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# **Social Security & Pension System in Nepal**

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A

- **Outline of Presentation**

B

- **Brief Introduction to Nepal**

C

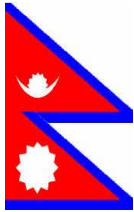
- **Social Security System in Nepal**

- **Pensions System in Nepal**

## **A. Brief Introduction to Nepal**

# Nepal In a MAP of World





# NEPAL



# 1. Brief Introduction to Nepal

## Location

- Latitude 26°22' N to 30° 27' N
- Longitude 80° 4' E to 88° 12' E
- Region South Asia



## Boarder

- Land Locked Mountainous Country.
- China in the North and India in the South, East and West.

## Size

- Area 147,181Sq.Km. (0.3 % of Asia and 0.003 % of World)
- Length 885Km (East to West)
- Width Not - uniform, mean width 193 Km. Average

## Principal Mountain (Peaks).

- The tallest mountain in the world 'Sagarmatha' (Mount Everest 8848m)
- Eight other mountains with more than 8,000 m.

## 2. Demographic Characteristics

Indicators	Unit	Percentage
Total Population	30,986,975	100%
Age 0-14 years: M: 4,989,268+ F : 4,805,381	9,794,649	34.51%
Age 15 to 24 years: M: 3,521,421+ F 3,484,203	7,005,624	19.97%
Age 25 to 54 Years: M 5,273,079+ F 5,775,404	11,048,483	33.9%
Age 55 to 64 years: M 847,431+ F 886,760	1,734,191	5.95%
Age above 65 years : M 648,917 + F 755,111	1,404,028	5.27%
Annual Growth Rate	%	1.35%
Life Expectancy (M/F)	Year	69.37/72.5
Sex Ratio (males per 100 females)		96
Total Dependency Ratio youth dependency ratio: 55.4 % elderly dependency ratio: 8.6 %	%	64
Proportion of Urban Population	%	19.00
Population having own resident	%	85.26
<u>GDP per capita</u>	US\$ (2014)	1500.00

## **B. Social Security System in Nepal**



# **1. History of Social Security in Nepal**

- Army Provident Fund (Sainik Drabya Kosh) –1934 (BS1991)
- Non Contributory Pension Schemes for Government Employees – 1936 (BS1993)
- Civil Servant Provident Fund –1944 (BS 2001)
- Employees Provident Fund –1962 (BS 2019)
- First appeared in planning documents in 1985.
- Citizen Investment Trust – 1990 (BS 2047)
- Social Security Allowance to Elder Citizen –1994 (BS 2051)
- Concept of Retirement Fund by Income Tax Act –2001 (BS 2058)
- Social Security Tax –2009 (BS 2066)
- Social Security Fund – 2009 (BS 2066)

## **2. Current Legal/Policy Framework of Social Security**

- Constitution of Nepal – 2015 (BS 2072)
- Employees Provident Fund Act –1962 (BS 2019)
- Citizen Investment Trust Act – 1990 (BS 2047)
- Civil Servant Act – 1993 (BS 2049)
- Civil Servant Regulation – 1993 (BS 2049)
- Labor Act and Regulation – 1991/92 (BS 2048/49)
- Bonus Act – 1974 ( BS 2030)
- Income Tax Act –2001 (BS 2058)
- Senior Citizen Act – 2006 ( BS 2063)

### 3. Structural Provision of Social Security

Particular	Scheme
<b>Ministry of Federal affairs and Local Development</b>	Old age Pension/Social Security Allowance ( <i>Sr. Citizen, widow, disable, endogenous people....etc</i> )
<b>Ministry of Health</b>	Health Care Support, Maternity Benefits
<b>Ministry of Labor</b>	As per Labor Act and Regulation
<b>Employees Provident Fund</b>	PF Management, Limited Social Security Benefits to its Member ( <i>Accident, Funeral, Maternity, Medicare</i> )
<b>Citizen Investment Trust</b>	Retirement Fund, Group Insurance Scheme
<b>Pension Management Office</b>	Disbursement of Pension of Govt. Employees
<b>Retirement Funds</b>	Retirement Fund Management ( <i>Mostly Limited for own staff</i> )
<b>Social Security Fund</b>	Social Security Tax management ( <i>No any schemes under the SSF till now</i> )

## **4. Social Security Scenario**

- **Coverage - around 2.7 percent of the Population between the age of 15 – 60 years**
- **Contingency and Structured of benefits**
  - **Formal Sector (Gov. Employee, PE, etc.)**
- **Universal schemes**
  - **General people**
    - » Old Age
    - » Disable
    - » Widow etc.
- **No social security schemes**
  - **Informal sector and self employees**

