
National Social Security Strategy and National Pension Scheme

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Abstract: Constitutionally Bangladesh is claimed to be a 'Welfare State', the welfare provisions so far adopted proved effective and paved the way to do more by adopting an inclusive welfare policy in future. The essay provides a future vision and road map for designing an inclusive welfare system keeping the 'national pension system' in view. In Bangladesh only 2 million government employees are entitled to draw retirement pension. Recently poor people with virtually no means to support in old (above 60 years of age) ages are also provided with a cash allowance of Tk 400 (equivalent to \$5) per month and about 3 million people are enlisted under the Old Age Allowance scheme. The rest of the senior citizen who even regularly pays income tax during their active life are not entitled to any retirement pension. The essay attempts to explore ways and means to make the universal national pension system in Bangladesh a reality. The essay suggests creating a symbiotic relationship between taxes and pensioning as well institutionalization of *Zakat* for supporting the safety net designed for the extreme poor.

Key Words: National Social Protection; National Pension System; Old Age Pension; Zakat;

Putting priority to the security of the extreme poor of the society, the National Social Security Strategy has been approved by the cabinet recently. The Social Protection (security) Program, which started after 1990, has seen considerable progress in terms of bringing the extreme poor of the society under its wider coverage and gradual increase in the allocation of resources from national budget. According to government calculations, the allocation is not less than 2.7 per cent of the total GDP and constitutes 12% of the public expenditure. The latest figures from the government claim that the percentage of the poor and extreme poor people in the country has been reduced to 24.47% and 10% respectively. It is not yet clear whether the Social Security Policy has been finalised based on the basis of newly accepted National Social Security Strategy Paper. As a result, rooms are still left for affirmative manoeuvring. It is obvious that finalisation and the implementation of the policy are time-consuming, but there is no reason to believe, and it is far off. But the directions for financing the whole scheme and implementation process of the policy are still unclear. It is expected that as a country that is progressing towards the status of a 'middle-income' country and constitutionally promises to be a 'welfare state', the proper implementation of the National Social Security Policy will be deemed to be one of the essential conditions. Keeping that in mind, the aim of this essay is to present some recommendations on the formulation of a forward looking National Social Security Strategy or the Social Security Policy conducive for a nascent welfare state aspiring to achieve middle income country's economic status.

Though there is ample scope to speak on the social security or safety net programs in effect, this discussion will only touch on the context of the existing Social Safety Net Program issues without going into details. The main discussion will be devoted to the implementation of the 'National Pension System' and the rationale and argument for it. The issues discussed in paper are divided into two. The **first part** deals with the existing NSS programme and in the **second part** the issues of proposed 'pension scheme' and alternative resources avenues by mobilising 'Zakat Fund' for pro-poor safety net have been elaborated. Discussion on a 'life-cycle oriented social security' and old age pension issues received special attention in the recently accepted Social Security Strategy. But the discussion has not been followed or complemented with appropriate policy commitment. A roadmap of the national pension policy could have been incorporated in the strategy paper- that has not been done with a clear programme

mapping. But useful information and data needed to set up a system of national citizen pension has found prominence in the strategy paper. The objective of the current discussion will be towards starting a fruitful conversation on setting up of a pension system for all citizens above a certain age in addition to the government servants and the poorest in the society. The introduction of a universal and comprehensive pension system for all senior citizen would be a way forward in fulfilling the constitutional obligation of seeing Bangladesh as a 'welfare state'.

