POLICY NOTE

Introducing a UNIVERSAL PENSION SCHEME in Bangladesh
In Search of a Framework

Mustafizur Rahman
Towfiqul Islam Khan
Mostafa Amir Sabbih

Funded by the European Union

Enhancing the Participation of Community-based Organizations (CBOs) and Civil Society Organizations (CSOs) in Democratic Governance in Bangladesh

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ABOUT THE PUBLICATION

This policy note draws on an ongoing research study titled *Introducing a Universal Pension Scheme (UPS) in Bangladesh*. It outlines a framework for a UPS for Bangladesh based on international experiences. The publication has been prepared under the project titled 'Enhancing the participation of community-based organizations (CBOs) and civil society organizations (CSOs) in democratic governance in Bangladesh', a joint initiative of the Oxfam in Bangladesh and the Centre for Policy Dialogue (CPD), funded by the European Union. The project intends to strengthen capacity of grassroots CBOs and CSOs to secure social and economic rights of vulnerable individuals and communities in the design and implementation of government policies and budgets related to the Sustainable Development Goals (SDGs). One of the cornerstones of the project is to contextualise SDG targets in Bangladesh, focusing on critical thematic areas and citizens' needs. A key learning of this initiative is that a large section of the marginalised citizens of Bangladesh lacks coverage under the existing social protection schemes. This goes against the principle of social inclusiveness of the SDGs, which is also particularly pertinent in the Bangladesh context, in view of demographic momentum and rising income inequality. There is a demand from the CBOs and CSOs to influence policies in favour of adopting a more comprehensive universal coverage under social protection schemes in Bangladesh. The incumbent government has also expressed its political commitment to adopt a UPS for the citizens of the country, as articulated in its planning documents and election manifesto.

The present study aims to contribute to the designing of the proposed scheme by the government. The plan of having a UPS is also aligned with five specific targets across five SDGs. This policy note has been prepared to disseminate and initiate an informed discussion and debate among policymakers and other relevant stakeholders at all levels in view of a UPS in Bangladesh. It is also hoped that initiation of the discussion at the national policy discourse originated from this study will lead to broader knowledge dissemination and participation of CBOs and CSOs at the local level on this issue. As a follow-up, the project will apprise the local actors on how to participate in the UPS process, to ensure that marginalised sections of the citizens can take full advantage of the scheme, and are not left behind when this scheme is implemented in Bangladesh.

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ACRONYMS

BBS	Bangladesh Bureau of Statistics
CPF	Contributory Provident Fund
CRA	Central Recordkeeping Agency
CSPS	Civil Service Pension Scheme
DB	Defined Benefit
DC	Defined Contribution
EDLIS	Employees' Deposit Linked Insurance Scheme
EPFO	Employees' Provident Fund Organisation
EPFS	Employees' Provident Fund Scheme
EPS	Employees' Pension Scheme
ERPS	Earnings-related Pension Scheme
GDP	Gross Domestic Product
GERP	Government Employees' Retirement Pension
GoB	Government of Bangladesh
GPF	General Provident Fund
GPF	Government Provident Fund
ILO	International Labour Organization
LDC	Least Developed Country
LFS	Labour Force Survey
LIC	Life Insurance Corporation of India
MoF	Ministry of Finance
MRPS	Maldives Retirement Pension Scheme
NBR	National Board of Revenue
NLPL	National Lower Poverty Line
NOAPS	National Old Age Pension Scheme
NPS	National Pension Scheme
NSIS	National Social Insurance Scheme
NSSS	National Social Security Strategy
NUPL	National Upper Poverty Line
OAA	Old Age Allowance
OABP	Old Age Basic Pension
OECD	Organisation for Economic Co-operation and Development
PAYG	Pay-As-You-Go
PFA	Provident Funds Act
PFRDA	Pension Fund Regulatory and Development Authority
PPF	Public Provident Fund
RPA	Retirement Pension Account
SD	Supplementary Duty
SDG	Sustainable Development Goal
TyEL	Employees Pensions Act
UK	United Kingdom
UPFA	Universal Pension Fund Authority
UPS	Universal Pension Scheme
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
7FYP	Seventh Five Year Plan

THE CONTEXT

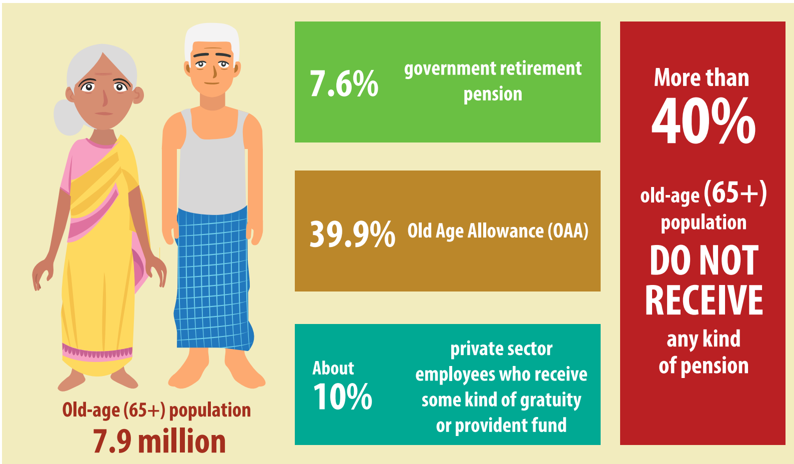
Bangladesh is currently undertaking a dual graduation journey, from a least developed country (LDC) to a developing country, and from a low-income country to a lower-middle income country. This journey of dual transition entails that Bangladesh as a state will need to design and pursue policies that are commensurate with the growing expectations of its citizens for better social welfare and a more economically secured life. The issue of introducing a 'Universal Pension Scheme (UPS)' should be seen and examined from this broader perspective of the rising aspirations of the citizens of Bangladesh. In addition, Bangladesh's demographic momentum makes such a consideration both necessary and urgent.

With rise in longevity, declining mortality rate and the consequent rapidly growing ageing population, many developing economies are having to face a complexity of fiscal and administrative challenges in providing quality social security benefits to the elderly citizens of their countries. At stake is ensuring that they are able to live a life of dignity and security. Bangladesh is no exception to this newly emerging demand that is attracting increasing attention of both policymakers and development practitioners. The number of people over 60 years of age in Bangladesh is projected to rise from about 12.6 million (8 per cent of total population) in 2017 to 20.7 million (11 per cent of total population) by 2031, and to 42.3 million people (20 per cent of total population) by 2051 (BBS, 2015). The trend of increasing average life expectancy (72 years at present) is expected to raise the dependency ratio in Bangladesh with consequent greater vulnerabilities faced by a significant segment of the population. In the particular context of Bangladesh, the gravity of the situation is further accentuated because of the inadequate coverage of social protection of those working in the informal sector of the country, which constitute about 85.1 per cent of the total employed people in Bangladesh.

