cause of fiscal setback was the high non-plan revenue expenditure under the heads of social and community services, particularly salary and pension payments to its staff (Sebastian, 2019). The most striking increase has been noted in pension payouts, which have grown at a compounded annual growth rate of 17.5 per cent since 1987-88 (Sheel, 2009). The growth in pension expenditure is mainly due to two reasons. Firstly, pension and salary hike recommendations made by the pay revision commission set up every five years are not compatible with the state's revenue resources. Secondly, the retirement age for government employees was not raised to match the corresponding increase in life expectancy, mainly due to high unemployment rates among educated youth (Jose and Sekher, 2021). Despite having the highest life expectancy among the states, the statutory retirement age for the vast majority of state government employees in Kerala remains 56, which is currently one of the lowest. (Government of Kerala, 2021). As the effects of population ageing widen, it becomes imperative to study the social and economic behaviour of the retired government employees to address both these issues.

2. Significance and Scope of the Study

The shift in the composition of the population has considerable socio-economic implications, viz., meeting health needs and proper nutrition for the elderly, providing pensions and social security, etc. (Singh, 2013). The proportion of the elderly in the total population of Kerala is projected to increase from 9 per cent in 1991 to 19 per cent in 2021 and 35 per cent in 2051(Government of India 2020). According to the 2011 census, the percentage of the elderly in the total population is 12.6 per cent, whereas in India it is 8.6 per cent.

To understand the impact of demographic transition, it is critical to estimate the old-age dependency ratio. The old age dependency ratio was 19.6 per cent in Kerala and 14.2 per cent in India (Census 2011). The old-age dependency ratio in Kerala was projected to reach 26.1 in 2021(Government of India, 2020). International Institute for Population Sciences points out that when the dependency ratio crosses 15 per cent, the state is having an ageing crisis. In Kerala, the window of opportunity initiated by economic growth driven by the young working population has already closed. Besides, the relative share of the working-age population decreases further with the widespread emigration among the youth (Zachariah & Rajan, 2015). The socio-

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economic costs of shifts in the composition of the population are significant. Declining fertility affects the labour market by reducing the supply of the economically active population, while increasing life expectancy obliges the government to incur long-term health care and social security costs (Harper, 2014).

One of the key drivers of the state's escalating pension expenditure is the low retirement age. Although Kerala has the highest life expectancy at birth among major Indian states, and government employees in the countries with a similar demographic profile retire at around 65, the statutory retirement age of state government employees remains fixed at 56 to address the unemployment among educated youth. Pension payouts, therefore, continue for a longer period than in any other state in India. Besides, the entry age into government service has been rising over several years; hence, the number of retired government employees receiving pensions for longer than their service tenure has increased (Sheel,2009). For these reasons, the state's public finances are under severe strain (Government of Kerala, 2024). The study examines the pension expenditures of the Government of Kerala. The scope is limited to the monthly pension income, household expenditure, and methods of saving of the retired government employees.

3. Conceptual framework

The Life Cycle hypothesis established that the average consumption of lifetime income and saving rate rise with income (Modigliani and Brumberg, 1986, 1990). Modigliani noted that in his life-cycle model, people save money when they are young and dissave by liquidating assets once they retire and grow old.

3.1 Saving and determinants

Retirement saving behaviour is a complex phenomenon determined by individual attitudes towards saving and investment (Dulebohn et al., 2009). Both economic and non-economic factors, including behavioural, psychological and demographic characteristics, influence saving tendencies. Cognitive elements, personality and motivational aspects, work characteristics such as task complexity and experience, cultural aspects, social norms and financial resources, including household income and economic environment, determine savings (Friedman and Scholnick, 2014). Elements of social interaction, such as support from family, friends, and spouse, play an important role in defining saving patterns.

The Resource-Based Dynamic Model for Retirement Adjustment**:** The theory emphasises the role of resources and changes in resources in determining the retirement phase of life. Resources imply all those capabilities required to fulfil an individual's needs (Hobfoll, 2002). These include physical resources such as health, cognitive resources, and financial resources, typically wages, pensions, social resources including social connections, emotional resources and motivational

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resources (Wang et al.,2011). An individual with more resources is likely to adapt with less effort.

