REFORM OF PENSIONS: LESSONS FROM SUCCESSFUL EXAMPLES IN PAKISTAN AND BEYOND

Adam Smith International
SEED
SDPI

Reform of Pensions: Lessons from Successful Examples in Pakistan and Beyond

ABOUT THE WORK

This work has been completed for Foreign Commonwealth and Development Office (FCDO)'s Sustainable Energy and Economic Development (SEED) Programme in collaboration with Sustainable Development Policy Institute (SDPI).

Suggested citation: Ahmed, V. Javed, Ahmed, B. Usama, A. Masud, Z. and Farooq, H. (2021) Reform of Pensions: Lessons from Successful Examples in Pakistan. Sustainable Energy and Economic Development (SEED) Programme: Islamabad.

Sustainable Energy and Economic Development (SEED) is a six-year programme, funded by the United Kingdom Foreign, Commonwealth and Development Office (FCDO). This project aims to improve economic and urban planning in Khyber Pakhtunkhwa. Sustainable Development Policy Institute (SDPI) is a national think-tank that has been conducting research on the economy and environment for almost three decades to support government policies at the national and subnational levels.

SDPI is collaborating with SEED to conduct a series of consultations on public sector pension reform in Pakistan. There is intent to bring together government officials and independent experts to highlight fiscal policy challenges presented by the growth in unfunded public sector pension and to evolve reform options based on evidence from national and international experiences. The federal and provincial governments are currently exploring solutions to manage their pension liabilities, and our consultations and engagements with federal and Khyber Pakhtunkhwa governments under the SEED programme are intended to inform this process.

Contents

Acronyms 02

Message from the Finance Minister, Government of Khyber Pakhtunkhwa 04

Message from Team Leader, SEED 05

Executive Summary 06

Introduction 09

Learning from successful case studies 12

A. A seat at the table for all stakeholders 13

B. Consensus on how the cake is to be divided 15

C. Investment strategies that deliver safe and sound asset growth 17

D. Proactive and transparent management of risk 22

E. Well-designed regulatory framework 23

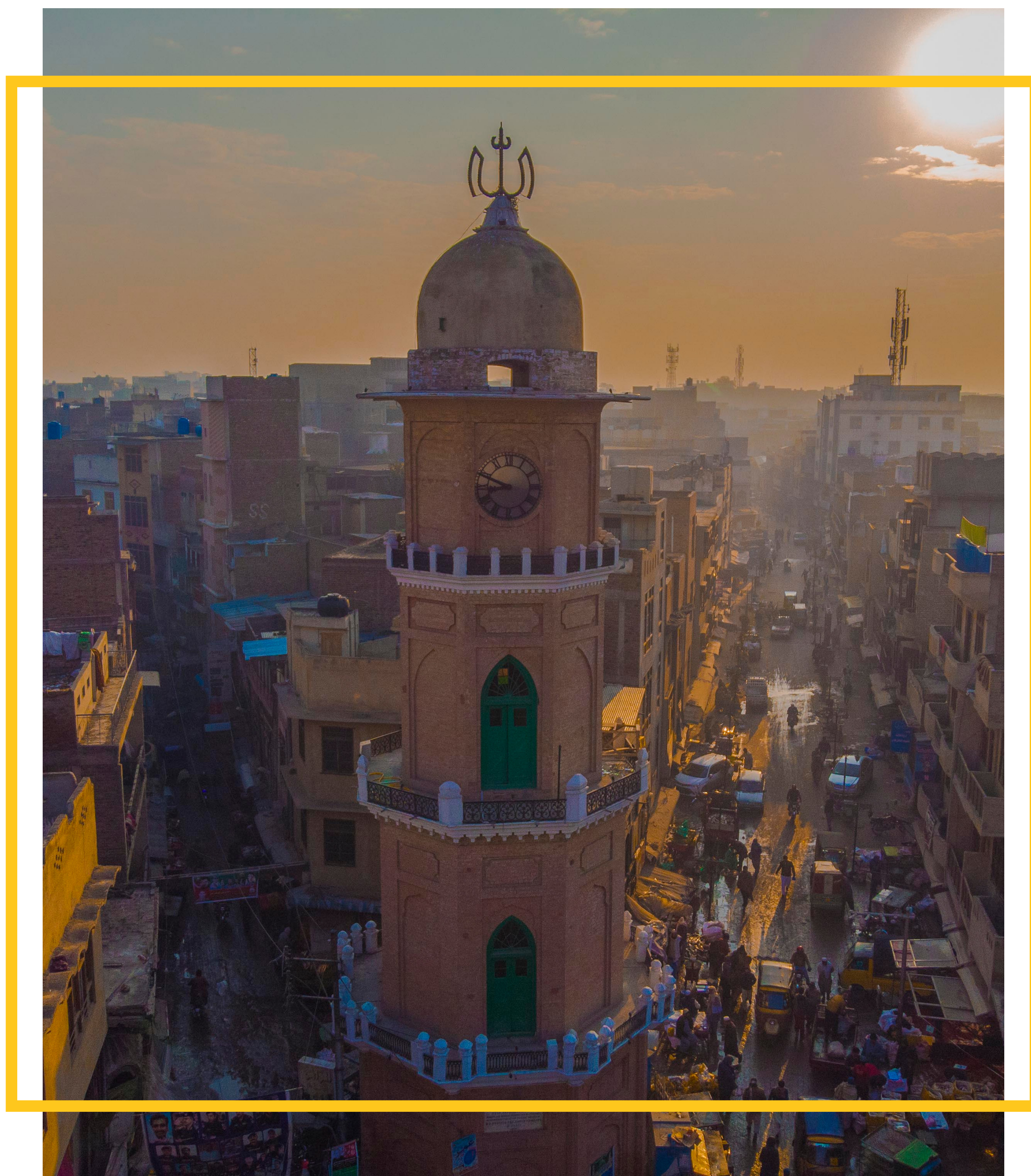
Conclusions and policy implications for the GoKP 26

References 29

Acronyms

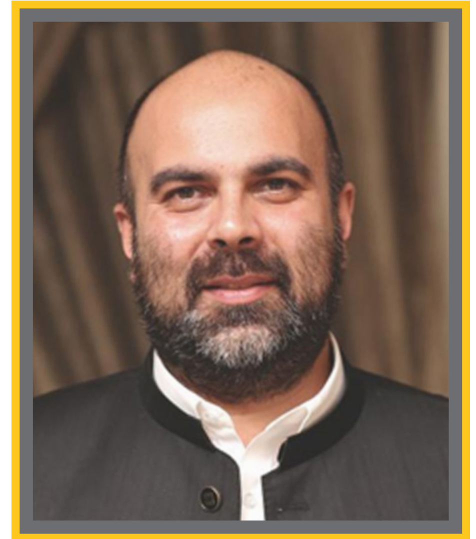
CAGR	Compound Annual Growth Rate
CCP	Canada Pension Plan
DB	Defined Benefit
DBS	Defined Benefit Schemes
DC	Defined Contribution
DCS	Defined Contribution Schemes
EOBI	Employees' Old-Age Benefits Institution
FCDO	Foreign Commonwealth and Development Office
GDP	Gross Domestic Product
GPIF	Government Pension Investment Fund
GPTB	Global Pension Transparency Benchmark
GoKP	Government of Khyber Pakhtunkhwa
IMF	International Monetary Fund
KPFM	KP Fund Management
MoITT	Ministry of Information Technology and Telecommunication
OECD	Organisation for Economic Co-operation and Development
OGDCL	Oil and Gas Development Company Limited
PAWG	Pension and Annuity Working Group
PAYGO	Pay-As-You-Go
PRIMACO	Pakistan Real Estate Investment & Management Company (Pvt.) Limited
PTCL	Pakistan Telecommunication Company Limited
PTET	Pakistan Telecommunication Employees Trust
SDPI	Sustainable Development Policy Institute
SECP	Securities and Exchange Commission of Pakistan
SEED	Sustainable Energy and Economic Development
SPF	Sindh Province Pension Fund
VPS	Voluntary Pension Scheme

Foreword



Message from Mr. Taimur Saleem Khan Jhagra, Finance Minister, Government of Khyber Pakhtunkhwa

The Government of Khyber Pakhtunkhwa (GoKP) is committed to reforms that will address the challenges related to large unfunded pension liabilities. Khyber Pakhtunkhwa is the first provincial government across the federation to put in place a detailed agenda of pensions and worker-benefit reforms that will secure sustainable returns for current and future employees of the provincial government.