Part-1

Reorganisation of the existing social security program

The social security programs that are presently in effect are stuck in conventional mire. These programs are completely bereft of any creativity and are in the grips of corruption and mismanagement. It would be wasteful and meaningless to carry on these programs in the same manner without initiating major changes to its present conditions. Though the social safety net programs in this country had gained some momentum after 1990, the history of social security in the form of aid at the time of disaster, special works programs and food security is not new in this country. But the new phase of this program as part of sustainable poverty reduction and development at the grassroots has yet to get a powerful and transparent organisational level and structure. At present, the budget for social security and safety net is allocated for 145 programs that are under 23 ministries and departments. This allocated amount in the national budget 2015-16 is about TK. 37,000 crores and it is claimed that the programs will benefit 32 percent of the intended population.¹ Both government and non-government evaluations have already pointed out many shortcomings and lapses. Previously in an evaluation of 30 social security programs, which claimed to have incorporated 24.5% of the intended population. It was found that 18% of those were not even qualified for inclusion in the program.¹ They were incorporated through various means of corruption and committing irregularities. Analysis of the expenses of the pension of government servants and 5 life-cycle based programs which are supposed to hand over cash funded from the national treasury under the NSS and safety net shows that in the 2015-16 budget, the estimated expense towards covering 35.7 million beneficiaries will be 345 billion taka. Of this, 212 billion will be distributed to those directly benefited. The remaining 133 billion will go towards the expenses in the implementation and administration of the programmes, such a high administrative expense is not acceptable by any standards.² Besides, the corruption, wastage, political abuse and workplace indiscipline prevalent in the social security program under the food assisted development program are impediments to quality control and reaching proper and definite goals. So for the programme to achieve definite goals, several steps need to be taken to rid it of three negative factors of the prevalent clique. **One:** stopping the illegal and unjust practice of political patronage in delivering safety net; **two:** minimising excessive relief orientation and transforming those into economically sustainable development programmes and **three:** stopping indifference, benign tolerance of irregularities, and negligence by the local administration and political leaders towards the prevailing corruption and mismanagement and establishing a strict, transparent and efficient management system. In spite of various limitations so far mentioned, the experiences Bangladesh cumulatively gained are not negligible. All these experiences can lead to redesign the programmes for greater good of the society in an

¹ Budget analysis-2015-2016, GOB

efficient way. The study attempts to formulate few recommendations on the basis of wider discussion on the issue in various civil society forums. Some of those are furnished underneath may be considered for reorganising the system towards eradication of poverty and a sound social protection system to function with efficiency and economy.

1. It should be seriously reviewed whether the existing 145 programs under 23 ministries and departments can be brought under one single 'lead ministry and a maximum of six administrative ministries. In this case, the leading ministry could be that of Finance or Planning and the administrative ministries could be those of Local Government, Disaster Management, Social Welfare, Women and Children's Affairs, Education (two different ministries under Education) and Health and Family Welfare.
2. Instead of increasing the number of programs, they could be divided into a few main clusters/categories and be implemented through following definite goals and work plan under individual ministries. The main Clusters/categories could be:
 - a. Emergency relief during disaster (Local government and Disaster Management)
 - b. Relief and providing sustainable development support for the extreme poor, disabled, shelter less and floating persons(Local Government, Social-Welfare and, Women and Children's Affairs)
 - c. Universal education and universal health programs with the aim of guarantying education and health for all with special provision for the under privileged (Local Government, Two separate ministries of Education and Health and Family welfare)
 - d. Assistance for housing and shelter (Local Government-LGED and Housing and Settlement Department)
 - e. Developing universal citizen pension on the basis of income tax and NSSS (Finance, Planning and Local Government)

In the **first** category, emergency relief for people or areas that are victims of floods, storms, cyclones, tidal waves, earthquakes and other disasters will be incorporated. The **second** category will include social security programs for the extreme poor, disabled, handicapped and the jobless. The **third** category will need require bulk of the expenses and also cover the vast number of people. This will benefit the poor, lower-middle class, middle class equally. The state will bear the entire expenses of *education and related costs up to the secondary level for all*. The budget will include expenses for the school uniform, lunch and all educational equipment. Another one of the main services of this category will be *healthcare*. All the citizen of the country (infants to elderly, men-women rich and poor) will be brought under the network of guaranteed healthcare of the state in his or her respective areas. Primary healthcare and special treatment will be paid for by the state from its NSS budget. The **fourth** category will take care of providing

support for public and private housing projects, home-loans, low rent housing for the lower middle class and shelter homes for the homeless. At least planning and design of housing even for private initiatives could be ensured under a decentralised mechanism. The last and **fifth** category will be the guaranteed pension scheme for all senior citizens of the country after a certain age as determined in the policy to be known as 'National Pension Scheme'.

