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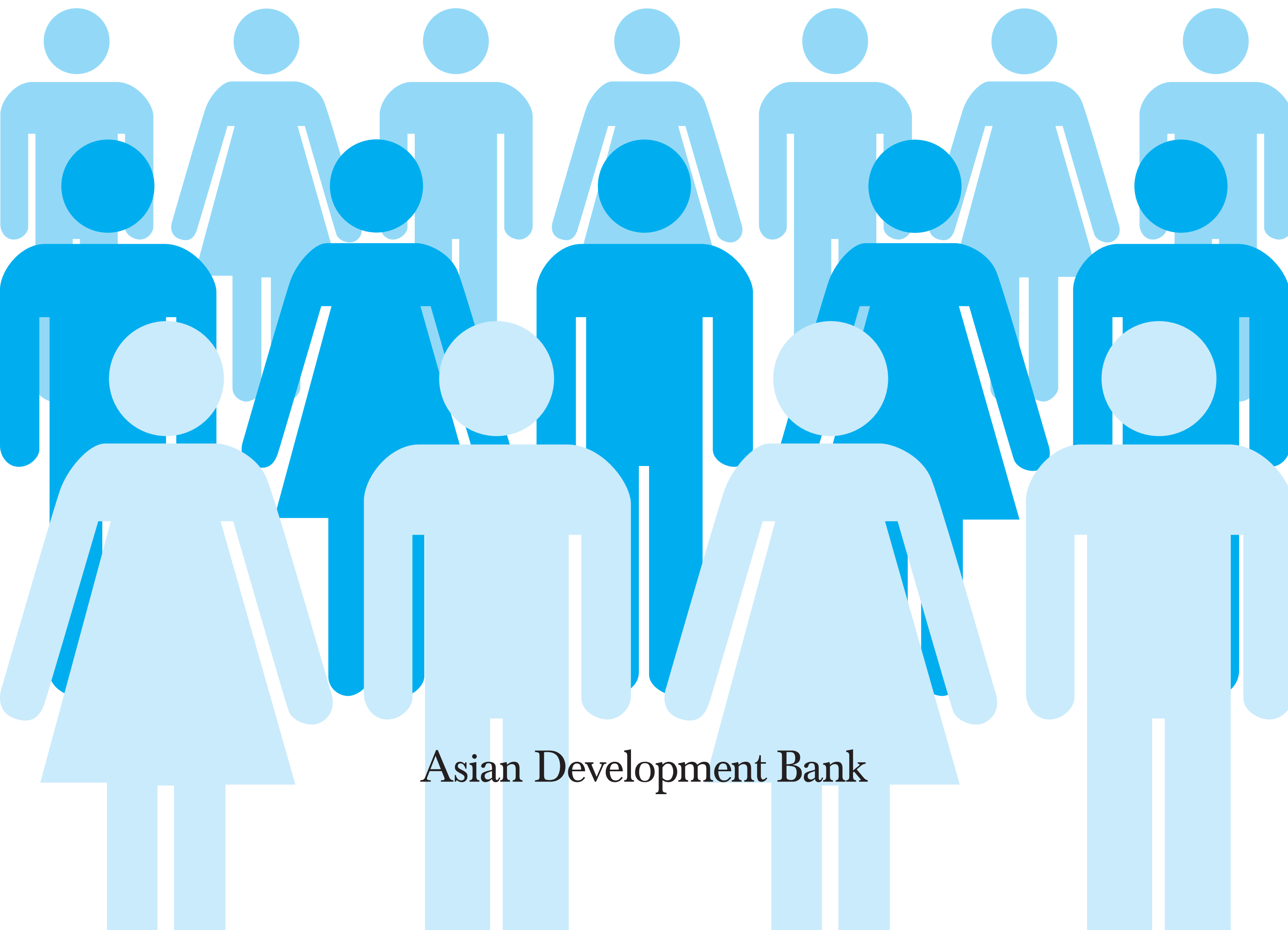
South Asia Pension Forum

Fostering Inclusive and Sustainable Pension Systems in the Region



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Fostering Inclusive and Sustainable Pension Systems in the Region

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Asian Development Bank

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Abbreviations

ADB	–	Asian Development Bank
EOBI	–	Employee Old Age Benefit Institution
EPF	–	Employees' Provident Fund
GDP	–	gross domestic product
GPS	–	Grameen Pension Savings
IOPS	–	International Organisation of Pension Supervisors
IPD	–	implicit pension debt
ISSA	–	International Social Security Association
NPS	–	New Pension Scheme
NRs	–	Nepalese rupees
OECD	–	Organisation for Economic Co-operation and Development
PRs	–	Pakistan rupees
PRWG	–	Pension Reform Working Group
Rs	–	Indian rupees
SAPF	–	South Asia Pension Forum
UN	–	United Nations

Abstract

Income insecurity in old age is likely to be one of the key causes of increased poverty in South Asia, and setting up systems to avert this crisis should be a central public policy goal of each country. Several countries in the region are therefore beginning to evaluate a range of policy options for pension reforms. Although there is already a significant body of knowledge in this area in many Organisation for Economic Co-operation and Development (OECD) countries, lessons from global experiences with pension reforms cannot be directly applied in the South Asian context due to important differences in initial conditions. On the other hand, South Asian countries are remarkably similar to each other in terms of demography, economic strength, labor markets, history, culture, legal and political structures, and challenges of governance. Hence, lessons from both success and failure in pension policy design and implementation are highly portable from one country to another within South Asia.

In this context, this paper proposes the establishment of a South Asia pension forum (SAPF). The SAPF is intended to foster and support intensive policy analysis, research, and consultation on pension reforms and social security within South Asia and undertake a number of key initiatives to build both regional and country-specific capacity and knowledge in this area. This paper also proposes the establishment of an SAPF secretariat in order to (i) foster ongoing dialogue on pension reforms and implementation issues, and (ii) serve as a dedicated resource to provide off-the-shelf research, training, information, and technical assistance for pension reforms to countries in South Asia.

I. Context

A shrinking demographic advantage with the far-reaching consequences of an ageing population creates one of the most important public policy challenges facing countries in South Asia. Without comprehensive pension coverage, countries in the region will face decades of severe social and fiscal stress. However, most countries in South Asia are yet to put in place scalable and sustainable mechanisms to decisively address this challenge. As a result, of the nearly 10 million people in South Asia who join the ranks of the elderly every year, roughly 90% do not have a pension benefit program. For a majority of these workers, and equally for the governments, a vital issue is the management of the longevity risk with the cessation of earnings in old age.

Lessons from global experiences with pension system design and implementation are not easy to apply in the context of most countries in South Asia, as the problems of old-age income security in the region are placed in a somewhat unusual setting, when compared with other countries that have embarked on pension reforms over the last 2 decades. The following unique challenges have important implications for both pension policy formulation and implementation in South Asia.

Demography and Labor Markets

On average, less than 7% of the population in South Asian countries is above the age of 60 (Table 1), and most countries have traditionally enjoyed a significant demographic advantage. However, with life expectancy rising to near the level of Organisation for Economic Co-operation and Development (OECD) countries, countries in the region are beginning to experience a demographic transition, and their elderly population is expected to roughly double within the next 2 decades and triple by 2050.

Although South Asia still has a large young workforce, less than 10% of these workers are covered by formal retirement benefit programs. The size of the remaining workforce, excluding the informal sector, as a percentage of the total workforce in South Asia is exceptionally high by global standards (at nearly 90% of all workers in most countries). Each country also has a large workforce comprising unpaid family members who do not derive any cash income and are therefore exposed to significant longevity risk.

Most South Asian countries are already experiencing a breakdown of traditional support structures through which the elderly derive financial support in old age from their children or from extended families. An important factor that has affected these traditional support mechanisms is increasing geographical mobility in the labor market. In addition to unprecedented levels of domestic labor force migration, countries in the region are faced with a significant overseas migrant population. For example, roughly 5 million Indians and 1.6 million Nepalese are employed on temporary work contracts in the construction, health care, and household services sectors in other countries in South Asia or the Gulf region. These migrant workers are excluded from access to the formal social security and retirement savings schemes that are available to residents of these countries. They are similarly excluded from the formal pension, provident fund, and gratuity schemes that are available to domestic workers in their home countries.

