



Bhutan's pension sector and policy outlook on reforms

**Mr. Ugen Chewang
Director**

National Pension and Provident Fund

Thimphu, Bhutan

www.nppf.org.bt

General Information on Bhutan

Located in the Eastern Himalayas, bordered by India in the south, east and west and China in the North

Area of 38,394 square kilometers

72.5 % of Bhutan is covered by forests

Bhutan has one of the most rugged mountain terrains facilitating its fast running rivers for mega hydropower generation.

Gross National Happiness is its guiding principle of all development efforts

Demography

Population size of about 735,000 (2003 estimate)

Very young population with 42 % below 15 years

Old age dependency ratio (2003)= 7.9 %

Fertility rate (2000)= 4.7

Population Growth rate = 2.5%

Life expectancies at birth (1994)

- Male = 66 years

- Female = 66.2 years

Economy

Current exchange rate: US\$ 1 = Nu. 45

Inflation rate 2003 = 2.6%

GDP in 2003 = Nu 31,884 million

Average per capita income, 1998 = US \$645

Hydropower electricity contributes more than 43 % of the total revenue

79 % of the total population is agrarian contributing more than 36% of GDP

Total labour force in 2003 = 394,301

Unemployment rate (2001) = 1.9 %

Social protection schemes in Bhutan

I. General social protection scheme covering the entire populace

Traditional informal extended/joint family support systems

Free health care and education for the entire population

Death benefit covering the funeral expenses for the entire population

Social protection schemes in Bhutan

II. Employer based retirement schemes

Civil servants and employees of government and Joint sector corporations

Armed Forces

Formal Private sector employees

Traditional Informal extended/joint family support systems

Younger people support their older parents when they are no longer able to work

Prevails throughout the country

Health care and education

Primary health care services are provided free of cost

Education from nursery to undergraduate level is also provided free of cost

Death benefit

Mandatory scheme covering the entire population

Insured person contributes Nu 30 per annum from all citizens with 8 years old and above until death

Upon death of the insured person the family receives a lump sum benefit of Nu 10,000

The benefit is provided to take care of funeral rites

Employer based retirement schemes

Civil servants and employees of government and Joint sector corporations

National pension and provident fund plan

Gratuity scheme

Group insurance scheme

National Pension and Provident Fund Plan (NPPFP)

The scheme covers around 3% of the total population

The scheme had been restructured from the then Government Employees Provident Fund Scheme (GEPF) to the National Pension and Provident Fund Plan since the year 2002

The then GEPF scheme was a defined contribution retirement scheme with equal matching contributions from both the employer and the employees ranging from 8 to 10 % of the monthly salary

The scheme provided benefits in lump sum on separation from service

National Pension and Provident Fund Plan (NPPFP)

The scheme provided benefits in lump sum on separation from service

The lump sum benefits covered the total accumulated contributions and returns accrued thereon.

The lump sum benefits did not provide adequate social protection upon retirement specially to lower income groups.

Most of the retirees were exposed to old age poverty forcing them to look for menial employment upon retirement

The restructured National Pension and Provident Fund Plan has two Tiers

Tier I: The National Pension Plan

Tier II: The National Provident Fund Plan

Tier I: The National Pension Plan

Partially funded pay-as-you go defined benefit pension plan

Financing of the plan:

Employee contribution: 5% of the monthly pay of a member

Employer: matching contributions

Government: Support to finance deficit in future

Benefits under the National Pension Plan

Member's Pension Benefit

Permanent Disability Benefit

Surviving family benefits

Important elements of the National Pension Plan

- Pension vesting period: 10 years of minimum service
- Retirement age: 56 to 60 years
- Pension base: linked to average civil service salary index
Linked to average carrier pay
- Redistributive element: Minimum pension 30% of civil service salary index
Maximum pension twice the civil service salary index
- Replacement rate: Average 60% of average civil service salary index (ACSSI) (this year ACSSI is Nu 6,872 monthly)
Average of 35% to 42% of the last pay

Sustainability of the National Pension Plan

National Pension Plan is partially financed pay-as-you-go plan

Under such financing method, the plan must assure that all pension payments are paid when due (requires short range test)

The plan must assure that system is sustainable which requires long range test

Sustainability of the National Pension Fund

Short term Financial Viability	Required	Actual
Fund Ratio as on 1 st July 2002	100%	7062%
Fund Ratio in 2012	100%	1601%
Average Replacement ratio in 2002		35.11%
Average Replacement ratio in 2012		42.60%
Dependency ratio in 2002 (one pensioner for every 400 contributors)		0.25%