The Cabinet has approved the introduction of a defined contribution pension system. This reform offers a win-win scenario as it will be compulsory for new employees and optional for existing employees. To lessen the annual pension burden on the public taxpayer, the Cabinet has also approved measures to use the profits earned from the pension fund to partially pay for past liabilities.

The Cabinet has also approved amendments in the Khyber Pakhtunkhwa Civil Servants Pension Rules & Orders 2006. This change will reduce the number of tiers in the pension eligibility hierarchy, bringing it in line with international best practices. Some further changes to facilitate the pensioners include automation of the pension payment system and the introduction of a pension system for local government employees at district and tehsil levels.

The support from SEED and SDPI is critical in the ongoing pension reforms exercise. Our government requires innovative and out-of-box solutions for achieving fiscal sustainability amid constrained provincial resources. Only such an approach can allow the province to create fiscal space to fund human development priorities in line with Prime Minister Imran Khan's vision of a welfare state. The continued technical assistance and identification of best practices in reforming the future pensions regime will be important. The directions pointed out by SEED and SDPI in this policy note will be immensely useful to keep an inclusive debate around this subject alive and to move the reform process forward with the consensus of all stakeholders.

Message from Mr. Omar Mukhtar Khan, Team Leader, SEED

The SEED programme is looking closely at the reform of public sector pensions given its critical importance for Pakistan's fiscal sustainability. The GoKP, like other provincial governments and the federal government, has been working to resolve this issue for some time. Currently, there is room and political will for serious reform effort in this area within the provincial government. In this context, SEED is providing technical assistance to GoKP's Finance Department on fiscal and governance reforms to create more fiscal space in the short and medium terms. This includes assistance to reduce the current public expenditures on pensions and finding innovative solutions to decrease the burden of future pension liabilities. In collaboration with SDPI, SEED is also creating awareness about threats to fiscal sustainability due to the burgeoning pension liabilities and shaping public discourse to create a constituency for reform.

The GoKP has put together a high-powered committee on pension reform and conceived a contributory scheme which has subsequently been approved by the Cabinet. The new scheme is innovative in that it does not retreat from the legal obligations of GoKP toward existing employees but offers a more sustainable solution in the form of a contributory scheme for new employees. This is a major shift toward fiscal sustainability.

We believe that there are successful models of pension reform in Pakistan's public and private sector as well as in other countries around the world. There is a need to look at how these governments with large pay and pension liabilities are approaching this challenge on a continuous basis and how they are utilizing expertise from within and outside of the country.

Against this backdrop, SEED has also organized consultations to shed light on successful examples from Pakistan and beyond which can be replicated by other public sector organizations. This policy note presents some relevant findings from successful case studies inside and outside of the country. We sincerely hope that this effort will help the GoKP make tangible improvements in the system of civil service pension.

Executive Summary

Accrued pension liabilities are rapidly increasing, becoming a fiscal burden for Pakistan as well as the Government of Khyber Pakhtunkhwa (GoKP). Over the past seven years, total revenues of the GoKP have increased by 8.1 per cent, whereas pension expenditure has grown by 22 per cent per annum. This trend is bound to squeeze the space available for development spending. In response, the GoKP became the first government in Pakistan to announce a contributory pension reform process as part of the 2021–22 budget. The aim of this policy note is to support GoKP in this reform process by reviewing successful examples of contributory pension schemes and transitions from a defined benefits scheme to more fiscally sustainable models, throughout the world, as well as within Pakistan. From these examples, five major lessons can be drawn for GoKP's reform process.

First, for any reform and scheme to succeed, it must be ensured that the reform process itself is inclusive, and all relevant stakeholders have adequate representation in the governance structures of pension funds -- especially those that will be most affected by the change. These include the taxpayers who pay for pension liabilities in the current scheme; the government; the employees and their associations; and the pensioners. Throughout this process, transparency is key, as all these stakeholders must be on board with and aware of the various aspects of the scheme, including investment policies and fund performance. This change process will, however, require continuous advocacy and outreach so that the risks associated with rising liabilities can be comprehensively understood by all stakeholders.

A second crucial aspect for any scheme is the contribution of the employer and the employees toward the pensions. The ratios vary widely worldwide, but for government schemes, the contribution by employees is most often matched by the employer. In case of new DC schemes, it is common practice to begin with low rates which increase gradually, as starting off with high rates can discourage all stakeholders. In Australia, for instance, private employer contributions to employee pensions are set to increase by regular increments where they will rise to 12 per cent by 2025, from nine per cent in 2002. OGDCL in Pakistan has similarly taken a phased approach to their contributory pension reform.

Third, all over the world, pension funds are moving away from being regular social security institutions to dynamic financial entities with significant income-generating capacity, stemming from their investments in a wide range of asset classes. Technical expertise is, however, necessary to ensure prudent investments. Therefore, pension funds management should include professionals with relevant experience in investment banking, public finance, risk management, labor economics, among other knowledge domains. Moreover, the management team should also have relevant private sector experience and significant autonomy in decision-making, without excessive interference from the government. The Canadian pension funds are a good example, which have in-house management and human resources, keeping advisory costs low, and focusing on diversified investment opportunities, while the fund plays an involved role as asset owner.

The KP pension fund must strengthen its technical capabilities in the same manner. Alternatively, the execution of the new DCS scheme could be outsourced to an appropriate bank or asset management company with relevant experience. The KP Pension Fund, moreover, is currently invested conservatively – as are civil service pension funds operated by other provincial governments – in low-risk assets. GoKP should seek to strengthen fund management capabilities that would enable a more diversified investment approach.

There are many specific risks involved in pension fund management; and for any scheme to produce desired returns and results, these risks need to be holistically assessed and duly managed. These include internal risks, such as inefficient organizational procedures leading to losses, as well as risks that are external to the fund, including potential changes in the underlying legal framework at a national or sub-national and regulatory level. Most successful pension schemes in the world have robust risk management mechanisms in place. In Pakistan, the Employees' Old-Age Benefits (EOBI) is also a good example, which has established an independent company to mitigate the strategic risk arising out of the increasing stake in real estate for EOBI.

There are several steps that GoKP can consider, to mitigate risks and improve transparency. A "State of Pensions in KP" report could be published annually and presented to the provincial assembly during the budget sessions, which would include actuarial assessments of pension liabilities. Ideally, these would be undertaken by one of the 'big-four' accounting firms, which would be in line with global best practices.

Last, a well-designed regulatory framework is essential for efficient functioning of any pension fund. In Pakistan, the supervisory authority for private fund managers, pension funds, and trustees, is the Securities & Exchange Commission of Pakistan (SECP). OECD has documented global best practices regarding regulatory principles that are relevant in Pakistan's context and can guide the reform process in KP. At core, sound regulation requires a strong legal framework backed by effective institutional structures, with sufficient autonomy for supervisory bodies and independence from fund management.

1. Introduction

SEED and SDPI have conducted policy consultations to discuss pension reforms and identify successful examples of pension systems within Pakistan and abroad, which can inform planned pension reforms in KP. The previous policy note by SEED on the subject of 'Government Pensions and Future Fiscal Sustainability' highlighted the pressure exerted by pension liabilities on GoKP and how it endangers its budget sustainability. This note -- the second in the series -- highlights key lessons from successful reforms, policies, and institutional models that can help reduce fiscal liability rising from pension obligations.