Table 1 South Asia Demography and Labor Markets

Parameters/Country	Bangladesh[a]	India[b]	Nepal[c]	Pakistan[d]	Sri Lanka[e]
Population (million) (UN, 2009)	162.2	1198.0	27.5	173.4	20.4
Age Distribution (UN, 2009) (% of population)					
0–14 years	31.3	31.5	38.3	36.9	24.3
15–59 years	62.5	61.3	54.5	56.9	63.9
> 60 years	6.0	7.4	6.1	6.1	11.8
Projected elderly (2050; UN)					
> 60 years	21.0	19.6	15.6	14.9	27.8
> 80 years	2.3	2.6	1.7	1.8	6.5
Workforce (million) (ADB)	**49.5**	**380.8**	**15.0**	**55.8**	**13.0**
Unemployment (% of workforce)	4.2	3.1	2.1	5.5	5.8
Workforce (% working age)	58.5	39.2	83.4	45.7	51.2
Agriculture (% employed)	48.1	56.1	73.9	45.1	32.2
Pension Coverage (% of workforce)	**10**	**12**	**5**	**10**	**15**
Per Capita Income (World Bank, 2010)	**$470**	**$950**	**$511**	**$1,095**	**$2,054**
Access to Financial Services (% of population) (ADB, 2007)	**...**	**37.0**	**52.3**	**30.0**	**26.6**

... = not available, ADB = Asian Development Bank, UN = United Nations.
[a] Sources: Ministry of Finance, Government of Bangladesh; ADB; World Bank; UN.
[b] Sources: Government of India; ADB; Invest India Economic Foundation; World Bank; UN.
[c] Sources: Ministry of Finance, Government of Nepal; ADB; Employees Provident Fund; Invest India Economic Foundation; World Bank; UN.
[d] Sources: ADB; World Bank; UN.
[e] Sources: Central Bank of Sri Lanka; HelpAge International; Ministry of Finance and Planning; Employees Provident Fund; ADB; World Bank; UN.

A significant proportion of the population in South Asian countries is in a state of poverty, and has near zero financial savings

With improving life expectancy and a breakdown of the traditional joint family support systems due to labor migration, most of the vast informal sector workforce in South Asia will need to accumulate enough savings during their working lives to support themselves for an average of nearly 20 years when they are too old to work. However, a significant proportion of the population in South Asian countries is in a state of poverty, and has near zero financial savings. Even for the tiny proportion of the informal sector workforce that may be preparing for old age, their savings accumulations are likely to be modest at best and the majority of them will outlive their savings.

Present estimates suggest that barely a quarter of informal sector earners in South Asia have an annual income in excess of $1,000 per year and can hence afford a pension contribution of roughly $100 per year. But, without effective implementation of an urgently needed public policy intervention, even workers who can presently afford a retirement income through thrift and self-help will need to work well into their old age as otherwise they will be unable to accumulate enough savings to support themselves.

Household incomes and savings data from the region suggest that in most cases, informal sector workers, including those who can afford to save for their old age, are yet to focus their attention and savings toward their retirement needs. This is true even for workers who are already nearing retirement and for whom old-age income security should be at the forefront of their minds. Part of the explanation may be that these workers expect their children to support them when they are no longer able to work. However, given the high incidence of labor mobility, and the probability of their children also being in the low-income workforce, this strategy is tenuous at best.

The fragile labor market attachments and modest, intermittent incomes of the remaining majority of the workforce with much lower incomes, coupled with the absence of a low-cost and easily accessible long-term savings mechanism in most cases, puts retirement planning out of their reach. These workers, including the lifetime poor and those already nearing retirement, will inevitably fall back on tax-financed old-age pensions and other social assistance programs when they reach old age. This presents a bleak outlook for the next generation of the elderly in the region and clearly suggests that old-age poverty will continue to be an intractable public policy challenge for most countries.

This presents a bleak outlook for the next generation of the elderly in the region and clearly suggests that old-age poverty will continue to be an intractable public policy challenge for most countries

Limited Coverage and High Fiscal Cost of Formal Pension Programs

Each country in South Asia has inherited a noncontributory, defined benefit, tax-funded pension scheme for government and public sector employees (Table 2). Due to improving life expectancy and generous replacement rates that are wage and inflation indexed in most cases, the fiscal cost of civil service retirement programs in South Asia is growing rapidly and consuming a significant and increasing share of tax revenue.[1] The growing fiscal burden and the high social cost of civil service retirement benefits have prompted most countries in the region to implement or contemplate important parametric and systemic reforms to civil service pension programs, such as the paring of some benefits, or increasing the retirement age and (in some cases) replacing the traditional civil service pension scheme with a contributory, fully funded pension arrangement for new employees.

Most countries in the region also have a mandatory, publicly managed contributory provident fund program for salaried employees of larger private sector firms (Table 3). Since only a small proportion of the workers are salaried employees, such benefits usually reach only a fraction of the paid workforce in each country. In each case, retirement savings arrangements

Table 2 Civil Service Pension Schemes in South Asian Countries

Parameters/Country	India	Nepal	Pakistan	Sri Lanka
Eligible employees (million)	30.0	0.3	3.5	1.8
Replacement rate (%)	50	50	70	85
Annual expenditure ($ billion)	25.0	0.1	1.8	0.9
Retirement age	60	58	60	M: 55 F:50
Average life expectancy at 60 (years)	75	75	76	76

F = female, M = male.

Sources: Ministry of Finance, Government of India; Invest India Economic Foundation; Ministry of Finance, Government of Pakistan; Ministry of Finance, Government of Nepal; Central Bank of Sri Lanka; HelpAge International; Ministry of Finance and Planning, Government of Sri Lanka; Employees Provident Fund of Sri Lanka; Asian Development Bank; World Bank; UN

[1] Expenditure on civil service salaries and pensions constitutes over 70% of the tax revenues of several Indian state governments. India's implicit pension debt on account of only in-service federal and state government employees, who constitute less than 9% of India's paid workforce, was in excess of 64% of India's gross domestic product in 2006. The implicit pension debt on account of civil service pensions in Pakistan is over a quarter of gross domestic product.

Table 3 Mandatory Contributory Pension and Provident Fund Schemes for Formal Sector Salaried Employees in South Asia

Parameters/Country	India	Nepal	Pakistan	Sri Lanka
Coverage (million)	20.0	0.5	4.1	2.0
Coverage (as % of workforce)	6.0	4.0	7.6	15.0
Contribution Rate (% of annual income)	24	20	6	20
Eligible age for claiming benefits	60	60	60	M:55 F:50
Benefits	DB-DC	DC	DB-DC	DC

DB = defined benefit, DC = defined contribution, F = female, M = male.

Sources: Ministry of Finance, Government of India; Invest India Economic Foundation; Ministry of Finance, Government of Pakistan; Ministry of Finance, Government of Nepal; Asian Development Bank; World Bank.

Pension and provident funds are administered, enforced, and managed by a government department in each case

for formal sector workers were designed several decades ago and although they have perhaps served a useful purpose in mandating retirement savings, most programs have not kept pace with improvements in life expectancy and labor mobility, or with developments in the areas of modern finance, technology, and telecommunications.

Pension and provident funds are administered, enforced, and managed by a government department in each case. Despite high contribution rates both in absolute terms and by global standards, provident and pension fund arrangements for formal sector workers in South Asia have been unable to adequately address the longevity risk of subscribers due to liberal premature withdrawal rules, payment of lump sum terminal benefits, and highly conservative investment regulations that depress investment returns and retirement incomes. Most provident fund administrators need to implement administrative and investment reforms to more effectively address the retirement challenges of existing and future subscribers.

Limited Capacity for Meaningful Fiscal Transfers

In order to counter the problems of pension exclusion, several developed economies have implemented population-wide, tax-funded, defined benefit social security programs. With increasing life expectancy (Table 4), such programs have become unsustainable and are causing extreme fiscal stress. However, systemic reform has rarely been attempted due to difficulties in achieving a broad-based political consensus. As a result, most countries have tended toward modest, parametric changes to social security contributions and benefits.

Table 4: Life Expectancy at Birth (years)

Country	2000–2005	2010–2015	2020–2025	2045–2050
Bangladesh	63.0	67.7	71.0	76.2
India	62.0	65.2	68.1	73.3
Nepal	63.6	68.1	71.3	76.5
Pakistan	64.7	68.0	70.7	76.0
Sri Lanka	73.0	74.9	76.6	80.0

Sources: United Nations (2008), World Population Prospects: The 2008 Revision.

Countries in South Asia do not have similar population-wide retirement income programs financed through tax revenues. Old-age income security in the region has been traditionally achieved through private transfers, and only a fraction of the elderly receive a pension funded through tax revenues. Therefore, countries in South Asia are unlikely to face significant political resistance to pension reforms.

However, with a tiny tax base and a near universal pension coverage gap, most countries in South Asia will be unable to afford the cost of meaningful fiscal transfers on account of old-age social pensions. Therefore the only sustainable solution for countries in the region is to establish scalable and sustainable pension programs that motivate younger workers to achieve old-age income security through thrift and self-help.

