

Pension System in Nepal

Dilip Raj Paudel*

PhD Research Scholar, Pokhara University, Nepal.

***Corresponding Author**
Dilip Raj Paudel

PhD Research Scholar, Pokhara University, Nepal.

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Abstract: *The pension system in Nepal is crucial for providing social security and financial stability to its elderly population. Nevertheless, this current system encounters substantial challenges such as demographic changes, insufficient funding, and operational inefficiencies. This abstract emphasizes a thorough proposal aimed at restructuring the Nepalese pension system to improve its sustainability and effectiveness.*

The suggested reform underscores a multifaceted strategy. Initially, it proposes a reassessment of pension eligibility criteria, progressively elevating the retirement age to accommodate growing life expectancies and alleviate pressure on pension funds. Additionally, the reform advocates transitioning from the existing pay-as-you-go (PAYG) system to a partially funded model, enabling judicious investment of pension funds for increased returns. This entails the creation of an autonomous pension fund management authority to guarantee transparency and accountability in investment choices.

Moreover, the reform proposes the introduction of an automatic adjustment mechanism tying pension benefits to inflation and wage growth. This measure serves to prevent the erosion of pension values over time and preserves the purchasing power of retirees. Furthermore, the reform tackles the coverage issue by suggesting the expansion of pension benefits to workers in the informal sector, thereby extending the scope of social security.

In conclusion, the abstract underscores the importance of a strong regulatory framework to govern the revitalized pension system. This framework would encompass oversight, risk management, and regular evaluations to guarantee the sustainability of the system and its adaptability to changing economic conditions.

Keywords: Sustainability, Adequacy, Coverage, Pension, Contributory.

1. Background

Retirement benefits can be defined as the amount of money that is provided to people after retirement from service to help them with their livelihood as a form of pension or gratuity. Pension is a reward given on a regular monthly basis to anyone who has dedicated a significant portion of their productive years in national service and retired from regular service, making it easier and effective for themselves and their families to earn a livelihood in a simple and efficient manner in their post-retirement life.

The Sustainable Development Goals (SDGs) were introduced during a United Nations summit in September 2015, representing a collective commitment by global leaders. Comprising 17 distinct objectives, these SDGs are a pivotal component of the broader 2030 Agenda for Sustainable Development. Over the course of the next decade until 2030, nations are actively working to mobilize their resources and endeavors with the overarching aims of eradicating all forms of poverty, addressing inequalities, and combatting the critical issue of climate change. Importantly, these endeavors are framed within the imperative of leaving no one behind. It is crucial to underscore that the pursuit of social

protection plays a pivotal role in the attainment of several of these SDGs, as highlighted by Ortiz (2017).

2. Social Security in Nepal

Apparently, it seems that only government employees are eligible for a pension in Nepal. However, the era of globalization has led to a continuous process of change in every subject and field in a time-bound manner. Concepts such as welfare state, social justice, social security, and social protection, which are understood globally, are also being developed and used more widely. The globally recognized concept of a welfare state, social justice, social security, and social protection has been evolving and expanding in Nepal as well. Nepal has also been affected by this concept. Along with the political changes that have taken place in Nepal and the establishment and development of trade unions, some improvement has been seen in this area.

As of today, Nepal has also embraced the concepts of globalization, social justice, social security, and social protection to some extent. Various agreements have been made with international bodies, and Nepal's constitution of 2015 also incorporates provisions related to these matters. Article 34(2) of the Constitution guarantees the right to social security based on

adequate remuneration, facilities, and contributions for every worker. Article 41 mentions the right of senior citizens to special protection and social security from the state. Article 43 of the Constitution states that economically poor, disabled, and helpless citizens, helpless single women, disabled people, children, those who cannot take care of themselves, and citizens of endangered communities have the right to social security under the law. This means that social security of all citizens is the responsibility of the nation.

However, it can be seen that Nepal has started various social security programs even before the Constitution of 2072 was issued. The evaluation and improvement of various aspects within it may be a separate topic of discussion, but looking at the current list of facilities, it can be said that it is following the principles of social justice and welfare state.

In addition to government employees, some private sector organizations also provide pension benefits to their employees. However, the coverage is still limited. The government is taking steps to expand the coverage of social security in Nepal. It has also signed agreements with various international organizations to this end. It is expected that the social security system in Nepal will improve further in the coming days.

As of today, it can be seen that Nepal has also adopted the concepts of social security, social justice, and social protection to some extent. Here, we are going to discuss the pension system in Nepal. In general, the current type of pension system can be mentioned as follows.

- Fully Funded, Non Contributory for Government Employees
- Contributory Pension System for Government Employees
- Contributory Social Security for Private Sector
- Universal Pension (Old Aged, Widow, Single women etc.)

3. The Development of Pension System in Nepal

The pension system was first introduced in Germany in 1883 during the reign of Bismarck, and in the United States in 1935. Pension, provident fund, and gratuity are considered as the elements of social security. In Nepal, the pension system was started by the then Prime Minister Chandra Shamsher Rana, who provided a fixed amount of money annually to the soldiers who were injured and returned from the British army during the First World War. The Army Provident Fund (*SainikDrabyKosh*) was established in 1991BS, marking the beginning of the savings fund system for soldiers, while the civil service provident fund system was started only in 2001 BS.

The retirement benefit system in Nepal initially applied to soldiers who retired from the Nepali army. The Prime Minister Juddha Shamsher Rana announced on his birthday on *Bhadra 17, 1998 BS*, that the soldiers serving in the army would receive a pension of 1/5 of their salary for life. For civil servants, the 2-stamp charter was issued on *Mangsir 14, 1999 BS*, providing a pension of 1/6 of the pay scale allowance to the employees who have completed 25 years of service from *Naisinda to Badakaji*. This historical overview illustrates the evolution of the retirement benefit system in Nepal, which began with soldiers and eventually extended to civil servants.

It appears that the management of retirement benefits in Nepal is handled through various government offices, including the *Nijamati Kitabkhana* and the *Prahari Kitabkhana*. The pension payment management was done by the land revenue offices. The pension work for the Nepal Army was being done by the *Defense Accounts Controller's Office*. However, the office was abolished by the decision of the Government of Nepal dated *Asar 29, 2068BS*. Since *Magh 1, 2068 BS*, the pension work for the Nepal Army has been done by the former *Kaushitosh Khana*, now the Pension Management Office (*the name of the Kaushitosh Khana Office was changed to Pension Management Office by the decision of the Government of Nepal dated Shrawan12, 2069 BS*).

