

Equity in Pension for All Retired Government Servants: An Analysis*

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ABSTRACT

Government servants receive pension after their retirement in exchange for their services to the state during their service life. But the structural change in every National Pay Scale influences the amount of net pension they receive. So the objectives of this study were set to examine the pay structures of the last five National Pay Scales to find out if there is any inequality in the net pension of all government servants and to recommend policy intervention for ensuring equity in the existing pension system. Secondary data were collected from the last five consecutive National Pay Scales and IBAS++ of Finance Division and analyzed them by using the basic statistical method to probe into the objectives of the paper. After analysis of data, it appeared that inequality exists in the net pension of all retired government servants. Therefore, the paper recommends that the amounts of net pension that the pensioners are receiving based on the National Pay Scales of 1991, 1997, 2005 and 2009 should be increased on average by 68%, 54%, 46%, and 38% respectively to equalize them with the net pension on July 1, 2015, calculated based on the National Pay Scales of 2015. It also recommends that in this regard, the government should consider framing an equitable, fair, and sustainable pension policy.

Keywords: Equity, equality, pay, pension, retired, servants

INTRODUCTION

Government servants in Bangladesh are the servants of the People's Republic of Bangladesh. As per the provision of Article 21(2) of the Constitution of the People's Republic of Bangladesh, the government servants serve the people during their service life. In exchange for their services the government grants pension benefits to its employees upon retirement based on the length of qualifying service. After independence, the maximum rate of pension was 60% of the last pay drawn. In 1977, by way of modification to family pension and gratuity, new pension rules were

* This paper is an outcome of the Policy Evaluation Paper of the 91st Senior Staff Course, BPATC. Views expressed in the article are of the author's and don't necessarily reflect the position of the Government of Bangladesh and the Finance Division

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announced, and according to these rules, the maximum rate of gross pension was fixed at 80% of the last basic pay drawn (Miyan, no date). The government again increased the rate of gross pension from 80% to 90% of the last basic pay drawn before his retirement (Notification, 2015).

According to rule 5(41) of Bangladesh Service Rules (Part-1), pension means a pension, including gratuity, if pension and gratuity are not mentioned separately. As per the existing rule, it is mandatory for a retiring government servant to surrender 50% of his gross pension for gratuity, and the rest 50% is for monthly pension at a fixed rate (Notification, 2017). After the death of a pensioner, his eligible family members are entitled to receive pension till a certain period set by pension rules.

At present, the tenure of services of a government servant is about 34 years on average. After 34 years of active services in the public office, a government servant retires and lives on a monthly pension. If the amount of monthly pension remains static over time, the pensioners face difficulties in maintaining their lives in old age due to inflation. Considering their cases, the government has started to increase the amount of net pension from the National Pay Scale of 2005. Besides, the amount of basic pay of each grade in the National Pay Scales of 1991, 1997, 2005, 2009 and 2015 has increased substantially. The later Pay Scales get a greater amount of basic pay than the earlier ones. As the net pension is determined based on the last basic pay drawn, and the rate of gross pension, the structural change in every National Pay Scale is significant for a retiring government servant. The higher the amount of basic pay, the greater the amount of net pension. This system for the determination of pension is still going on. So ensuring equity in the pension system is a significant issue.

OBJECTIVES OF THE STUDY

Given the above discussions, the following objectives are set for the study:

1. To examine the pay structures of last five National Pay Scales and to find out if there is any inequality in the net pension of all government servants; and
2. To recommend policy intervention for ensuring equity in the existing pension system.

JUSTIFICATION OF THE STUDY

A citizen enters into service at a young age for serving the people of the Republic. He then spends the most valuable time of his life in the service of the Republic, and ultimately at the age of 59, he retires from service because of old age. In exchange for their services to the Republic, the government grants pension to the retired government servants to ensure their financial and social security and to lead an honorable and dignified life after retirement. So the pensioners have to rely on their monthly pension for survival. But the provisions for the increases of net pension in the National Pay Scales of 2005, 2009, and 2015 and the growth of basic pay in the National Pay Scales of 1997, 2005, 2009 and 2015 have influenced the amount of net pension which pensioners and family pensioners receive every month. Therefore, it is an urgent need to examine the pay structures of different National Pay Scales to find out if any inequality exists in the net pension of government servants.

