



**NATIONAL PENSION
AND
PROVIDENT FUND POLICY OF BHUTAN 2018**

ROYAL GOVERNMENT OF BHUTAN

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1 Rationale

Gross National Happiness is the guiding philosophy for the socio-economic development of Bhutan, and spiritual and material wellbeing of all its citizens is the nation's ultimate development objective.

In the past, the traditional social support practice in Bhutan has ensured security to the people in event of deprivation and old age. Elderly people were cared for by extended family arrangements and mutual aid societies. However, with socio-economic development and modernization, the traditional social support is rapidly weakening. With increasing urbanization, rural-urban migration and increasing labour force mobility, families are becoming smaller and more dispersed, thereby eroding the ability of the extended family systems to function as social safety nets. This trend will become more pronounced over the years.

Since the start of the planned socio-economic development, the retirement security system was developed in Bhutan with the introduction of Gratuity in 1962, followed by the Government Employee Provident Fund (GEPF) in 1976 and then pension scheme in 2002. These schemes provide some element of financial security to the citizens. However, due to lack of comprehensive coverage and absence of regulatory framework, the existing schemes cater to only a small portion of the country's workforce, thereby exposing large number of citizens to potential old age deprivations and social insecurity.

Currently, the existing programs that provide pension and provident fund benefits covers only about 15% of the labour force employed by the civil service, State Enterprises, corporations and the armed forces. Some private sector employees are covered under private provident fund schemes accounting for about only 2% of labour force. The remaining 83% of the labour force are not covered by any existing formal scheme. They include employees under GSP, ESP, NWF, Local Governments and private sector, NGOs, CSOs and the self-employed.

The existing 'Defined Benefit Pension Scheme' faces increasing sustainability pressure due to growing pension liability which will require increase in contribution from both employers and employees. This may make it difficult and unaffordable for the interested individuals to join the formal pension schemes.

Hence, it is important not only to strengthen the existing pension systems but also institutionalize other savings schemes designed to help the entire labour

force to protect themselves against unforeseen situations during old age and ensure decent post-retirement life.

The National Pension and Provident Fund Policy shall ensure wider social security coverage, especially during old age and encourage development of sustainable and affordable pension and/or provident fund schemes. Such schemes will ensure that all Bhutanese citizens have access to a minimum benefit during retirement and other pre-retirement benefits.

The policy shall also provide framework for establishing proper governance of both the scheme and fund management under a regulatory and supervisory authority.

2 Problem statement

2.1 Coverage

Pension and provident fund coverage is generally limited to those individuals who are employees in civil service and armed forces. Approximately 83% of the labour forces are excluded from the existing scheme thereby exposing many of them to social vulnerabilities during old age.

2.2 Long term financial sustainability

The conventional defined-benefit pension scheme suffers from inherent sustainability issues. Current demographic trends indicate that eventually there will be larger number of pensioners than contributors leading to ultimate exhaustion of fund.

2.3 Lack of governance and regulatory framework

The pension and provident fund management is fragmented with schemes being administered by various institutions and also by the employers without proper governance and regulatory framework.

3 Legal Framework

The following legal provisions govern the National Pension and Provident Fund Policy:

3.1 Article 9 (Section 7 and Section 22) of the Constitution of the Kingdom of Bhutan 2008 mandates the state to endeavor to “minimize inequalities of income, and concentration of wealth” and access to “equitable distribution of public facilities”, provide “security in the event of sickness and disability or lack of adequate means of livelihood for reasons beyond one’s control.

3.2 Civil Service Act of 2010 and Bhutan Civil Service Regulation (BCSR) includes relevant provisions to provide pension and provident scheme based on position classification.

3.3 Section 99, Chapter VI of the Labour and Employment Act of Bhutan 2007 which states “An employee, upon retirement from the Services shall be entitled to the following benefits (a) Gratuity: and (b) Provident fund or Pension”

3.4 Section 362, Financial Services Act of Bhutan: “The Authority may regulate financial services other than banking, insurance or securities business by adopting regulations to establish systems of licensing and regulation consistent with the sections of this Act applicable to financial services, including but not limited to:

- a) Inter corporate borrowings;
- b) Pension and Provident Funds;
- c) Trust fund;
- d) Cooperatives, lending companies, Foreign Exchange dealers or money transmitters; and
- e) Any services which is deemed financial in nature.