Since 2033 BS (1976 AD), the distribution of retirement benefits has been based on the Retirement Benefit Authorization Letter issued by Pension Management Office (PMO), and payments are made through the Nepal Rastra Bank, Rastriya Banijya Bank, and Nepal Bank Limited. There is no official document on how the pension payment management for employees was done in the past. However, based on the traditional system, practice, and some decisions, it seems that on March 2, 2033, the Ministry of Finance, the Office of the Controller of Accounts, Nepal Rastra Bank, Rastriya Banijya Bank, and Nepal Bank Limited discussed and decided that the pension payment for civil servants and police would be made by Nepal Rastra Bank, Rastriya Banijya Bank, and Nepal Bank Limited, based on the payment order of the Pension Management Office (formerly the *Kaushitosh Khana* Office). The pension entitlement letter would be provided to the retired employees on the basis of this payment order, and the monthly statement would be attached to it. The concerned banks would then make a demand for reimbursement from the Pension Management Office through their central offices, and the Pension Management Office would verify the statement and reimburse the banks. The management of the Provident Fund for teachers started in 2036 BS (1979 AD), and the pension system was only started in 2061 BS. The payment and reimbursement have been done accordingly.

The retirement benefit system's management and related procedures have undergone changes and improvements over time adapting to the needs and circumstances of different groups of government employees. These changes have often been driven by official decisions, organizational restructuring, and evolving practices. Additionally, there have been changes in the structure and management of the retirement benefit system, including the establishment of the Army Provident Fund, the introduction of provident fund management for civil servants, and the retirement benefit system for soldiers and civil servants based on their years of service.

Overall, the retirement benefit system in Nepal has seen significant development and transformation over the years, reflecting changes in government policies and the evolving needs of retirees from various government sectors. In view of the increasing number of retired government employees, the pension system is becoming increasingly challenging in terms of its sustainability, affordability, and manageability. In this context, a new pension system based on contribution has been started from Shrawan 1, 2076 for new government employees. Under this system, government employees have to contribute 6.5% of their salary, and the employer and the government have to contribute an additional 6.5%, for a total of 13%. The Government of Nepal has entrusted the Employees'

Provident Fund with the management of this contribution-based pension system.

Similarly, with the issuance of the Contribution-based Social Security Act, 2074, the Social Security Fund has started a system from Mangsir 11, 2075 for private sector employees, where they contribute 11.5% and the employer contributes 20.5%, for a total of 31.5%. On this basis, pension and other benefits are provided. The social security allowance, which was started by the Government of Nepal in 2051 by providing a monthly allowance of Rs. 100 to the elderly who have reached the age of 75, is called Old Age Pension (OAP) at the international level. In this regard, it has been found that the amount of this type of social security allowance and the distribution system are being continuously improved to make them more effective.

Table 1

The number of pensioners and the amount of expenditure are as follows:

FY	Civil	Army	Police	Education	Total	Increment %	Expenditure in (Lakhs)	Increment %
2071/72	55388	62766	38217	27625	183996		260106	
2072/73	58711	65861	40067	31499	196138	6.60	269272	3.52
2073/74	61854	68896	41584	34630	206964	5.52	370982	37.77
2074/75	65389	71282	44273	37556	218500	5.57	397515	7.15
2075/76	68641	75222	46689	40759	231311	5.86	435644	9.59
2076/77	72953	81445	53409	44129	251936	8.92	530129	21.69
2077/78	77745	85579	57192	47489	268005	6.38	549859	3.72
2078/79	80584	92885	58398	51308	283175	5.66	629158	14.42
2079/80	83240	99041	59603	54382	296266	4.62	746983	18.73

Source: PMO 2023

As the above data shows that, the number of pensioners and the amount of expenditure are increasing every year. This is due to the increasing number of government employees and the increasing life expectancy of people.

Pension Beneficiaries and Annual Pension Increment in Nepal

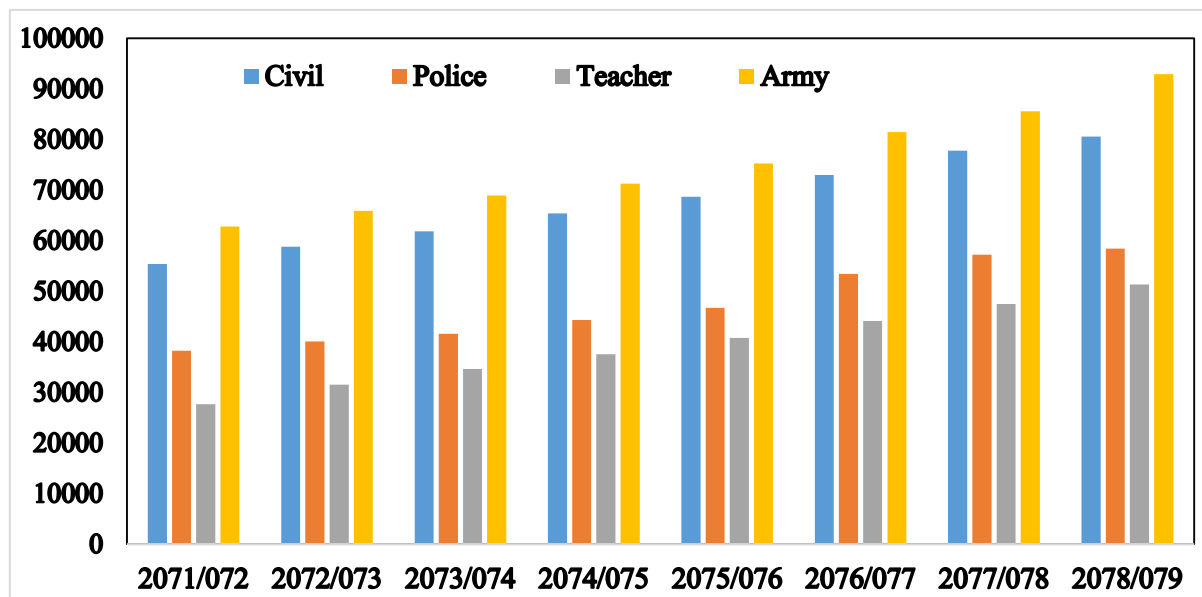
Pensions are being given to civil servants, army and police personnel and teachers. The following graph illustrates the number of pensioners from the Fiscal Year (FY) 2071/72 B.S. to 2078/79 B.S. There is no doubt that the amount of pension and the number of pensioners is growing around the board.

