

CHALLENGES FACING EOBI

A. OPENING PLEASENTRIES

B. INTRODUCTORY REMARKS/BRIEF HISTORY

1. The objective of Employees Old-Age Benefits Institution is to provide subsistence pensions to Pakistani workers who retire after completing a minimum number of years of insurable employment.

2. The Institution was established in 1976, with the core objective of providing monetary benefits as pension to the workers of private industrial and commercial establishments across the country. It fulfils the obligation of the state enshrined in Article 38(c) of the constitution of Pakistan, which states:-

“The state shall provide all persons employed in the service of Pakistan or otherwise, social security by compulsory social insurance or other means”.

3. The scheme was introduced in 1976 with a modest benefit as old age allowance of Rs.75/- per month. The monthly contribution was equal to 5% of wages upto Rs.1000/-. Coverage was restricted to employees drawing up to Rs.1000/- per month in establishments with at least 10 employees. The employee would be excluded from the scheme, if his wages exceeded Rs.1000/-.

4. The EOB scheme could hardly be classified as a pension scheme. The benefit of Rs.75/- per month was so low, even at that time, those in authority did not call it a pension scheme and preferred the low key title of "Old-Age Benefit". It was nonetheless the first social security "pension" scheme in the region and perhaps among the first few schemes which were in vogue even in the developing countries at that time. The scheme was launched with a lot of fanfare and there was hope that it would gradually develop into a proper pension scheme with extensive coverage throughout Pakistan.

5. Details of evolution of the Institution and changes in the scheme are discussed in my paper. I therefore skip these details in order to save time of this august gathering. A few important changes however deserve mention such as:-

- a. Introduction of formula pension in 1983, and fixation of minimum pension.
- b. Enhancement of covered wages in 1985 and doing away with exclusion clause.
- c. Introduction of matching grant by the Government to improve viability of the scheme in 1986.
- d. Introduction of employees' contribution in 2001.
- e. Changing the basis of contribution by linking it to minimum wages in 2005.

C. **THE REFORM PROCESS**

1) The early years of the Institutions showed a healthy growth but by ninetys stagnation and inertia had taken over/set in. The later period of that decade witnessed particular operational mismanagement and financial morbidity.

2) The Government took cognizance of this troubling condition and instituted/initiated corrective measures. The reform process started in the year 2000.

(a) **Credibility**

- Restructuring the Board
- Fixation of minimum wage as basis for contribution
- Universal Self Assessment Scheme
- Separation of Adjudication and Executive functions
- Formation of Dispute Resolution Committees
- Constitution of Advisory Committees
- Simplification of documentation and procedures

(b) **Good Governance**

- Re-structuring of Management/Administration
- Capacity building
- Entry through competition
- Pre-service training at IBA
- Performance based incentives

- Professional courses at NIBAF/NIPA
- Incentive for improving qualification/ skills
- Automation

3) As a consequence to the reforms process the operational and financial turned around was achieved by the year 2005, and the current financial and operational results are quite encouraging.

PRESENT STATUS OF THE INSTITUTION

4. The Institution has so far registered **55,374** establishments. Out of these **34,000** are active and paying contributions. The number of insured persons registered is **2.4 million**. The number of active insured persons, in respect of whom contributions are being received, is currently about **1.4 million**. There are **186,000** old-age pensioners, **6,600** invalidity pensioners and **77,000** widow pensioners. So far **8,000** persons have also been given one time grant. During 2004-05, the Institution collected **Rs.2.7** billion as contributions, paid **Rs.1.9** billion as pensions and earned **Rs.14.188** billion as investment income. The EOB Fund as at 30th June 2005 stood at **Rs.96.001** billion.

5. The Institution has **31** Regional Offices and **32** Field offices spread through out Pakistan. All these offices are equipped with computers and a major IT re-engineering project has recently been undertaken. The new system stipulates data capture at the local Regional or Area offices and on-line linking with the data bases at the Head Office.

6. Dr. Keith Ogborn, Consultant, Asian Development Bank in his report on "Social Protection & Health Insurance" has made some observations on the reforms undertaken by EOBI and I quote:-

- "EOBI is the only institution which has the potential to expand pension and benefits widely in the society".
- "It seems as if much of what could be done within the existing frame work is being done."
- "EOBI is currently in the middle of an administrative reform process. It has developed a defined strategy, values, mission and vision. It has introduced professionals into the fund management and investment functions. Recent returns on investment have been extraordinarily high---42% thanks primarily to realization of capital gains. It has computerised to improve controls and accountability and introduced accrual accounting to enable the organization to understand, forecast and manage its real operating costs."