3.5 Based on the policy, legislation governing the National Pension and Provident Fund shall be enacted.

4 Vision

A nation where its citizens enjoy decent post-retirement life with appropriate level of social security

5 Scope

The policy shall cover all the beneficiaries and service provider of the pension and/or provident schemes stipulated in this policy.

6 Objectives of the Policy

The objectives of the Policy are to:

- i. Ensure access to pension and/or provident fund schemes to all employees including the self-employed;
- ii. Promote and ensure sustainable pension and provident schemes for all times to come;
- iii. Establish a regulatory system governing the pension and provident Fund in the country; and
- iv. Ensure those individuals who are not in the formal contributory schemes have access to other non-contributory pension schemes.

7 Policy Statements

7.1 Coverage of pension and/or provident fund schemes

All citizens employed, either on contract or regular employment, including the self-employed shall be covered by pension and/or provident fund schemes. This will include the employees under the GSP, ESP, NWF and other category of employees as may be defined by the Government from time to time.

7.2 Voluntary contribution savings schemes

The Government shall encourage the relevant pension and provident fund service provider to develop voluntary provident fund schemes for all citizens.

7.3 Sustainability

The government, from time to time, shall review its fiscal, labour, employment and other relevant policies to ensure sustainability of the pension and provident fund schemes.

Pension and provident fund service provider shall ensure sustainability by diversification of schemes and prudent management of funds.

7.4 Schemes, accounts, contribution and benefits

7.4.1 Schemes

The service provider shall provide one or the combination of the following schemes:

- i. Defined Benefit Pension Scheme (DB-PS);
- ii. Defined Contribution Provident Fund Scheme (DC-PFS);
- iii. Voluntary Defined Contribution Scheme;
- iv. Non-contributory Schemes; and
- v. Other schemes as may be deemed necessary.

7.4.2 Accounts

To ensure financial discipline, there shall be different accounts for different purposes.

There shall be **Retirement Account** solely for the purpose of retirement savings and **Ordinary Account** for purposes such as education, home ownership, medical insurance and other purposes that may be necessary.

7.4.3 Contributions

Employers and employees shall make contribution at the rate or amount determined under different benefit schemes. Minimum rate of contribution for all schemes shall be approved by the Regulatory and Supervisory Authority.

7.4.3.1 Voluntary Contribution scheme

A pension and provident fund service provider shall offer voluntary contribution scheme to any individual. To encourage savings, the Government shall review and explore provision of incentives to supplement the scheme if deemed necessary.

7.4.4 Benefits

There shall be a proper structure and framework for collection of contribution and payment of benefits developed by relevant service providers. The

benefits shall be determined based on cost of living and other factors. The structure and framework shall be approved by the Government.

8 Non-contributory pension scheme

The Government shall provide non-contributory pension scheme for elderly citizens aged 60 years and older. The Government shall develop eligibility criteria and determine the amount of such benefit.

A pension and provident fund service provider shall be identified to manage such schemes which will be governed by guidelines approved by the Government.

9 Scheme and Fund management

The schemes and funds shall be offered by a licensed entity or organization. There shall be clearly defined roles and responsibilities for scheme and fund management through rules and regulations.

10 Investment of Funds

The pension and provident fund service provider shall ensure that the funds contributed by the members are invested in a prudent, efficient, and effective manner. The investment and fund management framework shall be formulated for the benefit of members and the sustainability of the schemes based on, but not limited to, the following principles:

- i. Diversity of assets
- ii. Security of assets
- iii. Profitability
- iv. Liquidity

11 Protection of pension and provident fund

11.1 Claim on contribution

No creditor shall have rights to claim the accumulated contribution deposited into the Retirement Account of the member.

On the consent of the member or the nominee in case of the demise of the contributor, the accumulated contribution in the Ordinary Account may be adjusted against his or her loan outstanding or dues, if any.

11.2 Portability of Schemes

To promote continuity and convenience for members, the pension and provident fund service provider shall allow transfer of contributory deposits, benefits and associated rights from one employment to another or between service providers.

12 Tax Treatment

Contributions to pension and provident fund schemes by both employer and employee shall be allowed as tax deductible expenditure as per law.

The Ministry of Finance shall set ceiling on the allowable expenditure.

13 Institutional Framework

13.1 Royal Monetary Authority of Bhutan

The Royal Monetary Authority of Bhutan shall be the Regulatory and Supervisory Authority for the Pension and Provident Schemes and Funds.