REVIEW OF LITERATURE

A literature review is done to explore the research gap. It also helps the researcher to form conceptual, theoretical, and analytical frameworks. With this in mind, the most related literature on pension was reviewed for this policy study:

Park and Estrada (2012) in their introductory discussion on Pension Systems in East and Southeast Asia expressed the view that ‘while demographic change is the primary impetus for pension reform in Asia, there are several other factors that lend a sense of urgency to the task of building up sound and efficient pension systems’. Kim and Bhardwaj (2011) stated that income insecurity in old age is likely to be one of the critical causes of increased poverty in South Asia, and setting up systems to avert this crisis should be a central public policy goal of each country. Therefore, several countries in the region are beginning to evaluate a range of policy options for pension reforms. A Policy Conference on ‘Reforming Pension Systems in South Asia’ held on 23 - 25 November 2000 in New Delhi, India, gave an important message that the countries in South Asia have an urgent need to establish sustainable, equitable, and comprehensive pension systems (ADBI, 2000). In an article Miyan (no date) concluded that ‘There is a felt need for evolving a retirement and pension system that will be fair, equitable to all segments of the society, meet the constitutional obligation of social security for the elderly and conform to basic human dignity.’ Bangladesh Service Rules (Part-1) do not quantify the amount of pension which a pensioner receives after the retirement. The Government of Bangladesh issued a memorandum in January 2009 titled ‘Simplification of Pension Rules for the Government Servants, 2009’ for the quick disposal of pension cases. After that, on October 14, 2015, the government issued a Gazette Notification for the ‘Re-fixation of Retirements Benefits of the Government Servants’ (Notification, 2015). This notification describes the length of pensionable services, rate of pension and gratuity, encashment of earned leaves, etc. The Pension Rules also evolve out of the National Pay Scales. So the National Pay Scales of 1991, 1997, 2005, 2009, and 2015 were reviewed for this study. These last three National Pay Scales contain only the nominal incremental provisions of net pension. Therefore, by examining the literature mentioned above, it was seen that there are no rules that can ensure equity among the pensioners in terms of receiving the amount of net pension.

METHODOLOGY

The credibility of any research entirely depends on the reliability of measurement tools. Employing a valid method of data collection, reliable techniques of data analysis, and obtaining the intended results are essential for a study. Therefore, the following methods were employed to evaluate the pension policy of the government:

- (i) The quantitative method was used to examine the pay structures of the last five National Pay Scales and the existing pension policies of the government. Data were collected from various sources and analyzed them carefully. Besides, the necessary information was gathered from different pension-related policy papers and examined them critically. Based on the findings, inferences were drawn for the study.

- (ii) Sources of Data: The secondary data were collected from the last five consecutive National Pay Scales, IBAS++ of Finance Division, notifications of rules and regulations relating to pension, budgetary allocations and expenditures for the pensioners in different financial years, etc.
- (iii) Data Analysis: The primary statistical method of data analysis was used in this study.

FINDINGS

Data were collected from the last five consecutive National Pay Scales of 1991, 1997, 2005, 2009, and 2015. Each National Pay Scale contains 20 different grades of pay. Out of the 20 grades, only two representative grades, that is, the basic pay of Grade-1 and Grade-16, were taken for analysis. Grade-1 is the highest pay scale, and the Grade-20 is the lowest pay scale of the National Pay Scale. But a 20 Grade holder is usually promoted to Grade-16 before his retirement. So scales of Grade-1 and Grade-16 were considered as representative samples of data. These two representative samples of data are discussed chronologically in Table 1 below:

Table 1: Distribution of National Pay Scales and their Grade, Basic Pay, Incremental Provisions in Net Pension and Date of Effectiveness

SL No.	National Pay Scale	Grade	Basic Pay in Tk.	Increase in Net Pension	Date of Effectiveness
1	1991	1	10000/- (fixed)	-	01.07.1991
		16	1200 – 2335/-		
2	1997	1	15000/- (fixed)	-	01.07.1997
		16	1875 – 3605/-		
3	2005	1	23000/- (fixed)	Up to Tk. 1000/- 40% Tk. 1001/- and above 25%	01.01.2005
		16	3000 – 5920/-		
4	2009	1	40000/- (fixed)	Above 65 years of age 50% Below 65 years of age 40%	01.07.2009
		16	4700 – 9745/-		
5	2015	1	78000/- (fixed)	Above 65 years of age 50% Below 65 years of age 40%	01.07.2015
		16	9300 – 22490/-		

Source: The National Pay Scales of 1991, 1997, 2005, 2009 and 2015

The figures in Table 1 show that before the National Pay Scale, 2005, there was no incremental provision in the net pension of the pensioners. From the National Pay Scale of 2005, an incremental provision based on a monthly net pension was introduced. According to that provision, those who received monthly pension up to Tk. 1000/- enjoyed a 40% increase and those, Tk. 1001/- and above, enjoyed a 25% increase in their net pension. After that, an incremental provision of net pension based on the ages of the pensioners was introduced from the National Pay Scale of 2009, and those provisions remain unchanged until the National Pay Scale

of 2015. As per those provisions, the pensioners above the age of 65 received a 50% increase, and those below the age of 65 received a 40% increase in their monthly pension. Besides, a net pension is determined based on gross pension, and the gross pension is determined by a fixed rate of percentage of the last basic pay drawn before his retirement considering the length of pensionable service. Data in Table 1 show that in every national pay scale, the basic pay of each grade has increased further than the previous national pay scale. So it is pertinent to examine whether the pay structures in the National Pay Scales of 1991, 1997, 2005, 2009, and 2015 have created any inequality in the net pension of government servants.

Given the pay structures of the National Pay Scales of 1991, 1997, 2005, 2009 and 2015, the amounts of net pension of the Grade-1 and Grade-16 holders on July 1, 2015 were calculated by using the formulae* given in 'Note' below based on basic pay, incremental provisions in net pension and date of effectiveness of the National Pay Scales mentioned in Table 1. The results of the calculation and the average age of pensioners on July 1, 2015 are shown in Table 2 below:

Table 2: Distribution of the Amount of Net Pension on the Date of Effectiveness of each National Pay Scale

Pay Scale	Grade	Basic Pay in Tk.	Net Pension					Age Groups***
			01.07.1991	01.07.1997	01.01.2005	01.07.2009	01.07.2015	
			4000	4000	5000	7500	11250	
1991	1	10000	4000	4000	5000	7500	11250	> 76
	16	2335**	934	934	1307 = 1400***	2100	3150	
1997	1	15000		6000	7500	11250	16875	69-76
	16	3605**		1442	1802	2703	4054	
2005	1	23000			9200	12880	19320	65-68
	16	5920**			2368	3315	4972	
2009	1	40000				16000	22400	61-64
	16	9745**				3898	5457	
2015	1	78000					35 100	<61
	16	22490* *					10120	

Source: The National Pay Scales of 1991, 1997, 2005, 2009 and 2015

Note

*Formulae for calculation of Net Pension: **Amount of the last pay drawn X Rate of pension (%) = Gross Pension/2 = Net Pension + Incremental amount in a pay scale (Net Pension X % of Increment) + = Net Pension on July 1, 2015.**

**The pay of Grade-1 is fixed and the pay of Grade-16 is incremental. So the highest amount of Grade-16 is taken for the calculation.