D. **CHALLENGES**

1) The Institution is now in a position to clear identify and address appropriately the challenges of living up to the expectations of the working classes/people of Pakistan.

2) There are four major components of this daunting task:

a) **EXPANSION OF COVERAGE**

It can be divided into two categories:-

- i) The maximum registrations of all employers working in all registerable Institutions.
- ii) Increasing the scope of registerable establishments by eliminating the various exclusions.

a) ELICITING INFORMATION

b) ESTABLISHING FINANCIAL VIABILITY

c) ENHANCEMENT AND PENSIONARY BENEFITS

3) Let us discuss COVERAGE of the existing employees working in the registered establishments first.

4) According to the Labour Force Survey 2003–04, the total civilian labour force as at 1st January 2004 was estimated at 45.23 million, out of which 41.75 million were employed. The balance 3.48 million was unemployed. If the number of *active* insured persons registered under EOBI is taken as 1.4 million, then the EOBI coverage works out to less than 3%. This is extremely low by any standard.

This has been a major problem with the Institution from its very inception. Non-compliance takes several forms, some of which are:

i. **Resistance by Employers**

A number of employers resist their registration under the EOB Act and as a consequence the registration of their employees is not possible, unless the employees get themselves registered on their own.

ii. **Non-Payment**

Employers who are registered with the Institution fail to pay contributions regularly and timely.

iii. **Under Reporting**

A significant number of employers understate the number of insured persons in their employment, thereby paying lower contributions.

5. **Indifferent attitude of the insured persons:**

i. Until recently the insured persons were not required to contribute to the Scheme. This was a major reason for the apathy on the part of the workers. Had the workers taken more interest in the Scheme from the beginning, things would have been different. The Act allows an insured person to contact the Institution directly in case his employer does not pay contributions in respect of him or her. Surprisingly the number of complaints received from insured persons in this regard has been negligible.

ii. Now the insured persons also contribute to the Scheme. They should ensure that contributions are deducted from their salaries and deposited together with the employer's contributions within due dates. They should also ensure that their particulars are also communicated to the Institution.

6. The other aspects of enhancing COVERAGE is as discussed earlier to increase types of establishments hitherto excluded from the purview of registerable establishments.

7. The following broad categories remain excluded.

- a) Government servants and Defence servicemen. They have their own pension schemes.
- b) Employees of autonomous and semi-autonomous statutory bodies.
- c) Employees of the banks. When the EOB Act was passed in 1976, all Pakistani banks were already nationalised. At about the same time, their unionised employees were given a pension scheme just like the Government servants' pension scheme. Perhaps this is why banks were excluded. It may have been felt that the employees of the few foreign banks that were not nationalised, were well looked after and need not be included.
- d) Employees of all establishments with less than 10 employees.
- e) Self-employed persons.
- f) Agricultural workers.

8 In order to become a national pension scheme the obvious first step is to do away with these exclusions. This is imperative if Pakistan has to have a national pension scheme covering all working classes.

9. The private sector with few exceptions has not provided pension schemes to their employees. Without EOBI pension scheme the predominant majority of Pakistani workers would not have any regular monetary support at an age when they need it the most.

10. The expansion in the scheme has to be gradual and after proper study and by involving all stakeholders i.e. government, employers and employees. General public support through extensive and intensive interaction is essential to achieve the desired results.

11. A possible frame work can be:-

- i. Reduction of threshold from 10 to 5 workers.
- ii. Removal of all exemptions including government servants, defence services and workers covered under various other schemes, and integrating these schemes with EOBI pension scheme. Such integrations already exist in many developed countries.
- iii. Extension of the scheme to every worker of every employer including agricultural workers.
- iv. Coverage of self employed workers.
- v. Indexing of pension and contribution rate.

12. The second challenge relates to eliciting information from the employers:

By far the most prevalent and equally damaging is the fact that employers do not submit the required information in respect of their employees with the result that the record of insurable employment remains in-complete. This situation has not improved much, despite the passage of almost 30 years. During this period the Institution has made innumerable attempts to complete the record but unfortunately without much success. Of course in the absence of complete and accurate data, even the most sophisticated IT systems would fail to deliver.

Since the employment data of the employees is not complete, settlement of claims is not possible without physical verification of the employers' record. This creates delays in settlement of claims, besides being a major source of corruption.

Building of complete and accurate record of insured persons is one of the two most important challenges facing the Institution.