Apart from the pension schemes in place exclusively for employees in the public sector and a small fraction of the corporatised non-public sector in the country, the majority of those in the workforce in Bangladesh remain outside the ambit of any pension scheme. There is no system of 'universal' pension scheme for the elderly in Bangladesh. It was in 1998, when for the first time, a modest 'Old Age Allowance (OAA)' for the elderly was introduced by the government. However, OAA is a 'means-tested' scheme[1], and

[1] A means-tested benefit is a payment available to people who can demonstrate that their income, capital or savings (their 'means') are below specified limits.

Figure 1: Status of old-age pensions in Bangladesh



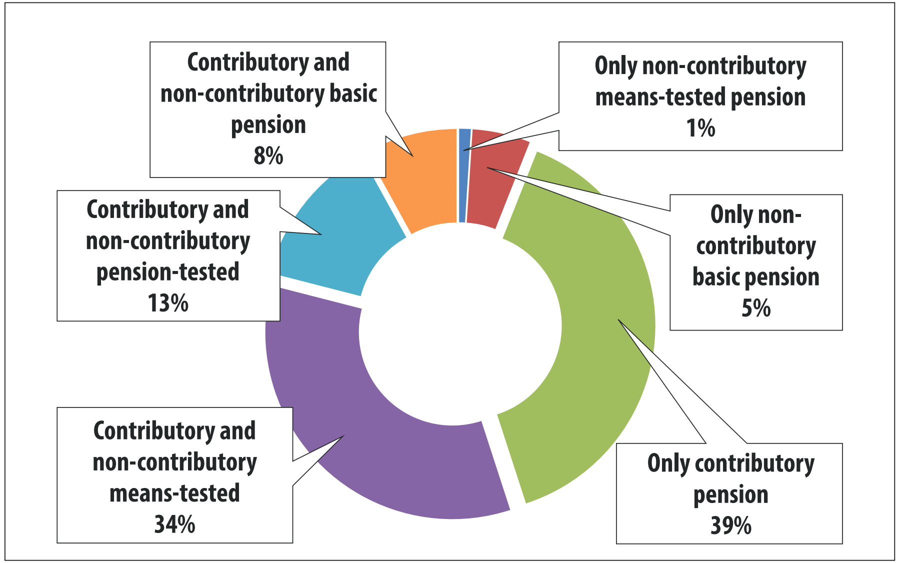
Source: Authors' estimation based on the data of Bangladesh Bureau of Statistics (BBS) and Ministry of Finance (MoF).

covers only 39.9 per cent of total population belonging to the age group of 65 years and above (Figure 1). Thus, a significantly large number of elderly people continue to live outside of even this modest endeavour.

As is known, the global 2030 Agenda for Sustainable Development has set out an aspiration of 'life with dignity for all' through its adopted Sustainable Development Goals (SDGs). Indeed, at least five targets—SDG 1.3, SDG 3.8, SDG 5.4, SDG 8.5 and SDG 10.4—are related to providing social protection to the citizens. In this backdrop, a UPS merits serious consideration as a foundation of social protection in Bangladesh. Indeed, the rationale for this becomes even more compelling, if the SDG aspiration of 'leave no one behind' is to be achieved in the Bangladesh context. The Constitution of Bangladesh in Part II, Article 15(d) does mention about the rights of the citizens "to public assistance in cases of demand arising from unemployment, illness or disablement, or to deal with the needs of widows or orphans or those in old age, or in other such cases." As a matter of fact, the need for a comprehensive pension system for the elderly in Bangladesh has been outlined in the ongoing Seventh Five Year Plan (7FYP) and the National Social Security Strategy (NSSS). These testify the government's commitment to have a universal social protection for all elderly citizens of Bangladesh. The idea of a universal pension system for all 'working population', engaged in both formal and informal employment, has also been articulated in the national budgets for FY2018-19 and FY2019-20. Referring to the 7FYP, the election manifesto 2018 of the ruling government also mentioned that the introduction of the national social insurance and private voluntary pension are under consideration. Evidently, this is an idea whose time has come.

INTERNATIONAL EXPERIENCES BASED ON THE ILO MULTI-PILLAR PENSION MODEL

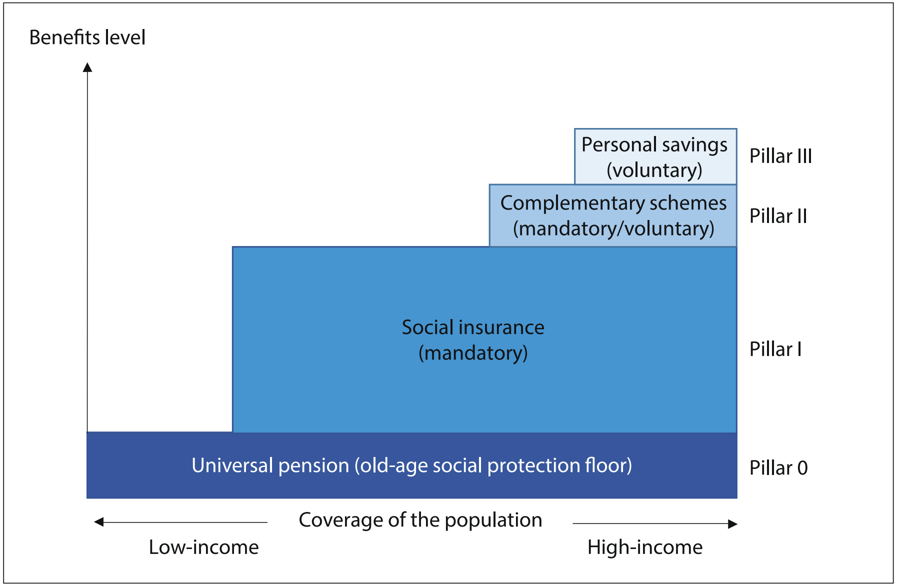
Figure 2: Share of countries providing old-age pension schemes, by type of schemes



Source: ILO (2017).

A total 186 out of 192 countries (for which information is available) provide at least one pension scheme to their elderly citizens in the form of periodic cash benefit (ILO, 2017). A variety of combinations of various types of contributory and non-contributory schemes is bound to be followed in implementation of such schemes. A majority of countries has adopted either only contributory pension schemes (72 countries) or a mix of contributory and non-contributory means-tested pension schemes (64 countries) (Figure 2).

Figure 3: ILO multi-stage pension model



Source: Adapted from ILO (2018).

The model accommodates international best practices, and is consistent with the ILO principles of social security, which include the followings: universality, social solidarity, adequacy and predictability of the benefits, responsibility of the state, non-discrimination, financial and economic sustainability, transparent management, and stakeholder involvement. The pillars in the ILO pension model embody a combination of different social protection instruments, where each pillar plays one or multiple functions to meet the objectives of a national pension system (Figure 3).

The ILO (International Labour Organization) Multi-Pillar Pension Model can serve as a good reference point for Bangladesh in view of introducing a UPS in the country.