Social security programs of mid or high-income countries with comparatively lower level poverty incidence usually have a structure similar to the one outlined above. So, at the dawn of becoming a mid-income country, the national social security program structure needs to be remodelled. Our next discussion will be an elaboration on the *fifth category* – the structure of the national pension scheme and its potential funding arrangements.

Part-2

National Pension or State Pension for Senior Citizens

In this country only government service holders – both civil and military are entitled to retirement pension. In recent times, service holders of universities and other autonomous bodies have been added alongside government service holders to the pension system. Therefore, people above the age of 60 or who have held a government job for 25 years receive a pension at a rate based on their last drawn salary amount. They can receive this pension at one go or monthly akin to a salary. After the death of the service holder, their husband/wife or children are entitled to the same. There are private funds and gratuity schemes for the corporate sector or non-government organisations. As per condition of jobs, they receive the benefits after they leave or retire from the job.³

But there are many in the country that contribute to the development of the society and the country during their working life but are not included in the pension system or retirement benefit schemes. At the end of their active lifetime, they cannot live a secure, certain and normal life. There are those among them who regularly paid all taxes when they were fit for work and earned above the income tax paying income ceiling. For 10-30 years they have to pay income taxes to the government. Then there are also those who contributed to the development and progress of the country but their earnings were not within the income-tax range. But they have to lead an unbearable life after they no longer have the capability to carry on working. The average life expectancy of a Bangladeshi is now 70 years. After reaching the age of 60, if they do not have adequate savings, all senior citizens have to be dependent on the mercy and patronage of others. There is a general trend and tendency to save money by all means in right and wrong ways while in work, so that one does not have to depend on others in their old age. The state can start a system of cash pension after certain age and ensure health care for all the senior citizens. These two support systems can be given a universal form and structure. A mixed system of insurance and pension can also be established by having arrangement with employers and credible financial institutions.

Universal Structure: The structure can be formed through the assimilation of the income tax and the pension system. There may be a social security registration for all working people in the country employed in government-non-government, formal-informal, independent, self-employed and people in their own vocations and businesses.

This could be connected to the national identification system (ID Card) that is in effect now. That is, everyone will also have an income tax registration connected to his /her national identification registration and that may also subsequently provide a 'Social Security' number. This can be one of the primary bases of the citizen pension and income taxpaying citizens could be registered first. A certain sum will be contributed to the pension fund on behalf of every income tax paying citizen from the amount of tax they pay. In this way, a close connection can be built between the retirement pension and the income tax. This means, senior citizens will be entitled to a general amount (say 3000 taka per month for everyone over 60/62years of age), but the amount will be increased further based on the proportion of income tax paid by them during their active and working life.

At present, the principal amount of pension for government employees is 90% of the net salary drawn and total amount accumulated will be equal to the amount multiplied by TK180-200. The difference of amount among the pensioners will be determined on the last salary drawn by them and it is going to create a difference in the total pension amount among different categories of employees. In this case of newly suggested national pension scheme, it is not the earning or salary that will create the difference in the total amount of retirement pension benefit, but the amount of income tax paid to the government during the active working life as well as contribution to other insurance schemes.

Many people in the country working as doctors, consultants, lawyers, NGO workers, small businessmen, those employed in the services and working independently pay taxes – then again and a large number do not. Then there are also some who pay a nominal amount just to dodge the punishment under law or just to register them as tax payers. In reality, those who pay taxes end up being on the losing side in the culture of our society. Because, those who do not pay taxes, do not have to care for any punishment. Those who do pay taxes are not benefitted in any way for paying taxes rather they are faced with many odds under the different rules and regulations. They do not get any direct benefits from the state in exchange for the taxes they pay. They are not entitled to any earmarked or special healthcare for themselves or their family, their children's education, preference in any public utility or recognition from the state. After retirement, they cannot claim any social security either. They have to depend on their children or their savings if they have any. From the tension about uncertain future, a tendency to accumulate wealth through legal and illegal means is rampant and aggressive. If a system of citizen pension in recognition of taxes and other contributions were there, a tax paying culture would have been taken firm root and also ensure a life free of tension and worry for the law abiding citizen.