4. Pension System:

4.1 Non-Contributory Pension system for Government sectors:

The pension system in Nepal follows specific rules and regulations, allowing employees in various government services to receive retirement benefits from the government treasury. Government employees appointed until Ashadh, 2076 BS, fall under this scheme. In this system, eligible employees can receive retirement benefits without making any contributions. The number of retirees and the expenditure amount for this retirement benefit system are as follows:

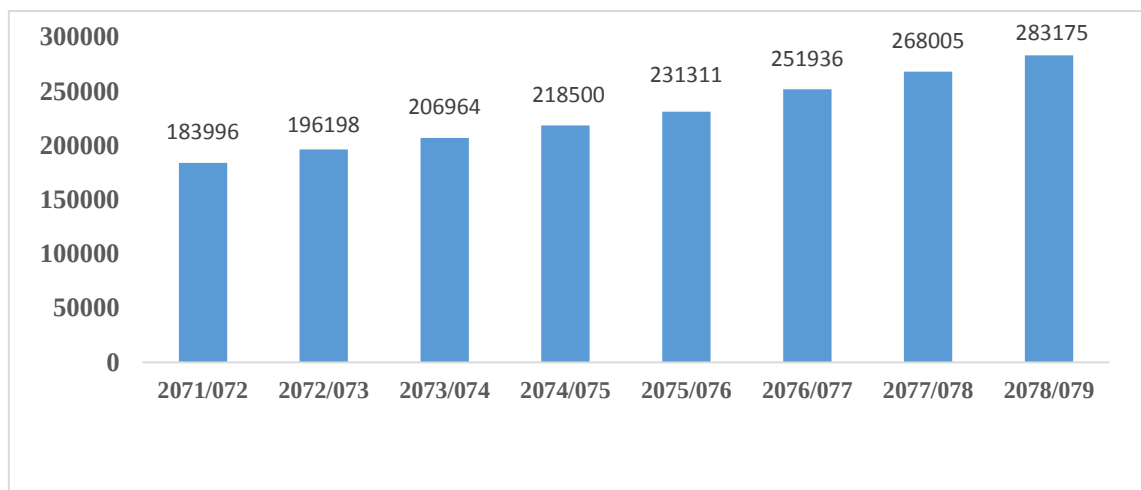
Fig.1
Number of Pension Beneficiaries in Nepal



Source: PMO, 2023

The figure shows that the number of pensioners is on the rise every year. While the hike in the number of pensioners for the civil service tips the list, the hike in the number of pensioners of teachers remains to be the lowest.

Fig 2
Total Number of Pension Beneficiaries in Nepal

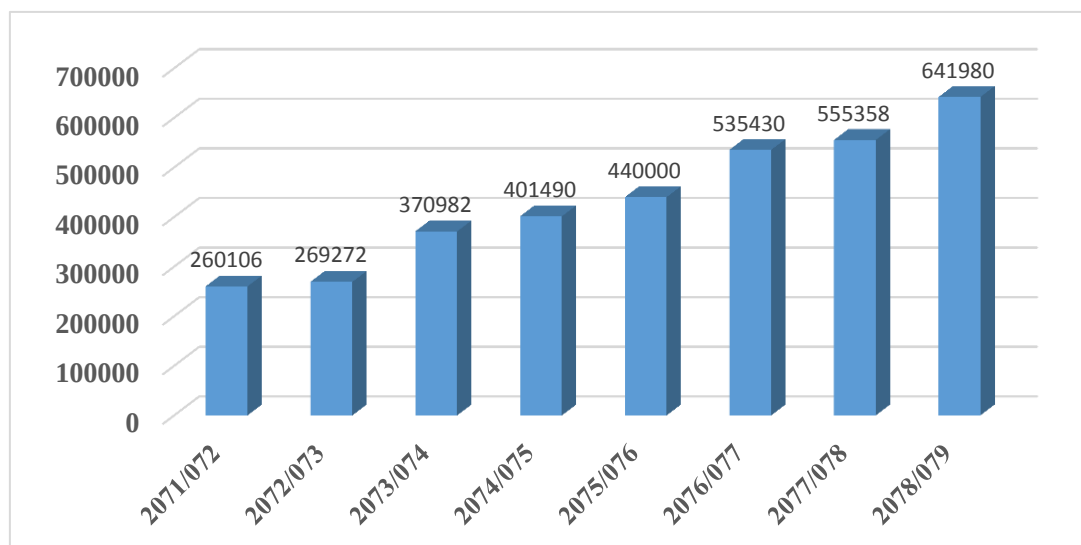


Source: PMO, 2022

One of the reasons behind this is the difference in the retirement ages; the retirement age for civil service officials is 58 whereas for the teachers it is 63. The other reason is that most of the teachers are appointed on a temporary basis.

Figure 4.3 represents the government's annual expenditure in pension from FY 2071/72 B.S. to FY 2078/79 B.S. Here, we can see that the amount of increment in pension is increasing every year.

Fig. 3
Annual Expenditure in Pension (In Lakh)



Source: PMO, 2022

The figure 4.3 and Table 4.2 illustrates that the year 2078/79 has seen the all-time high pension amount that is NRs. 64 arab 1 crore 98 lakh. The data shows that, there is an increment of 18.23%, 3.52%, 37.77%, 8.22%, 9.59%, 21.69%, 3.72% and 15.60% from fiscal year 2071/72 BS to 2078/79 BS in the order of FY respectively. The pension liability is increasing every year.

4.1.1 Provision of pension for civil servants as per the Civil Service Act, 2049:

According to the Civil Service Act, 2049 in Nepal, government employees who have completed a minimum of 20 years of service are eligible for retirement benefits. However, employees who reach the age of 58 or older and are still in service are also eligible for retirement benefits, including a monthly pension. If any government employee is physically or mentally incapable of regular service due to illness or disability and has been certified as such by the Government Medical Board, they can receive an extended service period of up to 7 years after the regular retirement age.

For government employees with 20 years or more of service, the retirement benefit amount is calculated as follows:

$$\text{Pension Amount} = \text{Total Years of Service} \times \text{Last Monthly Salary} / 50$$

However, the minimum pension amount cannot be less than half of the starting salary of a civil servant in the same position, and the maximum pension amount cannot be more than the starting scale. In addition, if the government increases the salary, the amount of the pension will be increased by 2/3 of the increase in the starting salary of the same level of incumbent employee. This shows that the pension amount is being made somewhat time-bound.

If a pensioner dies within 7 years of starting to receive a pension, his/her spouse will receive the entire amount of the remaining period and half (1/2) of the pension amount that he/she would have received after that till their lifetime.

These provisions ensure that government employees in Nepal receive retirement benefits based on their years of service and other criteria outlined in the Civil Service Act, 2049.

4.1.2 The Pension System for Judges of the Court:

A. Provision for supreme Courts' Judge.

The retirement benefits for judges of the Supreme Court in Nepal are governed by the following provisions. In the case of judges of the Supreme Court, if they are appointed to the post of Chief Justice or Judge for any reason and retire from that post, they will be eligible for pension as follows:

- Judges who have served for 5 years or more but less than 7 years in the post of Chief Justice or Judge or both will receive 50% of their monthly salary, and those who have served for 7 years or more will receive 66% of their monthly salary.
- In the case of those who have served for more than 7 years, the pension amount will be increased by 2% for each additional year of service, up to a maximum of 80% of the salary they were receiving when they retired.
- The pension amount will also be increased by 66% of the percentage increase in the salary of the Chief Justice or Judge. However, if the calculated pension amount is less than half of the salary of the incumbent judge, it will be increased to half of the salary.