Financial Sector Development and Access

Most South Asian countries have underdeveloped securities markets and will find it difficult to achieve high real returns on investment of pension assets

Most South Asian countries have underdeveloped securities markets and will find it difficult to achieve high real returns on investment of pension assets. Indian securities markets, on the other hand, are highly developed and compare well with equity markets elsewhere in the world. However, even in India, a large proportion of the informal sector workforce, especially workers who reside in remote rural locations, have limited access to formal banking and financial services. The absence of an efficient securities market, coupled with low financial literacy and modest savings capacities, will limit the ability of citizens in South Asian countries to achieve old-age income security through thrift and self help.

Globally, tax incentives have served as a powerful policy tool to encourage voluntary retirement savings and self-provision. However, most informal sector workers in South Asia are below the applicable tax threshold and hence tax incentives will be ineffective in motivating appropriate retirement savings behavior or voluntary compliance over multiple decades.

Most countries in South Asia are yet to also establish mature and efficiently priced insurance and annuity markets. Without access to health, crop, and cattle insurance, most of the lower income informal sector workers, and especially those who live in rural areas in South Asia, are exposed to a range of significant risks that limit their ability to make uninterrupted pension contributions over multiple decades. Similarly, annuity markets are either nonexistent or inefficiently priced. For example, annuity prices in India are based on the mortality data of higher income workers who have a life expectancy comparable with OECD countries as shown in Table 5. The poor, however, may have a lower expected lifespan at age 60, but insurance companies in India do not vary their annuity prices across the rich and the poor. A uniform annuity price produces a subsidy that flows from the poor

Table 5: Pension Statistics

Parameters/Country	India	Pakistan	Sri Lanka
Average life expectancy (at 60 years old)	75	76	76
Gross relative pension level (% average earnings; male)	40.4	66.0	48.3
Gross replacement rate (multiples of average earnings; male)	40.4	75.4	48.3
Gross pension wealth (multiples of average earnings; male)	6.2	10.7	9.2

Source: Pensions At a Glance, Organisation for Economic Co-operation and Development, 2009.

(who may die earlier) to the rich (who may consume annuities over an extended period). Access to efficiently priced annuity products will become increasingly important in the future, especially for those countries in South Asia that are able to successfully implement a private pension program that delivers meaningful terminal benefits. Providing access to products that mitigate insurable risks and eliminate such cross-subsidies will require extensive efforts by policymakers, regulators, and insurance companies.

II. Overview of Pension Systems in South Asia

Bangladesh

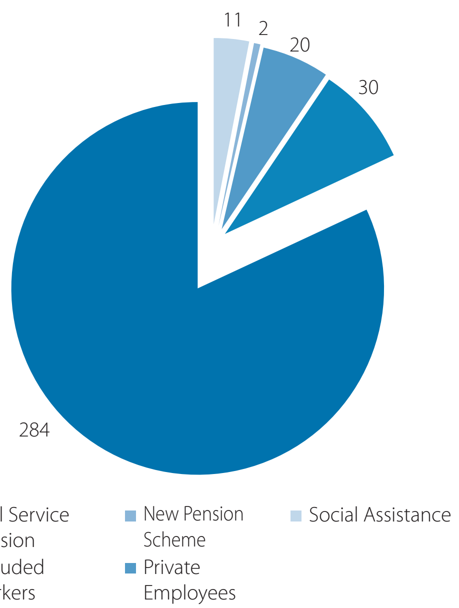
The elderly (individuals aged 60 years and above) in Bangladesh were roughly 6% of the total population in 2009 and are expected to triple to 18 million by 2030. The United Nations (UN) estimates that over 21% of Bangladesh citizens will be over the age of 60 by 2050. As in other countries in the region, the traditional reliance of the elderly in Bangladesh on children and extended families for old-age income support is being rapidly eroded by labor mobility and economic hardship.

As in other countries in South Asia, the Government of Bangladesh provides its own employees with a noncontributory, defined benefit pension with survivor benefits, funded through tax revenues. Civil servants are eligible to receive a pension at the age of 57. Bangladesh does not have any formal retirement savings program for a majority of the workforce employed in the farm sector including forestry, horticulture, animal husbandry, and fisheries. Other than a gratuity benefit at retirement, employees of private sector firms do not have access to any formal old-age savings program. Both private sector employees and the majority informal sector workforce rely either on their own savings or on a modest old-age allowance program to sustain themselves in retirement.

The microfinance movement has achieved nearly universal coverage in Bangladesh. Most microfinance institutions including BRAC, Grameen, and ASA offer short- to medium-term savings products that provide modest returns and serve as a source of funds to microfinance institutions for on-lending to credit customers. More recently, the Grameen Bank has launched a commitment savings account, the Grameen Pension Savings (GPS), that collects a minimum of Tk50 ($0.73) per month and multiples thereof for a 5- or 10-year period. Unlike conventional pension products, the GPS is not linked to a specific retirement age. The GPS mandates uninterrupted contributions (with penalties including lower interest rates in the event of savings interruptions) and offers a fixed annual return ranging from 10% to 12% over the tenure of the scheme. These returns are cross-subsidized from Grameen's revenues more generally. Terminal savings can be withdrawn either as a lump sum or a monthly drawdown. The GPS serves as a short- to medium-term savings plan for known future expenditures including marriage and education expenses.

As in most South Asian countries, elderly women in Bangladesh are even more vulnerable to old-age poverty than men, as they enjoy a higher life expectancy than men but are disadvantaged compared to men due to their relatively lower incomes, a shorter working age, and interruptions in employment due to childbirth and other family responsibilities. While the microfinance movement has succeeded in providing the most vulnerable sections of the Bangladesh population with credit and short-term savings access, the workforce remains starkly exposed to the most significant insurable risks of mortality and longevity. In parallel, lack of access to affordable crop, cattle, health, and other non-life-insurance products imposes significant additional risks, especially on the low-income rural workforce, and considerably lowers their ability to make uninterrupted pension contributions over multiple decades.

Figure 1 India's Pension Coverage Gap
(Number of paid workers in millions)



Source: Indian Incomes, Savings and Retirement Survey, ADB 2005.

India

One in every eight elderly people in the world today lives in India. India's present elderly population of 90 million is projected to more than double to 200 million by 2030 and rise from the current 8% of the total population to 19.6% by 2050 (United Nations 2008).

Of India's 450 million workers, less than 14% are covered by some formal pension or provident fund provision. The roughly 30 million Indian civil servants, exactly like their counterparts in other South Asian countries, have inherited a generous, wage and inflation indexed, tax-funded, defined benefit pension to which they do not contribute (Figure 1). The annual expenditure on civil service pensions has risen sharply from less than $0.5 billion in 1981 to nearly $25 billion in 2010. The first estimate of India's implicit pension debt (IPD) in 2006 pegged it only on account of serving government employees at over 64% of gross domestic product (GDP) (or nearly $600 billion in 2005–2006). The growing fiscal burden and the high social cost of civil service retirement benefits prompted the government to embark on a bold reform in 2004 by bringing its new employees under the New Pension Scheme (NPS), a new defined contribution pension system, on a mandatory basis. The institutional architecture for the NPS was first proposed by the Project OASIS Committee in 2000,[2] and is being implemented by the Pension Fund Regulatory and Development Authority—a new regulator established through notification. Since 2004, 25 state governments have followed in the federal government's footsteps by notifying the NPS for their own employees. To date nearly 2 million central and state government employees are covered by the NPS.

India also has a large number of employee benefit programs for workers in large private and public sector firms

India also has a large number of employee benefit programs for workers in large private and public sector firms. The current employer-led pension system in India is comprised of compulsory schemes, and voluntary, supplemental schemes established by employers.

Roughly 20 million salaried workers employed in nearly 500,000 large firms are required by law to contribute nearly a quarter of their annual wages toward a publicly managed pension and provident fund (Figure 1). This legislated retirement savings arrangement is administered and managed by the Employees' Provident Fund Organisation established in 1952. Around 60% of the contributions received by the organization flow to a defined contribution provident fund arrangement that provides lump sum terminal benefits while the remaining savings flow to a defined benefit pension scheme that targets a 50% replacement rate. Although the defined benefit pension scheme was only launched in 1995, it is already facing a funding gap of roughly $12 billion.

[2] See OASIS Foundation. 2000. *The Project OASIS Report* (Old Age Social and Income Security Project). www.micropensions.com/policy-report

A number of the larger employers also offer a range of privately managed superannuation, pension, and provident fund schemes to their higher income employees who are excluded by legislated provisions. All of these schemes are essentially unregulated, except to the extent that an employer seeks tax recognition of its scheme(s), in which case certain rules promulgated under the Tax Law apply. In addition to compulsory and voluntary employee benefit provisions, employers with 10 or more employees (including central and state governments) are required to pay gratuity benefits to eligible employees under the Payment of Gratuities Act, 1972. In aggregate, India's private sector employee benefit programs have nearly $150 billion of retirement assets under management. Although India has one of the most efficient securities markets in the world, and while a number of large global pension funds invest in Indian equities, nearly all of India's pension and provident fund assets are invested either in government debt or corporate bonds.