Therefore, a system of universal pension for all, not only for the government employees can be created by combining income tax payment and retirement pension scheme for all. A similar system has developed into a mature and organised form in West European and Scandinavian countries through changes and reforms over a period of hundred years (1920 onwards).

Funding the pension system: A certain portion of the tax amount paid to the government in any given year could be saved in the state pension fund. The state can invest this money in different profitable financial programmes. In this way, a handsome fund could be accumulated by the state for meaningful investment. The number of citizens who pay income taxes will rise rapidly in the country. On the other hand, social insecurity and uncertainty will decrease. A self-respecting society will be created. Every

citizen will be brought under the working network after finishing his or her education. They will also be included in the social security and retirement pension system at the same time. The state will receive taxes from these citizens at least for 40 years and have to pay them retirement pensions for a maximum of 10-15 years.

'National Pension Insurance' scheme can also be started through a state guarantee to bring in people under a pension/insurance scheme on their own voluntary contribution. Any person involved in any work can receive pension at a definite rate based on the premium after the age of 60 being member of the scheme. Husband/wife or underage children can also be made part of the pension scheme.

At present, the biggest portion of government expenses goes towards the wages, allowances, pension and gratuity for civil and military personnel. The total number of government employees – both military and civilian – is not more than 2 millions in the country. Analysing the 2015-16 national Budget Document (statement-4, combined Non-development expenditures fund) and report 6 (Non-development expenditures-ministries and departments), the allocated amount for civilian employees is 45,365 crore 92 lakh 29 thousand taka. If the pensions and gratuity amount of 11,584 crore 37 lakh 56 thousand taka allocated in 2015-16 budget is added, the amount stands at 56,940 crore 85 lakh 50 thousand taka. The greater portion of taka 17,961 crore 91 lakh 50 thousand allocated for the armed forces is also that of wages, allowances, pensions and gratuity.

It is said that 3.1 million out of total 160million people in the country have tax (TIN) registration. Of this, only 1.1 million actually pay taxes. Till now, government employees did not have to pay taxes on their incomes – that has been changed recently. Now, they too have to pay taxes on their incomes. The wages and allowances of ministers and MPs are exempted for some special reasons. The National Board of Revenue has set a goal of collecting taxes of taka 64,971 crore on the income and profit of individuals and establishments. The target for collection of value added tax (VAT) is 64.262 crore 91 lakh taka. The first category of tax is collected from individuals and organisations directly and the second category tax is on everyone irrespective of rich and poor. In total the government hopes to collect 2, 08,443 crore 29 lakh 96 thousand taka from the NBR taxes, non-NBR source taxes and non-tax incomes of which 74.902 crore 76 lakh 52 thousand will be spent on government employees belong to civil and military services. This expenditure structure of the government is not logical. The common people of the country do not pay different category of taxes for supporting the government and government employees only. If the services and benefits a citizen can claim in lieu of taxes and other obligations they fulfil are taken into consideration, then a massive change to the current structure will be needed. In future, the primary consideration for pension should not only be the government service – the proper payment of tax as a civic duty needs to be given the top most priority along with government service. Therefore, as the first step towards establishing a universal citizen tax, a proper idea needs to be developed to bring all tax payers under the retirement pension system. The citizen pension system then needs to be strengthened through reforms in other safety net and social security programmes. As a middle-income welfare state, there is no alternative but to go for universalisation of state benefit as far as possible. Only 1-2% of the tax paid by individuals can be set aside for creating the pension fund from the next financial year. A pension system for those above 60 who have paid taxes regularly in the preceding 10 years can be started from 2018-19. This is how it can begin and by 2020 the system can be finalised for fuller implementation.

At the same time, work should also begin to launch a single national social security insurance system for income tax payers first and gradually a national insurance scheme and national citizen pension in accordance with the national social security policy can be started by formulating a road map. The government needs to formulate a transparent and feasible road map to this end and create an independent commission to monitor and assist in the process of formulation and implementation of the policy. The permanent **pay commission** and **social security and pension commission** can be integrated into a single entity for initiating the reform.

