

# Pension and Bhutan: Insights from the National Pension and Provident Fund



MALDIVES FINANCE FORUM 2015  
20<sup>TH</sup> MAY 2015  
MALDIVES

Tshering Dorji C, Chief, Planning & Research, NPPF, Bhutan  
Karma Wangchuk, Company Secretary, NPPF, Bhutan

# ABOUT THIS PRESENTATION

## A) Overview

- Historical overview
- Pension system in Bhutan

## B) Fund Management

- The mechanism of the Fund

## C) Risk challenges

## D) Way forward



# Overview of the Fund



# EVOLUTION OF THE NPPF

Year	Initiative
1976	Royal Initiative to lay the foundation of the Government Employees Provident Fund (GEPF) in 1976. Government Order issued by the Ministry of Finance (MoF) in January 1976 to establish GEPF with the Royal Insurance Corporation of Bhutan Limited (RICBL).
1998	<i>Kasho</i> (Royal order) was issued in 1998 commanding the Royal Civil Service Commission (RCSC) of Bhutan and Ministry of Finance to review the then post-retirement benefit scheme and propose an appropriate retirement plan with enhanced benefits to adequately support the livelihood of civil servants on their retirement (Government then initiated studies through UNDP, WB and ADB assistance).
1999	Feasibility studies was carried out by ADB and Government Working Committee of Bhutan. The study included separation of GEPF operations from RICBL and establishment of NPPF.
2000	Accordingly, NPPF was created in 2000 by taking over GEPF from RICBL through Executive Order Issued by the Government and restructured into hybrid form providing both the pension and provident fund.

# KEY FEATURES OF NPPF NOW

## Defined Benefit

(Partially funded  
pay-as-you-go  
monthly pension  
on retirement)



## Defined Contribution

(Fully funded  
and lump  
sum on  
retirement)



**NPPF  
Scheme**  
(Hybrid of  
DB & DC)

# KEY FEATURES CONTD...

Features	Civil	Armed Forces
Legal framework	National Pension and Provident Fund Plan (NPPFP)	Armed Forces Pension and Provident Fund Scheme (AFPPFS)
Monthly contribution	11% + 11% = 22% (Employee and Employer).	12% + 12% = 24% (Employee and Employer)
Contribution Distribution	Pension: 16/22 (72.73%) PF: 6/22(22.27%)	Pension: 14/24(58.33%) PF: 10/24 (42.67%)
Contribution period	10 years minimum contribution period in pension fund;  30 years for full pension entitlement for civil and public corporation	10 years minimum contribution period in pension fund;  27 years of service
Retirement age/pensionable age	56 years, 58 years and 60 years	Minimum 42 years and maximum 60 years
Pension payout	40% of the last basic salary (set to a limit at the maximum pension of 40% of maximum salary scale of civil service EX1 – about Nu. 28,370)	45% of the last 12 months basic salary average with a possibility of extending to 50%(minimum pension of Nu. 4,601)

# BENEFITS FROM PENSION SCHEME

A. Pension Plan covers six types of benefits:

- Member pension on retirement
- Disability benefit
- Surviving Spousal benefit
- Children benefit
- Orphan benefit
- Dependent Parent benefit

B. Provident fund or lump-sum benefit on retirement

# PENSION BENEFITS FORMULA:

Type	Eligibility condition and Formula
Member Pension in case of service above 30 years	Last basic pay X 40%
Member Pension in case of service below 30 years	Last Basic Pay X 40% X total no. of service/ 30
Spouse	<ol style="list-style-type: none"><li>1. Eligible from age 50 years</li><li>2. 50% of deceased member's pension or Nu. 3,500 per month whichever is higher.</li></ol>
Child	Nu. 1,200 per month per child
Permanent disability	(40% of final salary X No. of years of contributory service or 3,500 whichever is higher
Orphan	Nu. 1,700 per month
Dependent parent	<ol style="list-style-type: none"><li>1. Eligible from age 56 years</li><li>2. 50% of deceased member's pension or Nu. 3,500 per month whichever is higher</li></ol>



## Case Example

Name and age	Dept	Grade	Service Period	PF Acc.	Last Basic Pay	Monthly Pension
Dasho XX (57 years)	RCSC	1	33 years	Nu. 534,993	Nu.54,095	Nu.20,286
Dophu Retty (58 years)	T/phu Dzo	P1	34 years	Nu. 250,003	Nu. 33,260	Nu. 12, 473
R.P. Rai (58 years)	FCB	13	29 years	Nu. 61,194	Nu. 11,810	Nu. 3,962
Tempa Dukpa (58 years)	Forest	8	34 years	Nu. 175,468	Nu. 18,230	Nu. 6,836
Sonam Norbu (57 years)	P/Kha Dzo	12	24 years	Nu.119,207	Nu. 12,710	Nu.3,773
Tshering (63 years)	NPPF	15	10 years	Nu. 31,418	Nu. 8,590	Nu. 1,127
S. B. Rai (56 years)	Forest	12	33 years	Nu. 1,24,883	Nu.11,920	Nu. 4,470