13. Arguably the most difficult challenge is to improve and maintain the viability of the Fund.

14 Several actuarial studies were carried out, which indicated that unless basic structural changes were made in the scheme, the EOBI fund would start depleting in the near future. According to the Fifth Statutory Actuarial Valuation of the EOBI Fund carried out as at 30th June 2002, the benefit payments and administrative expenses would exceed the contribution income plus investment income from the year 2024. This means that from 2024 the Fund would start depleting. From that point in time, other things remaining the same, it will start reducing /diminishing rapidly and will be totally wiped out in the succeeding 11 years i.e. the Fund would totally exhaust in 2035. This is the other most important challenge facing the institution.

15. EOB (Investment) Rules, 1979 allowed investment in diversified financial assets like Government Securities, Corporate Debt Securities, Equities and Real Estate. Investment was however, restricted to fixed interest bearing Government Securities like DSCs, FIB's PIB's etc. The investment strategy of the Institution remained passive and archaic. In 2000 a ban on Institutional Investments in National Savings Scheme was imposed.

16. The Institution is forced to invest in market based instruments such as equity, TFC, Real Estate etc. This exposes the Institution to market risk arising from volatility, interest rates and the systemic risk. Huge maturities expected in the years to come also place the Institution in a vulnerable position. The reasons being:-

- Thin equity market.
- Illiquid secondary bond market.
- Unregulated real estate market.

17. To meet the above challenged and make the fund viable in long run, the Institution has started professionalization of its officers in Investment Department and proposed to base the compensation on market rates. It has also started diversification of its investment in equity and real estate in addition to the Government Securities.

18. A welcome change was made in the Scheme with effect from 1st July, 2005 whereby the contributions have been linked to the minimum wage and the minimum wage has also been fixed; further the rates of contributions have also be enhanced. This change introduced on the initiative of the Ministry of Labour, Manpower and Overseas Pakistanis is commendable and can rightly be classified as significant step in the right direction.

19. The pension is now based on the statutory “minimum wage” for unskilled workers, currently Rs.3,000 per month. The employers’ contribution rate has been raised to 6% of the minimum wage and the workers contribution has been increased from Rs.20 per month to 1% of the minimum wage. This amendment has effectively converted the scheme to a “flat-rate” scheme, which was a strong recommendation of the Institution as well as its actuaries for the last several years. Secondly, the increase in the contribution rate has mitigated the financial deficiency in the scheme.

20. However, the scheme is still not viable on the criterion of the 50 year equilibrium period. Evidently further reforms are required to restore the actuarial equilibrium of the Scheme.

ENHANCEMENT IN PENSIONARY BENEFITS

21. Our endeavor is to link pension with inflation. As discussed earlier we are expanding coverage, economizing on costs and diversifying investments to extend this benefits to our pensioners. We plan to:

- Improve service delivery to the pensioners by computerizing our processes to inform the pensioners in advance about the benefits and deliver the pension book at their homes.
- Provide pension benefits to the expatriates by registering them at the time of departure and adopting a mechanism to deposit contribution in Pakistan Consulates.

- Provide health coverage to the insured persons after retirement either through the Social Security Network or a chain of authorized Doctors.
- Provide plots to the pensioners with the assistance of Provincial Governments and establish old age homes for the pensioners.
- To introduce higher pension on payment of higher contribution at the option of the insured persons and their capacity to save.

22. For achieving these objective, unflinching support from the Government is imperative. Specifically, this support is required for.

- Withdrawal of statutory exemption
- Restoration of Matching Grant
- Permission to invest 50% of the Fund in NSS
- Exemption from Property Taxes by Provincial Governments.
- Purchase of land from Provincial Governments at subsidized rates to float housing scheme for pensioners.

Conclusion

23. The present scheme provides subsistence pensions to over 200,000 pensioners, including widows. Whether the minimum pension of Rs. 1,000/- per month can be regarded as a subsistence pension is also debatable. But with all its shortcomings, the scheme has made a mark on the national scene and one has to visit EOBI's authorized bank branches to see the pensioners collect their monthly pensions. The benefits under the scheme have improved steadily, but the coverage has remained practically static.

24. The way forward is to extend coverage of the scheme in phases to make it a universal or national pension scheme which would eventually cover all working Pakistanis. The expansion should be thoroughly planned and phased over a reasonable period of time. The computerized systems for maintenance and updating of records should be developed in tandem.

25. **Summarily Speaking We Need to**

- Extend coverage of pension scheme to all persons employed in Pakistan over a reasonable period.
- Transform EOBI Scheme into a viable and popular state pension scheme for providing social security of subsistence pension to all employees at most economical cost.
- Ensure disbursement of due benefit promptly and gracefully at the door step of pension.