This effort is expected to help the GoKP design and rollout a contributory pension reform that would reduce pension liabilities on the one hand, while providing an acceptable alternative to workers and pensioners alike. A wide range of experts from both public and private sectors -- including officials from the Ministry of Finance, GoKP's Finance Department, Employees' Old-Age Benefits Institution (EoBI), Securities and Exchange Commission of Pakistan (SECP), Pakistan Telecommunication Employees Trust (PTET), Oil and Gas Development Company Limited (OGDCL), Bank of Punjab, and the federal government's Commission on Pay and Pensions -- have contributed to this effort.

These experts pointed out that Organisation for Economic Co-operation and Development (OECD) countries regularly revisit their pension systems and implement reforms to enhance financial sustainability. Some of the key reforms include increasing the minimum retirement age, increasing taxes or contribution rates in defined systems, and reducing pension administration costs (OECD, 2015). The contributory pension system, in which workers contribute to their pension benefits and their contributions are invested, has been introduced in several countries to address fiscal pressures (Arif and Ahmed, 2010). The returns on invested funds under contributory schemes also add to overall financial benefits provided to the pensioners.

Typically, countries with growing fiscal deficits driven by the large size of government (including pension spending), experience a crowding-out of public resources and it becomes difficult to secure fiscal space for priority spending on development goals and service delivery (Clements et al. 2014, Ahmed 2017). Therefore, moving toward a progressive fiscal policy requires regular assessment of unfunded pension liabilities. It is because of this unfunded liability that the IMF often suggests a nominal freeze of pension expenditure to borrowing governments (IMF, 2021).

Often, in partially or fully funded pension schemes, pensions are paid out of a fund established through contributions from the members as well as income from assets owned by the fund. On the contrary, in Pay-As-You-Go (PAYG or PAYGO) schemes, pensions are paid out of current government revenues (Barr et al. 2006). Fully funded schemes allow for savings where contributions are prudently invested in financial assets, while PAYGO schemes are run by the government through taxes on the current workforce in the economy to cover the pension expenditure of the retired generation. Expenditure on PAYGO schemes, thus, involves wealth transfers from younger to older generations, which makes them increasingly troublesome and unsustainable for contributors and taxpayers (Bongaarts, 2004). The failure to address fiscal pressures in PAYGO systems can impose macroeconomic instability. For example, if the government cannot consistently raise the contribution rates for the present generation, future generations end up with lower pensions in real terms.

In Pakistan, the 2017 population census results indicate that the relative and absolute size of the older population in Pakistan is expected to rise, which will increase the burden of accrued pension liability.

At the sub-national level, in the case of Khyber Pakhtunkhwa province, pension expenditures are increasing at a rapid pace. Table-1 indicates that the total revenues of the GoKP are projected to increase by 14.3 percent, but the growth of pension expenditures is projected to be around 24 percent between 2021-22 and 2023-24. Past data indicates that salaries and pensions increased by a Compound Annual Growth Rate (CAGR) of 22 percent and 14.5 percent, respectively, between the fiscal years 2013-14 and 2019-20, whereas revenue

receipts grew by only 8.1 percent during this period. Such a trend is bound to squeeze the space available to GoKP for development spending.

Table 1 below shows that the GoKP is aware of this trend and its projections into the future. However, given these projected figures, the underlying CAGR used to forecast them appears to be only 7.3 per cent for pension expenditure and 4.6 per cent for total revenues (lower than the CAGR of 22 per cent for pension bill and 8.1 per cent for total revenues that was based on a historical trend of the past seven fiscal years). Given that growth in the pension bill has been underestimated by a greater margin than growth in revenues, it may be surmised that the fiscal space may be shrinking even faster than reflected in Table 1.

Table 1: Budgetary position of Khyber Pakhtunkhwa (PKR Million)

Description	2021-22	2022-23 (Forecast)	2023-24 (Forecast)	CAGR FY22-FY24 (%)
Total revenues	1,118,156	1,156,197	1,278,008	5.3%
Total expenditures	1,118,156	1,201,415	1,332,399	6.0%
Pension	92,076	100,284	113,826	7.3%
Pension as % of total revenues	8.2	8.7	8.9	-

Source: Mid Term Budget Estimates for Service Delivery: Output Based Budgeting, 2021-24, Finance Department, Government of Khyber Pakhtunkhwa

The number of retired employees in Khyber Pakhtunkhwa has risen at an annual average growth rate of seven percent since 2008–09. This has pushed the number of pensioners to 169,358 at the end of the fiscal year 2019–20. Out of these, a little over 1,300 pension cases were initiated over 50 years ago and are still active. Often, there is popular pressure to regularize ad hoc or part-time employees (in equivalent scales), which also ends up adding to post-retirement liabilities (Ahmed et al. 2021). This growing fiscal pressure is not expected to diminish in the short term. It will be a timely effort to look toward examples within the country and abroad to see how other public sector entities have successfully dealt with this challenge.

2. Learning from Successful Case Studies

This policy note broadly explores the features of a successful pension model at PTET and the ongoing reforms at OGDCL. Some recent efforts at EOBI are also included in the narrative. These examples have been selected to highlight:

i. The transition from defined benefits to a contributory scheme, as with OGDCL, which took two key measures, i.e., capping of the salaries and introduction of defined contributions through which savings of PKR 186 billion are expected over 10 years.
ii. Sound investment strategies which have moved entities toward a fully funded position against pension liabilities, as with PTET. This has, overtime, ensured that the pension bill of the organization remains sustainable and there are gains for both existing and past employees.

The roles of financial sector entities in the public sector, for example, the Bank of Punjab and regulatory bodies such as SECP, have also been examined in the context of the overall pension ecosystem. To supplement the arguments here, models from other countries, particularly from the OECD, are also referenced. The assessment of these models will serve as guiding principles for other public sector entities in Pakistan, particularly for the civil service pension reform underway in KP.

The narrative is organized around five key elements relating to the parametric and systemic design of pension systems: (i) the way stakeholders are consulted in policy decisions and represented in governing structures; (ii) the manner in which the employer and employee contribution is determined in Defined Contribution Systems; (iii) the development of investment strategies that deliver adequate returns; (iv) the way risks are anticipated and mitigated; and (iv) and regulation. In each of these elements there are clear lessons that are relevant for pension reforms in KP and other jurisdictions in Pakistan.

2.1 A seat at the table for all stakeholders

2.1(1) Mapping and engaging stakeholders

There are four key stakeholders linked to most strategic pension reforms, who must be engaged, consulted, and aligned with the reform effort: retired and active plan members; employer and employee associations; government; and pension funds (Strumskis, Balkevičius, 2016). Taxpayers are also important stakeholders because they bear the ultimate obligation to maintain sufficient funding levels (Musalem and Palacios, 2004). Active stakeholders' involvement is important to address concerns regarding equity, fairness, and fund sustainability (Sarfati and Ghellab, 2012).

This is why governments around the world manage their public pension systems by taking all relevant stakeholders on board, in particular, the pensioners' associations. This often entails a careful stakeholder mapping exercise within any public sector entity wishing to move toward contributory schemes. Many countries including Chile, India, Peru, and Sweden have successfully introduced defined contribution schemes where individuals take partial or full responsibility of their retirement income by contributing regularly to a scheme (Mishra, 2016). Pension funds under these schemes, over time, provide resources for further investment in the economy (Kidd and Tran, 2018).