# EXTENDED BENEFITS

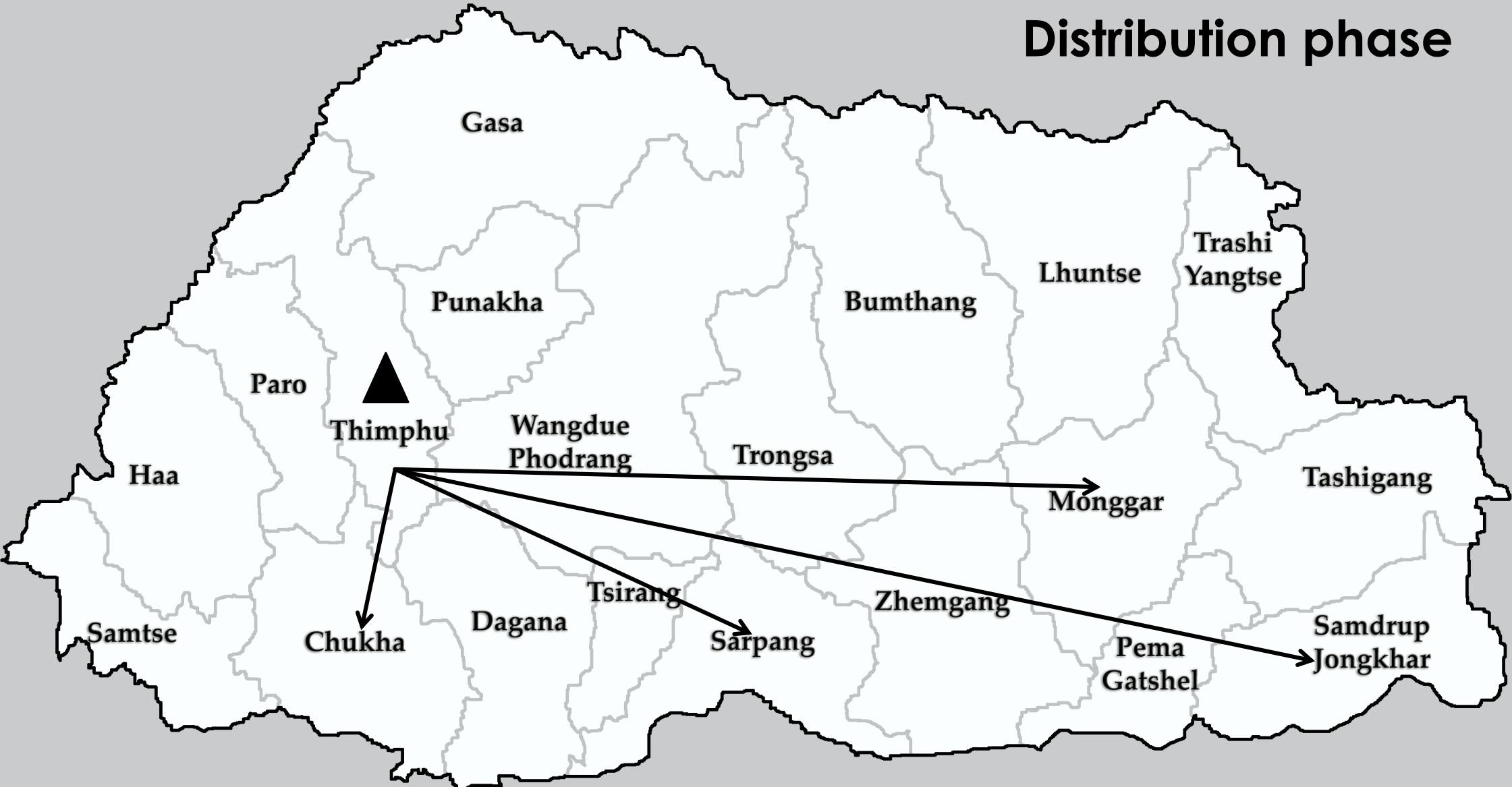
NPPF is a strong believer in **creating social values**

- i. Residential apartments
- ii. Home ownership program
- iii. Housing loan
- iv. Education and student loan
- v. Welfare scheme (Gongzhu Lotey Mangyul Scheme)

# PENSION DELIVERY SYSTEM

- Has four regional offices
- Pension payment are disbursed through Banks (BoB, BDBL, T-Bank, BNB) and Bhutan Postal Corporation Limited
- Pension savings account: For every beneficiary
- Direct crediting of pension to pensioner's savings account every month (After 25<sup>th</sup> of every month)
- Bank of Bhutan and General Post Office, Thimphu distributes pension to the branch offices every month
- Withdrawals affected every month or once in every three months
- Spouse beneficiary to submit the non-remarriage certificate annually on or before 30<sup>th</sup> April