In May 2009, the NPS was extended through notification to all Indian citizens, including informal sector, workers on a voluntary basis. The necessary institutional and administrative capacity was established by the Pension Fund Regulatory and Development Authority through outsourcing the administrative tasks associated with the NPS to the commercial sector under a system of licensing and registration arrangements. The NPS providers a portable individual account with standard product and fund manager options to both mandatory and voluntary subscribers. Outreach and service delivery is achieved through several thousand banking and post office branches. Although the NPS has an unbundled, transparent, low-cost, and incentive-compatible architecture, with nationwide access, barely 11,000 voluntary NPS accounts had been opened through nearly 4,000 sales outlets by 30 July 2010.[3] The global experience with achieving mass-scale voluntary coverage with defined contribution pension systems as well as India's own experience with the NPS rollout in 2009–2010 clearly demonstrates that broad-based access will need to be dovetailed with active promotions and public education, sound commercial incentives for intermediaries, and active field-level implementation management to achieve a significant impact on voluntary coverage. Importantly, even when the NPS achieves a larger coverage, it will have negligible impact on workers who are already nearing retirement and thus do not have enough time to accumulate meaningful savings under the NPS, and on the lifetime poor who cannot afford to save for their old age.

India also has a large old-age pension program—the Indira Gandhi National Old Age Pension Scheme—that provides an average of Rs400 per month to around 11 million elderly with an annual aggregate central budget of Rs52 billion ($1.3 billion). As the federal government and state governments (which deliver the old-age pension to the elderly) achieve more efficient targeting and administration, and as a larger proportion of retirees emerges with inadequate retirement savings due to low coverage and improving life expectancy, the budgetary support for social assistance programs for India's elderly is likely to be significantly increased.

India has the second largest diaspora, with over 25 million overseas Indians spread across 110 countries. An estimated 5 million Indian nationals are employed on temporary contractual arrangements with modest wages, mainly in the Gulf region. The government has decided to launch a special Return and Resettlement Fund targeting migrant Indian workers. The fund will enable and encourage migrant Indian workers to accumulate savings for their return and resettlement, and for their old age, through a system of government co-contributions

[3] Pension Fund Regulatory and Development Authority. www.pfrda.org.in

in order to (i) motivate broad-based voluntary participation and savings discipline, and (ii) top up resettlement and old age-benefits of the target beneficiaries.

Two national level household surveys—the Indian Retirement, Savings and Earnings Survey of 2004–2005 commissioned by the Asian Development Bank (ADB) under a technical assistance grant, and the subsequent Incomes and Savings Survey 2007 conducted by the Invest India Economic Foundation—helped to size and segment the market for private pensions on the basis of interest and savings capacity. These surveys suggest that India's private pension market can achieve aggregate savings of $300 billion by 2019–2020.

Recently, the Government of India launched a new initiative called "Swavlamban." Under this scheme, the government will make an annual co-contribution of Rs1,000 for every low-income worker who joins the NPS. The government has set aside an aggregate co-contribution budget of Rs1.0 billion ($25 million) for 1 million poor people being targeted by this scheme during 2010–2011.[4] Five state governments (Rajasthan, Haryana, Karnataka, Andhra Pradesh, and Madhya Pradesh) have also announced a similar pension co-contribution for low-income informal sector workers who join either the NPS or pension schemes launched by the governments of these states. The Rajasthan government's co-contributory pension scheme has already achieved a voluntary coverage of 50,000 low-income workers (UNDP-IIMPS 2009).

Nepal

In 2009, Nepal's elderly population (those aged 60 years and above) was 6.1% of the total population. The elderly population in Nepal is expected to rise to 10% of the population by 2025 and to 15.6% by 2050 (UN 2008).

Of the roughly 11 million formal and informal sector workers in Nepal, less than 5% are covered by a formal pension or provident fund scheme. These include 320,000 government employees and 130,000 private and public sector salaried employees who are covered by the Employees' Provident Fund on a mandatory basis. A modest number of smaller private sector firms with 10 or more employees are permitted to participate in the provident fund arrangement on a voluntary basis. Some larger employers have also launched voluntary provident fund schemes for their employees.

As is the case in other countries in South Asia, Nepal provides a noncontributory defined benefit pension to government employees. Despite its modest coverage, the noncontributory government pension scheme is causing significant fiscal stress. During 2008–2009, pension payments to the 170,511 retired government employees stood at NRs10.37 billion ($144 million), or 7.23% of the government's revenue receipts and 4.75% of the government revenue expenditure in the corresponding financial year. Nepal's IPD only on account of the 82,000 existing civil servants stands at NRs26 billion ($361 million), or 4.6% of GDP. This does not include the IPD on account of teachers, employees of armed forces, and police, or the 170,511 pensioners.

[4] In addition, there is a private sector initiative launched in 2006 by Invest India Micro Pension Services. This scheme is capable of collecting modest monthly pension savings of Rs100 and transmitting them to regulated, professional fund mangers in a secure and low transaction cost environment.

On July 15 2005, the Government of Nepal introduced a new contributory pension scheme based on individual accounts for its *Nijamati* (civil) employees. This new defined contribution pension scheme replaced the noncontributory defined benefit pension scheme for all *Nijamati* employees recruited after this date on a mandatory basis. Between 2006 and 2008, the government developed a national pension policy and designed new, overarching legislation with underlying regulations, a scalable institutional architecture, and a phased implementation plan for this national pension policy.

Over time, the Government of Nepal planned to extend this scheme to new government teachers and public sector workers (though not to police and defence personnel due to their short service tenure) and to the larger, presently excluded informal sector workforce on a voluntary basis. However, in 2009, and even as the government geared up to table the new pension legislation in parliament, the new contributory pension arrangement for civil servants has been rolled back.

Of the 10.5 million excluded workers, Nepal has an estimated 2.97 million paid workers with some savings capacity, 1.63 million low-income workers with very modest capacity to save for their old age, 3.98 million lifetime poor and 1.48 million elderly aged less than 75 years.[5] A negligible percentage of this excluded workforce is saving for retirement. This may be due to the absence of long term savings schemes or pension products that deliver positive real returns and also since access to formal financial services in Nepal more generally is on the decline despite government efforts. Recent studies suggest that only one in four households in Nepal have a bank account while 45% of households prefer to save at home (World Bank 2007). Over half prefer to borrow from the informal sector. The 2.97 million workers who have some capacity to save can produce aggregate annual pension savings of NRs17.74 billion ($247 million) through a pension contribution value of 10% of incomes. Using a similar contribution rate, another 1.6 million workers can produce an average annual contribution of NRs2,575 ($36 million), or NRs4.12 billion ($57 million) in aggregate terms.

The government introduced a tax-financed social assistance program in 1995. Under this program, all citizens aged 70 years or above (60 years in the case of widows and certain sections of the population) receive an old-age allowance of NRs500 ($7) per month. Persons aged 80 years and above receive a 10% higher old-age allowance. Persons with full or partial disability receive a social assistance benefit of NRs1,000 ($14) and NRs300 ($4) per month respectively. An estimated 954,410 persons receive these social assistance benefits at an annual expenditure of NRs1,209 million ($17 million) (2008–2009).

If Nepal's excluded workforce can be motivated to save for retirement, its formal pension coverage can grow from the present 4.1% to 35.4% of the active workforce that has some capacity to save. However, this will not solve the problem of old-age income security for the 4.5 million lifetime poor or the 1.48 million current elderly who are excluded from the Old Age Pension scheme.

Nepal also has a sizable population of migrant workers, a number of whom are presently employed in India. The Government of Nepal is considering a bilateral social security treaty with the Government of India under which the nearly 1.5 million Nepalese citizens working in India and covered by Indian pension and provident fund provisions would be permitted to transfer their account balances to a Nepal pension program upon their return.

[5] Central Bureau of Statistics, Government of Nepal, Pension Reforms Project, World Bank, 2008.

Pakistan

The elderly constituted 6.1% of Pakistan's total population and over 18% of the workforce in 2009. The UN estimates that the elderly population will more than double to 14.9% of the total population by 2050. Roughly a quarter (26.7%) of Pakistan's workforce is employed in the formal sector. A subset of these workers is covered by a formal pension program as is the case in other South Asian countries.