## 5. Social Security Arrangement in Formal Sector

Social Security	Government sectors				Public sectors	Private sector	
	Civil	Teachers	Police	Army	Statutory Corporations, Boards, Educational Institutions , Constitutional Bodies, Autonomous Authorities,	With less than 10 Employees	With 10 or more Employees
Pension	DB DC	DB DC	DB	DB	Similar to the civil Servants. Either Pension or Gratuity ( Mostly Gratuty)	Mostly No Pension	
Gratuity	Service Period less than 20 years					Mostly No Gratuity Except Private Banks	
Provident Fund (PF)	Auto Enrolled with EPF				Auto Enrolled with EPF	No Coverage	Mandatory Coverage

## 6. Social Security Arrangement      contd....

Benefit	for Formal Sectors	for Private sector
Old Age Benefit	Yes	Yes
Medical Benefit	Yes	Limited (only Accidental)
Sickness benefit	Yes	Yes ( Sick Leave –Half Paid)
Accidental Benefit	Yes	Yes
Maternity Benefit	Yes	Yes ( <i>Only for Female Staff</i> )
Disability Benefit	Limited	Yes
Dependent Benefit	Limited	Yes
Unemployment Benefit	No	No (Only retrenchment compensation in some off.)

## 7. Universal Social Security Schemes

### Promotional Social Security for Citizen

- Senior Citizen (70+ ) – NRs 1000 /Month
- Widow Women - NRs 500 / Month
- Marginalized Citizen - NRs 1000 / Month
- Full Differently able - NRs 1000/Month
- Partially Differently able - NRs 300 /Month
- Pregnant women who give child birth  
*(in Govt. Hospital) - NRs 1000*
- Child Protection - NRs 200 /Month  
*(Karnali Zone and Dalit (Lower Cast) of other Zone)*

## 8. Beneficiaries of Universal SS Scheme

Target Group		Fiscal Year			
	Monthly Rate(Rs.)	2011/12 Number	2012/13	2013/14 Number	2014/15 Number
			Number		
Senior Citizen	1000	605021	663693	655737	964292
Senior Citizen (Dalits)	1000	130917	170825	244646	483034
Senior Citizen (Karnali)	1000	14056	29626	28797	
Single Women above 60 years	500	258113	361350	341106	621980
Widows below 60 years	500	536312	219933	313613	
Fully disabled Persons	1000	18252	22138	25492	60656
Partially Disabled Persons	300	6875	6774	6863	
Endangered Indigenous/Ethnic People	500	19299	18825	19223	22899
Children	200	458135	551916	537118	512458
Grand Total		2046980	2045080	2172595	2665319
Free Heart Care Services - for children below 15 & senior citizen above 70 and endangered people					
Free Dialysis Services of Kidney- for endangered & 70+ Senior Citizen					



## 9. Annual Budget and Social Security Exp.

FY	SSE (Rs. In M illion)	Total Budget (Rs. In Million)	%
1999/00	523.23	66272.46	0.8
2004/05	734.05	102560.47	0.7
2005/06	822.18	110889.16	0.7
2006/07	1038.25	133604.61	0.8
2008/09	4265.18	219661.92	1.9
2009/10	7251.67	259689.11	2.8
2010/11	7598.00	323109.22	2.4
2013/14	40802.39	370226.47	
2014/15	60620.18	425780.70	
2015/16	69246.81	693143.62	

Source:Red Book, MOF

## **C. Pension System in Nepal**

# 1. Pension : Introduction

- A **pension** is a fixed sum paid regularly to a person after retirement from service,  
*(usually under pre-determined legal or contractual terms. )*
- Pensions may known as Occupational or Employer pension.
- A recipient of a retirement pension is known as a pensioner or retiree.

## 2. Pension : Historical background in Nepal

- The pension system is non-contributory and the total liability of pension and gratuity is financed from annual appropriation of government budget.
- First Pension scheme was established for the army personnel on 17<sup>th</sup> bhadra 1998 BS. (Pension amount was 1/5 of salary; paid till death)
- Pension for civil servants was established In 14<sup>th</sup> Mangsir 1999. Pension amount was 1/6 of salary. With a minimum of 25 years service for eligibility.
- Civil servants having at least 20 years service are eligible to receive pension for life.
- Amount of pension for civil servants not be less than 50% of basic salary and not more than 100% depending upon length of service, last drawing salary and denominator.
- After democracy in 1950, Pension payments were formalized and paid monthly.
- A non-contributory social pension scheme introduced in 1995 provides allowances to older people aged 75 years (Now 70) and above.
- Allowances to poor widows aged 60 and above is provided.