2.1(2) Inclusive governance arrangements

The management of the pension fund itself is governed by inclusive boards and committees for oversight. The multifaceted investments undertaken by funds in the public space, and their relationship with the government makes 'representation' a key ingredient to help navigate competing interests (Nowacki, 2015). For any successful change processes, inclusive stakehold-

er representation in pension fund boards allows for greater ownership of the process and lowers any future resistance to change. With few exceptions, pension fund governing boards are selected by both employers and employees in all OECD countries. In some countries such as Belgium, there are formal provisions requiring parity between employer versus employee representatives among the pension fund's Board of Directors. In other countries, worker representatives may be fewer in number, though a minimum ratio is often prescribed – for example in Brazil, 33 per cent of the supervisory boards must constitute worker representatives.

Canada's case is often quoted for being successful in consciously building trust across relevant stakeholders in the public sector pension space. Canadian government entities have established capacity for evolving and maintaining a shared consensus among stakeholders around key pension policies (World Bank, 2017). Their change management process ensures that government, beneficiaries, and the taxpayer groups support pension policy decisions. The interests of active members and contributors, retired members, and dependents and survivors of any pensions plan participants are fully represented in governing structures (Mitchell, 2002).

The UK Pension Act, 2004, requires that pension fund trustees have adequate knowledge and understanding of available schemes and the way assets under pension funds are invested. To facilitate this understanding, the Pensions Regulator -- UK government's main pension regulatory body — provides a toolkit on the key elements of the pension system. There are 11 learning modules followed by 11 assessments which trustees are encouraged to undertake. These cover the types of pension schemes, the role of trustees, details of Defined Contribution (DC) and Defined Benefit (DB) schemes (including investments in both schemes), funding of DB schemes, and all relevant national pension legislations.

Participants' knowledge is then tested through specific roleplaying scenarios where they play the part of a board member of the trustees and based on their performance, they may be directed to undertake technical tutorials on topics such as risk management and internal controls, default investment options for DC schemes or recovery plans for DB schemes. This structured process ensures that trustees know how to strengthen trust and working relationships across a wide set of stakeholders in pension management and reform.

2.1(3) Transparency for taxpayers

The government as a stakeholder has an interest in the performance of the pension plan's assets and in the administrative costs of running the plan. Taxpayers are natural stakeholders of any pension scheme where the government relies on current revenue to fully or partially pay for the pension of retired public servants. Funded pension schemes reduce the burden of taxpayers as they only contribute a marginal percentage while the rest comes from investment earnings and contribution from employees (NCPERS, 2017).

Sarfati and Ghellab (2012) emphasized that, being major contributors to the financing of pension, taxpayers should be able to see sustainable solutions to pension challenges. The transparency of investment strategies adopted by pension funds is also critical for taxpayers, making them aware of any exposure to the possibility of unexpected losses related to investment including tax monies in risky assets. In Pakistan, a good example is that of the Punjab Pension Fund which publishes regular reports on their website disclosing the fund's exposure to different asset classes.

Managing Transparency in a Public Pension Fund

The Punjab Pension Fund is a corporate body created by the Government of Punjab to discharge its pension liabilities by generating revenues, under the Punjab Pension Fund Act, 2007, and its corresponding rules. The vision behind this Fund is to work toward achieving a fully-funded model where pension is no longer a budget expenditure. The World Bank has identified some key failings of public pension funds that prevent them from capitalizing on the economies of scale and low marketing costs. These include a weak governance structure, lack of independence from government interference, and a lack of transparency and accountability. The Punjab Pension Fund has been designed to specifically avoid these problems.

A Management Committee is responsible for the administration of the Fund; the composition of this Committee is defined in the Punjab Pension Fund Rules. In addition to important government stakeholders, such as the provincial Minister for Finance and Chief Secretary, it also includes four private members, who are required to be sector experts in asset management, fund management, accounting, or related fields. The Fund ensures transparency by regularly issuing all its reports online, including annual trustee reports, bi-annual financial reports prepared by an independent auditor, monthly fund manager reports, regularly updated financial and economic statistics, and actuarial reports every few years.

Currently, the Fund has invested in a fairly diversified portfolio of government securities, national saving scheme, term deposit receipts, debt securities and bank deposits. As of 2021, the Fund's net assets grew by 13.59 percent during FY 2020-21, reaching PKR 85.2 billion, with the National Saving Schemes as the main investment (one-third of the portfolio).

2.2. Consensus on how the cake is to be divided

This section focuses on the contribution that entities in the public sector deduct from employee remunerations toward their pension and retirement benefits, under pension systems structured as Defined Contribution Schemes (DCS). Public sector entities globally are increasingly transitioning to DCS – as opposed to Defined Benefits Schemes (DBS) where the government assumes the sole responsibility for funding retirement benefits based on a 'defined' formula (Chohan, 2021). Chile and Mexico recently replaced their public PAYGO DB schemes with private-funded mandatory DC schemes and countries such as Estonia, Hungary and Poland have also introduced similar reforms (OECD, 2019). In the examples from Pakistan, PTET has a DC plan for its employees while OGDCL provides a DB plan for its permanent employees but plans to introduce DC for new employees.

2.2(1) Contribution arrangements in global pension systems

In India, the National Pension System is an example of a mandatory DC scheme for central government employees which was subsequently adopted by certain state governments. Following a long period of thorough consultations, the Indian government arrived at a consensus among all stakeholders on a contribution rate of 10 per cent deduction from employee salaries – a rate that would be matched by the government. This agreement was caveated with a provision to revisit this contribution rate, in future the rate was actually increased to 14 per cent in 2019, based on a fresh round of consultation with civil servants. The Indian government therefore, not only ensured that

employees backed a key design parameter of their DCS reform, but also retained flexibility so that policy could respond to future changes in the fiscal environment. Similarly, in Australia, private employer contributions to employee pensions are set to increase by regular increments where they will rise to 12 per cent by 2025, from nine per cent in 2002 (OECD, 2015).

In the UK, the prevailing system of citizen pension is based on the recommendations of a high-powered three-member Commission appointed by the Prime Minister in 2002, which included a member of the House of Lords, a trade unionist and an academic. This ushered in a new period of "pensions consensus" among trade unions, the pension industry and the wider corporate sector. These recommendations were then implemented through laws enacted in 2007 and 2008. Today, an independent Pension Regulator stipulates the minimum contribution rates for employers and employees. Currently, the minimum contribution rate is eight percent of the staff's total annual earnings before tax, with five percent being contributed by the staff and the rest by the employer. These rates, as in the Australian case, are gradually being increased over time.

Setting the contribution rate is tricky and may determine the success of the pension scheme, both in terms of fiscal sustainability and uptake among employees. GoKP could use benchmarks from the examples given above, as well as other contribution arrangements around the globe. For public pension schemes in the OECD countries, in 2018, the average total contribution rate was 18.1 percent for the average wage. The share of contributions for employers and employees was 7.5 percent and 10.6 percent, respectively (OECD, 2019).

Within South Asia, all countries had initially inherited a non-contributory, defined benefit, tax-funded pension scheme for public sector and government employees. Many countries, however, also have a mandatory, publicly managed contributory provident fund program for large private sector firms. In Sri Lanka, for instance, where the elderly people constitute a significant proportion of the total population, there is a contributory, publicly managed provident fund for private sector employees. Employees are required to contribute eight percent of wages toward this fund, while employers contribute 12 percent of employees' wages into a notional account that is invested almost entirely in government securities (Kim and Bhardwaj, 2011).

In Malaysia, civil servants are covered by a DBS, while armed forces personnel contribute 10 per cent of their salaries, against a higher government contribution of 15 per cent. Kenya introduced a DCS for civil servants with a contribution rate of 7.5 per cent of basic monthly pay, against a higher government contribution of 15 per cent. But employees would start by paying two per cent in the first year, increasing it to five and then 7.5 in the second and third years of employment.