4. Literature Review

Jose and Sekher (2021) consider the high life expectancy and low retirement age in Kerala. The study using the 'Prospective Ageing' and 'Characteristics Based Measures of Age' showed that, on average, a person in Kerala was expected to live 10 years longer in 2016 compared to 1976 and advocated increasing the pensionable age to 59 for males and 60 for females by 2016.

Sharpe (2021) says that prudent retirement planning is essential with the extended life span so that retirement resources remain for a longer period. Several factors play a role: personal and family characteristics, social security plans, health status, financial resources and public policy measures such as tax laws and employment policies. (Olafsson & Pagel,2018) found an overall decrease in expenditure of the employees after retirement, which may be attributed to a decline in work-related expenses. Retirees spend less on clothes and fast food. Spending for entertainment and consumer debt positions has moderated in retirement. In India, despite financial deepening and intermediation that have been underway since economic reforms, bank deposits have been the single most important constituent of savings. It has expanded from 35.1 per cent in 1999-2000 to 55.6 per cent in 2006-07. However, shares, debentures and mutual funds have shown improvement (Shetty 2010). Unny (2002) in his study found that with higher educational qualifications and income levels, people prefer to invest in financial assets rather than physical assets. Lower-income groups save in post office savings and chit funds, whereas higher-income groups are more inclined to deposit in a bank.

5. Literature gap:

Different studies are directed towards the need for retirement planning and factors affecting retirement resources. Existing literature also examines the savings habits of households in India. However, studies investigating the utilisation of pension income by examining the spending and saving behaviour of retired government employees who receive a substantial share of the state's income are limited.

6. Objectives of the study

- To understand the pension expenditure of the state.
- To examine the utilisation of monthly pension income by the retired government employees.

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7. Research Methodology

In this study, we use secondary data sources such as the State Finance Audit Report of the C&AG of India 2023, Budget in Brief, 2024-25, Economic Review 2025, Government of Kerala. Primary data is collected from 100 respondents from Kozhikode district using a simple random method from the corporation area and Thamarassery, Perambra, and Balussery panchayats with the aid of a structured questionnaire.

Data analysis and interpretation are conducted using descriptive statistics, econometric models and regression techniques. The study focuses on employees who retired in accordance with the rules of KSR (Part III) at age 56 and above. The survey provides information on monthly pension income, household expenditure and methods of saving.

8. Results and Discussion

Kerala's fiscal crisis is not a temporary phenomenon, but is structural and long-term in nature. A growing revenue deficit indicates a state's fiscal crisis.

Table 1: Revenue and Fiscal Deficit

Year	Revenue Deficit		Fiscal Deficit	
	Amount (in crores)	% to GSDP	Amount in crores	% to GSDP
2019-20	14495	1.78	23837.48	2.93
2020-21	20063.51	2.6	35203.69	4.56
2021-22	20799.96	2.23	37306.47	3.99
2022-23	9226.29	0.88	25554.54	2.44
2023-24	118140.19	1.60	34258.05	3.02
2024-25	31059.72	2.49	48248.14	3.86
2025-26 BE	27124.52	1.90	45038.52	3.16

Source: Various Economic Reviews, Government of Kerala

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The magnitude of the financial crisis is evident from the revenue deficit as a share of GSDP (Gross State Domestic Product). In 2025-26 (BE), the revenue deficit is 1.90 per cent, and the fiscal deficit is 3.16 per cent.

Table 2: Pension expenditure as a percentage of revenue expenditure and revenue receipts

Year	Pension	Revenue Expenditure	Revenue Receipt	Pension (as% of revenue expenditure)	Pension as % of revenue receipt
2015-16	13063	78690	69033	16.6	18.92
2016-17	15277	91096	75612	16.77	20.20
2017-18	19938	99948	83020	19.95	24.02
2018-19	19012	110316	92854	17.47	20.48
2019-20	19064	116517	90225	18.2	20.55
2020-21	18943	123446.33	97617	15.3	19.4
2021-22	26898	146180	116640	18.4	23.06
2022-23	26090	141951	132725	18.4	19.66
2023-24	25644.24	142626.34	124486.15	17.98	20.6
2024-25	27875.21	155920.79	124861.07	17.88	22.32
2025-26 (BE)	29459.83	179476.20	152351.68	16.41	19.34

Source: Economic Review 2025, Government of Kerala.