# Distribution phase

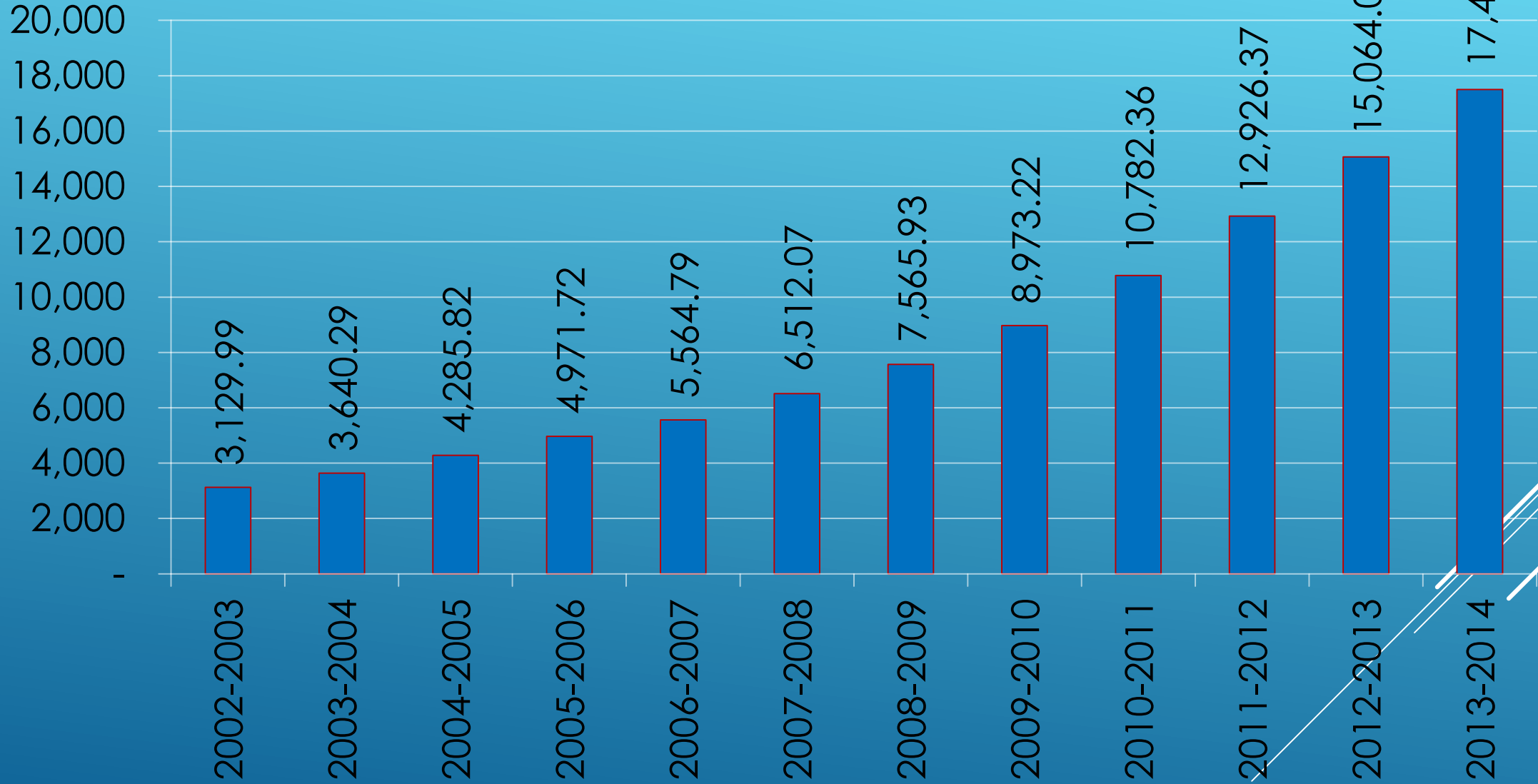


Area: 38,394 sq.km

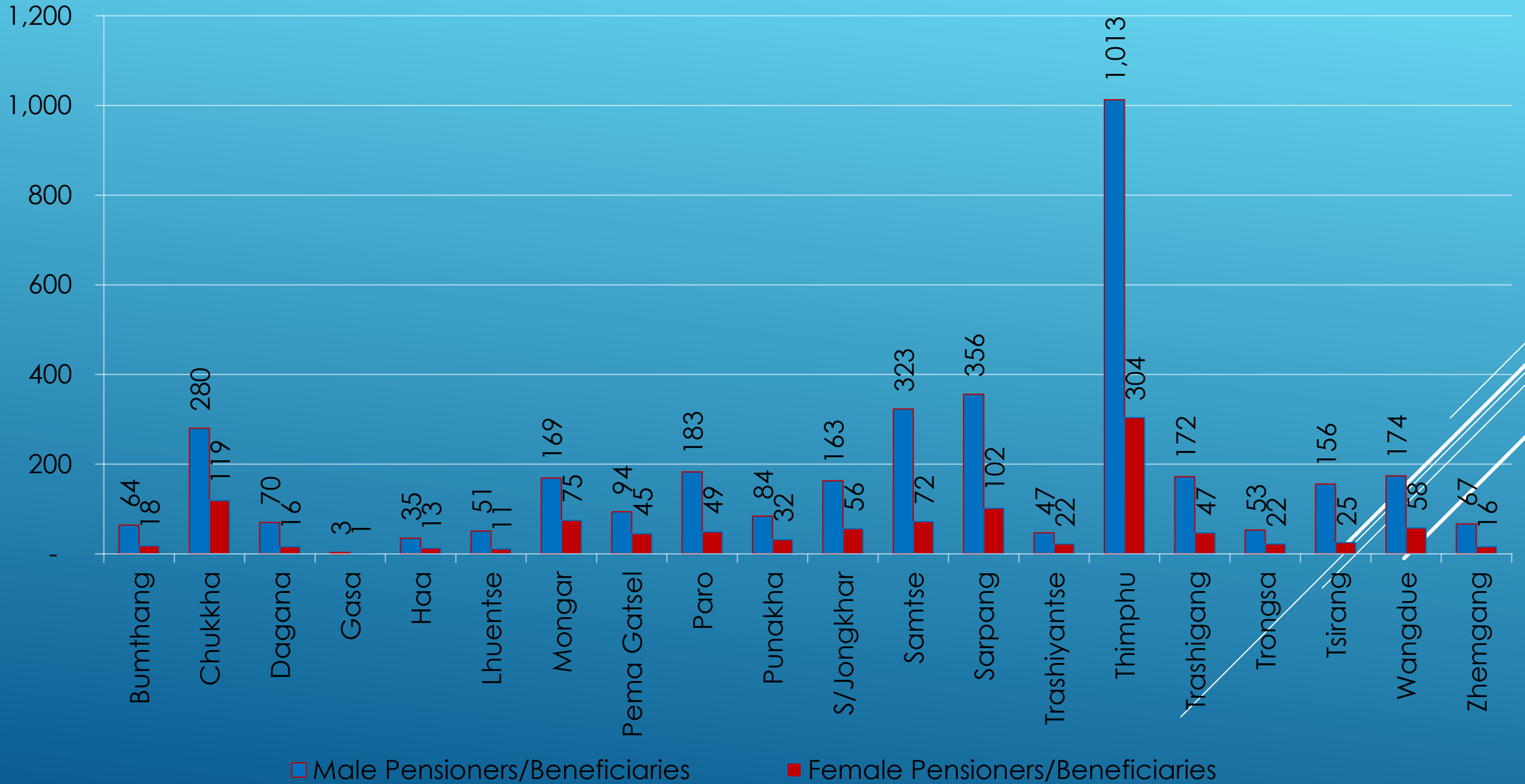
# Current Status Report

- 1) Current membership base: currently NPPF has 51,110 members – (GEPF member in 2000 was only about 18,000)
- 2) Beneficiaries: 4,472 retired members
- 3) Annual contribution: Nu. 1.8 billion (Approx. US\$ 29 million)
- 4) Annual payout: Nu. 400 million (Approx. US\$ 6.5 million)
- 5) Fund size as of date: Nu. 19.65 billion (US\$ 317 million)  
(GEPF in 2000 was only Nu. 1.97 billion – approx.32 million US\$)

# Fund Size (Million Nu.)



# Pensioners/Beneficiaries by Dzongkhag (District)



# LINKAGES

- ▶ Member to the Pacific Pension Institute – 2007
- ▶ Affiliate member to International Social Security Organisation (ISSA) – 2008
- ▶ Member to the Financial Institutions Association of Bhutan (FIAB) – 2010
- ▶ Member to the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) – 2012