2.2(2) Managing key trade-offs

Pension benefits are proportional to the contribution rates, and therefore, there is always a trade-off between higher net wages in the present or higher pension benefits in the future. Moreover, lower net wages may hurt the competitiveness of the scheme and turn off potential subscribers, especially if the contribution rates are high to start with, rather than being gradually increased over time (OECD, 2019).

Learning from these experiences, Chohan (2021) points out that the federal government in Pakistan, from time to time, has been considering a contributory pension scheme to handle the rising pension expenditures of public sector employees. However, the transition from DB to DC can only be done gradually by closing DB to new entrants in public service—a measure which GoKP has announced as part of the budgetary reforms in 2021–22. Contribution rates may then be determined through consultations informed by technical analysis to determine feasibility. The rates may start out low and then ramp up gradually, to remain affordable for employees.

Learning from Change Process at OGDCL

In 2016, reforms were brought in the OGDCL pension framework primarily through two changes that were aimed at savings of an estimated PKR 186 billion over the next 10 years. These measures included: a) capping of the salaries and; b) introducing defined contribution pension schemes for new employees. OGDCL traditionally offers DB plans for permanent employees. The employees' pension and gratuity plan are structured as separate legal entities managed by trustees.

The enterprise manages an approved, funded pension scheme under an independent trust for its permanent employees who were regularized before 1 January 2016, as a DB plan. The employees regularized after this date will be entitled to a flexible approach. They will be able to choose from among a mix of provisions which include gratuity, provident benefit, and a defined contributory plan instead of the traditional pension benefit (OGDCL, 2020). Under the contributory provident fund option, the employees will contribute one basic salary toward the provident fund annually and OGDCL will match their contribution. Investments out of this fund will be made as per rules specified in the Companies Act, 2017 (OGDCL, 2021).

The OGDCL Board is leading this transition toward a contributory pension setup and they are in touch with public sector organizations which have previously introduced such reforms – including PTET and Bank of Punjab – to benefit from their experiences. The Board and the management at OGDCL have made themselves available to consultations with employees and their associations throughout this process.

2.3 Investment strategies that deliver safe and sound asset growth

2.3(1) Recent global trends

Globally, public pension funds are being transformed from mere social security institutions to dynamic financial entities which have significant income-generating capacity. This has helped sustain increases to the assets-base and dividends from pension funds. These funds have also become one of the major investors in global equity and bond markets. Assets under the management of the 300 largest pension funds in the world grew by eight percent to around USD 19.5 trillion in 2019. This trend is bound to grow as the world population experiences higher work and life expectancy.

For example, The Canada Pension Plan Investment Board is a professional investment body with a mandate to make investments using Canada Pension Plan assets. Instead of external asset managers, Canada pension funds have in-house management and human resources which helps in: a) lowering advisory costs, b) ensuring continuous search for diversified investment opportunities; and c) allowing the fund to play an involved role as the asset owner (World Bank, 2017). Canadian pension funds by strategy have a mix of asset classes invested across varied regions which also helps to minimize at least three main types of risks: market, concentration, and inflation risks.

Another success story is Australia, featuring a 20-year pension asset growth of 11.3 percent per annum. The critical characteristics of this success have been government-mandated pension contribution by employees, a clearly defined contribution, and a model where financial institutions pool pension funds for investment (TAI, 2021). Australia was also one of the first countries that adopted compulsory superannuation with emphasis on privately managed defined contributions for increased transparency (Kingston and Thorp, 2018). Both employers and employees contribute toward the superannu-

ation scheme, which receives returns from investment earnings.

There are five types of funds -- industry funds, retail funds, public sector funds, corporate funds and self-managed super funds. In 2021, 55 percent of the total investment was made in equities, 18 percent in fixed income, 13 percent in property and infrastructure, 11 percent in cash investment and three percent was invested in other assets which include hedge funds and commodities. The Superannuation Industry Act 1993 placed trustees in the central governing position for the prudential operation and management of superannuation funds (Jones, 2005).

However, the financial crisis of 2007–08 globally affected pension funds' assets and investment outlook. Pension funds in the United States lost around USD one trillion in assets. The United Kingdom also faced investment losses, while a sharp increase in liabilities was observed in the Netherlands (Franzen, 2010). After the crisis, pension funds' investment strategies have now become more risk-focused, such as investment in alternative asset classes, including infrastructure, private equity, and real estate. Expanding the asset base is necessary to minimize the high volatility risk – especially risks emerging from equity market exposure.

2.3(2) Pension ecosystem in Pakistan

Within Pakistan, at a sub-national level, Khyber Pakhtunkhwa Pension Fund has investments in government bonds, bank deposits, and national saving certificates. Clearly, this indicates that there is a lack of asset diversification which keeps returns low. A clear aversion from investing in equities can be observed — a risk which could be avoided if the fund can draw on expertise which can help distinguish between low, medium, and high-risk equities.

Table 2 provides a comparison of select countries in terms of total assets in retirement savings plans as percentage of Gross Domestic Product (GDP). This includes public sector plans. Pakistan ranks low in comparison to even the peer economies in terms of assets invested in retirement plans (Table 2). One reason could be the still-nascent market for pension funds and low rates offered by these funds (including EOBI) or high service charges billed by fund managers. Experts have argued that pension funds are still a relatively new phenomenon for the working-age population in Pakistan and a 'demonstration effect' often required for potential participants in a fund is missing. This, however, can be overcome in the medium term through increased outreach efforts, which could also trigger behavioral change in favor of promoting managed funds.

Table 2: Total assets in retirement savings plans (% of GDP)

Country	2009	2019
Denmark	159.4	219.7
Netherlands	108.8	194.4
Iceland	118.6	178.2
Canada	114.5	159.5
Switzerland	126.8	158.7
Maldives	2.0	11.6
Thailand	5.3	7.3
China	0.7	1.9
India	0.2	1.9
Pakistan	0.0	0.1

Source: OECD (2020)

The number of pension fund and asset management companies over the last five years has remained stagnant in Pakistan. However, total net assets under conventional pension schemes have increased from PKR 7,302 million to PKR 10,833 million between 2016 and 2020 (Table 3).

Shariah-compliant pension schemes have more total net assets as compared to conventional pension schemes and their growth is also higher. A recent study by Naveed et al. (2020) found that Islamic funds have lower risk exposure as compared with conventional funds, which is why they are more attractive, in comparison with pension plans, especially for small-sized subscribers who tend to be risk averse.

Table 3: Pension funds in Pakistan

Year	2016	2017	2018	2019	2020
Pension funds	17	19	19	19	19
Asset management companies	20	20	19	19	19
Total net assets (PKR million)					
Conventional pension schemes	7,302	9,115	9,305	9,181	10,833
Shariah compliant pension schemes	11,502	16,142	16,833	16,710	19,907

Source: Mutual Funds Association of Pakistan

Performance and returns of market-based pension funds are significantly higher than the real returns provided to public sector employees under publicly managed DB systems. It has been observed that total net assets under conventional and Shariah compliant pension schemes have grown significantly between 2016 and 2020. Assets under conventional pension schemes grew 48 percent while Shariah compliant pension schemes observed 73 percent growth during the period. National Bank of Pakistan's NAFA pension fund, which is the largest asset management company in Pakistan, has generated returns of up to 25 percent per annum since 2010-11 (based on allocation to equity markets).

Federal and provincial governments have traditionally invested in government securities, State Life Corporation, and National Savings Schemes. This trend may be changing now, taking into account EOBI's experience and learning from successful examples locally and abroad.