With an increase in life expectancy and early retirement of state government employees, the pension payment expenses alone have accounted for 19.34 per cent of revenue receipts in 2025-26 (BE). A longer retirement life without any gainful economic activity may pose significant challenges to the state economy.

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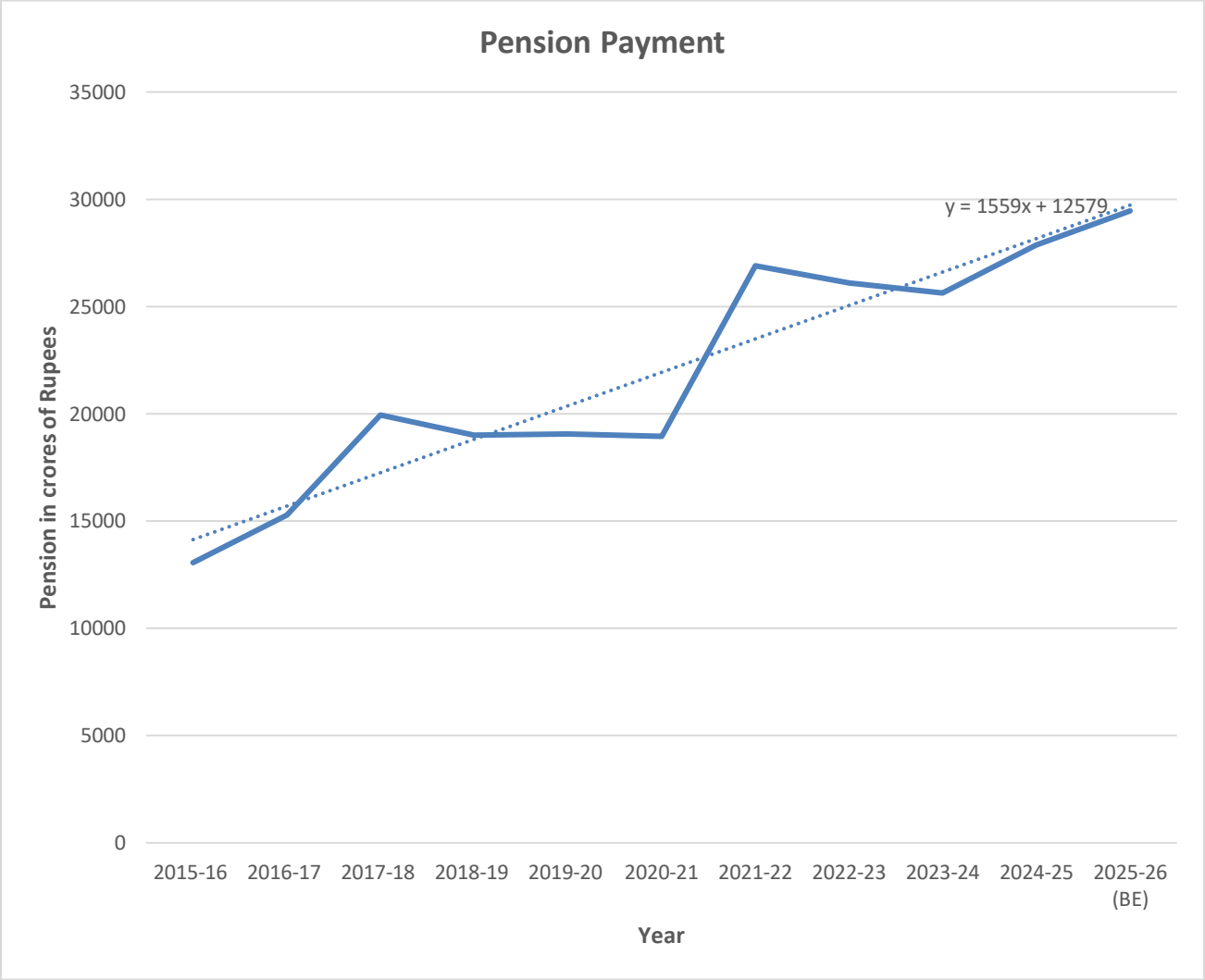
Graph 1: Pension payment expenditure of the government



Source: Economic Review 2025, Government of Kerala.