### 3. Prevailing Laws related to pension

- The Civil Service Act, 1992 & Civil Service Regulation, 1993
- Police Regulation, 2014
- Armed Police Regulation, 2003
- Remuneration, terms of service and benefit for:
  - a. Judges of supreme court, Act 1969
  - b. Applet court and district court judges Act, 1991
  - c. Attorney General Act, 1995
  - d. Members of the constitutional Bodies Act, 1996
  - e. Parliament's Principal Secretary and other terms of services, 2007
- Education service Regulation-2002
- Nepal Health Services Act, 1998
- Parliament Services Act, 1996
- Military Service Regulation, 2012
- Military Act, 2012
- Income Tax Act, 2002

## 4. Structural Provision of Pension

Particular	Scheme
<b>Ministry of Federal affairs and Local Development</b>	Old age Pension/Social Security Allowance <i>(Sr. Citizen, widow, disable, endogenous people....etc)</i>
<b>Pension Management Office</b>	Disbursement of Pension of Govt. Employees ( Civil Servants, Nepal Army, Nepal Police & Teacher)

## **5. Major types of pension in Nepal**

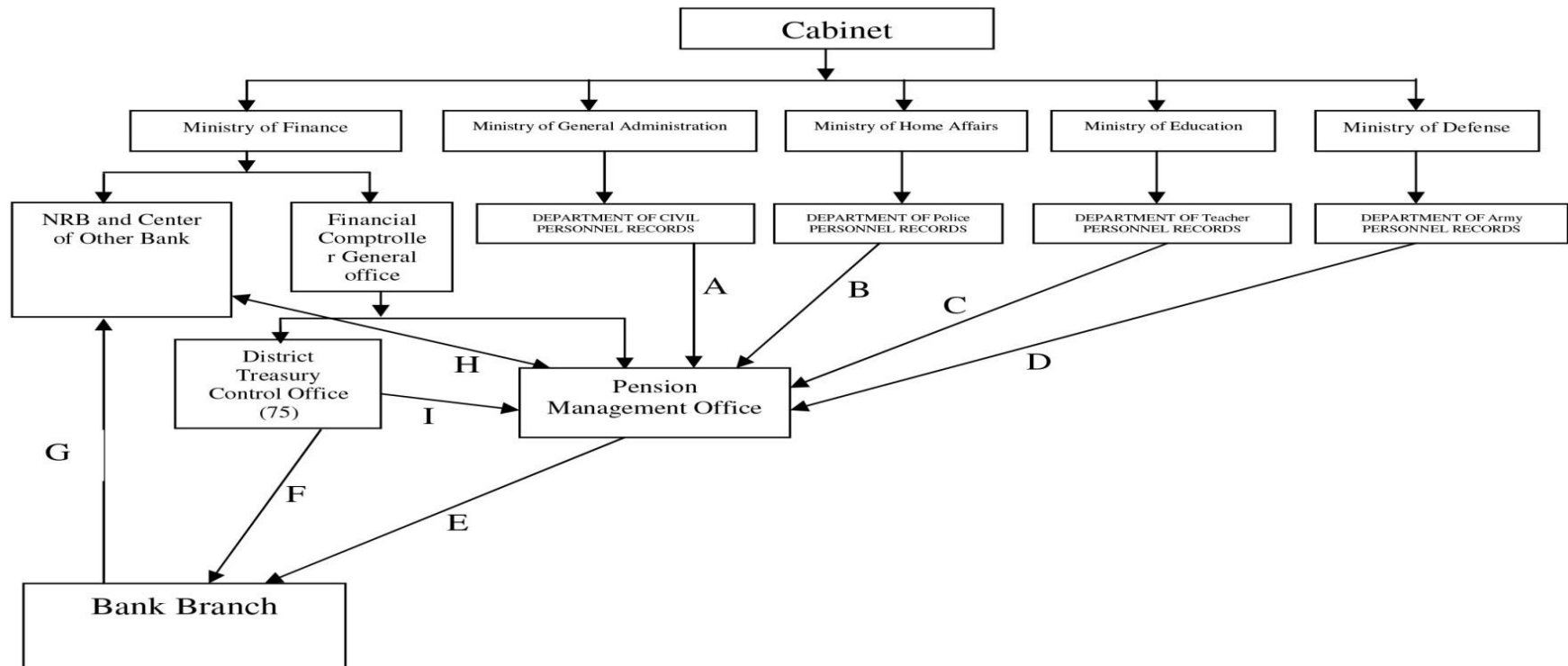
- General pension
- Family pension
- Life time arrears
- Disability Pension
- Extraordinary Family pension
- Education and dependent children allowances

## **6. Agencies involved in Pension Management**

- Department of Civil Personnel Recording
- Department of Teacher Personnel Recording
- Department of Police Personnel Recording
- Department of Army personnel Recording
- Banks (Nepal Rastra Bank, Rastriya Baniya Bank & Nepal Bank Ltd)
- Pension Management Office
- Ministry Of Finance