B. Provision for Appellate & District Courts' Judge.

In the case of judges of the Appellate and District Courts, if an Appellate Court judge has completed 12 years of service and a District Court judge has completed 20 years of service, they will receive 50% of their salary as monthly pension. However, if they have served for more than 20 years, they can choose to receive either the pension amount mentioned above or the amount calculated as follows:

$$\text{Pension Amount} = \text{Total Years of Service} \times \text{Last Monthly Salary} / 50$$

4.1.3 Pension Provision for Constitutional Body Officials:

Constitutional body officials are entitled to receive a retirement allowance based on the following criteria:

In the case of constitutional body officials, if they have completed 10 years of service, they will receive 66% of their monthly salary as monthly pension. However, if they have previously served in the Government of Nepal for a period of time that, when added to the 10 years of service in the constitutional body, is equal to or greater than 20 years, they can choose to receive either the pension amount mentioned above or the amount calculated as follows:

Pension Amount = Total Years of Service × Last Monthly Salary / 50

4.1.4 Pension Provisions for Police Personnel:

For police personnel, the retirement allowance is determined as follows:

Police personnel who have served for 20 years or more in the police service will be eligible for pension from the date they retire from the service. However, in the case of police personnel who were appointed before December 26, 2060, the following service requirements apply:

- Police Constables and Police Havildars must serve for a minimum of 16 years.
- Police Sub-Inspectors and Assistant Sub-Inspectors must serve for a minimum of 18 years.
- Gazetted Officers must serve for a minimum of 20 years.
- a. The pension amount for police personnel from Police Inspector to Police Chief is calculated as follows:

Pension Amount = Total Years of Service × Last Monthly Salary / 50

- b. The pension amount for Police Sub-Inspectors and those below them is calculated as follows:

Pension Amount = Total Years of Service × Last Monthly Salary / 40

The minimum pension amount is 50% of the final salary of a police inspector of the same rank. The maximum pension amount is 100% of the final salary of a police inspector of the same rank. The minimum pension amount is 40% of the final salary of a police constable of the same rank. The maximum pension amount is 80% of the final salary of a police constable of the same rank.

In addition, police personnel aged 60 years or older, who have completed their pension and wish to extend their service for the sake of their families, can do so by increasing the service duration required for their pension by 30%. The minimum and maximum retirement allowance amounts are determined based on the initial pay scale of an equivalent rank, ensuring that the final amount does not exceed the starting salary of the next higher rank. Additionally, if a police personnel dies after completing 15 years of service, their service duration can be extended to provide a retirement allowance to their family as needed.

4.1.5 Pension Provisions for Armed Police Personnel:

Armed police personnel who have served for 20 years or more in government service will be eligible for pension from the date they retire from service. The pension amount is calculated as follows:

(a) For Gazetted Officers:

Pension Amount = Total Years of Service × Last Monthly Salary / 50

(b) For non-Gazetted and equivalent ranks in Armed Police:

Pension Amount = Total Years of Service × Last Monthly Salary / 40

In addition, when there is an increase in the lower-level salary scale due to the increase in the upper-level scale for armed police personnel, the retirement allowance for lower-level ranks is also increased proportionally. The increase is calculated as 2/3 of the difference in the starting salary of the respective ranks.

4.1.6 Pension Provisions for Special Service Employees:

Special service employees are eligible for pension when they reach the age of 48 to 58 years, or when they complete 30 years of government service, along with fulfilling the specific years of service required for their respective positions. If an employee meets the age limit, service duration, or years of work for their position, they can take retirement. They can also retire after completing 4 to 10 years of service in the designated post, whichever comes first. They will be eligible for pension after working for 16 to 20 years in the designated post. However, for personnel who joined the service after Shrawan 2058, all levels of personnel can only receive pension after completing 20 years of service.

(a) For Inspectors up to Chief Officials:

Pension Amount = Total Years of Service × Last Monthly Salary / 50

(b) For Senior Research Assistants and other employees of the same level in the service:

Pension Amount = Total Years of Service × Last Monthly Salary / 40

However, for Indicators and employees of equivalent ranks, when their age reaches 60 years or more, they are eligible for retirement, and their retirement allowance is reduced by 30 percent from the calculated amount. It's important to note that after the fiscal year 2058 BS, all government employees are eligible for retirement once they complete 20 years of service duration.

4.1.7 Pension Provisions for Nepali Army Service Employees:

Nepali military personnel who were recruited before 28th Baishakh, 2060 (May 11, 2003 AD) are eligible for pension after completing 16 years of service for followers and above, 17 years for *sardars*, *subedars*, and *senior subedars*, and 20 years for *assistant subedars* and above. Nepalese military personnel who were recruited after 28th Baishakh, 2060 are eligible for pension after completing 20 years of service. The pension amount is calculated as follows:

(a) For Subedars and those holding ranks above them:

$Pension\ Amount = Total\ Years\ of\ Service \times Last\ Monthly\ Salary / 50$

(b) For *Falosars* and those holding ranks above them, and honorary service members or honorary assistant service members:

$Pension\ Amount = Total\ Years\ of\ Service \times Last\ Monthly\ Salary / 40$

However, for retiring service members, the pension amount should not be less than half of the starting scale of the lower-ranked in-service soldiers and should not exceed the starting scale of the lower-ranked in-service soldiers. Additionally, if a retired service member reaches the age of 60 years or more, they can add an extra 30 percent to their pension. For example, *Havildar* or higher-ranked retirees can add 10 percent, *Subedar* retirees can add 5 percent, and others can add 30 percent to their calculated pension amount if they reach the specified age.

In addition, the pension amount of military personnel who are receiving pension and are of the rank of sardar or above will be increased by 10% after they reach the age of 75, and by an additional 10% after they reach the age of 85. These provisions outline the pension amount for Nepali Army service employees based on their years of service, rank, and age.

4.2 Contribution-based pension system

To facilitate retirement benefits for government employees based on their contributions and in accordance with prevailing laws, the government has established the Retirement Benefit Fund. There are two funds established- 1. Contributory Pension Fund, under the contributory Pension Act 2075 BS, for government sector, managed by Employees Provident Fund and 2. Contribution based

pension system under the Contributory Social Security Act for private sectors employee. The Contributory Pension Act, 2075 was issued with the objective of establishing and operating a pension fund to manage the pension or grant amount that employees who are appointed to receive pension from the government fund under the prevailing law will receive after retirement. The Retirement Benefit Act 2075, issued in 2018 AD, stipulates that government employees permanently appointed in the civil service, Nepal Police Service, Nepal Armed Police Force, Nepal Special Service, after Shrawan 1, 2076 BS (July 16, 2019 AD) will contribute 6% of their monthly basic salary towards the fund. The government matches this contribution by adding 6% of the employee's monthly basic salary to the fund. The responsibility for managing this fund and collecting and managing contributions accordingly lies with the Employee Provident Fund.

