



NATIONAL PENSION & PROVIDENT FUND PLAN IN BHUTAN

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Retirement incomes prior to July 1, 2002

- ▶▶ Informal (Extended/Joint Family) Systems
- ▶▶ Formal provisions limited to:
 - Gratuity Scheme (est. in 1962);
 - Government Employees Provident Fund Scheme (1976).
- ▶▶ Both schemes provide only lump sum benefits on retirement

Only Lump sum payments: **Implications on retirement income**

- ▶▶ Empirical evidences showed lump sum benefits:
 - Inadequate instruments;
 - Relatively low amounts;
 - Depend on family income.

Initiatives on the Retirement Scheme

- ▶▶ In 1998 the Royal Government commissioned United Nations Development Programme studies to review the post-retirement schemes. The study recommended a multi-pillar retirement scheme
- ▶▶ The Royal Government restructured the GEPF Scheme and institutionalised the National Pension and Provident Fund in March 2000

National Pension and Provident Fund Plan

- ▶▶ Restructured the Government Employees Provident Fund Scheme as the National Pension and Provident Fund Plan in two tiers:
 - National Pension Plan as Tier 1
 - Provident Fund as Tier 2

Coverage

- ▶▶ The GEPF Scheme covers over 30,000 employees from public sectors including the military
- ▶▶ The NPPFP covers all GEPF members

Contributions

- ▶▶ Members were contributing 8-10% of the basic salary (monthly) with matching contributions from the employers to the GEPF Scheme
- ▶▶ Members participate contributing same contributions to the NPPFP

Crediting of contributions

- ▶▶ Out of 16-20% contributions, 10% credited to the Tier 1 Fund
- ▶▶ Balance contributions credited to the individual Tier 2 account

Retirement incomes after July 1, 2002

- ▶▶ Lump sum payments:
 - Gratuity (as usual)
 - Portion of Provident Fund

- ▶▶ Annuity payments:
 - Pension

Tier 1 Benefits

- ▶▶ Tier 1 covers six types of pension benefits:
 - ✓ Member monthly pension
 - ✓ Permanent disability
 - ✓ Surviving spouse
 - ✓ Surviving children
 - ✓ Orphan
 - ✓ Dependent parent

Qualifying conditions for pension

- ▶▶ Saving period:
 - ✓ Minimum of 10 years and 120 months contributions

- ▶▶ Retired from service:
 - ✓ attaining minimum civil service retirement age (56)

Computation of pension

$$\text{Member pension} = \frac{\text{TPP} * 60\% * \text{ACSSI}}{\text{Full working period}}$$

Where:

- 1. TPP is total pension points**
- 2. ACSSI is average civil service salary index (index is lagged by one year index)**
- 3. Full working period is taken 30 years at present**

Features of the pension plan

- ▶▶ Maximum pension is twice the ACSSI
- ▶▶ Minimum pension is 30% of ACSSI
- ▶▶ Early retirement pension allowed 5 years prior to attaining minimum civil service retirement age
- ▶▶ Pension is portable
- ▶▶ Pension is indexed to ACSSI
- ▶▶ Refund Tier 1 account for saving period less than 10 years and 120 months contributions

Tier 2 Benefits

- ▶▶ Payable lump sum of accumulated contributions along with returns credited to individual Tier 2 account upon exit from employment
- ▶▶ In case of death, lump sum payable to the nominees
- ▶▶ Allow early withdrawals for construction /repairs of house/education of children

Perspective

- ▶▶ Initially be focused only the Government Employees Provident Fund members
- ▶▶ Extend coverage to other workforces to:
 - encourage cross mobility of labour forces
 - provide equitable incentives to private sectors, salaried employees
- ▶▶ Bringing uniformity in social protection program in the country

Possible Reforms in Future

- ❑ Increase of Retirement Age by 3 months per year until 65 years in 2038 instead of 2 months per year as provided for in the current regulations
- ❑ Increase of Full Working Period by 3 months per year until becoming equal to the pension sustainable age minus 20 i.e., 45 years in 2062 instead of 2 months a year as given in the current regulations
- ❑ Index pensions after retirement CPI or ACSSI whichever is lower
- ❑ Increase of contributions to Tier 1 as given next:

Increase of contributions under Tier 1

Year	Increase as a percentage of basic salary		Total monthly contribution as a percentage of basic salary to (Tier I)
	Employee	Employer	
Current year	Nil	Nil	10%
2020	0.5%	0.5%	11%
2030	0.5%	0.5%	12%
2040	0.5%	0.5%	13%
2050	0.5%	0.5%	14%

THANK YOU