Sustainability of the National Pension Fund

	Required	Actual
30 year projection horizon actuarial balance	0% or positive	0.13% positive
Actuarial balance in 2031	0% or positive	-8.36%
Average Replacement ratio in 2031		42.16%
Dependency ratio in 2031 (23 pensioners for every 100 contributors)		23%

50 year projection horizon actuarial balance	0% or positive	-6.28%
Actuarial balance in 2051	0% or positive	-16.59%
Average Replacement ratio in 2051		41.07%

Test results of the National Pension Fund

In the short run, the NPPF has adequate fund to pay its dues.

The actuarial valuation shows that the fund will sustain over 30 years.

The valuation shows that the fund will not sustain for 50 years.

Indicates that the system under current regulation is in need of reform in order that it is financially sound at least for 50 years

Proposed reforms in the current regulation to sustain the fund for 50-year period

Parametric reforms

- Increase of Retirement age by 3 months per year until 60 years in 2020
- Increase of contribution rate as under:

Year	Increase as a percentage of basic salary		Total monthly contribution as a percentage of salary to pensions (Tier I)
	Employee	Employer	
Current year	Nil	Nil	10%
2020	1%	1%	12%
2030	1%	1%	14%
2040	1%	1%	16%

Conceptual reform

- Realign the civil service and the employees of Government corporations pension plan along with the national insurance plan or citizens pension if implemented in future

Tier II: National Provident Fund Plan

Defined Contribution Scheme payable lumpsum upon retirement

Contributes @ 3% to 5% of monthly salary with matching contribution from the employer

The benefit = total accumulated contributions + interest earned

The fund is managed by the NPPF

Gratuity Scheme

Non-contributory defined benefit scheme

Benefit is defined based on number of years of service times last monthly salary drawn

Financed out of general revenue for civil servants. Employer finances for others

The benefit is given in lumpsum upon retirement from service

The benefit is limited to a maximum ceiling of Nu. 300,000.

Group savings cum insurance scheme (GIS)

Mandatory scheme applicable to all the members of the NPPF

The Scheme has two components – savings and insurance

Contribution rate ranges from Nu. 20 – Nu. 100 per month depending on the member's pay scale

60% of the total contributions goes to the savings component

40% of the total contributions goes to the insurance component

Benefit on the death of the member while in service ranges from Nu. 20,00 to Nu. 100,000 depending on the contribution rate

On retirement from service, the lumpsum benefit of accumulated contributions in the savings component + interest earned is paid

The scheme is managed by the Royal Insurance Corporation of Bhutan

Armed Forces

Armed Forces Pension and Provident Fund Scheme

Gratuity

Group savings cum insurance scheme (GIS)

Formal Private Sector Employees

The formal private sector in Bhutan is very small covering roughly 1% of the total labour force

Private sector in Bhutan currently contributes less than 25 % of GDP

Nonetheless, the private sector is expected to grow and play a significant role in absorbing the labour force

Formal private sector employees are covered under:

- Provident Fund Scheme
- Gratuity scheme
- Group savings cum insurance scheme

Provident Fund Scheme

Defined contribution scheme payable in lumpsum upon retirement

Contributes @ 8-10% of monthly salary with matching contributions from the employer

The benefit = total accumulated contributions + interest accrued upon separation from service

The fund is managed by the Royal Insurance Corporation of Bhutan

A few corporations manage their own provident fund accounts for their own employees

Gratuity Scheme

Non-contributory defined benefit scheme

Benefit is defined based on number of years of service times last monthly salary drawn

Employer –financed

The benefit is given in lumpsum upon retirement from service

The benefit is limited to a maximum of Nu. 300, 000.

Group savings cum insurance scheme

Voluntary scheme given to the employees of the formal private sectors

Managed by the Royal Insurance Corporation of Bhutan

Plans ahead

The NPPF is in the process of drafting an overall National Pension Policy which will provide guidelines to an overall old age retirement schemes in Bhutan

In order to cover the entire population and to promote equity amongst all citizens through a common social safety net, Bhutan may look into the possibilities of introducing Citizens' pension
If this happens, the current NPPFP and AFPPFS may be aligned with the citizens' pension