***Minimum net pension was Tk. 1400 in National Pay Scale, 2005.

****Approximate Age Groups are shown against each National Pay Scale based on retirement

age at that time.

It is seen from Table 2 that a Grade-1 holder who had gone to retirement by following the provisions of the National Pay Scale of 1991 received Tk. 4000 as monthly net pension on July 1, 1991, and that amount of net pension became Tk. 11250 on July 1, 2015. But the same grade holder (Grade-1) receives Tk. 35100 as monthly net pension on July 1, 2015, as per the provisions of the National Pay Scale, 2015.

In the same way, a Grade-16 holder who had gone to retirement by following the provisions of the National Pay Scale of 1991 received Tk. 934 as monthly net pension on July 1, 1991, and that amount of net pension became Tk. 3150 on July 1, 2015. But the same grade holder (Grade-16) receives Tk. 10120 as monthly net pension on July 1, 2015, as per the provisions of the National Pay Scale, 2015. The same is the case with the pensioners who had gone to retirement following the provisions of National Pay Scales of 1997, 2005, and 2009.

Again the basic pay on the date of effectiveness of each the National Pay Scale was analyzed to find out the differences between the two consecutive National Pay Scales. Besides, the amounts of net pension on July 1, 2015 determined by following the provisions of National Pay Scales of 1991, 1997, 2005 and 2009, were also analyzed comparing with the amount of net pension on July 1, 2015 determined by the provisions of National Pay Scale of 2015. The results of the analysis are shown in Table 3 below:

Table 3: Percentage Distribution of the Increase in Basic Pay of each National Pay Scale and the Decrease in the Net Pension in Comparison with the Net Pension of National Pay Scale of 2015

National Pay Scale	Grade	Basic Pay in Tk.	Percentage Increase of Basic Pay against the Previous Pay Scale	Net Pension on 01.07.2015	Percentage of Net Pension on 01.07.2015 in Comparison with the National Pay Scale of 2015	Average Percentage of Net Pension to be Increased for Equality
1991	1	10000	-	11250	32%	68%
	16	2335	-	3150	31%	
1997	1	15000	50%	16875	48%	54%
	16	3605	54%	4054	40%	
2005	1	23000	53%	19320	55%	46%
	16	5920	64%	4972	49%	
2009	1	40000	74%	22400	64%	38%
	16	9745	65%	5457	54%	
2015	1	78000	95%	35100	100%	0%
	16	22490	130%	10120	100%	

Source: The National Pay Scales of 1991, 1997, 2005, 2009 and 2015

It is seen from the analysis that the basic pays of Grade-1 of the National Pay Scales of 1997, 2005, 2009 and 2015 increased by about 50%, 53%, 74%, and 95% and those of Grade-16 by about 54%, 64%, 65%, and 130% respectively from each previous National Pay Scale. Due to

the increase in basic pay of all grades in each National Pay Scale and the incremental provisions of net pension in the National Pay Scales of 2005, 2009 and 2015, the amounts of net pension on July 1, 2015 for the same grade holder in every National Pay Scale are not equal. The analysis shows that the net pensions of Grade-1 of the National Pay Scales of 1991, 1997, 2005 and 2009 are about 32%, 48%, 55%, and 64% and those of Grade-16 are about 31%, 40%, 49% and 54% of the net pensions of National Pay Scale of 2015 respectively. It is also seen that if the amounts of net pension that the pensioners are receiving on the basis of the National Pay Scales of 1991, 1997, 2005 and 2009 are increased on average by 68%, 54%, 46%, and 38% respectively, they will be equal to the net pension on July 1, 2015 calculated based on the National Pay Scales of 2015

So there are differences between the basic pays of two consecutive National Pay Scales. In the National Pay Scale of 2015, the basic pay of each grade has almost become doubled in comparison with the National Pay Scale of 2009. As a result, the existing National Pay Scale of 2015, that has increased the basic pay by about 100%, has widened a huge gap between the net pension of the pensioners who are enjoying pension as per the provisions of the National Pay Scale, 2015 and those who are receiving the pension as per the provisions of the previous National Pay Scales. These gaps between the pensioners of the National Pay Scale of 2015 and the pensioners of the previous National Pay Scales have violated the principles of equality enshrined in Article 19 of the Constitution of the People's Republic of Bangladesh.