## 7. Inter-organizational Relationship & Process of Pension



### Note:

A :- Issue of Pension Card of Civil Personnel

B :- Issue of Pension Card of Police Personnel

C :- Issue of Pension Card of Teacher

D :- Issue of Pension Card of Army

E :- Issue order to bank for Pension Payment

F :- Issue of Pension Id for Family Pension of Civil, army and police

G :- Pension Payment Details to Center office of bank

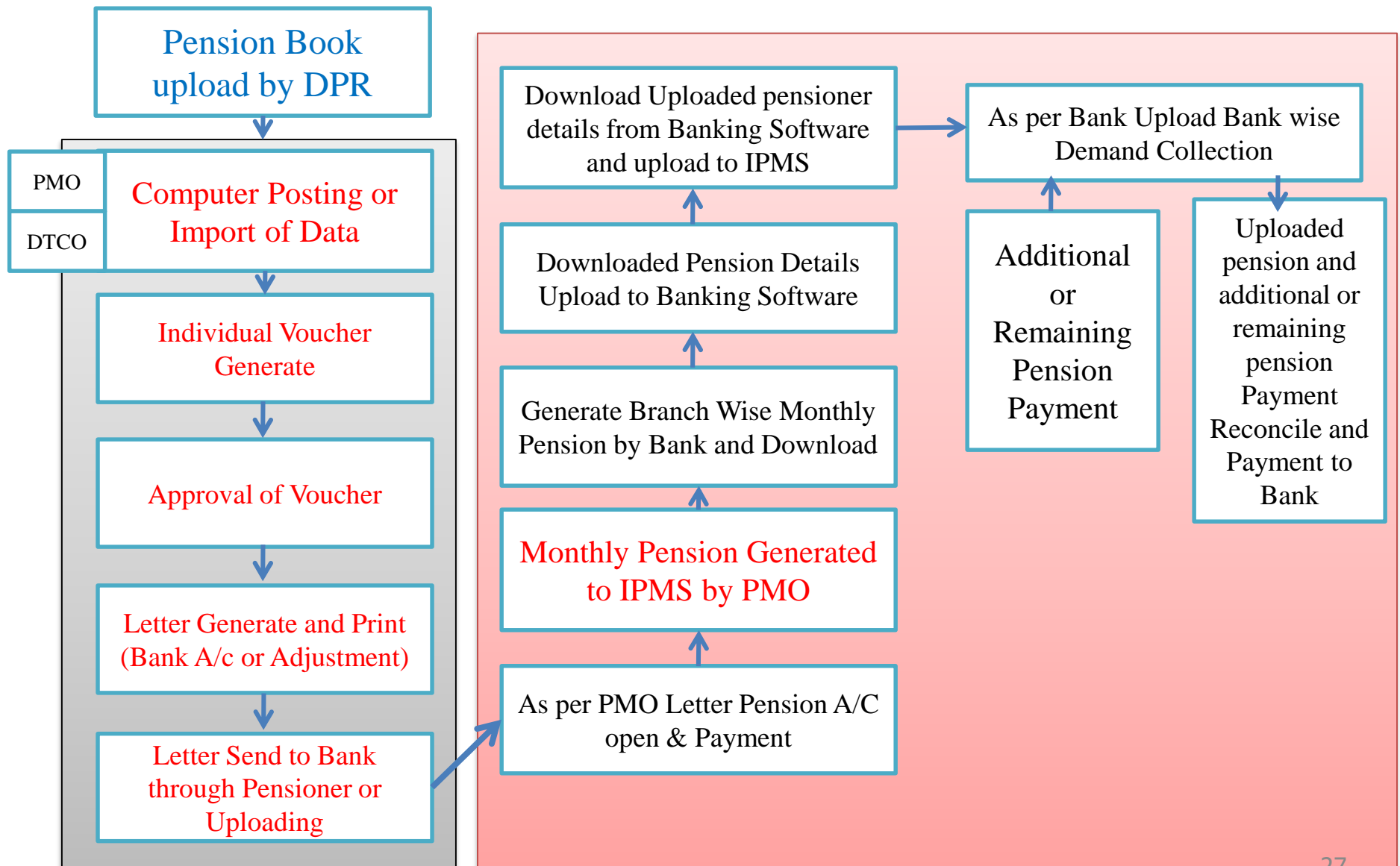
H :- Demand of Pension Payment and Reimbursement to Bank

I :- CC copy send to pension management office of Issue of Pension Id for Family Pension of Civil, army and police

## **8. Process of Pension**

- A. Prepare Personnel Pension books by DOPR
- B. Forward Pension Books to Pension office
- C. Pension Management Office (PMO) Issue order for providing Pension to Bank
- D. Branches of the Banks forward payment statement to concerned head office
- E. Head office of the bank Claim for reimbursement
- F. Verify, reconcile and provide reimbursement to the bank by Pension Management Office (PMO)

## 9. IPMS Work flow Diagram



## 10. Pension Scheme

- **Started in 1936** for army personnel.  
(Later, extended to other government employees.)
- **Covers only government employees and public** enterprises.
- **Non Contributory and non Funded**  
(Entire Pension expenses is charged to **government revenue** or concerned **PEs on cash basis.**)
- Eligibility for Pension: 20 years or more service government employees.
- 16 to 20 years for Nepal Police and Army
- 20 years for Armed Police Force
- If not entitled to pension, gratuity will be paid.
- Termination on disciplinary ground, no pension is paid.
- The **retirement age is 58 to 65 years.**(Could take voluntary retirement After Service Period 16 to 20 in army and police )
- Pension Calculation :  
$$\text{Pension} = \frac{\text{Total service years} \times \text{Last take home salary}}{50}$$

(for lower level employee of military and police divided by 40 ).