RMA shall be responsible, but not limited, to the following:

- i. Approve and license pension and/or provident fund service provider;
- ii. Review and approve governance structure of the pension and provident service provider;
- iii. Approve any change in the scheme or schemes being provided to the members;
- iv. Monitor and regulate management of schemes and investment of funds;
- v. Protect funds from misuse, misappropriation, and unnecessary risk by formulating appropriate rules and regulations pertaining to the use and management of funds;
- vi. Develop regulations for management and investment of pension and provident fund;

- vii. Ensure transparency and accountability in the management of schemes and funds;
- viii. Report to the Ministry of Finance on the performance and status of various pension and provident fund schemes;
- ix. Develop standard rules for funding and actuarial valuation of schemes

13.2 Ministry of Finance

The Ministry of Finance shall be responsible, but not limited to the following:

- i. Ensure the implementation of the policy;
- ii. Assess and approve overseas investments of the funds;
- iii. Develop guidelines for non-contributory schemes;
- iv. Assess financial viability of civil service and armed forces pension and provident fund schemes; and,
- v. Ensure adequate budget for pension and provident fund contribution.

13.3 Ministry of Labour and Human Resources

The Ministry of Labour and Human Resources shall enforce provisions on pension and/or provident fund as per the Labour and Employment Act.

13.4 Royal Civil Service Commission

The Royal Civil Service Commission shall ensure all Government employees are covered under the pension and/or provident fund schemes.

14 Auditing and Valuation

Pension and provident fund service provider shall ensure proper valuation of schemes and funds. It shall submit audit and valuation report to the Royal Monetary Authority and Ministry of Finance.

15 Monitoring and Evaluation

To ensure compliance to the provisions of this policy, the Ministry of Finance shall monitor and evaluate the implementation of this policy.

16 Amendment and interpretation of the policy

The Government may amend this policy as and when required. In event of conflict of interpretation of this policy, the Ministry of Finance shall be the authority to interpret all provisions of this policy which shall be final and binding.

Concepts and Definition

“**Creditor**” refers to any institution or individual to whom a member owes money and/or availed loans from or any other purposes granted under the scheme.

“**Citizens**” refers to all the all individuals residing in the country as well Bhutanese citizens living abroad who are members of the pension and/or provident fund schemes.

“**Defined-benefit scheme**” is a pension scheme where the benefit amounts are specified based on the salary and years of service and payable only at pension age in the form of an annuity or installment payments, irrespective of whether the returns on investments support it or not such as the Defined Benefit Pension of NPPF (sponsor bears the investment risk).

“**Defined-contribution provident fund scheme**” is a fully funded defined contribution in which certain amount or percentage is set aside each year and benefit payable only at specified age in a lump sum or installment payments. The benefit amount is depended upon the accumulation from contributions, investment earning, and age of contributors.

“**Voluntary contribution scheme**” is a defined contribution in which certain amount or percentage is set aside for each member and the contribution rates are left up to the individuals either to make regular or ad-hoc voluntary contributions subject to the contribution ceiling prescribed by an appropriate authority or government from time to time.

“**Funds**” refers to the assets and properties accumulated out of contributions and its proceeds from investment.

“**Government**” refers to the Royal Government of Bhutan which includes the Judiciary, Executive, Legislative, Statutory Bodies, and state-owned enterprises.

“**Employees**” refers to the regular and contract employees of the civil service, public servants, statutory bodies and state-owned enterprises.

“Regulatory Authority” refers to the Royal Monetary Authority of Bhutan being responsible for regulation and supervision of all pension and provident fund service providers.

“Self- employed” refers to the type of employment which does not fall under either of formal or informal sector employment.

“Non-contributory pension scheme” refers to the schemes the Government will introduce for selected group of citizens based on the criteria and guidelines developed by the Government.

“Retirement Account” refers to the Account maintained and offered by pension and provident fund service provider. Balance from this account shall be used for purposes other than retirement benefit.

“Ordinary Account” refers to the Account maintained and offered by pension and provident fund services provider. Balance from this account can be allowed for purposes other than retirement benefits as determined by the Regulatory Authority and service providers.

“Pension and provident fund service provider” refers to institutions that engage in providing pension and provident fund services to the members including fund and scheme management.

“Scheme” refers to a scheme of retirement fund approved by the authority.

“Entities” refers to the licensed entities that manages and administers the scheme and or funds, or both.

“Valuation” refers to assessment of the financial position of the scheme.