Pillar 0: Social protection floor

This pillar refers to a non-contributory pension scheme, which is generally financed through government budgetary allocations. Regardless of the design of the pillar, to achieve the principle of universality, this would guarantee a minimum income security to all the elderly people in a country. This pillar is usually implemented by countries with higher levels of informal employment and high incidence of poverty, and also, where the extension of contributory pension coverage is likely to involve a protracted process of implementation. At least 60 per cent of countries have adopted this pillar through introduction of basic, means-tested or pension-tested schemes. Examples include—'Renta Dignidad' in Bolivia, 'Superannuation Benefit' in New Zealand, 'State-guaranteed Minimum Pension' in Chile, 'State Old Age Pension' in Botswana, 'Old Age Basic Pension' in Maldives, and 'Mukhyamantri Vridhjan Pension Yojna' in India (FIAP, 2011; Sun, 2016).

Pillar I: Social insurance pillar

Pillar I is a contributory pension scheme, which is mandatory and follows a defined benefit (DB) method. Pillar I is usually introduced for the employed population in the country, and is generally financed through contribution from employers and employees. Its aim is to deliver higher level of pension benefits for the older population to help them maintain a reasonable standard of living after retirement. This pillar is adapted by countries to include people working in the informal sector, such as self-employed workers and workers in non-standard forms of employment. Developing countries generally tend to prefer DB scheme, since it provides a minimum flat rate benefit to all participants, which increases with the years of contribution. Latin American and Sub-Saharan African countries, including Costa Rica, Lesotho and Timor-Leste, implemented this pillar by using the DB method (Demirgüç-Kunt and Schwarz, 1995; ILO, 2016; Ministério da Solidariedade Social, Timor-Leste, 2017).

Pillar I may also be established by using defined contribution (DC) method in which both employers and employees contribute on a regular basis. DC pension plans provide a specified contribution rate, on the basis of which, the participants of the retirement plan receive a certain amount as pension benefit at the time of their retirement. This pension plan is mostly followed in upper-middle income and high-income countries. Examples include: Denmark, France, Germany, Hungary, Maldives, Norway, Poland and Switzerland (OECD, 2005; Sun, 2016).

Pillar II: Complementary pillar

This pillar represents a complementary contributory pension scheme, which can be either mandatory or voluntary. It can either be a DB or a DC pension scheme, which is generally financed by employers' contribution, and is privately managed. Some countries follow this pillar in order to raise the pension benefits from Pillar 0 and Pillar I. Also, countries which tend to face problems in administering Pillar I, are increasingly turning towards private pension plans. In countries such as Czech Republic and Latvia, the second pillar represents a relatively limited mandatory DC scheme, which is fully funded and privately managed. In other countries, some occupational pension schemes are operated by the employers and allow voluntary entry. Canada is an example. Australia and Switzerland on the other hand are examples of mandatory entry. Such schemes are provided directly by employers or through private pension companies (Gillion et al., 2000).

Pillar III: Voluntary personal savings

This pillar is also a complementary one that represents voluntary private pension schemes for those with the financial capacity to make additional personal savings. It is generally managed by private pension administrators under full market competition and government regulation. Countries like Latvia have voluntary supplementary schemes, whereby individuals and employers can make contributions to a private pension fund. United States of America (USA) and United Kingdom (UK) also maintain group voluntary pension schemes with a maximum contribution rate of 18 per cent and 17.5 per cent, respectively (Gillion et al., 2000).

Box 1: A two-pillar pension system of Finland

The pension system in Finland is representative of a two-pillar pension model:

a. National Pension Public Plan: This pension is a non-contributory means-tested pension, which is intended to secure a minimum income for retirees whose earnings-related pension is small. The eligibility criterion is based on residence test, where an individual qualifies for the scheme if s/he has lived in Finland for at least three years after reaching the age of 16. The scheme provides a flat rate benefit of up to 20 per cent of the average wage in Finland.

b. Earnings-related Pension Scheme (ERPS): This is a contributory mandatory occupational pension scheme, which is earned by an employee at his/her retirement age, on the basis of their paid work and entrepreneurial activities. Under this pension scheme, the responsibility of an employer is to take out a retirement pension insurance policy for all their employees and pay the insurance premiums. In case of self-employed or entrepreneurship business, the entrepreneur himself/herself will be responsible for collection and payment of respective insurance premiums.

Evolution of the Finnish pension system

Pillar 0

The first old-age and disability insurance in Finland was legislated by the National Pension Act in 1937. The Act came into effect in 1939, while eventually the first disability pensions were paid in 1942, and the first old-age pensions in 1949. At that time, the national pension was based on individual insurance contributions collected in savings accounts. The national pension would offer earnings-related security, albeit partially. In 1954, a committee was formed to initiate a rise in the pension amount. Later on, the rules and regulations of the national pension system was revised by the parliament, with the introduction of a new law, National Pension Act, 1956, which took effect in 1957. The law ensured that all people of 65 years and above, or with disability, were paid an equal pension benefit (Hannikainen and Vauhkonen, 2012). The new National Pension Act was based on universalism. The national pension scheme in Finland transformed into an income-tested benefit since 1996, when the government decided to make the basic amount of national pension subject to income-testing.

Pillar I

Majority of the private sector employees were deprived from the old-age security under the new national pension scheme, which resulted in the emergence of ERPS. The ERPS was launched following the reform of the national pension scheme. Representatives of labour organisations, politicians and pension policy experts were members of the committee that was set up to design the scheme. The committee introduced a separate law for introducing ERPS, along with a law for temporary employment pensioners. Both the Acts (Employees Pensions Act and the Temporary Employees Pensions Act) took effect in July 1962. The Federation of the

Finnish Pension Institutions was established in 1964 to improve coordination between the different pension providers. The administration of mandatory pension scheme was decentralised to include various pension providers such as insurance companies, company pension funds and industry-wide pension funds, which were independently acting as private sector financial institutions (Wilmington plc, n.d.).

The Local Government Employees Pensions Act came into effect from July 1964 only for the coverage of public sector workers, while the new State Employees Pensions Act and the Evangelical-Lutheran Church Pensions Act took effect in the beginning of 1967. ERPS was strengthened further when the Farmers Pension Act came into force in 1970, which included rural people in the ERPS. Later, the self-employed persons were also included through the Self-employed Persons Pension Act. Thus, the ERPS started to cover almost the entire population. All pension Acts related to employees were merged together into a new pension act, Employees Pensions Act (TyEL) at the beginning of 2007.