# Pension Scheme cont...

- Pension amount will not be less than half of the basic salary and not exceed basic salary of corresponding position.
- Two third amount of salary increment of corresponding position will be increased in pension.
- Additional 10% of the monthly pension amount is also provided as medical allowance to the pension holders over the age of 75 and another 10 percent over the age of 85 .
- Spouses of pensioner entitled to get full pension up to seven years from retirement, then 50% during lifetime.
- Income Tax: pension income gets additional 25% exemption on taxable amount.
- **A pay as you go (PAYGO) or 'Defined Benefit' Pension.**

# 11 Coverage of Pension Scheme

**Pension scheme applied to Formal Sector Only :**

- **Government Sectors**
  - Civil servant.
  - Nepal Army
  - Nepal armed police force and Nepal police
  - Teachers
- **Public Sectors**
  - Employee of Government run Organization

## **C. The Current Economic Scenario in Nepal**

# 1. Public Finance & GDP with their Ratios (%)

(In Rs.10 Million)

Descriptions	Fiscal Year				
	2010/11	2011/12	2012/13	2013/14	2014/15*
GDP	136,695.4	152,734.4	169,264.3	194,162.4	212465.0
Expenditure	29536.1	33916.8	35863.8	43505	61810
Government Income	24574.1	28798.4	33392.7	39631	51482
Budget Surplus(+)/ Deficiency(-)	4962.1	-5118.4	-2471.1	-3895	-10328
Ratio to GDP (In Percent)					
Expenditure	21.6	22.2	21.2	22.5	29.09
Government Income	18.0	18.9	19.7	20.55	24.23
Budget Deficit	3.6	3.4	1.5	2.0	4.86

\* Estimated

Source: Central Bureau of Statistics and Financial Comptrollers General Office



## 2. Economic Growth in last Decade (%)

F/Y	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Average
Agriculture	1.8	1.0	5.8	3.0	2.0	4.5	4.6	1.1	2.9	1.9	2.9
Non Agriculture	5.3	4.4	5.9	4.3	5.4	3.6	4.5	5.0	6.3	3.6	4.8
Industry	4.5	3.9	1.7	-0.6	4.0	4.3	3.0	2.7	6.2	2.6	3.2
Service	5.6	4.5	7.3	6.0	5.8	3.4	5.0	5.7	6.3	3.9	5.4
Economic Growth(Basic Prices)	3.7	2.8	5.8	3.9	4.3	3.8	4.6	3.8	5.1	3.0	4.1

### **3. Information about workers in Nepal**

- Nepal is poor and least developed country
- Around 12 million workforce in Nepal
- High rate of unemployment or underemployment
- Employed workforce in formal sector not covered by social protection law
- 80 percent workers working in informal economy where labour law does not apply.

# 4. Labour Market Structure

- Labour Force Available (15 to 60 years): 14.99 million (54.54% of total population)
- Economically Active Population Rate: 83%
- Labour Force Participation (Involved in economic activity) Rate (+15): 83.4%.
- Labour Force Under Utilization Rate: 30%.
- Employment Rate (+15) as per ILO definition: 97.90%.
- Employees (for wages & salaries): 16.9%.
  - Informal employment (having no any social security): 86.4%
  - Formal employment (having social security): 13.6%
- Self Employees (Own business or Profession): 83.1%.
- Labour Force Involved in Foreign Employment: 1.6 million
- Sector wise Employment:
  - Agriculture: 73.90%
  - Non Agriculture: 26.10%