Alternative funding for the social security programs for the extreme poor

At present, taka 37,000 crore has been allocated for the social safety net system in exchange for cash and food grains. If other social security program, especially the national pension scheme is started, then a part of the tax revenue will be shifted for that from the existing safety net. This might apparently pose a threat for the current programs or create an extra pressure on the budget, but in reality it is not. However, this can be combated in two ways. **One:** if the universal pension scheme is started in the country, then the separate allowance for senior citizens as well as the pension fund for government employees could be merged with National Pension system. **Two:** Separate allocation for the funding of social security of the extreme poor might become negligible and smaller. **Three:** The money for supporting extreme poor can be collected from other alternative sources with proper incentives. A large portion of relatively affluent citizen of the country pay *zakat* as part of their religious obligation according to *shariah* dictum. More people in this country pay *zakat* than those who pay taxes. There is no registration for those who pay *zakat* and the *Zakat* system is not connected with any government programme. At present, a nominal rebate is given for the amount of *zakat* paid to the fund of the Islamic Foundation. If the government allow further incentives in this case, the society and the *zakat* payers will both be benefited and encouraged. The state may find a new avenue with an alternative funding source for the social safety net programme of the extreme poor by utilising the social capital and people will be encouraged voluntarily donate the *Zakat* amount to the GOB fund..

A big portion of those who pay taxes at present, also contribute *zakat* due to religious reasons. *Zakat* under the prevailing situation is not delivered in an organised and Islamic way; - the society is not fully benefited from it as expected. On the other hand, it creates an additional anxiety for taxpayers. There are doubts about giving *zakat* at a rate of 2.5% of savings on top of paying a considerable sum for taxes. This brings a sense of hesitation and guilt both in many minds. They are conflicted between the punishment for not paying taxes and Allah's wrath for not with the fifth pillar of being a muslim as not honouring the institution of *zakat*. If the state takes responsibility, a citizen can be relieved of both- his civic duty and his religious obligation. A system can be created by the government through which the *zakat* funds could be used and utilised for the social security programs of the extreme poor, thus relieving pressure from the national budget. On the other hand, the *zakat* payers will be satisfied for having done their religious obligations.

A simple recommendation for the matter can be as follows. Every TIN registered taxpayer will indicate/declare the amount of money s/he wants to contribute to the

National Zakat fund on the income tax return forms. The zakat amount will also be deposited separately. The government will ensure that the amount indicated by the taxpayer will be deposited in the zakat fund under the TIN holder's name. In this way, those who pay taxes and give zakat regularly will get the opportunity – if s/he pays half of the 2.5% Zakat from his own money, then the government will pay the rest from the tax paid by him. Only condition is that the Zakat contributor has to be a taxpayer and the Zakat money does not exceed 20% of the tax amount. I am sure this combined fund will not be less, if not more, than the money allocated for safety net program every year. There should not be any other separate system of tax rebates as it exists now.

To this end, the government can formulate the “National Zakat Collection and Utilization Policy”. The National Board of Revenue can transfer the money collected as Zakat contributions to GOB fund. A combined system can be created by the joint efforts of the Religious Affairs ministry and the Social Security implementation ministry to determine how the money could be collected and utilised.

Conclusion: The reason behind this discussion is to create awareness about the importance of a national pension policy for the benefit of the society and economy of Bangladesh as a sustainable and forward looking initiative. If we think of the social security issue separately, new impediments of funding and organisation may arise. So the current income tax , newly proposed universal pension system and subsequently issue of proposed Zakat collection and its utilisation can be incorporated as part of the overall social security policy. The issue needs to be seen from the constitutional guarantee to ensure economic and social security of all citizens – not only government employees, but a system based on the principles of a caring society and discharge of civic duties - especially lawful payment of taxes. If the system is implemented, the scope of the country's income tax collection will rapidly increase. The general people will be relieved of worry and anxiety of sustenance of livelihood in an old age. This will bring peace and stability to social life.

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