# Fund Management



# Population Scenario

Fig. 1.1: Population pyramid, Bhutan 2013

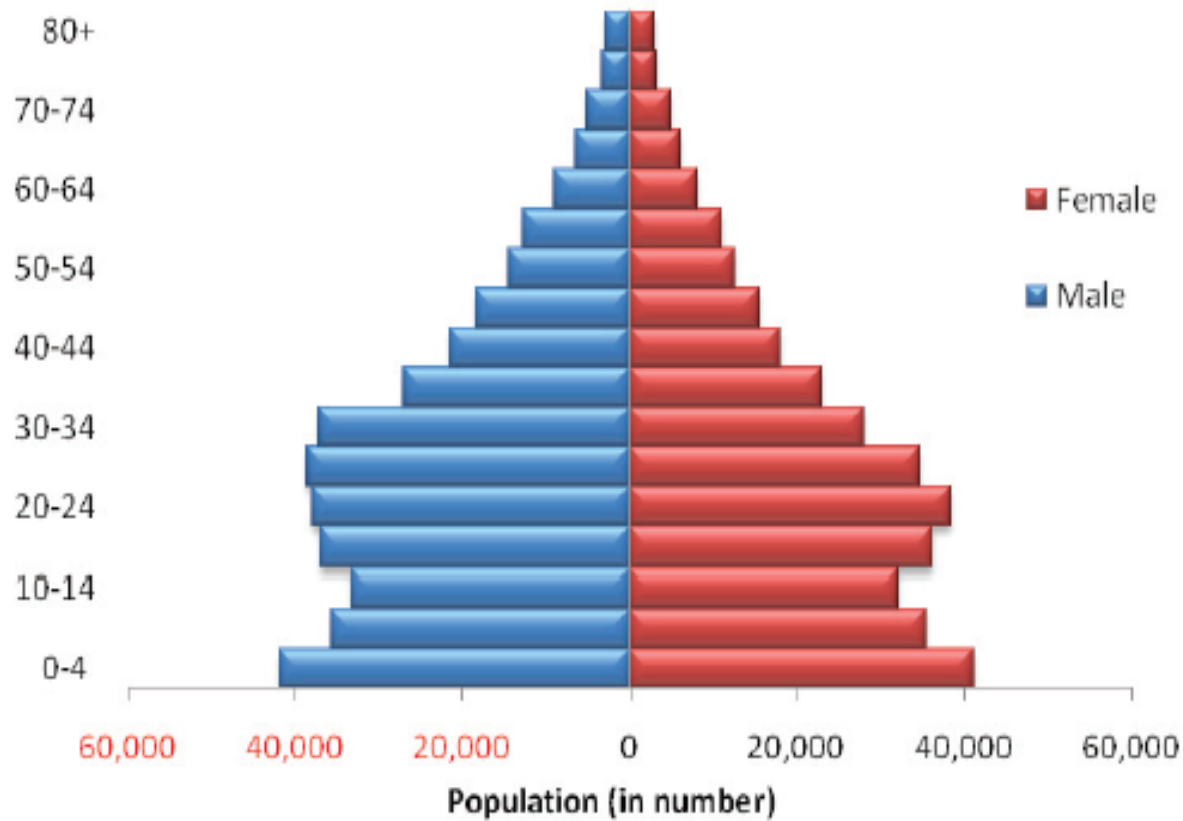
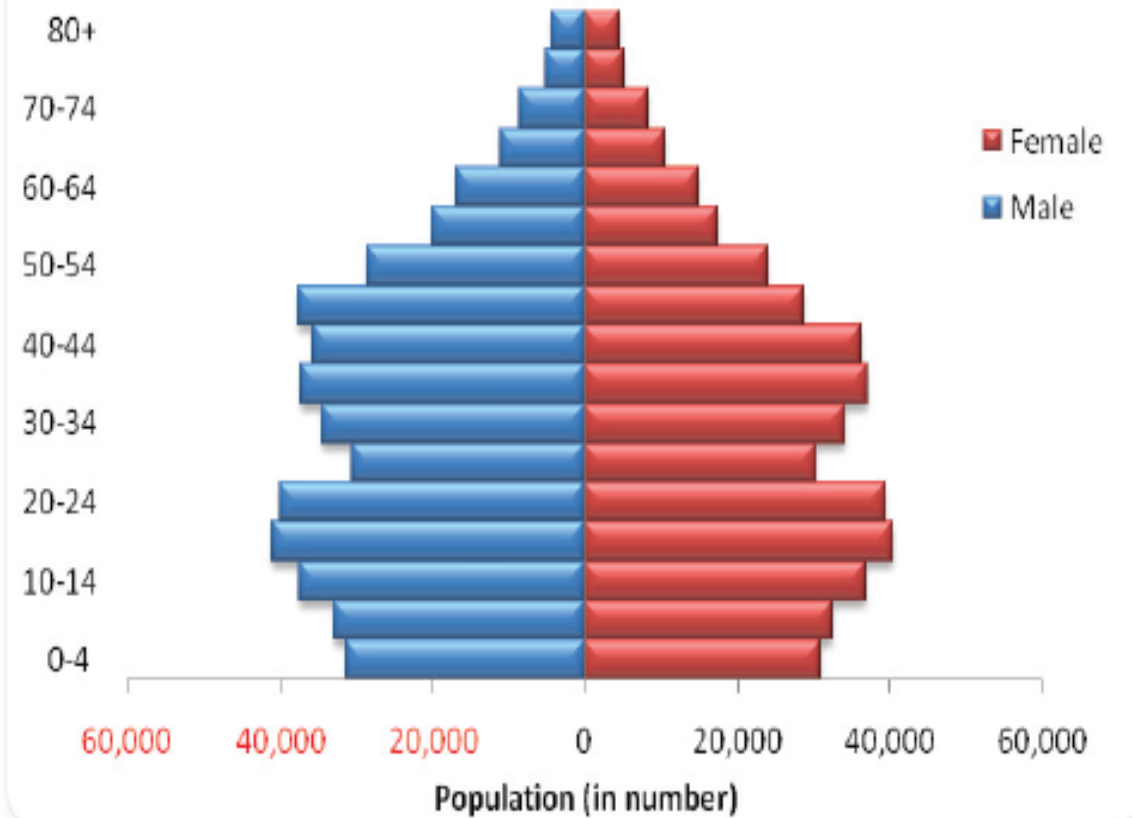