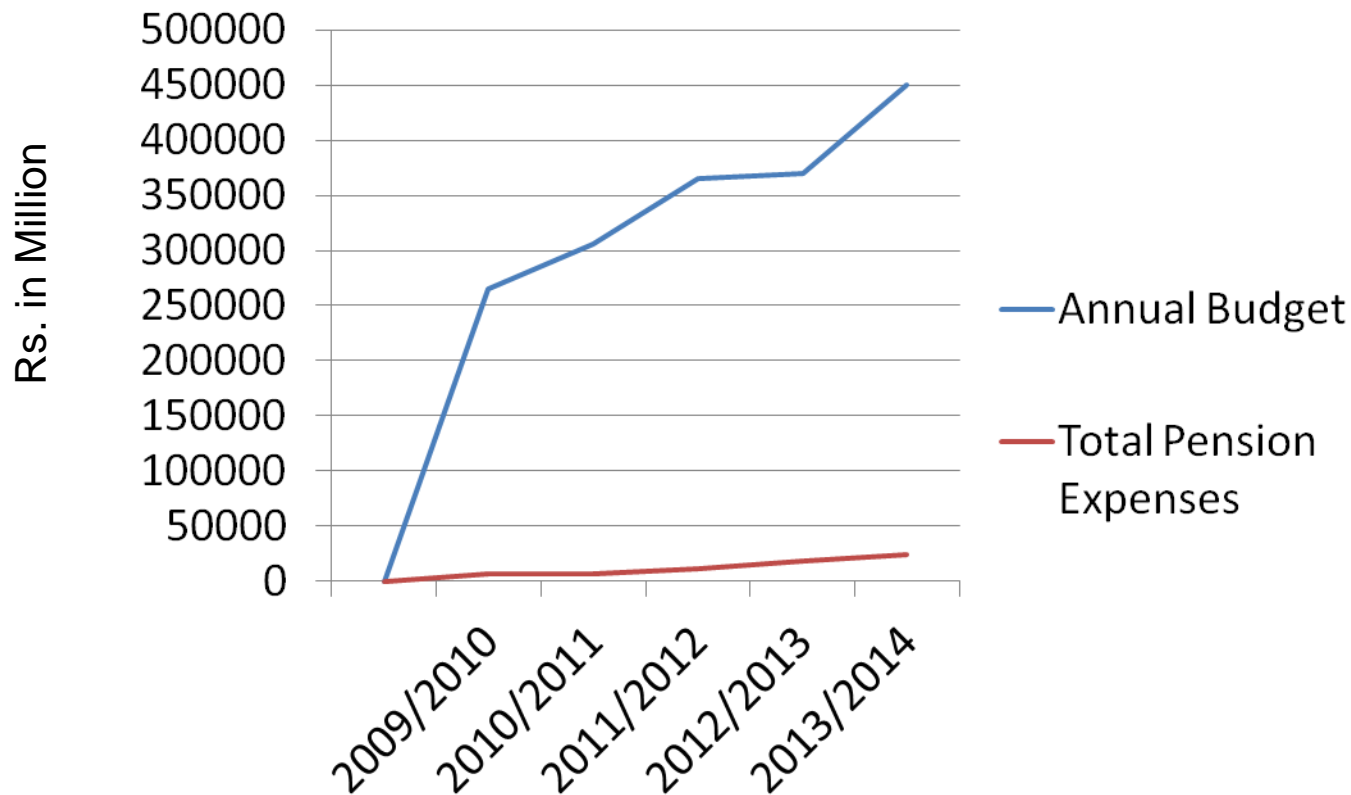
## 5. Current Status of Pensioners & Expenditure

Fiscal Year	Pensioner	Total Pension Expenses (TPE)	Average Pension Income / Year	Average Pension Income / Month
	Number	NRs.	NRs.	NRs.
2011/2012	189560	11544493575	60901.53	5075.13
2012/2013	196626	18299886523	93069.52	7755.79
2013/2014	197963	22000000000	111131.88	9260.99
2014/2015	212007	26010694707	122687.91	10223.99
2015/2016 (8 Month)	219363	12334066323		

