Civil Service Pensions in Bangladesh
Current Reforms and Future Plan

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Civil Service Pensions in Bangladesh

• Pension Act, 1871
• Public Servant Retirement Act, 1974
  Retirement Age 59,
  Based on length of qualifying services and the last month’s pay

**Coverage:**
At present, civil service pension holders 6,98,000

• Autonomous bodies, public sector organizations, local authorities, public universities- have pension scheme similar to
Categories of Pensions and Retirement Benefits

1. Superannuation Pension: Minimum qualifying service 25 years and 90% of last month’s pay
2. Retiring (Forceful) pension, Optional/Voluntary Pension
3. Invalid Pension
4. Family Pension
5. Gratuity and Commutation
6. Benevolent Fund
7. Group Insurance
8. General Provident Fund
9. Medical Allowance, Festival Allowance
10. Lump Grant/ Leave encashment
Budget & Pension Expenditure

- Unfunded Defined Benefit Scheme
- Largest component of Social Protection Budget and less than 10% of recurrent expenditure, 5% of total expenditure and 1% of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Pension Expns. (Billion Taka)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>147.13</td>
</tr>
<tr>
<td>2016-17</td>
<td>155.20</td>
</tr>
<tr>
<td>2015-16</td>
<td>104.55</td>
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<tr>
<td>2014-15</td>
<td>71.29</td>
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<tr>
<td>2013-14</td>
<td>54.08</td>
</tr>
<tr>
<td>2012-13</td>
<td>60.32</td>
</tr>
<tr>
<td>2011-12</td>
<td>63.77</td>
</tr>
<tr>
<td>2010-11</td>
<td>56.27</td>
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<tr>
<td>2009-10</td>
<td>43.95</td>
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</tbody>
</table>
Pension Approval Processes

• Non-existence of Dedicated Authority for Pension
• Manual Processing and Pension Case Preparation
  • Huge involvement and Wastage of Human Resources
  • Liable to Errors of Omission and Commission
• Pension Preparation, Issuance of PPOs and Payment
  • All Powers Vested with AOs – No Checks & Balances
  • Functional Separation
• Pre-Retirement Processes o/o DDO / HOD
  • Manual, Lengthy and Extremely Cumbersome
  • Demands Superfluous and Redundant Documents
Pension Approval Process (contd.)

• Generation of Pension Payment Orders
  • All Manual Processes including Calculation and FR.
  • PPOs Issued Manually without Unique Code Number / Verification

• Procedures Related to Service Books / Records
  • Lack of Security
  • Lack of Knowledge / Importance of Maintenance

• Redundancy of Welfare Officer

• Lack of Mechanism for Monitoring of Pension Cases at the District, Division and Line Ministry Level

• Lack of Accountability and Responsibility on Part of Various Officials at Different Levels

• Simplification of Pension Rules, 2009 for Resolving Procedural Delay Not Strictly Followed
Family Pension – Issues

• Sanctioning of Family Pension is Cumbersome

• In Principle, Family Pension should Require
  • Verification of Genuineness of Claimant Including Relationship and Nomination (if any)
  • Verification of Death of Pensioner

• Challenges – Running Pillar to Post
  • PPO are Not Endorsed with Family Details and do Not Possess a Joint Photograph and Descriptive Roll
  • Nomination for Pension, Gratuity and LTA Missing
  • Lack of Simplified Application (ideally only to the Disburser like Bank etc. Proving Identity Proof and Death Certificate)
  • Existing Linkage with Ministry / Department
  • Issues with Separate PPO / GPO Number

• Need for a Seamless Payment of Family Pension from the Very Next Day Desirable
Assessment of Payment System

• Pension Payment Process – Costly and Cumbersome
  • Extremely **Cumbersome and Non-friendly**
  • Most Pensioners to **Physically Travel Every Month** to CAO, AO, Banks etc. to Collect Pension
  • Processing by Banks for **Different Line Ministries**
  • **Reimbursement Claims** – Bank to LMs

• **Multiple LM Wise Accounting Heads for Pension Payment**
  • No LM Accounts for proper Budgeting /
  • No LM has details of Pensioners Count (No more their Employees)
  • Many LMs don’t even have Sufficient Budgets for Pension Payment

• **Cost of Payment to Pensioners**
  • Heavy Commission to Banks
  • Banks lack in knowledge, capability and capacity to handle Pensions
<table>
<thead>
<tr>
<th>Pension Payment Points</th>
<th>%</th>
<th>Pension PM (Tk)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>60%</td>
<td>6874</td>
</tr>
<tr>
<td>CAOs of Ministries</td>
<td>3%</td>
<td>8216</td>
</tr>
<tr>
<td>Divisional Account Offices</td>
<td>2%</td>
<td>7096</td>
</tr>
<tr>
<td>District Accounts Offices</td>
<td>10%</td>
<td>6913</td>
</tr>
<tr>
<td>Upzilla Accounts Offices</td>
<td>25%</td>
<td>6587</td>
</tr>
</tbody>
</table>
Systemic Reforms in Pension

- **Centralized Pensioners Database Created** - it is linked with NID, Mapped to PPOs and Banking Accounts and Mobile Numbers (2016)
  
  Possibility of Ghost Pensioners; Leakages and Double Dipping leading to Drain on Resources