Fig. 1.2: Population pyramid, Bhutan 2030



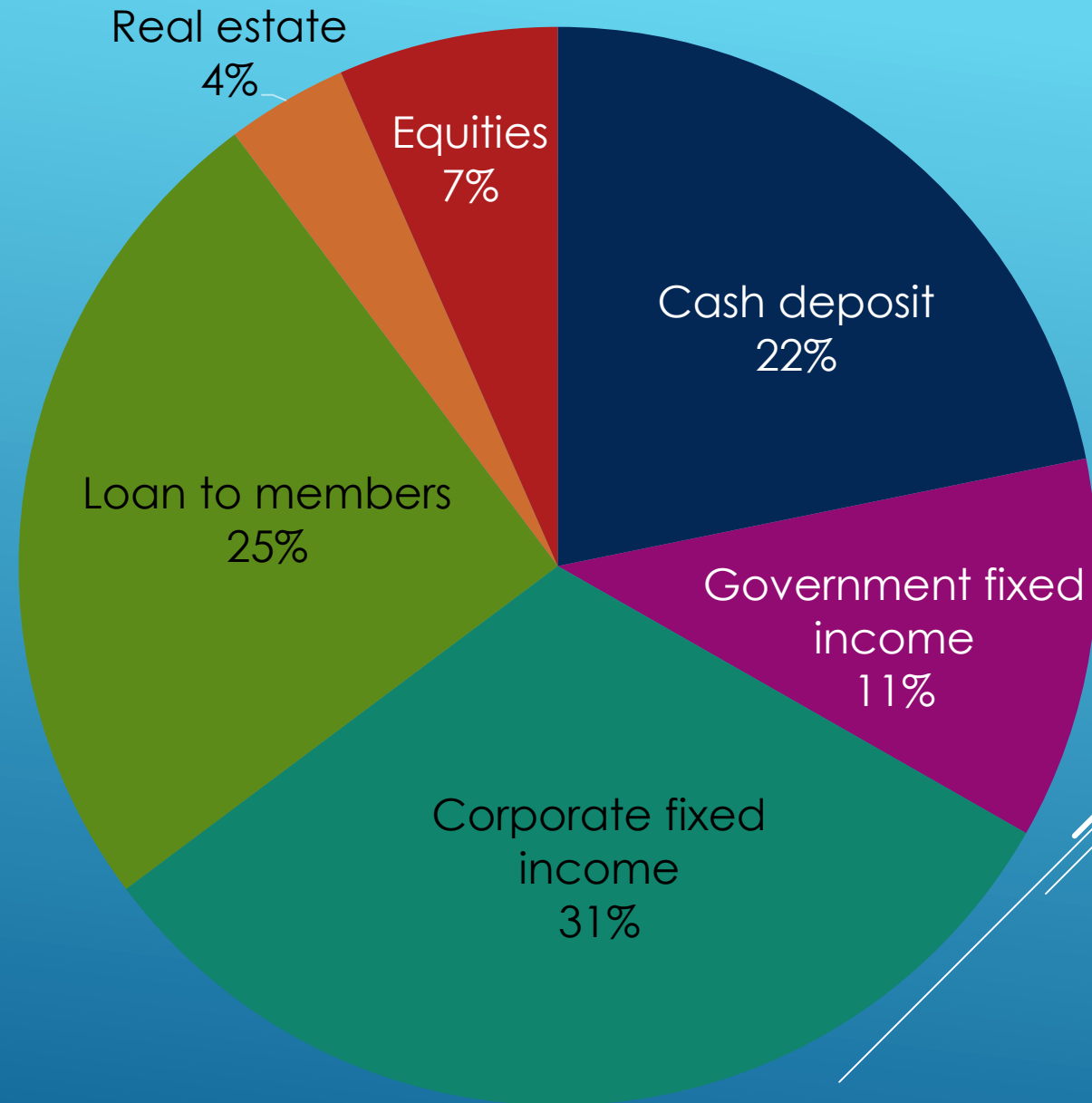
# FUND MANAGEMENT

- ▶ The Executive Order 2002, Investment Policy 2014, under the purview of Royal Monetary Authority of Bhutan (the Central Bank) and monitored by the Ministry of Finance.
- ▶ Recently introduced the Investment Management Framework (IMF) 2015.
- ▶ The Board has provided enough flexibility on target rates of return, time horizon, and declaration of returns.
- ▶ However, in order to prudently manage the risk and returns on investment at this juncture of capital market development, the fund exposure to equities is limited to 30 percent, and rest 70 percent in fixed income securities

# NPPF's current investment portfolio

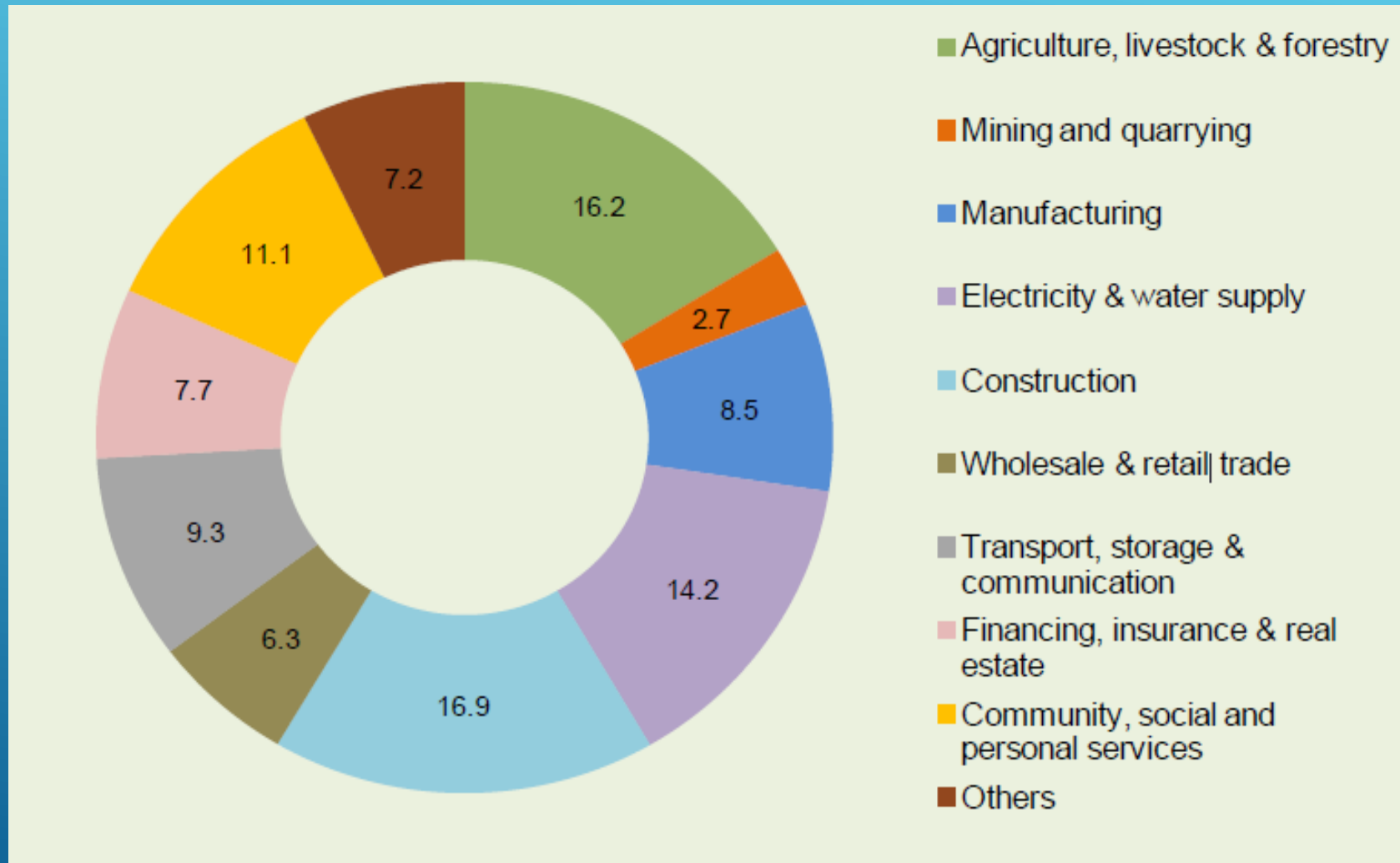
Entities include:

- Financial Institution & RGoB
- Manufacturing & Industries
- Service & Tourism

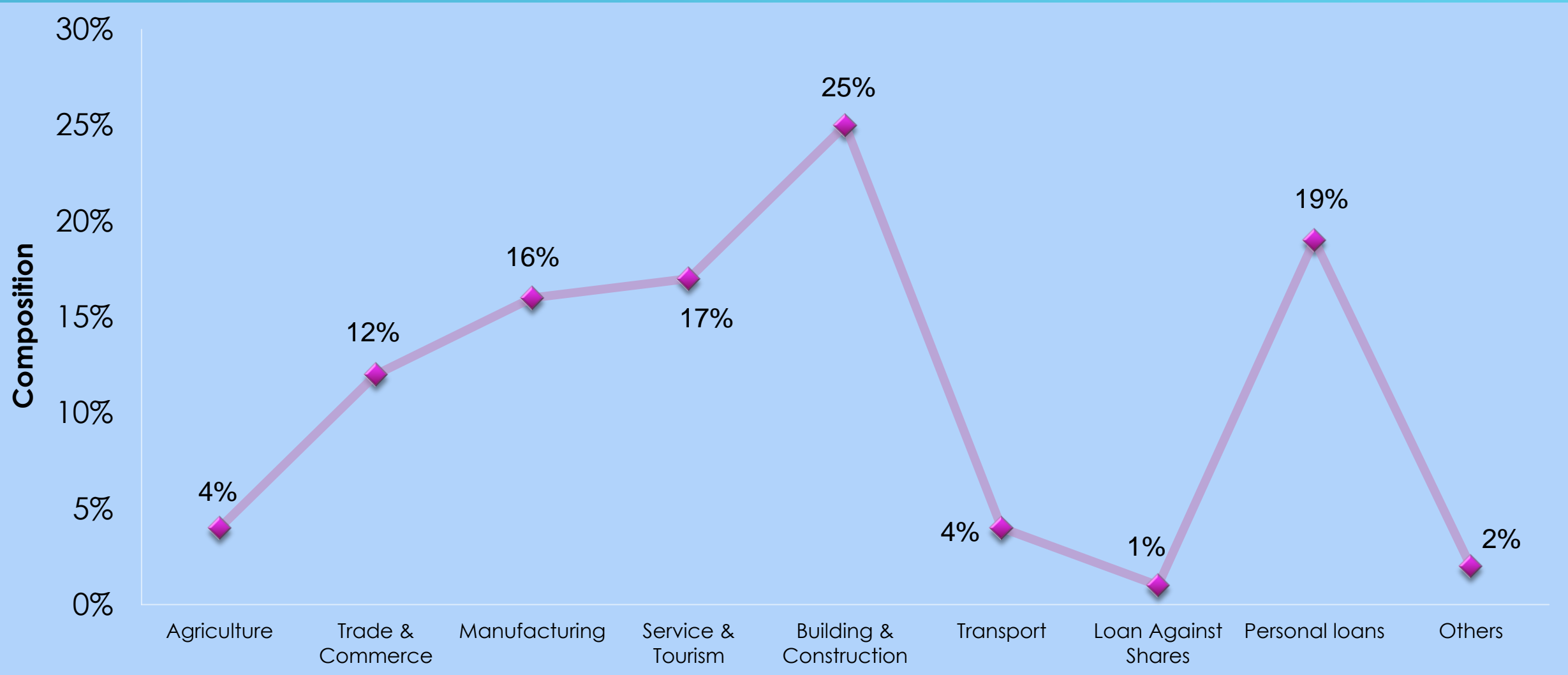


# BHUTAN'S CAPITAL MARKET SCENARIO

Sector share in nominal GDP (in percent) 2013



# Commercial banks investment by sector



# SUSTAINABILITY SCENARIO

# MAIN INHERENT RISK AND CHALLENGES



# MAIN INHERENT RISK AND CHALLENGES CONTD...

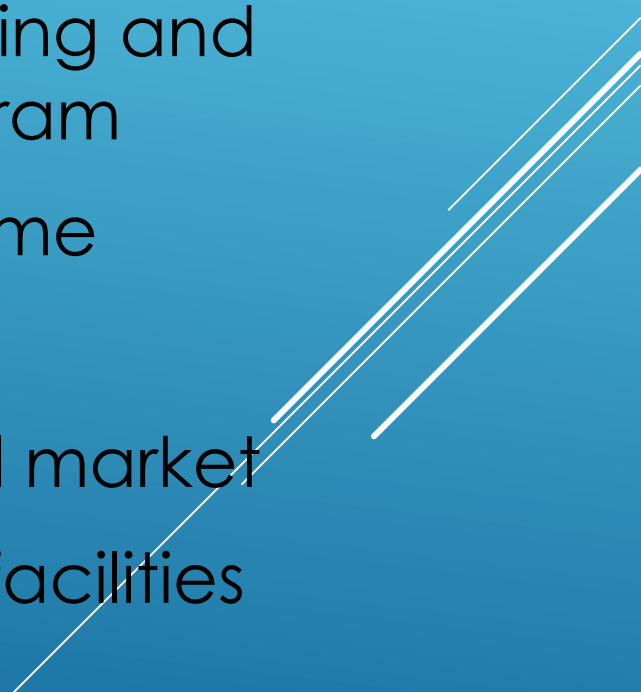
- ▶ Ensuring financially long-run sustainable pension system and long-term insolvency driving reforms: parametric and systemic changes and more fundamental restructuring;
- ▶ Demographic change: Increasing life expectancy combined with early retirement age increases pension liability (increasing living retirees);
- ▶ Pension Benefit formula based on the individual's last pay: ad hoc salary increase of members leads to increase in pension liability (uncovered fund);
- ▶ Lack of good return investment opportunities: Lack of capital market
- ▶ Mover of capital market



# EMERGING INVESTMENT OPPORTUNITIES

- ▶ Investments in Hydropower sector: new investment opportunities are emerging in the construction of independent or Joint Venture (JV) hydro power projects
- ▶ Investment in Equities: Power transmission lines for JV projects, investment in private companies.