2.3(3) Provincial Pension Funds

Provincial governments have dedicated pension funds to cover employee liabilities. The Sindh Province Pension Fund (SPF) was created in 2003 to address future pension obligations. The Fund was created with an initial amount of Rs. 1.2 billion. Investment decisions are made by the Sindh Province Pension Board. The accumulated value of investments of Sindh pension fund has reached PKR 136,236 million while the profit earned during 2019-20 was PKR 31,524 million. The profit is criti-

cal in enhancing the government's ability to pay pensions but is still not enough to keep pace with the growth in liabilities. The Fund is managed in-house by the Sindh Fund Management House, a unit within the provincial Finance Department which is charged with the management of 17 distinct investment funds of the Government of Sindh. However, in 2006, the enabling Act for the Fund was amended to empower the Board to outsource fund management functions to an insurance company with relevant expertise, under Section 3(7). The Board is headed by the Chief Secretary and the prescribed composition includes two private members i.e. a member of the Institute of Chartered Accountants and a representative of the Bank in which the fund is maintained.

Khyber Pakhtunkhwa's Pension Fund (Table 4) was established in 1997–98 with an allocation of PKR 150 million. The provincial government has also established the KP Fund Management (KPFM) unit, which consists of specialists and support staff to efficiently manage the pension fund (GoKP, 2021). The current size of the pension fund (2020–21) is PKR 60 billion; out of this, PKR 23 billion is contributed by the GoKP. As per rules, the investment of the fund is to be made in banks, developmental financial institutions, national saving schemes, or any other profitable scheme. Any portion of the fund not utilized will be kept in a scheduled bank which offers maximum profits. The Chief Secretary is the Chairman of the pension fund board, while other members include two provincial secretaries, representatives from the high court, the stock market and the corporate sector. Under the enabling Act, the Finance Department is responsible for providing Secretariat support to the Board, though additional staff may be appointed by the Board if required.

Table 4: Khyber Pakhtunkhwa's Pension Fund (PKR Billion)

Fiscal Year	Opening balance	Government equity	Profit earned	Closing balance
2016-17	31.1	3.0	2.3	36.4
2017-18	36.4	3.5	2.6	42.5
2018-19	42.5	0.0	3.8	46.4
2019-20	46.4	0.3	5.9	55.2

Source: Finance Department, Government of Khyber Pakhtunkhwa

In Balochistan, Budget 2021-22 allocated PKR two billion for investment in Balochistan Pension Fund while the total investment under this fund stood at PKR 17 billion in 2020–21 (according to the White Paper on the Budget 2020-2021). A profit of PKR 2.1 billion was also earned during 2019–20. The government is seeking technical assistance to expand the size of the fund. Currently, the Finance Minister is the Chairman of Balochistan Pension Fund while the Chief Secretary is the Vice Chairman. Other members include Additional Chief Secretary of Planning & Development Department, Secretary of Finance Department, Secretary of Law Department, Secretary of Services & G.A Department and Additional Secretary of Regulation/ Administration. Currently there are no independent or private members.

The Punjab Pension Fund was formed after the promulgation of the Punjab Pension Fund Act in 2007. The objective is to generate revenue for meeting pension liabilities of the provincial government. The fund size increased from PKR 49.3 billion in 2016–17 to PKR 82.7 billion in 2020–21. The existing investment under the fund is made in government securities, term deposit receipts, national saving

scheme, bank deposits, and debt securities. However, unlike other provinces, the Punjab Pension Fund is managed by a General Manager who must legally have *"at least 12 years of experience of management, including at least three years experience of investment banking, treasury operations, finance, asset management, fund management or unit trust management and holds a sixteen years, equivalent or higher degree".* This General Manager is Secretary of the Management Committee, the apex governing body of the Fund which includes four persons to be appointed from the private sector.

This sizable representation of private sector members in the Management Committee and the provision for recruiting a General Manager with relevant corporate experience set apart the Punjab model from other provincial pension funds. Currently, the core team reporting to the General Manager is composed entirely of professionals sourced from the private sector. Generally, provincial pension funds remain risk averse. For example, Punjab Pension Fund's equity portfolio posted a return of 29 percent during the first nine months of FY 2020-21. Despite this, the fund has a strategy of investing in short term investments due to overall uncertainty of interest rates.

For all public pension funds, the liabilities currently exceed assets and this gap appears to be growing over time. Access to specialized investment management skills remains a critical success factor. Lessons can be drawn from Japan's Pension Investment Fund, which posted record annual returns through investment in domestic stock and foreign equity. The Fund allows beneficiaries to choose the asset class in which they want to invest e.g. only debt, only equity, or a mix of both, depending upon risk appetite. Beneficiaries can have frequent conversations with in-house investment advisors. The invested pension savings grow tax-free in this fund. And, since these are invested in long-term assets, the beneficiaries can enjoy the benefits of long-term investments inside and outside the country. The fund shifted part of its portfolio from unprofitable domestic bonds to higher-yielding foreign assets.

Similarly, the Government Pension Fund of Norway is authorized to have a stake in global companies such as Apple, Nestle, and Microsoft while the fund also has equity investments and investments across various markets, countries and currencies to ensure risk diversification.

Evolution of Pakistan Telecommunication Employees Trust

Pakistan Telecommunication Employees Trust (PTET) was established in 1996 vide "Pakistan Telecommunication (Re-organization) Act 1996". The Trust is governed by Pension Rules and Investment Rules which guide decision-making. Rules are developed and approved in light of the provisions contained in the Act of 1996. The Trust enjoys the confidence of all stakeholders and is managed by a Board of Trustees consisting of six members; three nominated by the Federal Government (Ministry of IT) and three by the Company (PTCL). The Trust functions as an independent body under direct supervision of the Board of Trustees. The Board can coopt members to enhance inclusion and transparency, and also has the power to decide the annual pension increment. Actuarial valuation of PTET Pension Fund is conducted annually by an independent actuary. Based on the valuation results, a contribution is made by the Company (PTCL), if required. Currently, there are around 40,000 pensioners. PTET started the pension fund with a nominal amount and at present it has crossed the mark of over PKR 120 billion and manages its investments in a way that returns are maximized, reducing dependency on contributions. The major chunk (90 percent) of the investments comprise long-term investments with good return and minimum risk, i.e., government securities/National Bank of Pakistan. Other investments include properties and real estate (nine percent) and A-rated scheduled commercial banks for working capital requirements (one percent). For the past few years, the average return on investments has exceeded the annual pension bill.

2.4. Proactive and transparent management of risk

2.4(1) Global Risk Management Practice

The transparency of pension fund structures and policies are vital, strengthen trust in the overall management of lifelong savings of retirees. The Global Pension Transparency Benchmark (GPTB) was recently launched which is the world's first global standard for pension disclosure. GPTB focuses on the transparency and quality of public disclosure and examines four key factors including governance and organization, performance, costs and responsible investing.

Generally, risk management practice in pension funds and life insurance companies is quite similar (Franzen, 2010). For example, the pensions supervisory authority in Australia requires the trustees to devise a transparent risk management framework which explains how relevant risks are managed and monitored. This information is regularly disseminated to all stakeholders. The Dutch National Bank in 2006 initiated an integrated method for examining risks for all financial institutions known as the Financial Institutions Risk Analysis Method. Under this model, the Bank takes into account its assessment of solvency and combines it with an evaluation of the pension entity, quality of the risk management procedures in place and the risks to which it is exposed (Stewart, 2010).

Generally, a low- to medium-risk governance structure is preferred by beneficiaries as this ensures the predictability of future benefit. Still, there are various types of risks (Table 5) that are associated with pension funds management which need to be considered during the design of a DC system. As the pension fund involves investment over a long period, the most significant risk is related to maintaining the ability to purchase prudent assets and investments over extended durations.

Table 5: Type of Risks Associated with Pensions Fund Management

Type of risk	Description
Governance risk	The failure in the valuation of risk assessment by the board and management of the entity and its overall approach.
Liquidity risk	The risk arises due to the inability of the organization to meet its payment obligations, or do so with significant costs, when they are due.
Operational risk	The risk of losses resulting from inefficient procedures and people within an organization or service provider.
Credit risk	The risk of default by the borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality.
Insurance risk	The risk refers to the underwriting risk or risk that arises due to the absence of insurance cover for funds when needed.
Strategic risk	The risk associated with an entity's business model and how it wants to position itself strategically, particularly with respect to where it wants to invest funds in the longer term
External risk	Includes the risk linked with potential changes in the underlying legal framework at a national or sub-national and regulatory level.