Financing framework

The national pension scheme and the ERPS were financed through pay-as-you-go (PAYG), since 1957. The employers alone used to pay the contribution amount till 1992; beginning from 1993, the employees also started to contribute. The level of contributions by both employers and employees was raised during the period between 1970 and 1995, when the contribution amount was used as a means of economic counter-cyclical policy (Hannikainen and Vauhkonen, 2012). For ERPS, the new Pension Indexation method, 'fifty-fifty index', was introduced in 1977. According to this method, pension accrued during the work history and pension in payment after retirement was set to be automatically revalued in line with an index. As per the method, half of the pension was determined on the basis of changes in the general wage level, while the other half was determined on the basis of changes in consumer prices. Previously, the index was fully linked to wages. The contribution rate for ERPS was unequally split between the employers and the employees. Employees between the age of 18 and 52 contributed 4.1 per cent and 5.2 per cent for people with the age of 53 years and above. The remaining share was borne by the employer. The pensions were calculated on the basis of earnings from the entire working career, along with a higher pension accrual rate during the final years of the career: 1.5 per cent between the ages of 18 and 52, 1.9 per cent between the age of 53 and 62, and 4.5 per cent between the age of 63 and 67.

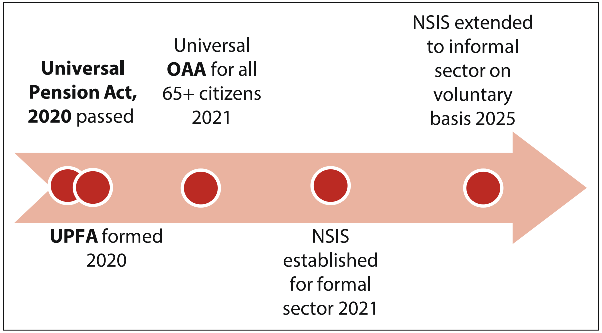
In Finland, the overwhelming majority of mandatory pension schemes are financed by group insurance contracts. As in all Scandinavian countries, approximately 85 per cent of all occupational pension assets are held by a handful of mostly local insurance companies (Wilmington plc, n.d.). The funding of the ERPS made the credit markets more diversified. Assets generated from ERPS were also used to build apartments, and finance important infrastructure projects. During the recession in the early 1990s, an increasingly larger share of insurance companies opted for investing in low-risk Finnish government bonds.

WHAT COULD BE AN IDEAL FRAMEWORK FOR BANGLADESH?

The ILO multi-pillar pension model could serve as a suitable framework for a UPS in Bangladesh. Among the South Asian countries, Maldives could serve as a good reference point for Bangladesh, as it has successfully implemented two pillars of the ILO pension model, along with universality in Pillar 0. Maldives has a non-contributory pension scheme 'Old Age Basic Pension (OABP)' and a contributory scheme 'Maldives Retirement Pension Scheme (MRPS)' for the employed population (Sun, 2016). Insights with regard to legal and institutional aspects can also be drawn from India, which has an established pension system.

As a first step, a Universal Pension Act will need to be enacted. It will create the scope for forming a Universal Pension Fund Authority (UPFA) in Bangladesh (Figure 4). A universal non-contributory OAA, in line with Pillar 0, may be

Figure 4: Proposed actions and timeline for Bangladesh



Source: Authors' elaboration.

implemented by the government for all the elderly people above 65 years of age in the country, excluding the holders of government pension and private sector provident fund and gratuity. The non-contributory pension will be a basic flat rate pension, which could be fixed on the basis of national poverty line, and provided on the basis of age and residence. This could guarantee a minimum income for all the elderly people in Bangladesh. The OABP of Maldives and 'Mukhyamantri Vridhjan Pension Yojna' in Bihar of India are good reference points in this regard. After successful accomplishment of Pillar 0, a contributory National Social Insurance Scheme (NSIS) following Pillar I could be introduced for the employed population in Bangladesh. Pillar I pension model could be established using PAYG DB or DC scheme, based on the principle that employers and employees will jointly contribute. In phase one, Pillar I will cover only the formal sector labour force, to be subsequently extended to the informal sector, including the self-employed, in phase two. The pension benefit will be paid according to the amount accumulated from the contribution.

The needed legal and policy reforms

The OAA was introduced in Bangladesh in 1998 for the elderly people in line with Article 15(d) of the Constitution of Bangladesh. The law regarding the provident fund, however, is an old one. The Provident Funds Act (PFA), 1925 is the law that guides the government employees' provident fund system. The current legislative framework in Bangladesh includes the General Provident Fund (GPF) Rules of 1979, the Contributory Provident Fund (CPF) Rules of 1979, the Government & Autonomous Bodies Employees Benevolent Fund & Group Insurance Rules of 1982, the Financial Institution Act of 1993, the Companies Act of 1994, and the Insurance Development and Regulatory Authority Act of 2010. However, PFA 1925 does not cover the private sector employees' provident funds, and its membership is limited to government public servants. There are few private sector organisations in Bangladesh which have recently initiated the contributory provident fund system. These organisations deploy the accumulated funds according to their own investment strategies. Tax deductions and incentives are subject to approval by the National Board of Revenue (NBR) under the Income Tax Ordinance, 1995.

Private trusts in Bangladesh are guided mainly by the Trusts Act 1882 (Sidddiqui, 1993). Under the Act, the provident fund is administered by the government and certain other employers who act as trustees. However, this may create a conflict of interest between employers and employees since the government or employers could fail to regulate themselves and manage the trust moneys for the employees.

In addition, the Trusts Act 1882 fails to consider capital market activities due to absence of a dedicated set of regulations and necessary infrastructure. Trusts Act (Amended), 2000, enacted at a later stage, permits both public and private sector pension funds to be invested; up to 25 per cent of the total funds could be invested in listed securities.

A single Pension Act incorporating the Acts related to provident fund and pensions in Bangladesh could create a two-pillar model of pension in the country like the one in operation in Maldives. The Maldives Pension Act (2009) establishes a two-pillar pension system, including a non-contributory pension scheme 'OABP' and a contributory scheme 'MRPS', based on the DC method. Unlike the PFA, the proposed Act includes both government and private sector employees. The administration or the Trustee Board of the pension scheme would be legally bound by the Pension Act. The eligible population would have an obligation under the Pension Act to register their name in the pension scheme. Knowledge about the scheme should be disseminated among people in rural areas such as farmers and others, when it will be introduced by the government, with all the legal aspects involved. The employed people in the formal sector would be bound as per the Pension Act. The informal sector would also be encouraged under the Act to participate on a voluntary basis. Regulatory framework would protect the contributions made by the citizens of the country during times of political change and financial upheaval. It will also have to incorporate the revised Trust Act 1882 to ensure efficient utilisation of pension funds and its investment. This is because the investment of pension funds and active investment in the capital market have been restricted to a certain limit by the Trust Act 1882.

Proposed institutional framework

Finance Division under the Ministry of Finance (MoF) is the only public institution in Bangladesh, which manages both Government Employees' Retirement Pension (GERP) and the OAA. The government is the designated trustee for purposes of financial matters relating to public sector employees and entrusted with the management of pension and provident funds. The MoF is responsible for allocating a certain amount of money for GERP and OAA in all fiscal budgets. The government can take a decision to use the fund without the consent of public sector employees for meeting the needs of budgetary deficit and/or needs of development projects. However, it is important to distinguish between the responsibilities of the government as an administrative authority and as a 'trustee' entrusted to deal with pension benefits and manage the funds.