Pension payment expenditure shows an upward trend when plotted for a period of 10 years from 2015-16. The equation for the trend line fitted for the data is given as

Y = 12579+ 1559X

The equation of the trend line explains that the estimated pension payment increases by ₹1559 crores every year.

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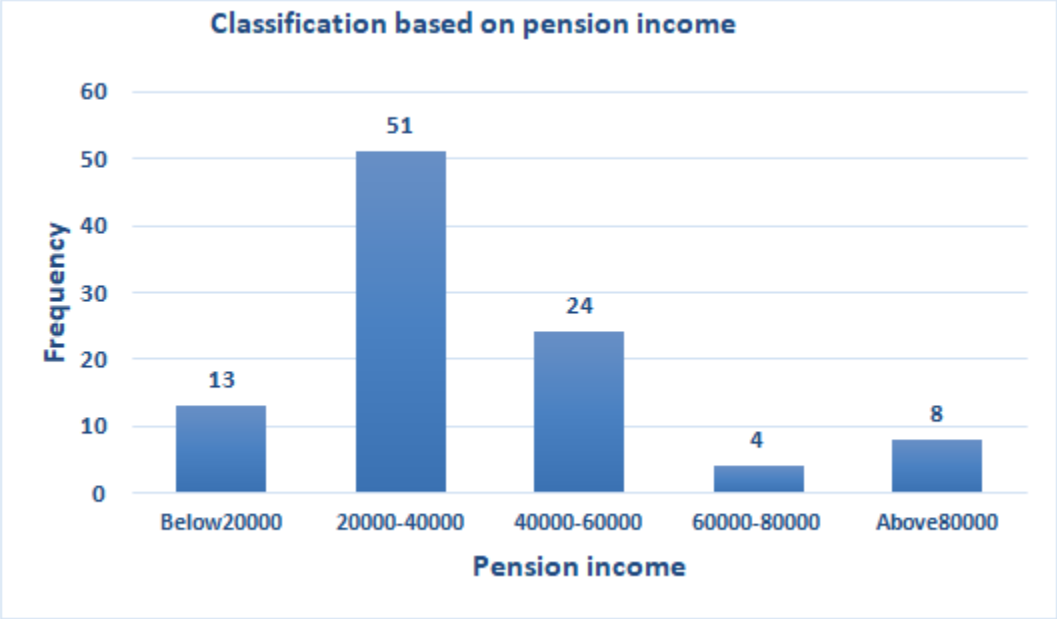
Graph 2: Classification based on Pension Income



Source: Primary Survey

Table 3: Descriptive Statistics of Monthly pension income and household expenditure

Variable	Mean	Median	Standard deviation	Min	Max
Age of retired employee	62.9	62	5.7	56	78
Monthly pension	36951.2	33500	19545.3	7500	100000
Monthly household expenditure	31938.4	30000	14895.4	8000	100000

Source: Primary Survey

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The participants of the survey are classified into five groups based on their pension income. 51 per cent of the respondents fall in the category of 20000 to 40000 pension income. 8 per cent of the sample belongs to the higher income group. Pension income is ₹ 33500 on average, and monthly expenditure is ₹30000. This means that the average pension income is sufficient to meet the day-to-day expenses of the household, and pensioners have an average monthly surplus of ₹3500.

Regression Analysis: Influence of monthly pension income on household expenditure of pensioners.

$Yi = \beta 0 + \beta 1 \text{Monthly pension income} + \epsilon i$

Yi = Monthly household expenditure

β0 = Constant

β1 = Coefficient for pension income

ϵi= Error term

Table 4: Regression Results of monthly pension income on household expenditure

Variable	Coefficient β	Standard error	t-value	P value
Constant	17926	2788.3	6.42	0.00*
Pension income	0.379	0.6678	5.67	0.00*
R Square	0.25			
Adjusted R Square	0.239			

Source: Primary Survey

*5 per cent Significance level

The coefficient for monthly pension income is positive (0.379) and statistically significant, indicating that for every ₹1,000 increase in pension income, household expenditure increases by