The 350,000 civil employees and 276,212 pensioners of the federal government are covered by a noncontributory, defined benefit civil service pension scheme that begins benefit payments at age 60 and is funded by tax revenue. The current annual expenditure on account of pension payments to federal civil service pensioners and the 1.37 million military pensioners is PRs82.16 billion ($958 million) (2009–2010). The annual pension expenditure on account of pension payments to the 738,183 pensioners of provincial governments was PRs69.3 billion ($808 million) (2009–2010). In aggregate, government pension payments to the current 2.38 million pensioners consume 10.34% of the tax revenues of the government. Government employees also contribute to a general provident fund and a benevolent fund, and are covered by a group insurance program.

The level of defined benefits for federal and provincial government employees depends on the age, number of qualifying years of service, and the average of the last 12 months of salary drawn. The IPD of Pakistan, only on account of unfunded civil service pension liabilities, is roughly 26% of GDP. As in India and other countries in South Asia, the IPD of the state is not explicitly reflected in the financial statements of the government. Further, although this IPD is perhaps modest compared to the IPD of several countries of the Organisation for Economic Co-operation and Development (OECD), it is significant as it is based on the pension benefits offered only to government employees who constitute a small percentage of the overall workforce of Pakistan.

The government implemented a range of parametric reforms to civil service pension provisions for its existing employees in 2001. These included a reduction in the commutation factors, a reduction of the commutable proportion of the gross pension to 40% and thereafter to 35% in 2005, the abandoning of pension benefit restoration, and the reduction of the maximum pension from 77% to 70%. These revisions were implemented along with an upward revision of salary scales ranging between 50% and 60%. The Pakistan Cabinet decided to establish an actuarial office in October 2002 after its decision to examine a proposal to bring new government employees into a contributory pension arrangement. Pakistan also established an inter-ministerial pension reform working group (PRWG) in 2004, which provided a direction for the civil service pension reform jointly with the Actuarial Office in 2005. While this has been widely discussed and some preliminary work has already been undertaken, the government is yet to announce an implementation date for this proposed reform.

Employees of private sector firms with five or more workers are compulsorily covered by a contributory, defined benefit pension program administered by the Employee Old Age Benefit Institution (EOBI). Employers contribute 5% of wages while employees are required to contribute 1% of wages toward this pension program. The EOBI assures a minimum pension of PRs3,000 ($35) to retirees with a vesting period of 15 years. Around 4.1 million active workers, or 35.9% of the formal sector workforce excluding government employees, are covered by this defined benefit pension benefit. The scheme has 365,084 pensioners.

The government is seeking to provide benefits that achieve roughly a 2% annual accrual rate in its defined benefit schemes for those in the government and public sectors as well as for private sector workers covered by the EOBI. It is not clear however that these contributions will adequately cover the defined benefit program. At current levels of contributions and benefits, and as per a statutory actuarial valuation in 2008, the EOBI scheme will become insolvent in 2028–2029. As for its counterparts in India, Nepal, and Sri Lanka, the EOBI faces considerable challenges in scheme administration and recordkeeping, as well as in enforcing compliance for contribution collection and benefit payouts. In parallel with a debate around administrative improvements at the EOBI is an emerging view to expand the eligibility and coverage of the EOBI benefits to the presently excluded workforce.

Firms with 20 or more employees are required by the EOBI to provide a gratuity benefit of one month's wages for every completed year of service. This gratuity benefit is payable as a lump sum upon retirement or job change. Such employers have an option to provide a provident fund benefit to their employees. Although provident fund contribution rates are not specified by the EOBI, they generally stand at 9% of wages. Employers are required to match employee contributions to the EOBI. Most provident fund savings are however withdrawn and consumed during job changes before retirement. As is the case in India, Nepal, and Sri Lanka, Pakistan does not have a specific regulator for occupational retirement benefits. Employee benefits are driven largely through the Tax Law without active monitoring of either benefits, funding, or investment regulations.

Nearly three in every four workers in Pakistan are employed in the unorganized sector and are excluded from formal pension provisions to protect against old-age poverty. A 2007 report produced under an ADB-funded technical assistance project linked to the Financial Market Governance Program of the Government of Pakistan has proposed a multilayered approach to a comprehensive pension provision for all citizens (ADB 2008). The project proposed that the government establish a cohesive, equitable, and universal national pension policy that creates parity between old-age benefits for the government, private, and informal sector workforce. This proposed reform would be implemented in three broad areas including (i) reform of the pension benefits and the general provident fund of federal civilian, military, and provincial government employees; (ii) parametric reforms and administrative improvements to the benefit program for private sector employers, including the current gratuity and provident fund mandate of those who are contributing to the EOBI; and (iii) the creation of a citizens' pension for the roughly 90% of Pakistan's labor force that is not covered by either the current government sector benefits or the private sector benefit programs.

Against this backdrop and since 2002, the government has been evaluating a broad-based, defined benefit and defined contribution benefit that may either be mandatory or voluntary. In 2005, the government introduced a system of licensed pension fund managers, also called the Voluntary Pension Scheme, that are supervised and regulated by the Securities and Exchange Commission of Pakistan Pension Wing. As the name suggests, this is a contributory scheme in nature, under which individual contributions are made toward an "Approved Pension Fund." Since 2005, it has been offered to the public through four such approved asset management companies. Each asset manager offers subscribers three product options with different risk–return profiles. This scheme requires an employer contribution of at least 50% of the maximum limit set by the Income Tax Office. The remaining contribution under this prescribed limit is paid by the employee.

As is the case of India's NPS, the Voluntary Pension Scheme in Pakistan is yet to achieve meaningful voluntary coverage for the target workforce for a variety of reasons, including low public awareness and low financial literacy. The tax treatment of retirement benefits under the Voluntary Pension Scheme (Exempt-Exempt-Tax for phased withdrawals and Exempt-Exempt-Exempt for lump-sum withdrawals) is skewed toward lump-sum withdrawal and needs to be reviewed in order to mitigate the longevity risk of subscribers.

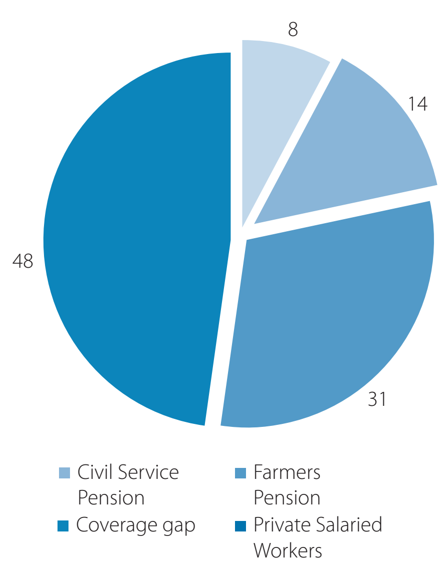
The Benazir Income Support Programme is a means-tested, national social assistance program that provides cash transfers to eligible families below the poverty line. Benefits under this scheme include long-term loans, vocational training, and health insurance to members of eligible families. The scheme was initially funded through grants by international donors and is presently funded through general tax revenues. During 2009–2010, $419 million was allocated toward this social assistance program.

Sri Lanka

The demographic transition is already fairly advanced in Sri Lanka. In 2009, the elderly in Sri Lanka was estimated at 11.8% of the total population and is projected to grow exponentially to 18% by 2021 and to 27.8% by 2050 (UN 2009).

Roughly 13 million individuals, or nearly two-thirds of the total population of Sri Lanka, are aged between 18 and 65 years. Of these, approximately 3 million paid workers are salaried employees in formal labor markets including the government and larger private sector firms. Around 4.7 million workers are employed in the informal sector while over 2 million persons are unpaid family members. Formal pension programs cover roughly 10% of the workforce (Figure 2) while a majority of the remaining workforce is employed in the informal sector and is excluded from formal pension and retirement benefit programs.

Figure 2 Pension Coverage in Sri Lanka
(% of total workforce)



Source: HelpAge International (2008).

The 1.3 million government employees and 0.46 million government pensioners are covered by a noncontributory, tax-funded defined benefit pension scheme that produces a replacement rate of roughly 85% with survivor benefits at a current annual cost of 2% of GDP. Retirement benefits for civil servants are exempt from tax and are available at the age of 55 for men and 50 for women. All government employees are required to claim their pension benefits by age 60. Unlike the civil service pensions in most other countries in South Asia, the Sri Lankan civil service pension is not inflation indexed. Inflation indexed pensions are limited to Members of Parliament and employees of the Sri Lanka Central Bank. There is a separate, contributory Widows', Widowers' and Orphans' Pension Scheme that provides benefits to survivors of public sector workers who die in service. The government has recently launched an "e-pension" initiative that will technology-enable the employees and pensioners databases and relevant departments and streamline the pension payout processes.