Source: International Organization for Pension Survivors, 2012

2.4(2) Risk Management Practice in Pakistan: The Case of EOBI

In the case of Pakistan, recently, EOBI has come under increased scrutiny with beneficiaries demanding urgent reforms. The scheme is operated under the Employees' Old-Age Benefits Act, 1976, and covers those working in industrial and commercial establishments having five or more employees. Efforts are being made to include informal workers in the pension net.

EOBI provides four types of benefits -- old-age pension, survivor's pension, invalidity pension, and old age grant. EOBI has registered a fully owned company with SECP under the name of Pakistan Real Estate Investment & Management Company (Pvt.) Limited (PRIMACO). The company handles the real estate projects such as office buildings, hotels, housing schemes, shopping malls, hotels, and commercial entertainment ventures like children's playland, complexes etc. All the projects are funded by EOBI, and they are initiated, planned, executed and monitored by Pakistan Real Estate Investment & Management Company (Pvt.) Limited (PRIMACO). The establishment of an independent company mitigates strategic risk arising out of EOBI's increasing stake in real estate. The aim behind this investment is to maximize return through a well-managed real estate portfolio.

The governance risks facing EOBI funds could be further minimized. While EOBI has partnered with Bank Alfalah for pension disbursements, investment management remains an in-house function and the Board of Trustees is dominated by ex-officio government representatives. Currently, the fund is managed through 50 per cent contribution while the rest comes from investments. However, the rate of investment and return may have to be improved as there are eight million registered pensioners with EOBI and around 400,000 are active pensioners. This would help address the insurance risk. The minimum pension of PKR 8,500 has been termed low by beneficiaries in view of relatively high levels of inflation in recent months. The burden on EOBI is also set to increase as the government expects the institution to cover informal workers and overseas (or returning) Pakistanis in the near future.

2.5. Well-designed regulatory framework

2.5(1) Regulation of Pensions Schemes in Pakistan

SECP in Pakistan monitors private fund managers, pension funds, and trustees. These can be found in both the public and private sector. Several public-sector entities are now also investing in private pension funds to enjoy competitive returns. An authorized pension fund is a fund authorized by the SECP and managed by a pension fund manager registered with the SECP under the Voluntary Pension System Rules, 2005 ("the VPS Rules"). A pension fund manager, registered with SECP, can offer pension services to public and private organizations. Asset Management Company and trustee are the key players of VPS. The three subtypes of VPS include equity sub-fund, debt sub-fund, and money market sub-fund. The SECP has also created a Pension and Annuity Working Group (PAWG) to develop the pension and annuity market in Pakistan and provide a roadmap for growth of pension funds.

2.5(2) Global 'Best Practice' for Regulation Pension Funds

The Canadian pension model discussed above has implemented exemplary independent governance of public pension entities (World Bank, 2017). Only limited legal and regulatory provisions apply to the Canada Pension Plan (CPP) and unlike private pension plans, it pays no filing and administrative fees. The contributions are invested by CPP administrators in funds they choose autonomously and due to the large membership, CPP has a diversified set of contributors and payees (Yahya and Menuz, 2018). This example among others is also discussed in OECD (2016) which outlines the ten core principles for private pension regulations (Table 6).

Independence is an important aspect of CCP which implies that the organization can take their decisions regarding investments without any political

interference or pressure from external actors. Another lesson that can be drawn is the quality of the technical human resource involved in management and at the board level. Overtime, this has led to increased strengthening of trust in the credibility of the fund, among all stakeholders.

Table 6: Principles for Pension Regulations

General principles	
Core principles	**Description**
Conditions for effective regulation	Pension systems are required to have clear and well-defined objectives and repeated monitoring of these objectives which include coverage, adequacy, sustainability, security, and efficiency. A sound regulatory and supervisory system for pensions, an effective legal framework and a strong institutional and financial market infrastructure for pensions should be in place to support these objectives.
Establishment of pension plans, pension funds, and pension entities	Any pension entity should be governed by a comprehensive and clear set of rules, which encompass financial, managerial, legal, and technical aspects of the entity. The legal requirements, moreover, should ensure that the pension fund assets are distinct from any other entity, and that the ownership of the financial institution or other entities that manage the pension funds/assets are transparent.
Governance	The governance structure of all pension entities should provide a conducive environment for smooth processing, regular feedback, and prudent decisions. The responsibilities in the governance structure should be appropriately divided between the operational and supervisory aspects, with strong channels of communication for and accountability of those handling these responsibilities.
Investment and risk management	Investment by pension entities should be managed in accordance with the unique features of the pension and plan and account for market and institutional environment, the investment horizon, risk-return objectives of the plan, and the long-term nature of saving for retirement and of eventual liabilities in all investment decisions.
Plan design, pension benefit, disclosure and redress	Different stakeholders influence the pension plan design, which, in turn, influences the competency of the plan in attaining its income objectives, the protection mechanisms required to preserve these, and the scope and nature of rights of members and beneficiaries. A regular, independent assessment of the pension plan design is required. The plan beneficiaries should have access to all necessary information and an effective platform for reporting grievances.
Supervision	Supervision of pension entities and funds is important to protect the interests of beneficiaries and should ensure legal and financial soundness of all decisions. For this purpose, the supervisory authorities must be given adequate funds and regulatory powers.

Principles Specific to Occupational Plans	
Core principles	Description
Occupational pension plan liabilities, funding rules, winding up, and insurance	For occupational plans that are not fully funded, there should be minimum funding rules or other methods to ensure sufficient funding of liabilities. Appropriate and transparent methods for valuations of assets and liabilities should be used. The winding-up procedure should also be such that it protects the beneficiaries in cases of employers' insolvency or other such instances.
Access, vesting, and portability of occupational pension plans	Regulations should ensure fair treatment of employers so that they may have non-discriminatory access to occupational pension plans and should protect vested rights and entitlements of all stakeholders. The nature of the pension plan and its portability should protect employee's right to job mobility.
Principles Specific to Personal Pension Plans	
Core principles	Description
Funding of personal pension plans, wind-up and insolvency	Benefits depend upon contributions paid into the plan in personal plans. The financial risk of promises from the pension plan or pension entity in the form of a deferred annuity or a guaranteed rate of return is borne by the plan provider or pension entity. In case of insolvency of a pension fund or pension entity, regulations should establish the provisions of guaranteed levels of protection for the assets and entitlements accumulated by plan members.
Equal treatment, business conduct, competition and portability of personal pension plans	Pension funds and pension entities, their external service providers and authorized agents and other intermediaries operating in the personal pensions market should protect the interest of plan members and uphold financial consumer protection.

Source: OECD (2016)

3. Conclusions and Policy Implications for the GoKP

This report is based on a review of the successful examples of pension reform and the hallmarks of successful pension systems within and outside Pakistan. The main objective was to inform a contributory pension reform process that has been announced by the GoKP in the budget 2021-22 and is now in the design phase, with technical support from SEED. There are five key lessons that may be drawn from this survey of domestic and international experiences which hold particular relevance for the reform in KP, as well as similar efforts underway in other provinces and at the federal level in Pakistan.

1. There are several stakeholder groups that must be taken on board through due consultations for any pension reform effort to be successful: pensioners, employees and their associations, and the government. Taxpayers are also important, especially in the context of DB schemes, where they pay for the entire pension bill. Adequate reporting and disclosures concerning investment policies and fund balances, among other performance indicators, is one way of maintaining transparency for taxpayers, which is carried out by the Punjab Pension Fund. These stakeholders should also ideally be represented in governance structures.