- **Employees Database created.** unified Payroll account that uses employees database and maps employees to NID. (2015)
  
  Proper planning, budgeting and forecasting for expenditure. Possibility of leakages, double dipping and presence of ghost employees /pensioners
Systemic Reforms in Pension

• Automated Centralized Pension Processing, Accounting and Payment System linked with iBAS++ and Decentralized Payment Points at Front end
  • Pension Processing
    Processing of Pension Cases – Final Report (FR)
    Generation and Issuance of PPOs
  • Pension Accounting
    Budgeting and Accounting – Single Head with FD
    Family Pension – Single Head with FD
  • Pension Payment System

Manual Pension Processing and Payment System
Huge involvement and Wastage of Human Resources;
Liable to Errors of Omission and Commission
Strategic Reforms

- **Pension Office established at the office of the CGA.** Responsible for issuance of PPOs and monitoring of pension cases at DDOs. Ensuring Payment at the Bank/ AO. Generate MIS at Central level with provision of a unified numbers and Central Repository.

  All powers are vested with AOs with no division of rights and responsibilities. No authority to take overall responsibility of Pension implementation.

  Non-existence of dedicated authority / agency for pension system implementation.
Strategy Level Improvement

• Option for Full Commutation abolished (2016)
  Full Commutation leading to Zero Pension in old age

• Restoration of Pension after 15 years from retirement (2018)
  old age income security

• Annual increase of Pension Amount Introduced (2016)
  Some protection from inflation and eroding purchasing power
Procedural Improvement

• Unique ID, System generated PPOs (Electronic PPO)  
  Tracking, Leakage, Avoid duplication

• Pension Approval Process simplified and Circular Issued (2018)  
  Harassment for pension beneficiaries
Payment System Reforms

• **Electronic Fund Transfer for Pension Introduced**
  Banking System be extensively used
  Decentralized Multiple Payment Points
  Pensioners receive Credit in Individual Accounts with SMSs

• **Pension Budget Under Single Major Accounting Head of Finance Ministry**
  No Ministry accounts for proper budgeting / number of pensioners or amount as they are no more their employees
  Multiple Accounting Heads for Pension Payment for All Ministries abolished
Future Reforms: Integration of Twin Database – Employee and Pensioner Database

• **Single Registry Mechanism**
  • Budget and Cash Flow Management
  • Linkage of Database with NID

• **Pay Roll Driven Database**
  • An Exhaustive, Robust, Dynamic and Efficient Database Integrated with Pay Roll Process
  • Pivoted at the Accounts Office, where the AO draws, authorizes and releases Salaries into Employees Accounts (G2E)
  • DDOs to Communicate Only the Changes in Information
  • presupposes Availability and Regular Updating of Database of Employees
Integration of Twin Database (Cont’d)

• **Seamless Transfer from Employee to Pensioner**
  • Ageing Profile of Employee
  • Roster of Likely Retirees
  • Employee to Pensioner

• **Evaluation of Committed Liabilities**
  • Salary Pension Expenditure Forecasting,
  • Actuarial Analysis on Assumption of Mortality

• **Accurate and Transparent Budgeting**
  • Fiscal Planning Including SML Term Revenue Expenditure
  • Simulating the Fiscal Impact of Recommendations of Pay Commissions
Integration of Twin Database (Cont’d)

- Implementing Pension Reforms (DB and / or DC, if any)
  - Measurement of Impact of Parametric and /or Systemic Reforms to Employee and Pensioner Benefits
  - Introducing Pay Roll Reforms and Direct Pension Payments to Pensioners

- Efficient Manpower Management
  - Employee Categorization
  - Reduction in Burden / Manual Labor of Employees
  - Ageing Profile of Employees and Pensioners
  - Roster for Likely Retirement
  - Scenario Analysis under different Assumptions
Indicative Demographics of Employees in GoB

- **Upto 20**: 8076 employees
- **21 - 25**: 74932 employees
- **26 - 30**: 126103 employees
- **31 - 35**: 162526 employees
- **36 - 40**: 138696 employees
- **41 - 45**: 104335 employees
- **46 - 50**: 132324 employees
- **51 - 55**: 114202 employees
- **56 - 60**: 103946 employees
- **61 - 65**: 1383 employees
Future Reforms Considerations

• Demographic Changes
• Large recruitment in past years
• Pay hike has increased government expenses and pension entitlement
• Retirement benefit tilted towards heavy lump-sum gratuity payment
• Life expectancy has increased considerably- 72 years
• Regular higher amount of monthly pension matched with inflation
Fiscal Sustainability

• 1998-2008: Compounded Annual Growth Rate (CAGR) 13.45%
• 2010-2015: Astronomical Growth of 23.75% (CAGR)
• Recent changes in pension entitlement- growth in retirement benefits outpace growth of revenue earning
• Pension payment from 2016-17 to 2025-26 at a CAGR of 33.42%
• Implicit Pension Debt at 10% discounting rate is 27% of GDP
Conclusion

• Current DB system neither fiscally sustainable nor actuarially fair
• Benefit of integrated payroll system with employees’ database will improve fiscal planning: short, medium and long term expenditures
• Forecast projections for salary and pension expenditure and assess the impact of parametric and/or systemic reforms to salary and pension benefits
• A draft plan for universal pension and civil service pension reform awaits for consideration of new Cabinet.
Thank you