- ▶ Investment in Bonds: opportunities in hydropower bonds, institutional bonds.
- ▶ Divestment of State Owned Enterprises: State Mining Corporation, Infra Projects such as land reclamation, Special Economic Zones (SEZ).
- ▶ Broaden the investment in Real Estate: Develop a “Centre of Excellence” in housing industry, particularly in the growing urban centers – the primary method which will be used is departmental construction. And also enhancing the housing reach in the semi-urban and rural areas for retirement homes and special economic zones.

# NPPF'S CURRENT INITIATIVES IN THE PIPELINE

1. National Policy on Retirement Benefit Scheme Act: this includes extension of benefits to other sectors not being included currently
  2. Creating **Centre of Excellence** in real estate planning and operations. Institutionalising home ownership program
  3. Creating a dynamic Gongzhu Lotey Mangul Scheme
  4. Solidifying financial security
  5. Exploring possibilities of investment in International market
  6. Professional achievement through advanced ICT facilities
- 

# ROAD MAP



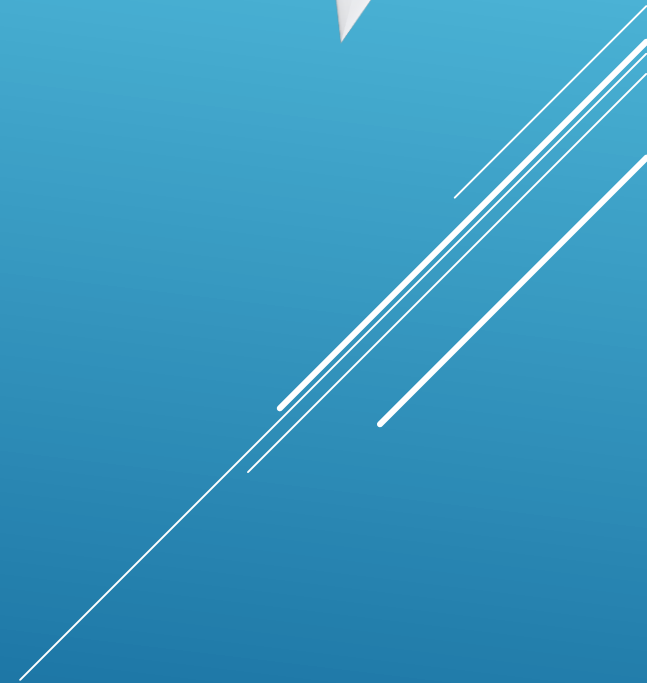
**Expectations,  
Market, Change.**



**NPPF**



**Contributions, Demography,  
Compact civil service,  
private growth interest,  
priorities.**



THANK YOU FOR YOUR  
PATIENCE