According to the Contributory Pension Act 2075, government employees who complete 20 years or more of service or reach the age of retirement and separate from service are entitled to a lifelong retirement benefit calculated based on their total years of service:

$Pension\ Amount = Total\ Years\ of\ Service \times Last\ Month's\ Basic\ Salary / 50$

Employees who retire based on their contributions are entitled to receive this pension from the fund. Additionally, every three years after retirement, the retirement benefit amount increases by 10% of the last received amount. This contribution-based retirement system allows government employees who have completed at least 20 years of service or reached the age of retirement to receive a lifelong retirement benefit from the fund.

Table 2

Details of the contributor in the contribution-based pension scheme.

FY	Civil	Army	Police	APF	Special Service	Other	Total	Amount (Lakhs)
2076/77	34	6081	7268		40	0	13723	47.90
2077/78	3058	11802	9226	4575	52	42	28755	10269.37
2078/79	7597	15782	16728	4667	970	106	45850	28197.90
2079/80	15081	20981	20261	6061	322	530	63236	60047.73

Source: EPF, 2023

5. Contribution-Based Social Security:

To ensure the rights of workers in their contribution to employment and to provide them with social security, the Contribution-Based Social Security Act 2074 (2018) was enacted on April 12, 2018 AD. This act establishes a social security system and provisions for employees in the private sector as well. The Contribution-based Social Security Act, 2074 BS was issued on 29th April, 2074 BS to ensure the right of workers to social security based on their contribution and to provide social security to the contributors. With the issuance of this Act, the employees in the private sector are also entitled to social security, including pension and grant. The Social Security Fund has been entrusted with the responsibility of collecting and managing the contribution amount for this purpose. This arrangement has ushered in the initial phase of the pension system for workers in the private sector.

5.1 The Social Security Fund:

The Social Security Fund was established on 7th Chaitra, 2067 BS in accordance with the Social Security (Management Fund and Operation) Rules, 2067. It started collecting 1% of the salary of all employees (government, institutional, teachers, organizations and permanent, temporary employees working in the private sector) as social security tax and has been managing it. After the Contribution-based Social Security Act, 2074 was issued on 29th Shrawan, 2074 BS, the Contribution-based Social Security Act, 2074 came into effect from 25th Kartik, 2075 BS and has been operating in accordance with that Act. The objectives of this fund are to ensure the right of workers to social security based on their contribution as mentioned in the preamble of the Act and to provide social security to the contributors.

The Contribution-based Social Security Act has made provision to enroll workers in the formal and informal sectors and self-employed persons in the social security scheme. This has made the scope of the fund wider. Section 10 of the same Act has specified the range of social security schemes that the fund can operate, in addition to the medical treatment and health security scheme, maternity security scheme, accident security scheme, disability security scheme, old age security scheme, dependent family security scheme, and unemployment assistance scheme. The Social Security Scheme Operation Procedure, 2075 is in force for the operation of the social security schemes mentioned in the Act.

The main purpose of this fund is to guarantee the right to social security for those workers who contribute to employment and to provide them with social security.

5.1.1 Contribution-Based Social Security Act:

The Contribution-Based Social Security Act allows both formal and informal sector workers and those engaged in self-employment to be enrolled in social security schemes. This broadens the scope of the fund's operation.

S.N	Particulars/Benefits/Schemes	Contribution
1	Medical Treatment, Health, and Maternity Security Scheme	1%
2	Accident and Disability Security Scheme	1.45%
3	Dependent family security scheme	0.27%
4	Old age security scheme	28.33%
5	Retirement Scheme	20 %
6	Leave Plan:	8.33%

Source: SSF 2023

Thus, 31% of the basic salary of the worker will be deposited in the Social Security Fund. This arrangement ensures that 31% of the basic wage of a worker is deposited in the Social Security Fund.

Retirement Plan:

Under the Retirement Plan, once a worker reaches the age of 60, they will receive the accumulated amount in their retirement account. Additionally, they will receive interest on their accumulated contributions, and the total amount will be used to provide a lifelong retirement pension. Pension amount is calculated by dividing the total amount accumulated in the retirement scheme by 60. To be eligible for retirement benefits, a worker must have reached the age of 60 and contributed for a minimum of 180 months (15 years).

Leave Plan:

The Leave Plan includes contributions of 8.33% of a worker's salary. Under this plan, when a worker reaches their retirement age or upon their death during employment, the worker or their legal heir will receive a lump sum payment equal to the accumulated amount.

As of now, no one has been eligible for retirement under the Elderly Security Program (28.33%) and the Leave Plan (8.33%). Under the Leave Plan, as of Ashwin 1, 2076, 100 individuals received a total payment of NPR 515,640,854.30, and this number increased to 2540 individuals receiving NPR 1,767,363,504.30 in

Under this Act, various social security schemes have been implemented, including Medical Treatment and Health Security, Maternity Security, Accident Security, Disability Security, Elderly Security, Sheltered Family Security, and Unemployment Assistance, in addition to the existing Health and Maternity Security programs. The fund is authorized to operate other social security programs as well.

The operational procedures for the implementation of these social security programs are outlined in the Social Security Program Operation Procedure, 2075.

5.1.2 Social Security Program Based on Contributions:

The contribution-based social security scheme was launched on Mangsir 11, 2075 (December 26, 2018) with the slogan "*The beginning of the golden age*", according to which a total of 31% of the amount, 20% from the employer and 11% from the worker, will be deposited in the Social Security Fund as contribution. This amount will be divided as follows.

payments as of Bhadra 12, 2078. (Source: Economic Survey 2078/79, page 219)

6. Universal Pension (Social Security allowance)

The social security allowance (Universal Pension), which started in 2051 BS when the Government of Nepal decided to provide a monthly allowance of Rs. 100 to the elderly who have reached the age of 75, is considered as a social pension scheme at the international level. In some cases, it is also called a social security allowance. In this case, the amount of social security allowance and the distribution system are being made effective by continuously increasing the amount and improving the distribution system. This has resulted in some elderly citizens receiving a higher monthly allowance based on their age and economic status.

India also has a scheme called the Indira Gandhi National Old Age Pension Scheme (IGNOAPS), under which monthly allowances of Rs. 200 for people aged 60 to 79 and Rs. 500 for people over 80 are provided. However, it is found that income certificate has to be submitted while providing such amount. However, in Nepal, all rich and poor people are eligible to receive it. However, beneficiaries are required to present proof of their income.

In the early days, the system of making cash payments to individuals at the local level by making a deposit has been improved by making payments through the bank account of the concerned person. The facility which started from Rs. 100 has been

increasing and the age limit for receiving the facility has also been improved and the scope of beneficiaries has been increased. The following are the social security programs implemented by the Government of Nepal.

In contrast, Nepal has adopted a universal approach where all elderly citizens, regardless of their economic status, are entitled to receive the allowance. Initially, payments were made in cash at the local level. However, improvements have been made to transition

to a bank account-based payment system, which has increased the maximum age limit for beneficiaries and expanded the scope of benefits.