It is important to revisit current representation of stakeholders in pension boards and committees and allow for wider and inclusive participation in the change process. Such a change process at provincial and sub-province level will require continuous advocacy and outreach so that the risks associated with rising liabilities and the benefits of DC can be comprehensively explained.

2. The shares of employers and employees toward pension contributions differ widely across countries and where governments are employers, they tend to match or exceed the contribution of their employees. For nascent DC schemes, it is prudent to start low and then ramp up gradually to acclimatize employees. The Indian government began with an employee contribution of 10 per cent of their monthly salaries when the scheme was initially introduced in 2004, (which was matched by the government), gradually increasing this figure to 14 per cent in 2019. OGDCL in Pakistan has similarly taken a phased approach to their contributory pension reform.

3. Pension funds which invest in a diverse range of asset classes – debt, equity, money markets, real estate, etc. – generally tend to perform better in terms of returns, though this requires access to advanced expertise in specialized investment management knowledge domains i.e. professionals including actuaries, public finance specialists, project management specialists, strategic risk managers, and labour economists, so that best possible growth of pension funds and disbursements to beneficiaries is ensured. Pension fund governance structures should ideally include individuals from the corporate sector and management teams should be resourced with professionals with relevant private sector experience. The Punjab Pension Fund has recruited such a team, under an empowered General Manager and this arrangement is backed by the enabling law. The Canadian example shows that it also helps if the fund is kept at an arm's length from the government and exercises a fair degree of autonomy.

The KP Pension Fund, like those of other provinces, has invested conservatively and in low-risk assets. As a first step, GoKP should consider strengthening the Khyber Pakhtunkhwa Fund Management Unit's technical capabilities which may allow adopting a diversified asset and investment mix to achieve higher returns.

Alternatively, fund management of the planned DCS could be outsourced to an appropriate bank or asset management company with the relevant experience.

4. Proactive risk management requires a comprehensive assessment of a wide range of risk types that are germane to pension fund management. For instance, lack of adequate private sector representation on management boards is a type of governance risk, while unpredictable changes in the legal regime represents an external risk which must be anticipated and responsive mitigation strategies adopted. EOBI may be facing liquidity risks given upcoming plans for expanding coverage to informal employers and workers, which would require appropriate measures to boost returns on investment. Almost all successful models discussed above are aided by a prudent regulatory framework at the national level.

GoKP should consider annual actuarial assessments of pension liabilities on a regular basis, ideally undertaken by one of the big-four accounting firms which have the knowledge and experience to institutionalize some of the best practices explained in this policy note. This assessment should become part of an annual 'State of Pensions in KP' report to be presented and discussed in the KP Assembly, ideally as part of the budget.

5. Pension funds require independent regulation. SECP plays this role in Pakistan. OECD has documented global best practices regarding regulatory principles that are relevant in Pakistan's context.

7. References

Ahmed, V., Amin, S., Bakhtiar, U., Javed, A. and Khawar, H. 2021. Government Pensions and Fiscal Sustainability: Perspectives from Federal and Khyber Pakhtunkhwa Governments. Sustainable Energy and Economic Development (SEED) Programme, Islamabad.

Ahmed, V., 2017. Pakistan Agenda for Economic Reforms. Oxford University Press.

Arif, U. and Ahmed, E., 2010. Pension system reforms for Pakistan: Current situation and future prospects. Pakistan Institute of Development Economics.

Ashiq, U. and Asad, A.Z., 2017. The rising old age problem in Pakistan. Journal of the Research Society of Pakistan–Vol, 54(2).

Bongaarts, J., 2004. Population aging and the rising cost of public pensions. Population and Development Review, 30(1), pp.1-23.

Chohan, Usman W., 2021. Directions for Pensions in Pakistan. CASS Working Papers of Economics & National Affairs, Working Paper ID: EC024UC, 2021, http://dx.doi.org/10.2139/ssrn.3761405.

Clements, B.J., Eich, F. and Gupta, S., 2014. Equitable and sustainable pension systems. Equitable and Sustainable Pensions: Challenges and Experience, pp.3-29.

Franzen, D., 2010. Managing investment risk in defined benefit pension funds.

GoKP, 2021. White Paper 2021-22. Finance Department, Government of Khyber Pakhtunkhwa.

IMF, 2021. IMF Country Report No. 2021/073. IMF.

IOPS, 2012. Toolkit for Risk-based Pensions Supervisors. International Organization for Pension Survivors.

Jones, R. 2005. Developments in the reform of the Australian Pensions System. International Seminar for China Pension Development, Dalian China, 2 September, 2005.

Kidd, S., Tran, A. Social pensions and their contribution to economic growth. Development Pathways

Kim, Cheolsu and Bhardwaj, G., 2011. South Asia Pension Forum: Fostering Inclusive and Sustainable Pension Systems in the Region. Asian Development Bank.

Kingston, G. and Thorp, S., 2019. Superannuation in Australia: A survey of the literature. Economic Record, 95(308), pp.141-160.

Mishra, B., 2016. Pension funds as financial intermediaries: a literature

review. Editorial Team Editorial Advisory Board, p.49.

Mitchell, O.S., 2002. Redesigning public sector pensions in developing countries Pension Research Council.

Musalem, Alberto R., Palacio, Robert J. 2004. Public Pension Fund Management: Governance, Accountability, and Investment Policies. Washington, DC: World Bank.

Naveed, F., Khawaja, I. and Maroof, L., 2020. Are Islamic mutual funds exposed to lower risk compared to their conventional counterparts? Empirical evidence from Pakistan. ISRA International Journal of Islamic Finance.

NCPERS. 2017. Public Pensions Are a Good Deal for Taxpayers. National Conference on Public Employee Retirement Systems.

Nowacki, C. 2015. U.S. Public Pension Fund Governance: How to Balance Expertise and Representation. Stanford University. https://gpc.stanford.edu/gpcthinks/us-public-pension-fund-governance-balance-expertise-and-representation

OECD, 2015. Pensions at a Glance. OECD.

OECD, 2016. OECD Core Principles of Private Pension Regulation. OECD.

OECD, 2019. Pensions at a Glance 2019: OECD and G20 Indicators. OECD.

OECD, 2020. Pension markets in focus 2020. OECD.

OGDCL, 2020. Oil and Gas Development Company Limited: Statement of Financial Position. OGDCL.

OGDCL, 2021. Oil and Gas Development Company Limited: Annual Report 2021. OGDCL. https://ogdcl.com/sites/default/files/publication/OGDCLAR2021.pdf

Sarfati, H. and Ghellab, Y., 2012. The political economy of pension reforms in times of global crisis: State unilateralism or social dialogue? (No. 994685753402676). International Labour Organization.

Stewart, F., 2010. Pension funds' risk-management framework: regulation and supervisory oversight. OECD.

Strumskis, M. and Balkevičius, A., 2016. Pension fund participants and fund managing company shareholder relations in Lithuania second pillar pension funds. Intellectual Economics, 10(1), pp.1-12.

Thinking Ahead Institute (TAI), 2021. Global Pension Assets Study. TAI, https://www.thinkingaheadinstitute.org/research-papers/global-pension-assets-study-2021/

World Bank Group, 2017. The Evolution of the Canadian Pension Model: Practical Lessons for Building World-Class Pension Organizations. World Bank.

Yahya, M., and Menuz, A. 2018. Understanding the regulatory framework governing private and public pensions. Fraser Institute.

The Policy Note is prepared by SEED - Sustainable Energy and Economic Development Programme in collaboration with its strategic partner, Sustainable Development Policy Institute (SDPI). SEED is funded by United Kingdom's Foreign, Commonwealth and Development Office (FCDO). The programme is implemented by Adam Smith International in close collaboration with the Government of Khyber Pakhtunkhwa.