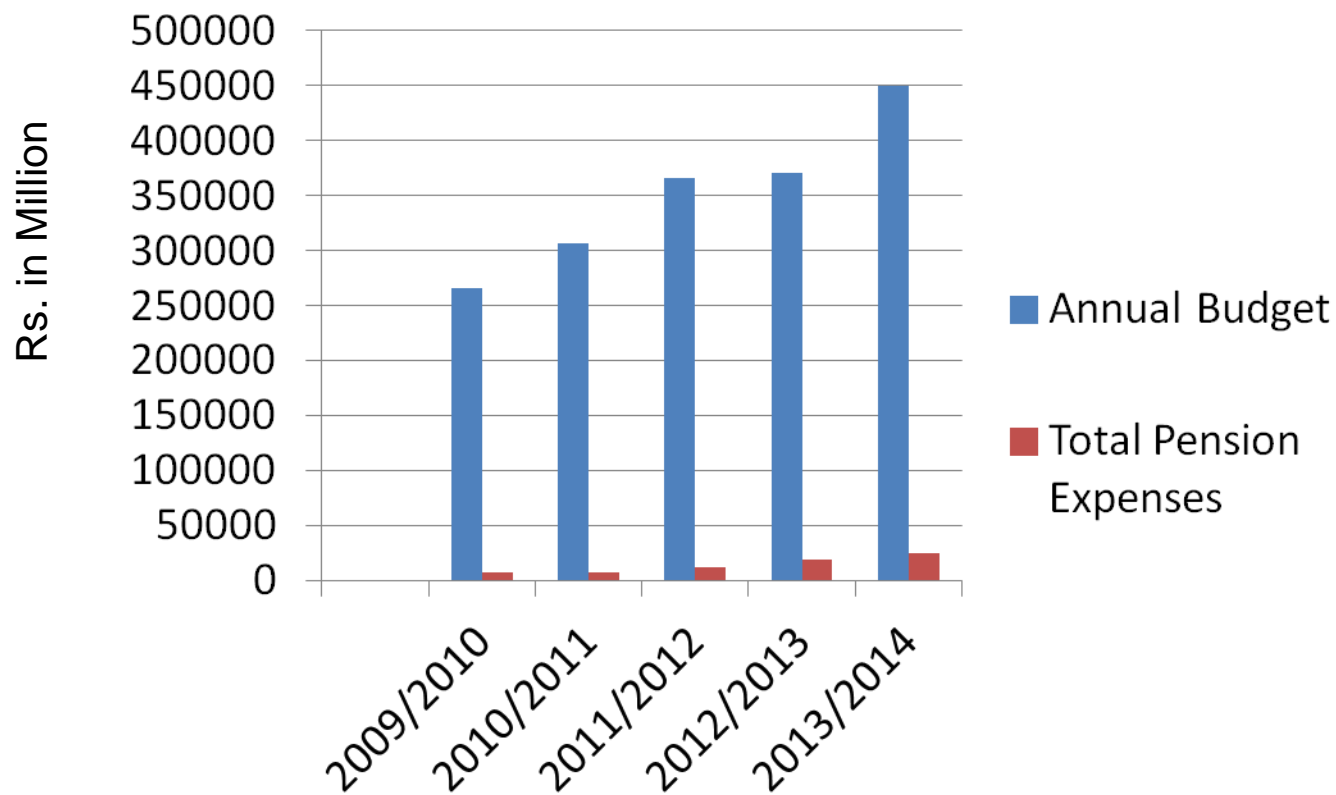
## 6. No. of Pensioners

Fiscal Year	Pensioner				
	Civil	Nepal Army	Nepal Police	Gov. Teacher	Total
2011/2012	66306	56500	42869	23885	189560
2012/2013	68207	58500	44630	25289	196626
2013/2014	64354	64109	40878	28622	197963
2014/2015	68286	67398	43473	32850	212007
2015/2016 (8 Month)	70283	69943	44539	34598	219363