A separate Pension Office, which would operate autonomously, can be formed under the MoF to facilitate the operation of the UPFA and manage the overall process following the Universal Pension Act. As discussed above, the UPS framework in Bangladesh could consist of both non-contributory social protection pillar and a contributory social insurance pillar. The Pension Office could be divided into various groups and the overall administrative responsibilities would be distributed among the different groups. For example, a group could take the responsibility of registering eligible people under both the pension schemes. The registration of Pillar 0 beneficiaries should be carried out in each upazila, so that all the people can receive basic pension benefit. A 15-member committee can be set up with the Upazila Nirbahi Officer as the chair, and the upazila Chairman as its adviser. The main responsibility of the committee will be to finalise the list of beneficiaries, ensure the delivery of non-contributory pension scheme to the recipient's bank account, and to monitor the overall implementation of the pension programme at the upazila level. The committee will explore if there is any duplication in beneficiary selection, and can take measures to address the problem. The committee would be under the supervision of the Pension Office. The beneficiaries under Pillar 0 would collect their pension benefit on a monthly basis similar to the current OAA. Another group of members would be responsible for collecting the amount of contribution from different organisations, paid by both employers and employees of those organisations. They would eventually transfer the contribution amount to pension accounts of the participants. An institutional mechanism similar to this has been followed by Maldives for implementing the two-pillar system of the country. The Pension Office would also be responsible for creating public awareness and educating the participants on the benefits of the initiative.

UPFA would act as a 'trustee' to ensure the proper utilisation of pension funds. Its membership may consist of government representatives, private sector employers and employees. The cumulative fund collected from the government and the private sector contribution could be converted into NSIS with the assistance of an insurance company, such as the Jiban Bima Corporation. They would oversee investment of pension funds in a variety of financial instruments such as government bonds, treasury bills, corporate stocks and derivatives. Life Insurance Corporation of India (LIC) has been operating as a professional manager, which manages retirement funds collected from various retirement plans in India. LIC invests 95 per cent of pension funds in government securities and bonds, and 5 per cent in equities. The eligibility age under this scheme would generally be 65 years, when the account holders can withdraw money as a lump sum amount or could opt for phased withdrawal or a combination of these methods.

Financing framework

Pillar 0

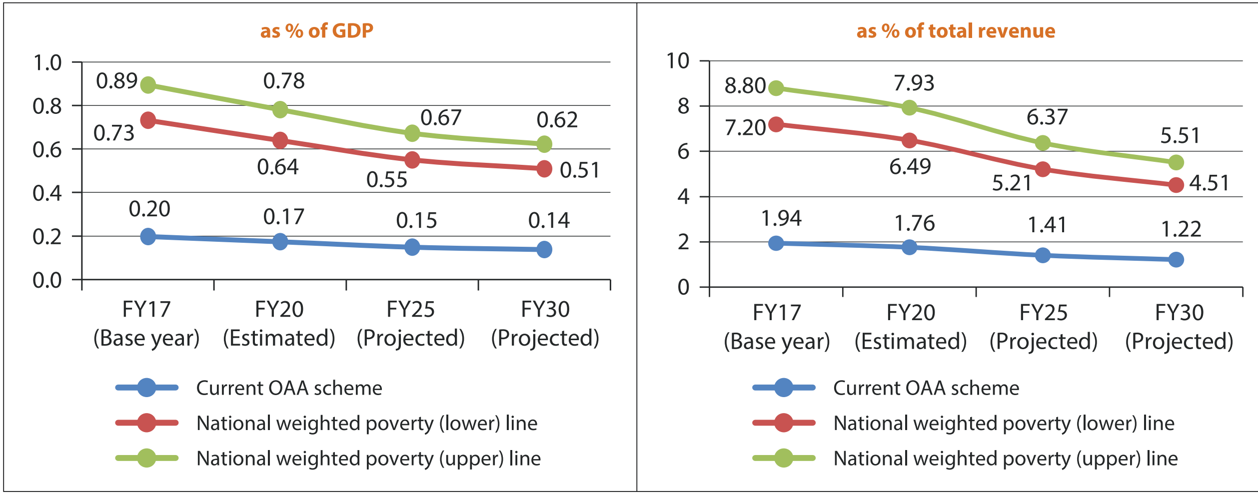
Non-contributory OAA in Bangladesh is directly and fully financed by the government revenue. Pillar 0 can be established by extending the OAA (either with current basic minimum or considering the national poverty lines) for all the elderly people (65+) in the country, except government employees and private sector gratuity holders. Currently, the OAA of Tk. 500 is being paid on a monthly basis, which covers only 39.9 per cent of old-age people (65+). The expenditure for this is equivalent to 0.1 per cent of the country's gross domestic product (GDP) and 0.9 per cent of the total revenue. The formula that has been used for cost estimation is the benefit provided per retiree multiplied by the number of old-age people to be covered. GERP and private sector provident fund or gratuity holders have been excluded while estimating the cost. For example, in 2017, the number of elderly people (65+) was 7.9 million, while the number of GERP beneficiaries and private sector gratuity holders were 0.6 million and 0.8 million, respectively (BBS, 2018). Thus, the total number of eligible beneficiaries to receive the non-contributory UPS was 6.5 million. Estimations carried out under the present study suggest that the financial resource envelope required for this will be

Assumptions (Pillar 0)

FY2016-17 has been considered as the base year. The projections for FY2019-20, FY2024-25 and FY2029-30 were made on the basis of the following five assumptions:

- Number of government retired pensioners is considered to be fixed at 0.6 million per year (Social Safety Net Programmes FY2016-17).
- Provident fund and gratuity holders are considered to be fixed at 0.81 million (Labour Force Survey (LFS) 2016-17).
- Average growth rate of nominal GDP in Bangladesh has been taken to be 13 per cent.
- The compound annual growth rate of revenue collection has been envisaged to be 15 per cent.
- The monthly benefit rates for OAA (Tk. 500), national lower poverty line (NLPL) (Tk. 1,853) and national upper poverty line (NUPL) (Tk. 2,264) were adjusted for FY2019-20, FY2024-25 and FY2029-30 considering an annual inflation rate of 5 per cent.

Figure 5: Cost requirements for universal OAA



Source: Authors' estimation based on the data of Bangladesh Bureau of Statistics (BBS) and Ministry of Finance (MoF).

equivalent to about 0.1–0.2 per cent of the GDP and 1.2–1.9 per cent of the total revenue annually, by FY2029-30, to achieve universality (Figure 5). A benefit of Tk. 1,853 per month in FY2016-17 (equivalent to lower poverty line) would cost 0.5–0.7 per cent of the GDP and 4.5–7.2 per cent of the revenue annually. The corresponding cost would increase to 0.6–0.9 per cent of the GDP and 5.5–8.8 per cent of revenue annually to provide a benefit of Tk. 2,264 (equivalent to upper poverty line) by FY2029-30. It will still be lower than the government-funded GERP scheme, which is equivalent to about 0.8 per cent of the GDP and about 8 per cent of the total revenue in FY2019-20. Though the share of the revenue required appears to be on the high side, government has already allocated about 20 per cent of the total revenue for all the social safety net programmes in FY2019-20. Apparently, if the government succeeds in achieving this universal coverage with the proposed rates, it would positively affect a number of other safety net programme beneficiaries, such as allowance for widows, financially insolvent disabled, etc.