The amount of net pension calculated as per the provision of the National Pay Scale of 2015 based on the last basic pay drawn and as per the increased rate of gross pension from 80% to 90% (Notification, 2015) is quite compatible with the costs of living of present time. But the pensioners or the family pensioners, who are receiving a lesser amount of net pensions as per the provisions of the previous National Pay Scales, are facing difficulties in maintaining their lives in honour and dignity in the society due to the scanty amount of pension and the rate of inflation.

The historical data of inflation from 2005 to 2015 shows that the Inflation Rates in Bangladesh were 7.05%, 6.77%, 9.11%, 8.90%, 5.42%, 8.13%, 11.40%, 6.22%, 7.53%, 6.99% and 6.19% in the Year of 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 respectively (Macrotrends, 2020). These data indicate that there were rising trends of inflation in the market from 2005 to 2015. So the amounts of net pension they are receiving are not consistent with the current market prices to maintain the minimum standard of living. During the introduction of the National Pay Scale of 2015, the proportionate incremental provisions with the current market prices in net pension of the pensioners who are receiving pensions as per the provisions of the previous National Pay Scales were not taken into account judiciously. **So an inequity in receiving the amount of net pension exists among all the retired government servants.** Therefore, the existing pension policy is not effective for ensuring social and economic equality among all the pensioners and is not compatible with the principles of equality as per Article 19 of the Constitution.

Every year the government spends around 5% of the total budgetary allocation for the pensioners (GoB, 2019). In FY 2018-19 the government spent around Tk. 15,000 crore for around 7,60,000 pensioners (IBAS++, 2019). Government expenditures for pension benefits depend on the number of pensioners and pension policy. Again pension policy is deeply related to the economic capability of the government. Given the present condition, the financial capability of the government is increasing every year. So the government expenditures for the

pensioners in each year are also increasing. Figure 1 shows the increasing trends in the yearly expenditures on net pension, festival allowances, and Bangla New Year (BNY) allowances for the last 16 years from Tk. 842 crore in FY 2003-04 to Tk. 7367 crore in FY 2018-19.