These social security programs have significantly benefited a large number of marginalized and vulnerable individuals in Nepal. The government of Nepal has implemented various social security programs, and the number of beneficiaries and rates of distribution are as follows (source: Economic Survey 2022, page 119):

Table 3

Details of the Social Security Allowances (No. of Beneficiaries and Expenditure)

S.N.	Particulars	Rate (Rs.)	2075/76 (018/19)	2076/77 (019/20)	2077/78 (020/21)	2078/79 (021/22)
	Senior Citizen (68 Years)	4000	993524	1057376	1314201	1322315
	Senior Citizen 60 years-Dalit /Karnali_	2660	287603	300394	206309	212914
	Single Women 60 years	2660	114956	94880	280648	276493
	Widow	2660	605231	658736	350436	360502
	Complete Disabled	3990	43540	48387	55059	63343
	Partially Disabled	2128	74299	83755	105051	128223
	Disappearing Tribal/Tribe	3990	24207	24478	22544	22538
	Children	532	684158	794221	1121198	1216377
	TotalBeneficiaries		2560139	2827518	3455446	3602705
	Expenses Amount (Crore)				6865	9606

Source: Economic Survey, 2022AD

For the distribution of social security allowance through the banking system, 728 local levels have entered into an agreement with the bank and started to make payment through the bank account.

In the fiscal year 2077/78, a total of 34, 55,446 people were provided with social security allowances, while in the period 2078/79, 36,02705 people were given Rs. 6865 to 9606 (in Crore). The data shows that every year the number of beneficiaries and amount has been increasing. It is due to the increase in the monthly allowance for senior citizens from the annual budget of fiscal year 2078/79. The allowance has been increased by 33% to Rs. 4,000 and eligibility age bar for senior citizens also changed 70 to 68 in FY 2079/80.

These measures reflect the government's commitment to expanding and enhancing social security benefits for various groups in society, including senior citizens, orphan children, Dalits, disabled individuals, and impoverished families.

Without any contribution, every year's government budget wouldn't cover and maintain the expenses under this title. It is a huge burden for government treasury. So, there is a concern and queries on its adequacy, extension of coverage and sustainability.

7. The Need for improvement in pension system

When discussing the pension system in Nepal, government employees who were appointed before Shrawan 1, 2076 BS (July

17, 2019 AD) are eligible to receive a pension without any contribution, while those appointed on or after Shrawan 1, 2076 are required to contribute 6% of their salary to the pension fund based on contribution. In both types of pensions, except as otherwise specified, the pension is generally eligible after 20 years of service and is received regularly in monthly installments after retirement. The government office manages the non-contributory pension system for government employees, while the Employee's Provident Fund manages the contribution-based pension system.

However, in the case of employees in the private sector, under the contribution-based social security scheme, the worker is eligible to receive a pension only after he/she has contributed 11% of the amount for at least 15 years (even if he/she has contributed for 15 years, he/she will not receive a pension until he/she reaches the age of 60). In this way, it can be seen that government employees and private sector employees have different contribution amounts and benefits, and also receive different pensions. In this context, while discussing the pension system currently in force, it seems to be looking for an answer to the question of whether some improvement is needed.

In this context, a survey was conducted with 25 people from the group of government employees who were appointed to government service before Shrawan 1, 2076 and can receive a pension without contribution, 25 people from the group who were appointed after Shrawan 1, 2076 and have to contribute 6% of their salary to the contribution-based pension, 25 people from the group who are currently receiving pension, and 25 people from the

private sector, a total of 100 people, based on the questionnaire received through direct meeting, telephone, and email. The answers and suggestions received from the survey are presented below. The details of the persons involved in the survey are as follows.

Table 4
Respondents details

SN	Description	Female	Male	Total
1	Pensioner (Retirement from Government Service)	9	16	25
2	Employee (who will get pension without any contribution)	10	15	25
3	Employee who contribute 6% of his/her salary for contributory pension Scheme (Government Sector Employee)	13	12	25
4	Contribution inSSF (Private Sector Employee)	11	14	25
	Total	43	57	100

Source: Survey, 2023

7.1 Respondent's views:

(a) Currently, only about 300,000 people out of a total population of 29,742,757 are receiving pension from the government fund. The total expenditure on about 1% of the population is around 5% of the annual budget. Similarly, in the fiscal year 2076/77, a total of 30,62,227 people were provided with social security allowance, and in the period 2077/78 (up to Falgun 2077 BS), 31,50,111 people were given Rs. 58,38,69,55,959.

In response to the question of whether the pension system implemented by the state for all citizens, including government institutions and employees working in the private sector, has been able to cover everyone, Regarding the provision of retirement benefits for government employees, it appears that the government's system collects contributions from all citizens working in government institutions, whether in the public or private sectors, and provides retirement benefits accordingly. Is this system covered to all for pension?

Table 5
Coverage of Pension

Coverage of pension for all	Yes	No	Don't Know
Coverage	15	75	10
Percentage	15%	75%	10%

Source: Survey, 2023

Out of 100 only 15 percent respondents agreed with the coverage of pension in the context of pension for all. Similarly, 10 percent of respondents have expressed they have no idea about the coverage of pension. Most of the respondents or majority were expressed and 75 percent were not satisfied about the coverage of pension.

Those who answered "Yes" said that the pension system covers everyone because there is a provision for both government and private sector employees to receive a pension, either without contribution or with contribution. They also mentioned that the social security allowance is provided to those who are not eligible for a pension.

Those who answered "No" said that the pension system only covers a limited number of government employees, about 1% of the total population. They also mentioned that the pension system for local level employees and teachers is not clear, and that private sector employees are not yet covered by the contribution-based pension scheme. They also expressed concern about the lack of clarity about the benefits that will be provided to those who contribute to the social security fund.

In conclusion, examining the retirement system, especially for government employees, and ensuring that it is equitable and sustainable is a crucial aspect of social and economic policy in Nepal.

In responses of the above question, some of the respondents' answers are as follows:

- "The current pension system is not able to cover everyone. Only a small number of people are able to receive a pension, and the benefits are also very low. The government should make the pension system more inclusive and provide better benefits to all citizens."
- "The current pension system is biased towards government employees. Private sector employees are not able to receive a pension, even if they have worked for many years. The government should make the pension system more equitable and provide equal benefits to all employees, regardless of the sector they work in."
- "The current pension system is not sustainable in the long run. The government is spending a lot of money on pensions, and this is putting a strain on the budget. The government should reform the pension system and make it more sustainable."