Pillar I

Pillar I can be established by using PAYG DB scheme. The pension plan will work as a social insurance scheme where the pension benefit amount is fixed beforehand, and on the basis of the amount, current workers will contribute for current pensioners' benefits with the expectation that future generation will also pay for their retirement benefits. Under this method, the estimation of costs requires a replacement rate, dependency ratio and contribution rate. Replacement rate is considered as the percentage of national monthly average wage that is paid as pension benefit. Dependency ratio refers to the ratio of total number of eligible retirees and total number of contributors (employed population). Indeed, a low dependency ratio indicates that more people who are economically active, are contributing for eligible retirees, which essentially leads to lower contribution rate, and less burden for the current workers and vice versa. For example, in FY2016-17, at the replacement rates of 15 per cent and 20 per cent, respectively, if all the private sector workers (58.5 million) would contribute for all the eligible old-age population (4.15 million), the dependency ratio would stand at 7 per cent, and the corresponding required contribution rate would be 1.1 per cent and 1.4 per cent of monthly average wage of Tk. 13,258. In contrast, at the replacement rates of 15 per cent and 20 per cent, respectively, if only the formal private sector workers (6.8 million) would participate to contribute for the same number of eligible retirees in FY2016-17, the dependency ratio would stand at 60 per cent, and the corresponding required contribution rate would be 9.2 per cent and 12.3 per cent, respectively, of monthly average wage of Tk. 13,258.

PAYG estimation suggests that following the DB method, if the government decides to provide fixed pension benefits of Tk. 2,511 (replacement rate is 15 per cent) and Tk. 3,349 (replacement rate is 20 per cent) to all eligible pensioners (65+), excluding GERP and OAA beneficiaries in FY2019-20, it would require a monthly contribution of Tk. 183 and Tk. 244, respectively, from all the private sector workers in the particular fiscal year (Figure 6, Option A). These benefits are much higher than LifeLine Retirement Plan of Metlife insurance (Tk. 2,000 per month) and closer to Jiban Bima pension policy (fixed at Tk. 5,000 per month) with similar kind of contribution requirement (around Tk. 700 per month). However, if only the formal private sector workers participate in the scheme on a mandatory basis (based on the present study's proposed NSIS, phase I), the corresponding contribution requirement would increase by eight times to Tk. 1,530 and Tk. 2,040 per month, respectively, to finance the same level of pension benefits for the eligible retirees by FY2019-20 (Figure 6, Option B).

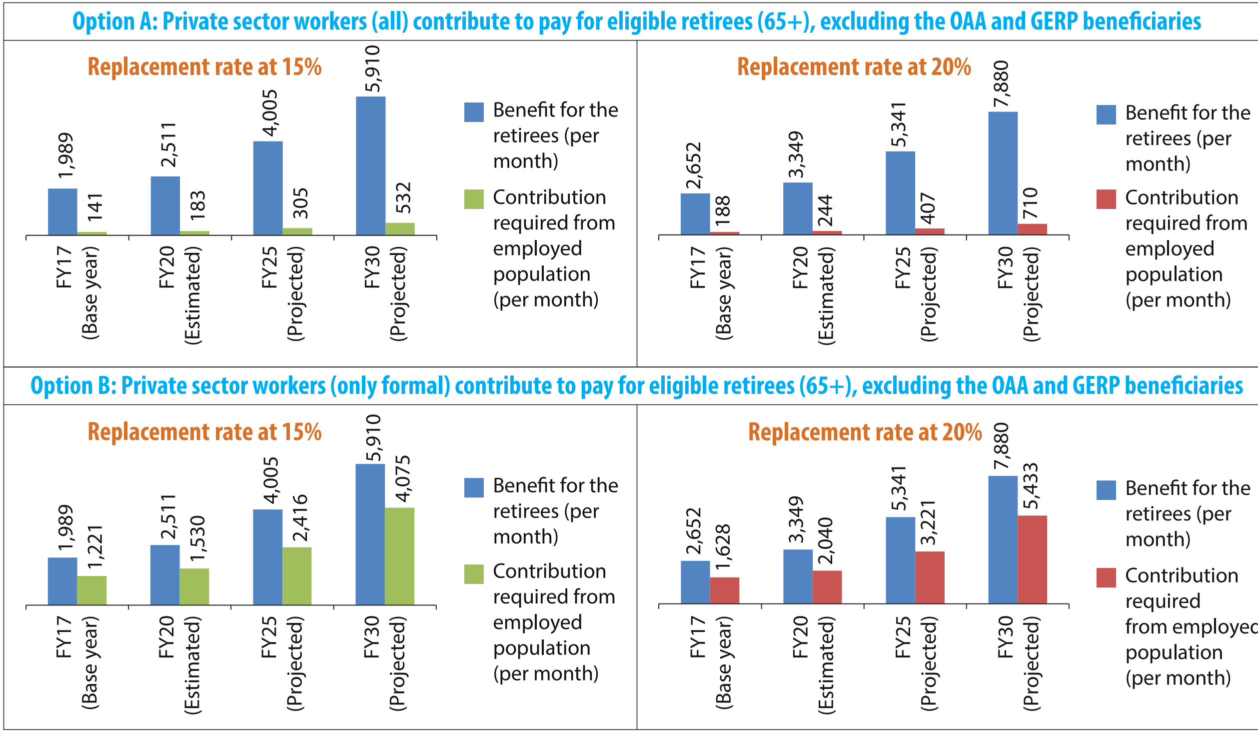
However, there is a significant risk associated with having a DB plan due to the possibility of the pension not being funded properly and returns from investment not being generated as expected. The contributors to the pension benefit could pay a lesser amount (Muriuki, 2012). To avoid such risks, the Government of Bangladesh (GoB) following DC method, could require a mandatory contribution of 20 per cent of employee's pensionable wage (basic salary declared in the employment contract), requiring a minimum of 10 per cent each from the employee and the employer. Each employer will open a Retirement Pension Account (RPA) for employees, and will collect and make contribution on employees' behalf. Although the contribution rate needs not be constant over the course of a career, contributions from both parties will be tax-deductible. The contribution rate can be adjusted annually in line with the changes in level of salary of the employees using an indexation method. There will be a contribution period with ten years as minimum and

Assumptions (Pillar I)

FY2016-17 has been considered as the base year. The projections for FY2019-20, FY2024-25 and FY2029-30 were made on the basis of the following six assumptions:

- Number of government retired pensioners is considered to be fixed at 0.6 million per year.
- Number of government employees is considered to be fixed at 2.3 million per year.
- Number of OAA recipients is considered to be fixed at 3.2 million per year.
- Formal sector share in total employment is considered to be fixed at 15 per cent.
- The compound annual growth rate of average wage is taken to be 8 per cent.
- The compound annual growth rate of total employed population in Bangladesh is considered to be 4 per cent.