## 7. Comparison of Annual Budget & Pension Expenditure



## 8. Comparison of Annual Budget & Pension Expenditure

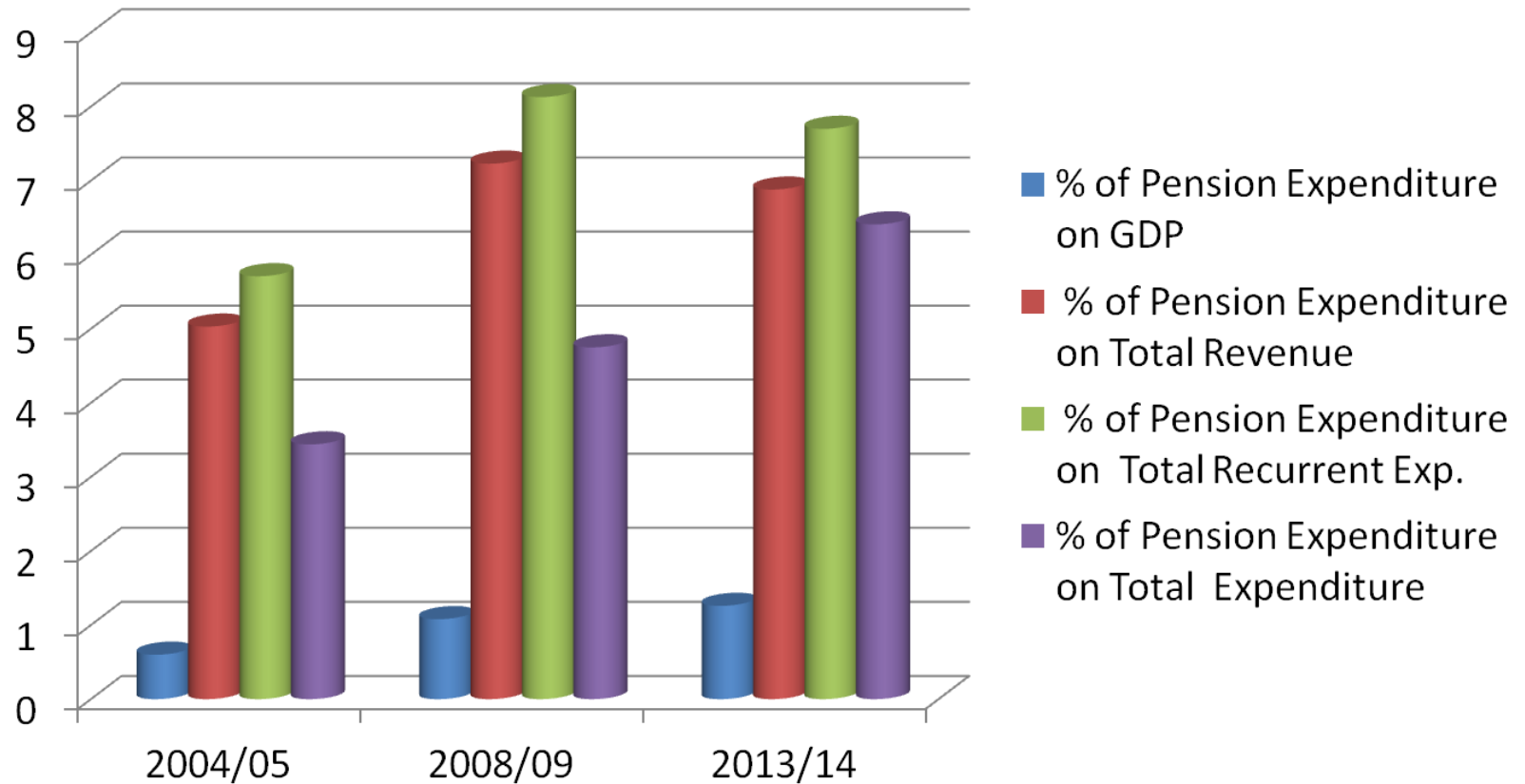


## 23. Some Facts and Figures of Pension Schemes

S. N.	Particular	Unit	2004/05	2008/09	2013/14
1	Total Pensioner (Government Sector)	Number	118035	170511	196626
2	Total Pension Expenditure (NRs.)	Million	3540	10372	24383
3	% of Pension Expenditure of GDP	%	0.60	1.08	1.26
4	% of Pension Expenditure of Total Revenue	%	5.03	7.23	6.88
5	% of Pension Expenditure of Total Recurrent Exp.	%	5.71	8.13	7.70
6	% of Pension Expenditure of Total Expenditure	%	3.44	4.75	6.41



## 24. Trend of Pension Expenditure



## 9. Income and Saving Behavior

- **Access** of Banking Services: 25% of total household.
- 45% of the households prefer to save at home.
- Out of 10.5 million excluded workers :
  - only 2.97 million paid workers have some saving capacity.
  - 1.63 million low income workers with very moderate capacity to save for their old age.
  - 3.98 million life time poor.
  - 1.48 million elderly aged less than 75 years.
- 2.97 million paid workers same saving capacity can produce annual saving for old age pension of Rs. 17.74 billion through a pension contribution value of 10% of Income.
- If the excluded workforce can be motivated to save for retirement, the coverage of pension will be raised to 35.4% from 4.1%

***Source: Proposed South Asian Pension Reform, Draft Final Report, 2010, ADB***

## 10. Issues and Challenges

- Limited Coverage. (Around 10 % of total Population )
- Increasing liabilities & Unlimited Liabilities (7.23% of revenue) Except Provident Fund
- Non-contributory Pension.
- Non- Funded Liabilities for Gov. (Except Provident Fund)
- Heavy Financial Burden to the Government.  
*(Long term burden due to increase in life expectancy)*
- Inadequate Schemes:
  - Provident Fund,
  - Pension to Govt. Employees,
  - Elder citizen, Widow women, Disabled Persons etc.
- Informal Economy: 90% peoples are not covered.  
e.g. Agriculture, self employee, other professional.  
(Less than 10% of total work force in corporate sector)
- Low level of earnings & lack of saving capacity

# 11. Issues and Challenges contd...

- Pension **expenses** - managed by annual **budget**
- **Issues on – adequacy, coverage & sustainability** of pension
- Low retirement age  
( *Mostly Nepal Army 38 and Nepal Police 36 Civil Servants <58* )
- Unstable Interest rate and High Inflation
- Mobilization/investment of retirement fund : Risk and Return
- Lack of clear Pension Policy

# 12. Future Strategy

- National Pension Policy with DC Pension system
- Umbrella Act for Pension Management
- Integrated Central Personnel Record Department
- Enhancing institutional capacity
- A contributory pension system will be implemented for all public authority and civil servants to be appointed after the commencement of the coming Fiscal Year to provide pension and gratuity.
- Retirement age of civil servants will be reviewed: increasing liabilities for pension payment and increased life expectancy.
- Social Security Schemes required for civil servants operated through establishing contributory welfare fund .
- Reduce the financial burden of the state.

**Thank You  
for  
Your Kind Attention**