Employees of large private sector firms are covered on a mandatory basis by a contributory provident fund arrangement managed by the Employees' Provident Fund (EPF) established through legislation in 1958. Under this arrangement, employees are required to contribute 8% of wages toward their provident fund while employers are mandated to contribute 12% of employees' wages into a notional account that is invested almost entirely in government securities. As is the case with civil service pensions, benefits are paid out to EPF subscribers at the age of 55 for men and 50 for women. In 2006, there were some 11.3 million member accounts of which only 2 million were active (HelpAge International 2008). Retirement benefits are paid in lump sum and hence do not adequately address the longevity risks of beneficiaries. The EPF is responsible for general administration of the fund including enforcement of compliance by employers.

The Central Bank of Sri Lanka is the custodian and manager of the provident fund assets. The EPF controls the largest stock of savings in the country (13.7% of financial savings), and plays a dominant role in public policy, not only as a potential source of retirement income for its beneficiaries, but also as the major financier of the government's fiscal deficit. In 2009, the EPF delivered a return of 13.75% to provident fund contributors. The government is presently contemplating the introduction of a new contributory pension program with a contribution rate of 13% of wages for the non-pensionable salaried workforce including bank employees. Sri Lanka also has several small approved private provident funds and private contributory pension schemes created by firms that have opted out of the EPF.

A range of voluntary, contributory pension schemes are available to the 4.7 million informal sector workers in Sri Lanka. These include the Farmer's Pension Scheme (1987) with roughly 1 million accounts, and the Fisherman's Pension Scheme (1990) with around 50,000 accounts. Both schemes are regulated by the Agricultural and Agrarian Information Board. These schemes are based on modest contribution values. Subscribers contribute on a half-yearly basis and contributions range from SLRs130 ($1) per month for workers who start contributing at the age of 18 to SLRs690 ($6) per month for individuals who are enrolled at the age of 55. Payouts begin at the age of 60.

The self employed have the option of joining the Self-Employed Persons Pension Scheme that was introduced in 1996, and has around 300,000 accounts and 6,000 pensioners. This scheme is managed and regulated by the Social Security Board. Over the last 5 years, the Social Security Board has launched several new, occupation-based pension schemes for certain categories of the self-employed workforce. These include a scheme for migrant workers (2007), medical doctors (2005), small and medium-sized entrepreneurs (2006), artists (2008), journalists (2007), small scale tea producers, (2005), handloom manufacturers (2004), and beauticians.[6] The government also administers some welfare programs, such as Samurdhi and Public Welfare Assistance Allowance, that provide cash transfers to households that have a monthly income of below SLRs1,500 ($14).

As is the case in most South Asian countries, the formal retirement arrangements in Sri Lanka have a limited impact on old-age poverty as they are restricted to a tiny proportion of the paid workforce, and also because existing formal provisions do not adequately address the longevity risk of the workforce. In this context, the government was also considering a proposal

6 No information is available on enrollment in these programs but affiliates, for the moment, are believed to be small.

to introduce a universal pension linked to the national poverty line (currently around $27 per month). This is intended to provide the elderly with a benefit that is approximately three times as large as the benefits offered by the informal sector contributory pension arrangements schemes. Some studies estimate the cost of a universal, tax-funded social assistance program to persons over the age of 60 years at roughly 4% of GDP.[7]

[7] For example, see *Tackling Poverty in Old Age: A Universal Pension for Sri Lanka*, HelpAge International, 2008.

III. South Asia Pension Forum: Proposal

Rationale and Role

Income insecurity in old age is rapidly emerging as one of the most important causes of poverty in South Asia. The absence of an inclusive, equitable, and sustainable pension policy that provides universal access to a dignified retirement is beginning to impose significant social and fiscal stress on both workers and governments in the region. It is not surprising therefore that almost all countries in the region are actively contemplating a range of reforms to existing pension programs while simultaneously seeking to design new arrangements aimed at achieving broad based social protection to reduce vulnerability in old age for their larger excluded workforce. Over time, and if the design and implementation of pension policy is based on sound principles, pension reforms in South Asia could help reduce potential future budgetary pressures by increasing self-provision, contribute to economic growth by increasing aggregate long-term savings, provide greater depth and liquidity to financial markets, and facilitate labor mobility through fully vested portable pension accounts.

As various countries evaluate alternative reform proposals, it is possible for them to draw upon the enormous knowledge and experience that has been developed internationally in the field of pension system design, reform, and implementation. For example, in numerous countries, defined benefit systems and tax-financed social security solutions that appeared politically attractive at initiation have collapsed in the face of the demographic transition. In parallel with a global movement toward privately managed defined contribution pension arrangements, there are strong emerging concerns about fees and expenses and about building incentive-compatible and scalable mechanisms that adequately mitigate market, longevity, and inflation risks.

However, lessons from such global experiences with pension reforms cannot be easily applied to countries like Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka due to important differences in their initial conditions. For example, unlike most countries of the Organisation for Economic Co-operation and Development (OECD), South Asian nations have a large young workforce, a predominantly informal labor market with low incomes and modest savings capacities, a significant pension coverage gap, low banking and formal finance penetration, a tiny tax base and a limited capacity for large scale fiscal transfers, low literacy and low financial literacy, a limited potential impact of tax incentives on voluntary coverage, and inadequate administrative and governance capacity to enforce pension contributions from millions of excluded workers over multiple decades. These differences significantly limit the portability of key lessons from OECD countries to developing countries in South Asia.

On the other hand, countries in South Asia are remarkably similar in terms of demography, economic strength, history, culture, legal and political structures, and challenges of governance. Hence lessons from both success and failure are highly portable from one country to another within South Asia. For example, the drafting of pensions legislation in each of the countries can greatly benefit from a study of the texts of legislation and a candid appraisal of its strengths and weaknesses in other countries. Similarly, many recent efforts on pension reforms in South Asia may have direct lessons for other countries in the region. This is reminiscent of the regional role models which were effective in fostering faster learning of good economic policies in East Asia.

As a measure to effectively address the emerging pension reform needs of the South Asian region, this paper proposes the establishment of the South Asia Pension Forum (SAPF). The SAPF would foster ongoing policy dialogue and technical cooperation on pension reforms between countries in the region. It would also serve as a dedicated resource hub to provide expert advisory services, research, training, information, and technical assistance to countries in South Asia in the areas of pension reform, system design, and implementation planning. It would be a window through which both new ideas and lessons from countries with mature pension programs can be evaluated and adapted in the context of pension reforms in South Asia.[8]

In general terms, it is proposed that the SAPF should play a proactive role in addressing the following common challenges and considerations of the countries in the region:

Demand-side perspective for pension reform. Several important initiatives aimed at addressing the challenges of pension exclusion are already under way in several countries in the region. However, the number and heterogeneity of these arrangements is such that it is not possible to do justice to individual segments without dedicated study. An optimum policy, regulatory, and business response to challenges of pension and social security exclusion therefore requires a sophisticated and segmented demand-side view of pension markets. This would involve periodic household level surveys and studies on incomes and financial behavior, savings motivations and preferences, and retirement expectations and outlook across urban and rural locations and across income and occupational distribution. These datasets would provides the policy and business communities in South Asian countries with a scientific insight into financial services access and utilization and about the size and profile of the latent demand for retirement and insurance products—especially among the working poor. Such primary research and analysis would also better inform targeted policy formulation, as well as business investments in product and communications design, outreach, technology, and sales and service delivery networks—especially those targeting the more vulnerable, low income informal sector workforce.

Financial literacy. Achieving broad-based voluntary coverage of formal pension arrangements in South Asia will also require a significant enhancement of knowledge among households in terms of financial planning and the importance of disciplined retirement savings over multiple decade horizons. Most SAPF member countries are faced by a gigantic gap on this front. The challenge is further compounded, as attempts to bridge the pension coverage gap require a behavioral change by millions of individual workers in a situation of low literacy, low financial literacy, low incomes, and modest savings capacities. If excluded workers do not adequately comprehend the importance of retirement planning and long-term savings,

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8 Key pension sector stakeholders from South Asian countries including policymakers, regulators, pension administrators, economists, and heads of finance firms with whom this concept was discussed during field visits to Bangladesh, India, Nepal, and Sri Lanka in 2009 and subsequently during a South Asia level stakeholder workshop at ADB headquarters in September 2010, have expressed keen interest in the SAPF concept. There is broad-based consensus that ongoing counterpart dialogue among countries with similar initial conditions will enable stakeholders to observe and learn from the experiences of other countries in the region. Such stakeholder feedback has been a primary input in formulating the objectives, scope, structure, and activities of the proposed SAPF.

they would be unwilling to divert a meaningful share of their current consumption toward old-age needs. Financial illiteracy is therefore likely to be a fundamental hurdle to meaningful pension inclusion and to building a mass market for voluntary pension products especially among the working poor in South Asia. Governments will need to produce a range of public goods including pension literacy tools and promotions programs and an effective field strategy for mass-scale delivery of financial literacy.