Figure 6: Pillar I financing options



Source: Authors' estimation based on the data of Bangladesh Bureau of Statistics (BBS) and Ministry of Finance (MoF).

a maximum of 20 years throughout the participant's employment period. Under the DC method, pension plan benefits are determined mainly by contribution rates and returns on the plan's investments. Therefore, DC pension plans will operate as effective long-term savings accounts (Oxera Consulting Ltd., 2008). Members will be eligible for early pension withdrawal if the balance in their RPA is sufficient to provide them lifetime monthly payment, that is, at least twice the amount of Pillar 0 pension amount prevailing at the time of retirement. The monthly pension payment will be calculated by dividing the balance in the member's RPA at the time s/he reaches 65 years considering life expectancy of 72 years (at present). Thus, pension benefit will be calculated for a total of 82 months. In cases where the calculated monthly payout is less than the Pillar 0 pension benefits (e.g. Tk. 2,145, equivalent to inflation-adjusted NLPL in FY2019-20), the least minimum amount (e.g. Tk. 4,290 in FY2019-20) will be paid on a monthly basis until the RPA balance is exhausted. Similar financing framework using DC method is followed in Maldives in case of financing the MRPS. Both employers and employees together contribute 14 per cent of the employees' salary with a minimum rate of 7 per cent for the employers.

GoB may face difficultly in allocating the money to provide Tk. 1,853 or Tk. 2,264 to all old-age people of 65+ under Pillar 0. Therefore, it can also encourage informal sector employees, including the self-employed persons, to participate in this scheme on a voluntary basis. They may be persuaded to agree with the proposal, since a monthly OAA of Tk. 500–2,264 may not be adequate for ensuring a decent life following the retirement.

Box 2: A multi-pillar pension system of India

The pension system in India is based on different types of pension schemes: the Civil Service Pension Scheme (CSPS), the Employees' Provident Fund Organisation (EPFO) schemes, superannuation plans of the corporate sector, schemes for public enterprises, voluntary tax advantaged schemes, social assistance schemes and micro-pension schemes.

Pillar 0

National Old Age Pension Scheme (NOAPS): The Indira Gandhi NOAPS was introduced in 1995 for people of 65 years and above, and for those who belonged to the below poverty line. NOAPS is a non-contributory means-tested pension scheme. The pension benefit amount was Rs. 200 allocated on behalf of the central government plus an amount contributed from the state government, which varied according to the discretion of the state government. The coverage was limited, ranging between 10 to 15 per cent of the elderly people. The eligibility age was reduced to 60 years in 2011, and the monthly benefit was raised to Rs. 500 for people above 80 years (Sanyal and Singh, 2013). Bihar is the first state in India to launch a basic non-contributory pension scheme, known as the 'Mukhyamantri Vridhjan Pension Yojna', which is to be provided to each citizen above the age of 60 years living in Bihar. The scheme will give eligibility for a monthly benefit of Rs. 400 to people of 60 years and above and a monthly pension of Rs. 500 to people older than 80 years. People who are not getting any other pension, either from the state of Bihar or the central government, will be eligible for this pension scheme. The new scheme has been made effective from 1 April 2019.

Pillar I

Civil Service Pension Scheme (CSPS): Civil servant pension is a traditional DB pension scheme, which is funded by PAYG method for the employees of the central government. Periodically, pension payments are revised to reflect the growth in wages and consumer price index. Under this scheme, the employees were mandated to pay a certain per cent from their salary to a Government Provident Fund (GPF) scheme. They receive a lump sum gratuity benefit based on the period of service and the salary level. Over the years, several reforms in CSPS has taken place with changes in the parameters of the existing pension scheme, such as the benefit computation formula, eligibility criteria, indexation method, etc. The CSPS is regulated under the supervision of both central and state governments.

Employees' Provident Fund Organisation (EPFO) Schemes: The employee provident fund came into effect with the introduction of the Employees' Provident Fund Ordinance in November 1951. It was replaced by the Employees' Provident Funds Act, 1952 to provide for the institution of provident funds for employees in factories and other establishments. The Act is currently referred as the Employees' Provident Fund and Miscellaneous Provision Act, 1957. Both the Act and the schemes are administered by a tripartite Board known as the Central Board of Trustees, Employees' Provident Fund with representatives of both central and state governments, employers and employees. Minister of State for Labour and Employment, Government of India, is the chairperson of the trustee board. The trustee board is assisted by the EPFO. The board manages three types of old-age social security for employed people engaged in organised sector in India. These include: i) Employees' Provident Fund Scheme (EPFS), introduced in 1952, which was a mandatory saving scheme for old age; ii) Employees' Deposit Linked Insurance Scheme (EDLIS), introduced in 1976, which provides insurance benefits to beneficiaries of members who died in harness (while in active service); and iii) Employees' Pension Scheme (EPS), introduced in 1995, which provides pension benefit to members, widows, widowers, physically disabled members, children, orphans, nominees and dependent parents. Formal sector workers with monthly earnings of Rs. 6,500 and organisations with less than 20 eligible members are covered under EPFO schemes in India. The overall contribution rate under EPFO is 12.5 per cent for employers, 12 per cent for employees and 1.2 per cent for the government (Asher, 2008). As a practice, the pension funds generated from EPFO schemes are invested in government and public sector fixed investments.

National Pension Scheme (NPS): NPS was launched in 2004 with the objective of providing retirement income to all the citizens. The initiative for NPS was taken by the Government of India mainly to move from DB-based pension schemes to DC-type pension schemes. NPS also led to the establishment of a Pension Fund Regulatory and Development Authority (PFRDA) in October 2003. A PFRDA bill was introduced in the Parliament in 2005 to develop and regulate the pension market in India. It manages the investment of the pension funds generated from all retirement plans in India, excepting the EPFO funds. The PFRDA consists of a Central Recordkeeping Agency (CRA) and three fund managers to manage accumulated balances in the NPS pension accounts, while the states can appoint their own CRA and fund managers. Under the NPS, each member holds individual pension accounts and members are allowed to choose their own fund managers for proper utilisation of the pension fund. The income of the fund is taxable. Initially, NPS was introduced for the new central government employees who had entered their service since 1 January 2004. In 2009, NPS started to operate a voluntary scheme for the informal sector workers to extend coverage to all the citizens of India. In order to encourage people from the informal sector to participate in the NPS system, the Government of India has started a co-contributory scheme, 'Swavalamban Scheme' in the union budget of FY2010-11. Under this scheme, the government contributes Rs. 1,000 to each NPS subscriber who contributes a minimum of Rs. 1,000 and maximum of Rs. 12,000 per year.