It has been mentioned that the current system allows for retirement benefits to be received from both the government and the private

sector, irrespective of contributions made or the basis of the allowance. Is it true that a system exists where individuals can receive retirement benefits without any contributions, and only those who have not received retirement benefits in the previous year are excluded? If so, it seems that this system aims to cover all citizens without distinguishing between those working in the public or private sectors. However, there might be some limitations in the implementation or clarity in certain aspects of this system. Could you provide more details on how this system operates?

b) **For government employees**, the formula for calculating retirement benefits appears to be based on the total years of service multiplied by the final salary amount, divided by either 40 or 50, depending on the grade. It's mentioned that this system takes into account the salary scale, ensuring that retirement benefits are not less than 50% or greater than 100% of the final salary of an employee. Could you provide further information on how this formula is applied and how it affects the retirement benefits received by government employees? Also, what is the rationale behind choosing the divisor (40 or 50) and the percentage range (50% to 100%)?

These questions aim to clarify and understand the intricacies of the pension system in Nepal.

It is stated that there is a system in place where individuals can receive retirement benefits without any contributions, and this system covers all citizens, including those working in the public and private sectors. However, there might be some limitations in its implementation, and it seems that there is ambiguity in certain aspects of this system. Could you provide more details on how this system operates and what criteria determine eligibility for receiving retirement benefits without contributions? Additionally,

what are the specific provisions for government employees, teachers, and individuals in the private sector regarding retirement benefits?

For government employees, the formula for calculating retirement benefits is based on the total years of service multiplied by the final salary amount, divided by either 40 or 50, depending on the grade. It's mentioned that this system ensures that retirement benefits are not less than 50% or greater than 100% of the final salary of an employee. Could you provide further information on how this formula is applied and how it affects the retirement benefits received by government employees? What is the rationale behind choosing the divisor (40 or 50) and the percentage range (50% to 100%)?

These questions aim to gain a better understanding of the retirement benefit system in place in Nepal, particularly its inclusivity, eligibility criteria, and the calculation of benefits for government employees.

The formula for calculating the pension for government employees under the current rules is as follows:

- $\text{Pension amount} = \text{Total service years} \times \text{Final salary amount} / 40 \text{ or } 50 \text{ (depending on the grade)}$

The pension amount is determined in such a way that it is not less than 50% of the salary scale of a person holding the same position and not more than 100%.

Satisfaction level of respondents with the pension amount received (in terms of adequacy) under this system:

Table 6

Level of Satisfaction in terms of adequacy

SN	Description/Satisfaction Level	1	2	3	4	5
1	In retirement, does it provide ease for earning a livelihood?	17	18	57	5	3
2	In retirement, does it become easier to maintain one's standard of living?	15	20	50	10	5
3	In retirement, how important is financial stability in one's lifestyle?	19	26	47	6	2
4	Present provision for the pension, how important for continued engagement and work motivation	13	27	52	5	3
5	Is pension amount sufficient?	5	7	65	15	8

Source: Survey, 2023

Overall, the respondents were dissatisfied with the pension system in Nepal. They felt that the system was not fair and that it did not adequately cover all citizens. They also felt that the benefits provided under the system were not enough.

In this context, the retirement benefit system places significant importance on factors such as livelihood, standard of living, lifestyle, and career inspiration when considering retirement. It is suggested that increasing the adequacy of retirement benefit amounts can enhance the level of satisfaction.

The survey also asked for suggestions for further improvement. The following are some of the suggestions:

1. **Uniformity in Eligibility:** Currently, there is a difference in the eligibility criteria for government employees hired before and after the Nepali calendar date of Shrawan 1, 2076 BS. Uniform eligibility criteria should be established to ensure fairness and equality among all employees, irrespective of their hiring date. To eliminate

the discrimination between government employees who were appointed before and after Shrawan 1, 2076.

2. **Age of Retirement:** The difference in the age of retirement between government and private sector employees should be addressed. While private sector employees can retire after 15 years of service, government employees must serve for 20 years. A consistent retirement age should be implemented to eliminate this disparity.
3. **Service Conditions:** It is noted that certain provisions, such as a 60-year age limit for retirement benefits in the private sector, are not aligned with international practices. The age limit for retirement benefits should be revised to make it consistent with global standards and to accommodate individuals who enter the job market later in life.
4. **Scaling of Retirement Benefits:** The provision that retirement benefits should not be less than 75% of the initial scale for employees in the same position is significant. This ensures that retiring employees receive a reasonable percentage of their salary as a pension. To make the pension amount at least 75% of the starting salary scale for the current position.
5. **Consideration of International Practices:** International retirement benefit systems, which consider age as a key factor (e.g., retirement at 60 or 65), should be studied and potentially adopted for greater uniformity and fairness.
6. **Budget Allocation:** To sustain the retirement benefit system and accommodate an aging population, it is

question scenario.

Table 7

Respondents views on pension system

SN	Description	1	2	3	4	5
1	It must be without any contributions	13	17	23	37	10
2	It should be contributory	26	24	37	10	3
3	An eligible employee who is entitled to receive retirement benefits upon retirement must retire.	9	11	57	13	10
4	An eligible employee who is entitled to receive retirement benefits must retire upon reaching the age of 60, even if they retire from service before that age.	13	37	39	8	3
5	An eligible employee who is entitled to receive retirement benefits must retire based on their age limit as determined by their age.	13	27	49	7	4
6	The recent leave must be adjusted based on the average age to determine the retirement age for someone who is currently 58 years old.	27	29	34	9	1

Source: Survey, 2023

Regarding the improvements, it is suggested to study other countries' models, especially those that have faced problems due to an aging population and pension system crises. It's essential to

crucial to allocate a certain percentage of the annual budget to cover these expenses. This will prevent the retirement benefit system from becoming financially unsustainable. To make the pension system sustainable by moving from the traditional (non-contributory) model to a contributory model.

7. **Modernization:** Explore modernization of the retirement benefit system, possibly adopting models from other countries, to ensure its longevity and adaptability to changing demographics.

These recommendations aim to address the disparities in the current retirement benefit system and ensure that it is equitable, sustainable, and aligned with international best practices.

c) The survey also found that there is a difference in the pension system between the government and the private sector. Government employees are eligible to receive a pension after 20 years of service, regardless of their age, while private sector employees must be 60 years old to be eligible. This difference in the pension age creates an unfair advantage for government employees.

The survey also found that the pension system is not sustainable in the long term. The government is spending a lot of money on pensions, and this is putting a strain on the budget. If the pension system is not reformed, it may eventually have to be scrapped.

The survey respondents were generally dissatisfied with the pension system in Nepal. They felt that the system was not fair and that it did not adequately cover all citizens. They also felt that the benefits provided under the system were not enough.

75% for employees in lower salary scales and increasing progressively for higher scales.

In the context of retirement and the associated financial contributions and stability, the number of contributions without considering retirement age is increasing compared to those considering retirement age. Additionally, government employees can retire and receive their retirement benefits, but for employees in the private sector, improvements are indicated, such as being able to receive retirement benefits after reaching the age of 60, primarily concerning their health. Regarding the retirement age of 58 years, which is currently in place, most respondents have expressed their preference for setting the retirement age based on average life expectancy. This would ensure that employees work until they are capable of doing so, and would also make it easier to manage the pension fund. Additionally, it would allow for an increase in the amount of the pension.