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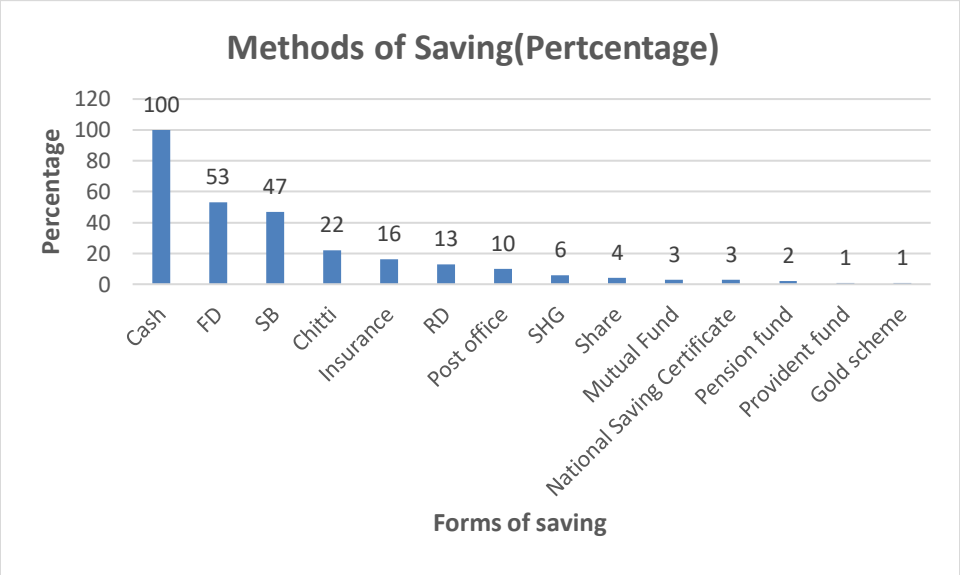
₹379. The R-squared value indicates that only 25 per cent of the variation in monthly expenditure is explained by pension income, and 75 per cent of the variation is explained by other factors (∈i).

Graph 3: Different methods of saving



Source: Primary Survey

All the pensioners hold income in small amounts as cash to meet contingencies. Also, pensioners invest in conventional financial instruments such as savings bank deposits (53 per cent), fixed deposits (47 per cent), chit funds (22 per cent) and deposits in self-help groups, while 7 per cent invest in shares, stocks and mutual funds. The preference for savings bank deposits and fixed deposits indicates risk-averse investment behaviour aimed at seeking financial security and stable returns during retirement.

9. Suggestions

Considering the improvement in health indicators and the higher retirement age adopted in many Indian states and the Government of India, reconsideration of the statutory retirement age for the state government employees has become a major imperative for the economic progress and financial well-being of the state. Since the saving and investment pattern of the retired employees is oriented towards conventional saving methods, it would be beneficial for the economy to impart them with adequate financial education to invest in advanced financial instruments.

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The retired government employees have resources that can be utilised for the development of the local economy. However, the local self-governments are yet to evolve a proper plan in this direction. As elderly care is being considered as the most important second-generation health issue to be addressed by the state in the coming decades, a proper liaison between retired employees and involvement of local governments is crucial for the economy in the long run.

Adoption of a universal pension system, a mechanism by which every working person contributes to their pension expenses, can mitigate the fiscal stress faced by the state government.

10. Limitations and Research Gap

The study is confined to retired employees of the Kozhikode district in Kerala; the results may not be equally applicable to other districts in the state. Also, the majority of the respondents didn't have a proper system of bookkeeping habits for their personal expenses, and the recall period of aged retired employees was poor, which might have influenced the findings of the study. Also, a lack of proper bookkeeping habits for their personal expenses, and the recall ability of aged retired employees was limited, which might have influenced the findings of the study. The study focuses on the pension income and utilisation pattern of employees retired from the public sector; however, future studies can extend the scope by comparing their economic behaviour with that of retirees from the private sector as well.

11. Concluding Remarks

Arguably, early retirement is closely associated with the financial burden of the state and leads to the underutilisation of human resources. However, its impact on the state's economy depends largely on the economic and social participation of its retired employees after their tenure in government service. Policy measures that aim for an optimistic and accommodative outlook are indispensable to harness their abilities and change negative perceptions associated with retirement. At 56, the retired employees are healthy and resourceful. A monthly pension that provides economic security and investible surplus, experience and expertise gained from a previous career are invaluable resources for a retired person. If effectively used, these resources can contribute to the economic growth and prosperity of the state and ensure the harmonious coexistence of individuals among different generations.

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