Pillar II

Occupational Pension Schemes or Superannuation Plans: There are certain retirement plans in the corporate sector which provide additional post-retirement income to employees on a regular basis. These schemes are operated under the Income Tax Act and supervised by the tax authorities. It consists of both DB and DC pension schemes, and are managed by the organisation itself or by the LIC. Rs. 2,000 billion (USD 48 billion) has been estimated as the pension assets generated in the private sector, and the fund is mostly managed by insurance companies. LIC has been operating as a professional manager to manage retirement funds mobilised from various retirement plans in India. Ninety-five per cent of pension funds are invested in government securities and bonds, and 5 per cent in equities.

Micro Pension Schemes: There are some micro pension schemes in India which are provided by the microfinance institutions. The pension benefits are provided to the members in exchange of low contributions and with low premiums. The total amount accumulated in the pension account depends on contributions and investment returns net of administrative, investment management and other expenses. The eligibility age under this scheme is usually 58–60 years, when the person can withdraw the amount as a lump sum or phased withdrawal of the amount or some combination of these methods are applicable.

Pillar III

Voluntary Tax-Advantaged Schemes: Voluntary tax-advantaged schemes were introduced by the Public Provident Fund (PPF) in 1968. The scheme follows DC savings option using personalised accounts. The scheme uses income tax rebates as incentives for customers for which it mainly attracts formal sector workers who pay income taxes. A minimum contribution period of 6–15 years is required in order to receive the benefit. A minimum contribution of Rs. 500 per annum and a maximum contribution of Rs. 100,000 per annum is needed. Participants are allowed to withdraw their money either on a monthly basis or at a single go.

KEY CHALLENGES THAT NEED TO BE ADDRESSED IN INTRODUCING UPS

Enhancing revenue mobilisation

Bangladesh has one of the lowest tax–GDP ratios among the South Asian countries and in the world. Over the last ten years, this ratio has been hovering around 10 per cent. This remains a key concern in attaining the universality in Pillar 0 in Bangladesh. Other things remaining the same, an additional 2–3 per cent GDP equivalent of tax will be needed to be mobilised to establish Pillar 0 UPS. However, with no visible improvement in the revenue collection situation, introduction of UPS will be a fiscally challenging aspiration. Introducing UPS, without raising more revenue could result in lower allocation for other competing expenditures. The government has taken a number of reform initiatives including the implementation of the VAT and SD Act 2012, launching of the value added tax (VAT) online project and to bring more people under the tax net. According to the Action Plan for the period of 2018–2023, by implementing the public finance management reform strategy for the period 2016–2021, the government envisages to raise the tax–GDP ratio to 14 per cent by 2023. If this target is reached, it will provide fiscal cushions for introducing a modicum of UPS in Bangladesh.

Bringing the private sector on board

Provident fund in Bangladesh was only introduced for the government employees in 1982. Later, some private organisations also started their own provident fund and gratuity systems. Currently, very few private sector employers have a system in place for mobilising contribution from the employees and provide pension benefit to their employees. Without a mandatory and active participation of private sector employers, Pillar I will be difficult to operationalise in the Bangladesh context. Administration and regulation of contributory pension scheme for employed people will also require that private sector pension fund companies get involved in the market, since they have the exercise to offer professional services and ensure competitive investment returns.

Transforming informal sector to formal sector

Bangladesh's labour market is predominantly of informal nature. Majority of the employed population do not have any formal pension plans from their employers. Informal sector workers tend to be scattered across the country, which makes it difficult to reach those people resulting in high administrative cost. In case of contributory pension scheme, workers with low income will not be willing or able to contribute. This would mean high administrative and transaction costs. It will be difficult to take advantage of economies of scale.

Ensuring financial inclusion

Nearly 50 per cent of the population in Bangladesh are still unbanked, while only 41 per cent have access to financial institutions (Demirgüç-Kunt et al., 2018). Almost half of the elderly population in Bangladesh is out of coverage of the banking system. Majority of the people use it to receive transfer payments, but not for 'banking' in real terms. The central bank in Bangladesh identified ten barriers to financial inclusion, including poor banking infrastructure, geographical coverage or high average distance from household to bank branches, etc. People are also not aware of the advantages of holding a bank account. Greater financial inclusion will be needed as a precondition for introducing the UPS.

Managing pension funds in a professional way

Introduction of UPS will require significant qualitative improvement in the work of all concerned authorities including regulatory bodies. Since Pillar I is a social insurance pillar, it will call for a sound professionally-run insurance industry and adequate opportunities to invest the pension funds. Purchase of government bonds is safe, but other options will also be needed including treasury bills, fixed deposits and corporate stocks.

To make any UPS sustainable, the funds will need to be invested in income-generating activities to get adequate returns to make the scheme a reasonably profitable venture. Thus, what is needed is an improved investment climate and creation of appropriate opportunities that would make the scheme a viable business model. Due to restrictions which limit the level of investment in government and government-approved securities, neither the public nor private sector schemes in Bangladesh are active participants in the capital market.

Furthermore, the governance of the pension fund will call for addressing a number of concerns. These relate to transparency and accountability, design, implementation and operational strategy, delivery of quality services to the beneficiaries, keeping overhead administrative and fund management costs within acceptable limits, robust supervision, appropriate monitoring and oversight mechanism to prevent leakages and wastage. The pension fund in Bangladesh is currently regulated and monitored by the government; however, the pension fund remains unfunded and unrecognised as a common trust fund (Alam, 2012). Asset management companies in Bangladesh are rare, making it difficult to manage public or private funds. There are also no regulations for institutional investors who could manage the fund for investment. In OECD (Organisation for Economic Co-operation and Development) countries, pension funds are generally deposited in banks, which have benefitted from growth of asset base and enhanced income through offer of asset management services. Currently, the banking sector of Bangladesh, beset with many problems as it is, is not adequately prepared to provide the secure service needed for operationalisation of the UPS. Thus, there is a need for a qualified authority to oversee the investment decisions of pension fund assets and proper management of liquidity reserves to facilitate smooth transfer of incomes to beneficiaries after retirement. Fundamental reforms will need to be undertaken before the UPS can be introduced in full measure. However, a UPS can be launched under the prevailing circumstances to be expanded in depth and breath, in a gradual and phased manner.

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A universal pension scheme could be an important step towards achieving at least five targets of the Sustainable Development Goals related to social protection for the elderly and other vulnerable groups. Government of Bangladesh is also committed to establish a comprehensive pension system for the elderly citizens of the country. Based on international good practices and country experiences, the study examines the fiscal implications of introducing universal pension scheme in Bangladesh, and outlines the needed legal reforms and institutional framework associated with this. It considers different scenarios and assumptions in this connection. The policy note puts forward a number of recommendations towards putting in place a universal pension scheme in the Bangladesh context.

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