Recent changes have shifted the focus of determining retirement age from 58 years to the average age. Most have given priority to determining the retirement age based on the average age, which helps ensure that employees work until they reach that age. This contributes to the efficient management of the retirement fund and also allows for an increase in the retirement amount for those who retire at a later age, ensuring a sustainable financial system.

Even if the retirement age is 60, considering a minimum of 25-30 years of service, those who retire after 60-65 years should receive increased retirement benefits and longer-term coverage.

The survey also asked who should be responsible for the administration, management, and sustainability of the pension system. The following were the most common responses.

Table 8

Responsible entity for pension

Responsible Authority for pension	No of Respondents
Government only	15
Employee only	0
Government and Employee	25
Government, Employee and employee	60

Source: Survey, 2023

Fifteen percent's of respondents express their views as, the government should be responsible for the administration and management of the pension system. No any onesuggests to private sector should be responsible for the administration and management of the pension system. 25 percents of respondents views are the Government and employeeer should be responsible for the administration and management of the pension system. Most of the respondents that is 60 percent's are suggest as a combination of the government, private sector, and employees should be responsible for the administration and management of the pension system.

Regarding the improvements, it is suggested to study other countries' models, especially those that have faced problems due to an aging population and pension system crises. It's essential to determine how much contribution is made by whom and in what proportion. The pension system should consider providing a higher percentage of the pension amount, starting from a minimum of 75% for employees in lower salary scales and increasing progressively for higher scales.

Respondents views on the question, "In contributory pension system, employee should contribute some percentage of salary, in this case "how many percentage of salary would be appropriate to contribute for pension with contribution percentage of employee, employer and government?"

Lastly, to answer the question about the responsibilities of retirement management, the following individuals or entities should be responsible for the process: retirement fund management, government, and employees themselves. These entities must collaborate effectively to ensure a robust and sustainable retirement system.

In terms of the amount of pension and its sustainability, the number of people who say that it should be a contributory (contributory) model rather than a non-contributory model is relatively higher. In addition, the survey found that there is a need for improvement in the system where government employees receive a pension immediately after retirement, while private sector employees only receive it after they reach the age of 60.

In response to the question of what improvements should be made to the current system, the following suggestions were made:

- The pension system should be moved to a contributory model.
- The pension amount should be at least 75% of the salary of a person in the same position.
- The retirement age should be set based on average life expectancy.
- The pension should be payable after 25-30 years of service or after the age of 60-65.

Table 9**Contribution percentage of employee, employer and Government for pension**

Particulars	Government	Government & Employer	Government, Employer & Employee
100 percent by Government	15		
Government & Employer (50/50)		35	
Employer & Employee (50/50%)		10	
Government, Employer & Employee (33.33% each)			40

Source: Survey, 2023

In the context of the lack of uniformity in the current pension system and the issue of sustainability, considering the principles of equity and long-term planning, it is suggested that attention should also be given to individuals such as *Mr. Bhatragar*, who are in a lower salary scale at the beginning of their careers but expect to reach a higher scale before retirement. This can be achieved by increasing the service period requirement from the current 20 years to 25 years in the minimum scale before becoming eligible for pension benefits. Additionally, even if retirement is allowed after reaching the age of 60, the provision of pension should be available, but for elderly individuals like *Mr. Bhatragar*, who may face health issues, a health insurance plan provided by the government could be a suitable solution.

By making these changes, the pension system can become more equitable and sustainable. This approach aligns with "Insurance for All, Human Rights, Equal Access to Rights through the Constitution etc", which highlight the need for social security and the government's role in ensuring that all citizens have equal access to such benefits. The state should formulate appropriate policies and regulations to further organize and enhance social security for all its citizens.

In conclusion, addressing the issues of equity, long-term sustainability, and catering to the needs of individuals with varying career trajectories, such as *Mr. Bhatragar*, is crucial for improving the current pension system and ensuring that it serves the diverse needs of the population effectively.

8. Conclusion

The World Bank Group plays a pivotal role in assisting governments in the examination, conceptualization, and enhancement of pension and social insurance frameworks. These endeavors are oriented towards enhancing the inclusivity of pension systems, fortifying the financial viability of these initiatives, and ensuring substantial assistance to safeguard vulnerable populations from descending into destitution. These objectives prominently underscore the most recent revision of the World Bank's social protection strategy. Moreover, the domain of Social Protection has expanded its scope to encompass the encouragement of extended working lifespans and the provision of extended care, in direct response to the requirements posed by aging demographic cohorts.

Globally, more than two-thirds of government expenditure is allocated to social services catering to the elderly, disabled, and survivors through pension programs. These substantial and expanding initiatives face a myriad of challenges within the

context of an aging population, challenges that the World Bank actively engages with governments to address:

1. **Coverage:** It is noteworthy that merely one in three workers worldwide contributes to a pension scheme, with this ratio plummeting to one in ten in low-income countries. Nevertheless, progress has been achieved in various nations through the extension of non-contributory and social programs.
2. **Sustainability:** A considerable majority of public pension schemes confront fiscal insustainability, rendering them incapable of fulfilling their commitments to future generations of retirees.
3. **Adequacy:** Fiscal constraints have led to the expansion of social and non-contributory pensions at the expense of ensuring a sufficient level of pensions. As a minimum standard, social pensions should cover poverty gaps and also provide adequate resources to meet the healthcare needs of elderly individuals and those with disabilities.
4. **Efficiency:** Despite the presence of well-conceived strategies to reduce costs along the entire value chain, the expenses associated with many private pension systems remain persistently high. Furthermore, pension fund assets are not invariably invested in productive, long-term ventures.
5. **Security:** In cases where assets are available for investment, they must be subject to secure governance, investment practices, and oversight. Additionally, individuals should possess unique identifiers to facilitate the tracking and disbursement of contributions and claims, thereby ensuring the fulfillment of pension commitments over the long term.
6. **Support for Productive Aging:** The aging population necessitates the extension of their working lives to adapt to shifting demographic patterns. Maintaining the productivity and employability of older workers demands skills development programs that specifically cater to this demographic.
7. **Long-Term Care:** The costs associated with long-term care can impose significant financial burdens on elderly individuals, those with disabilities, and their households. These costs can adversely affect their ability to cope with illness or nutritional challenges.

In general, the current pension system is not uniform. Considering the overall and sustainability, the respondents suggested that the current non-contributory model can be changed to a contributory model. The pension amount should be equal to the current starting salary scale for the same position. This can be done by increasing the service period from 20 years to 25 years. The pension can be paid immediately after retirement, but it would be more appropriate if the government can arrange for complete treatment through insurance plan for the elderly as they are more prone to health problems.

This will ensure that all citizens of the state have equal access to social security, in line with the slogan "Social security for all", human rights, and rights guaranteed by the constitution. The state should formulate appropriate policies and regulations and make further arrangements for social security of all citizens.

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