Enhanced institutional capacity. Pension reforms will often impose complex and important policy questions and choices for each country. For example, policymakers may be required to assess the merits, future fiscal cost, and behavioral impact of conditional cash transfers as a tool to encourage long-term retirement savings especially by younger low income workers who cannot afford a meaningful pension contribution. Similarly, policymakers may wish to evaluate the role and structure of reverse mortgage products in providing retirement incomes to those already nearing retirement, strategies for achieving vibrant and actuarially fair and efficiently priced annuity products, or optimum design for social assistance programs targeting the current old and the lifetime poor. In order to effectively review such choices in the context of target outcomes, prevailing fiscal constraints, and the existing pension policy framework, and to design and implement scalable and sustainable social security solutions, each South Asian country will require a significant enhancement of local capacity and knowledge at a variety of levels. In this process, governments will need to work actively with regulators, research institutions and think tanks, finance experts, and the media in creating a broad-based consensus on pension reforms and for proactively managing the reform program. Optimum capacity will also be required for ongoing monitoring and evaluation and for assessment of the impact of reform efforts on bridging the pension coverage gap.

Research and pilot testing innovative and scalable solutions. Globally, as well as in South Asian countries, rapid advancements in technology, telecommunications, and banking outreach have had a powerful impact on the ability of governments to deliver targeted cash transfers to the poor, including pension benefits to the elderly. Simultaneously, technology is reshaping financial services access, especially by the poor with modest contribution values and account balances. The delivery of national cash transfer programs including India's employment guarantee scheme and the national health insurance program, as well as the Invest India Micro Pension Services "micro-pension" model has become possible by linking banking, postal, and microfinance outreach with innovative technology solutions. Countries in South Asia should aim to embrace scalable solutions and new product ideas that use innovative, market-led solutions based on new technologies including mobile payments in designing and implementing new pension programs. However, prior to a mass-scale rollout, countries should plan to undertake a scientific research-led effort to pilot-test these scalable solutions.

Precedence

There are several examples of institutional arrangements for technical cooperation between countries in the areas of pension reforms and social security. These include the OECD Working Party on Private Pensions, the International Organisation of Pension Supervisors (IOPS) and the International Social Security Association (ISSA).

The OECD Working Party on Private Pensions was established to review private pension systems in member countries, analyze policy and technical issues, formulate policy recommendations, and promote policy dialogue with non-OECD countries. Members of the Working Party on Private Pensions include governments of OECD member countries. The body is funded through OECD organization-level dues and targeted support for projects from other OECD entities or through external support. The body has a dedicated secretariat staffed by the OECD Directorate for Financial and Enterprise Affairs. The Working Party on Private Pensions collects global pension statistics and undertakes measurement and monitoring of the private pension industry. It publishes working papers on finance, insurance, and private pensions, and provides analysis and background on industry developments including structural issues and financial policy. The activities of the Working Party cover a range of issues in private pension systems including risk management, governance, investments, benefit protection, and financial education. It develops principles and guidelines for pension policy, regulation, and supervision, at times in coordination with the IOPS. Examples of the Working Party's best practice guidance include core principles of occupational pension regulation, and cover areas like effective regulation and supervision, establishment of pension entities, funding and asset management, protection of member and beneficiaries' rights, and governance and supervision methodology.

The IOPS was established in July 2004 and includes 60 members from around 50 countries.[9] The IOPS Secretariat is located within the OECD in Paris. It was established in order to improve the quality and effectiveness of the supervision of private pension systems across the world, thereby enhancing their development and operational efficiency, and allowing for the provision of a secure source of retirement income in as many countries as possible. The IOPS aims to serve as the standard-setting body on pension supervisory matters. It seeks to promote international cooperation on pension supervision and facilitate international dialogue and exchange of information between pension supervisors and other relevant stakeholders, including policymakers, researchers, and the private sector. The IOPS participates in the work of relevant international bodies in the area of pensions, including joint activities to improve statistical collection, analysis, and dissemination of research, information, and data. The IOPS has established institutional affiliations with international organizations involved in pension supervision and policy development, including the World Bank, the International Association of Insurance Supervisors, the ISSA, and the International Monetary Fund. The IOPS devises principles of private pension supervision and recommendations on good practices for financial education relating to private pensions. The organization is funded by an annual membership fee from three categories of members. These include pension supervisors as governing members, associate members that include governmental or international authorities responsible for pension regulation or the establishment of pension policy with an interest in pension supervision, and observer-status members that include other entities interested in pension supervision such as research organizations, industry and professional bodies, financial institutions, and professional firms. The IOPS produces guidelines for supervisory intervention, assessment of pension funds, private pension supervision, licensing of pension entities, and risk-based supervision. The IOPS also devises good practices in risk management of alternative investments by pension funds, and produces topical reports and the Journal of Pension Economics and Finance.

9 For more information on the IOPS, see: www.iops.org

The ISSA, headquartered at the International Labour Organization in Geneva, was established in 1927 to provide information, research, expert advice, and platforms for members to build and promote dynamic social security systems worldwide.[10] The ISSA comprises 339 social security agencies and organizations from 151 countries. Government departments or agencies including (non-international) federations that administer social security programs are affiliate members of ISSA. Other institutions that are not directly involved in the administration of social security programs but whose objectives are compatible with those of the ISSA may be admitted as associate members. The current program priorities of ISSA include administrative and operational efficiency, social security reform processes, extension of social security coverage, sustainability challenges caused by demographic changes, and promotion of dynamic social security at the international level. The ISSA has 11 technical commissions that provide networks for specialists to collaborate in advancing discussions on technical social security issues and foster research and analysis on specific areas of social security including pensions, employment policies, family benefits, sickness insurance, invalidity, mutual societies, prevention, and investment.

Mission

"To assist and enable countries in South Asia in developing and implementing an inclusive and equitable pension policy framework that is both sustainable and scalable and provides a secure source of retirement income to all citizens"

Goals

The SAPF aims to:

(i) promote regional cooperation on pension policy, supervision, implementation, and operational issues, and facilitate dialogue between stakeholders within South Asian and other countries including policymakers, pension regulators and administrators, economists, research institutions, and the private sector;

(ii) serve as a resource nucleus for information, knowledge, data, research, expertise, and technical assistance on pension reforms and social security in South Asia;

(iii) provide an objective regional forum for ongoing exchange of information, experiences, and ideas on pension system design, reform, implementation, and voluntary coverage between countries in South Asia;

(iv) encourage and enable the development of existing and new institutions in the areas of pensions and social security research and to undertake collaborative activities to improve data and information collection, analysis, and dissemination; and

(v) commission and produce new research, publications, and periodicals on pension policy, regulatory, governance, and implementation issues specific to South Asian countries and to facilitate the dissemination of such research in cooperation with key stakeholder entities.

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10 For more information on the ISSA, see: www.issa.int

Activities

The following recommended activities and institutional framework of the proposed SAPF are derived from an assessment of the priorities and needs of key stakeholders, as well as an evaluation of gaps in the institutional and informational arrangements on pension reforms and implementation in the South Asian region:

(i) Dedicated SAPF resource secretariat. Stakeholder feedback highlights the need for a dedicated SAPF secretariat that will serve as an anchor for all SAPF actions. It is recommended that for the first 3 years, the SAPF Secretariat be located in Sri Lanka. It should include full-time advisory, research, training, and administrative staff. Domain experts from each country in the region (Bangladesh, Bhutan, India, the Maldives, Nepal, and Pakistan) should be invited on short-term fellowships or deputation assignments to the SAPF Secretariat. The secretariat should affiliate and collaborate with government departments, think tanks, regulators, pension administrators, research institutes, and individual experts from South Asian and OECD countries. The SAPF Secretariat will become the key resource nucleus for all information, knowledge, data, research, and expertise in the areas of pension reforms and social security. In this context, the secretariat will establish a dedicated SAPF website and a South Asian pensions e-group that will be used to distribute research, information, and data to the South Asian and global pensions community.

(ii) Off-the-shelf advisory services and technical assistance. Each country in the region is somewhat constrained in terms of local institutional and research capacity for pension policy analysis and system design. Normally, technical assistance projects funded by ADB, the World Bank, and other multilateral aid agencies are a useful tool for building local capacity and assisting countries in pension reform design and implementation planning. However, technical assistance projects usually span several months and require significant time for advance planning and procurement. The nodal pension offices of South Asian countries will be able to source off-the-shelf information, technical assistance, research, and advisory services through the SAPF Secretariat for the purposes of pension policy analysis, system design, feasibility studies, implementation planning, and impact evaluation.