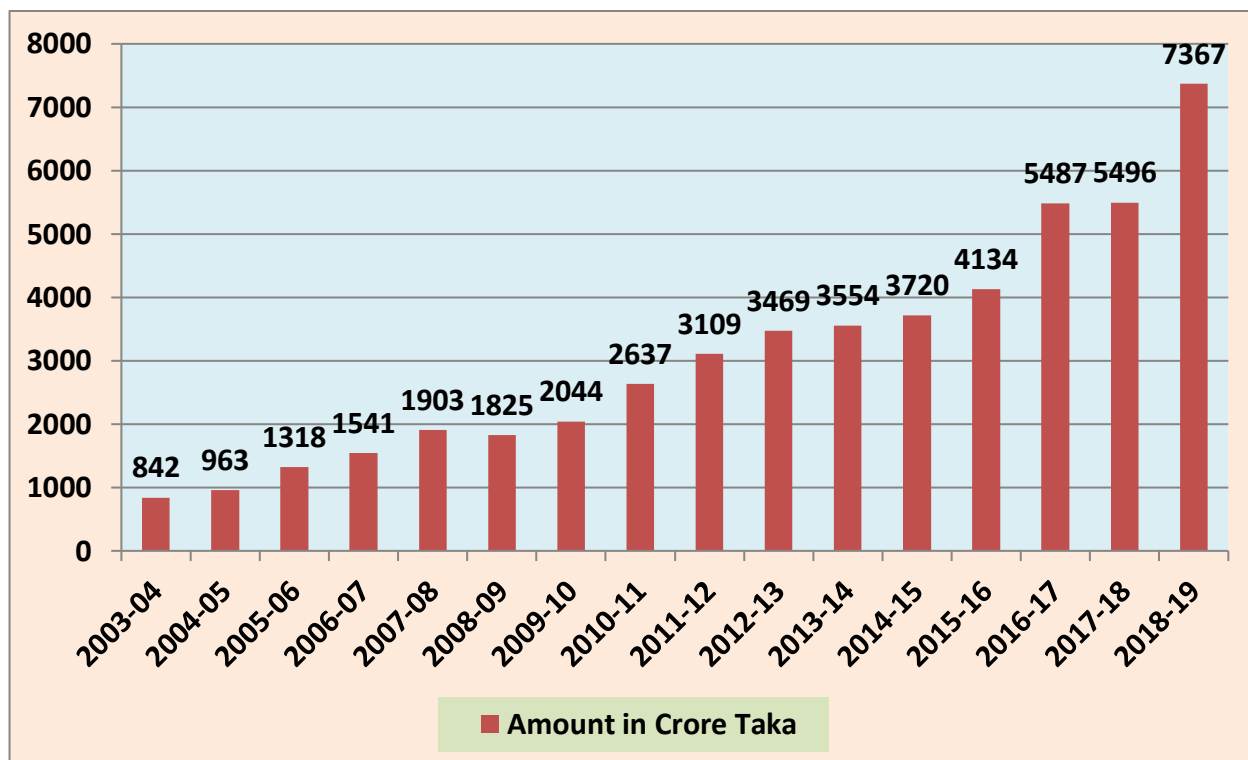


Figure 1: Yearly Expenditures on Net Pension, Festival Allowances and BNY Allowances

Source: IBAS++, Finance Division

The pensioners' benefits vary in these three heads of net pension, festival allowances, and Bangla New Year (BNY) allowances with the introduction of every new National Pay Scale.

The government allocates money in the annual budget for the pensioners as pension benefits mainly for gratuity, monthly pension, medical allowance, festival allowance, ration allowance and Bangla New Year (BNY) allowance. In FY 2018-19 the government allocated Tk. 26,528 crore for the pensioners (GoB, 2019). But only around Tk. 15,000 crore had been spent for pension benefits and the rest of the amount remained unspent in the same Financial Year. So it would be logical to say that the government could have spent an additional amount of money from its unspent budget to bring equality among the pensioners if there had been effective policy support. But the existing Pension Policy is not so useful to bring justice among the pensioners. As a result, this Pension Policy cannot be sustainable.

CONCLUSION

It is easily understandable from the analysis of data shown in Table 1, 2, 3, Figure 1 and the discussions above that an inequity in receiving the amount of net pension exists among the retired government servants and the government needs to spend additional amount of money in

every Financial Year to bring equality in pension for all retired government servants. But it cannot do so due to the ineffective pension policy. And this ineffective pension policy is creating a negative impact on retired government servants. So a sustainable policy intervention is necessary to remove social and economic inequality that exists among the pensioners. Therefore, the following recommendations to formulate an effective and sustainable pension policy are made below:

1. The amounts of net pension that the pensioners are receiving on the basis of the National Pay Scales of 1991, 1997, 2005 and 2009 should be increased on average by 68%, 54%, 46%, and 38% respectively to equalize them with the net pension on July 1, 2015, calculated on the basis of the National Pay Scales of 2015; and
2. An expert committee should be formed by the government to make an equitable, fair, and sustainable Pension Policy accommodating the first recommendation.

Finally, the study reveals that inequality exists in the net pension of all retired government servants. So it is the responsibility of the state to remove the inequality from the pension system by reforming it. The pensioners are the senior citizens of the country. Their financial and social security is very important in old age. Therefore, an effective and sustainable pension policy should be formulated on the basis of recommendations to ensure their social and economic security.

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