(iii) Research, policy analysis, and public goods. The SAPF Secretariat will produce and commission a range of research papers, white papers, and policy briefs in collaboration with global pension economists and domain experts from member countries. The secretariat will distribute these papers through its website. It will publish an annual book on South Asian pension reforms containing new research papers from each member country. The SAPF will also produce a quarterly newsletter on pension economics and reforms as a way to update member countries about new developments in South Asia and more generally. The SAPF Secretariat will collaborate with universities and research institutes worldwide on new research projects. All SAPF research output shall be placed in the public domain.

(iv) Pilot-testing new, scalable solutions. The SAPF research staff will work closely with the pensions policy, regulatory, research, and business communities in South Asian countries and with global domain experts to develop and pilot-test a range of scalable and innovative market-led solutions and ideas in the areas of technology solutions and payments, outreach and access, transaction costs and charges, consumer knowledge, and savings behavior. The experience with each pilot project will be documented and shared with member countries.

(v) Annual and topical consultations. The SAPF Secretariat will assist institutional capacity building and simultaneously ensure a high level of visibility on pension reforms through ongoing consultations and meetings. These will include quarterly topical workshops on pension policy, regulatory, business, and implementation issues with participation by stakeholders from each country in the region. Workshops will be hosted by rotation in a different country as a way to maximize local stakeholder participation. The SAPF Secretariat will also host an annual residential pension policy and reform conclave. New research papers commissioned by the SAPF during the year will be presented at this conclave. This forum will be an opportunity to bring the pensions and financial policy, business, media, and research communities from each country under one roof to exchange ideas and information on pension reforms and social security issues. This conclave will also be a forum for deciding the research priorities and agenda for the SAPF for the following 12 months in consultation with key stakeholders from member countries.

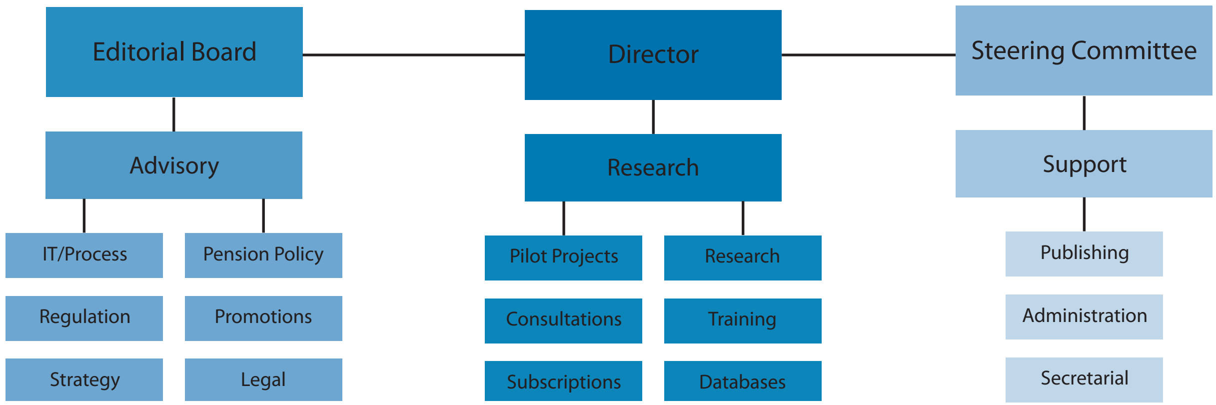
(vi) Training and institutional capacity building. Training and institutional capacity building efforts in the pensions and social security area would also have a higher impact if organized on a regional basis within South Asia. In this context, the SAPF will run a series of short-term courses on pension system design, reform, implementation, regulation, and governance issues. Leading experts from Asia and other countries will serve as faculty for these programs. Nominees of government departments, regulatory bodies, pensions administrators, practitioners, and economists will attend these courses. The SAPF Secretariat will collaborate with leading pension research institutes to establish a formal certificate program for these courses.

(vii) Information and Databases. The SAPF Secretariat will also work with a key local research institute or think tank from each member country to produce a pensions and social security encyclopedia for South Asia. This will be hosted on the SAPF website and will contain a standard description of existing formal pension arrangements in each member country, the policy outlook, and new efforts to design and implement pension reforms. The SAPF Secretariat will also collate information and data related to pensions and social security coverage and assist stakeholders in each country in the region on developing and analyzing new primary household surveys on incomes, financial behavior, and retirement outlook. These datasets and surveys will serve as raw materials for further analysis and research on issues of social security and pension reforms and for producing new consumer-centric financial literacy tools targeting both formal and informal sector workers.

(viii) Peer review and research guidance. The research agenda and activities of the SAPF Secretariat will be guided and peer-reviewed by a qualified editorial board that will include key stakeholders from each member country, and leading pension sector experts from both South Asian and other countries.

(ix) Initiation and implementation. Stakeholder feedback strongly suggests that ADB should take the lead in establishing the SAPF Secretariat. Also, ADB should sponsor the

Figure 3 South Asia Pension Forum Secretariat Organization Capacity and Qualifications



Source: Authors' suggested structure.

initial capital costs of establishing the SAPF Secretariat and its operating expenses for the first 3 years. The management of the SAPF Secretariat may be outsourced by ADB to a credible and qualified pension research and capacity building institution.

The SAPF Secretariat should aim to become self-funded by its fourth year of operation. Thus in its third year of operation the SAPF Secretariat should graduate to a revenue model based on institutional memberships and subscriptions by pension regulators and administrators, financial institutions, multilateral and bilateral aid agencies, think tanks, and research institutes from each member country. Private sector stakeholders (including pension funds, insurance companies, and consulting firms) could also be invited to participate as members of the SAPF and to subscribe to SAPF research output. Revenues from annual memberships and workshops, training courses, and periodicals should offset direct payouts on commissioned research, pilot projects, consultations, databases, and publishing.

Organization Structure

SAPF activities will be supervised by a full-time director and implemented by full-time advisory, research, and administrative staff (Figure 3). The technical (advisory and research) staff will include a limited number of domain experts on deputation from government offices, regulatory bodies, research institutes, and think tanks in South Asian countries.

Editorial Board

The SAPF director will report to an editorial board that will include leading domain experts from South Asian and other countries, as well as representation from ADB. The board will formulate and supervise the SAPF annual research and publishing agenda, pilot projects and studies, surveys, and peer review research output. The Editorial Board will include one senior pension economist from each member country. The board will meet every quarter to review progress on the agreed research agenda, review expenses, approve budgets for new projects or assignments, and assess completed tasks and research outcomes.

Steering Committee

ADB will invite one representative from the relevant nodal Ministry responsible for pension policy in each member country onto a steering committee. The Steering Committee will provide the SAPF Editorial Board and technical staff with an insight into policy priorities and the direction of pension policy formulation in each country. This will ensure that the SAPF Secretariat is adequately geared to provide suitable technical and research support to member countries on pension reform and implementation. The Steering Committee will meet on a six-monthly basis—once during an SAPF annual meeting to finalize the research agenda and once during the annual SAPF Conclave.

Members

Members will include regulators, government departments responsible for pension and social security policy, pension and provident fund administrators, multilateral bodies responsible for international standards in pensions and social security (including the OECD, the International Labour Organization, the ISSA, the IOPS, and the World Bank), and nodal research institutes and think tanks involved with pension and public policy research and analysis. Entities with research or business interests in pension reforms and implementation including research institutions, industry and professional bodies, financial institutions, regional and global pension funds, consulting organizations, and professional bodies will also be invited to participate as members of the proposed SAPF. The SAPF members will participate in SAPF seminars and conferences and will receive a range of information, data, research papers, and periodicals produced by the SAPF in print and/or electronic form (including through the SAPF website). Members will be expected to pay an annual membership or subscription fee to the SAPF Secretariat, to be set by ADB, in consultation with the Steering Committee, the Editorial Board, and the SAPF director.

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South Asia Pension Forum: Fostering Inclusive and Sustainable Pension Systems in the Region

Income insecurity in old age is likely to be one key cause of increased poverty in South Asia, and setting up systems to avert this crisis should be a central public policy goal of each country. Several countries in the region are therefore beginning to evaluate a range of policy options for pension reforms. Given the remarkable similarity of each country in terms of demography, labor markets, and political structures, lessons from both success and failure in pension policy design and implementation are highly portable from one country to another within the region.

This publication proposes the establishment of a South Asia Pension Forum that is intended to foster and support intensive policy analysis, research, and consultation on pension reforms and social security within the region.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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