Reforming the Pension System in Nepal: Sustainability, Adequacy, and Coverage

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Abstract

Pension systems ensure financial security during retirement, especially in developing countries like Nepal. The sustainability, adequacy, and coverage of pension systems are critical for ensuring social security after retirement, particularly in developing countries like Nepal. This study provides a comprehensive analysis of Nepal's pension framework, examining contributory and non-contributory schemes to identify their strengths, limitations, and areas for reform. Utilizing a mixed-method approach, primary data from 384 respondents and secondary sources, including reports from international organizations, were analyzed. Key findings reveal that contributory pension schemes are preferred for their sustainability and adequacy, while non-contributory schemes face fiscal constraints and limited coverage, especially for informal sector workers. Statistical analysis, including binary logistic regression, highlights living standards, service delivery efficiency, and scheme coverage as significant determinants of beneficiary satisfaction and preference. The study emphasizes the need for reforms to expand coverage, improve administrative efficiency, and ensure the financial viability of pensions. Drawing from global best practices, the research recommends introducing contributory elements into non-contributory schemes, aligning benefits with inflation, and adopting digital solutions for efficient service delivery. This research contributes to policy discussions on strengthening Nepal's pension system to achieve long-term social and economic stability.

Keywords:

Social Security, Social Protection, Pension, Sustainability, Adequacy, Coverage

1. Introduction

Pension systems are integral to social protection frameworks, providing a financial safety net that mitigates economic vulnerabilities during old age. These systems are essential for ensuring income security, reducing poverty, and promoting social stability among retirees. Globally, pension systems vary significantly in structure and efficacy, shaped by differences in economic development, demographic trends, and institutional capacities. They range from contributory models, where benefits are funded by employer and employee contributions, to non-contributory models, which rely on government financing to provide universal or means-tested pensions (Hinz et al., 2005; ILO, 2019).

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In Nepal, the pension system has two categories. Contributory schemes, such as those managed by the Employees' Provident Fund (EPF), apply to government sector employees (Civil Servants, Nepalese Army, Nepal Police, Armed Police Force, Government Teachers, etc.) appointed from 16th July 2019. Similarly, the Social Security Fund (SSF), must manage formal private sector employees. These schemes are financed through contributions from employers and employees, offering benefits such as retirement pensions, gratuity, and social security benefits (Employees' Provident Fund Nepal, 2023). The Pension Management Office (PMO) manages non-contributory pensions for government sector employees. Similarly, non-contributory schemes, on the other hand, are government-funded and aim to provide a basic income to individuals who lack access to formal pension programs. These include allowances for the elderly, single women, and people with disabilities (World Bank, 2021).

In recent years, the Nepalese government has sought to modernize the pension system and address its challenges. These challenges include expanding pension coverage to informal sector workers, ensuring adequate pension benefits, and enhancing financial sustainability.

Overall, the history of pensions in Nepal reflects a gradual evolution from rudimentary provisions to a more structured and comprehensive system. As the country continues to develop, the pension system will likely undergo further reforms to meet the changing needs of its ageing population and ensure the well-being of retirees.

Private sector employees and self-employed individuals can join the Contributory Pension Scheme (CPS), a voluntary initiative managed by the Social Security Fund (SSF). This scheme provides retirement benefits based on individual contributions and investment returns.

Government officials appointed after 2076-04-01 contribute 6% of their salary to the Contributory Pension Scheme (CPS) managed by the Employees Provident Fund (EPF). Those officials appointed before 2076-04-01 are eligible for the non-contributory pension system managed by the Pension Management Office (PMO).

Despite its implementation, the pension system in Nepal has encountered challenges, including inadequate funding, administrative inefficiencies, and the impact of a rapidly ageing population. The government is actively working to address these issues by enhancing the funding structure and implementing new policies to ensure the long-term sustainability of the pension system.

Despite the critical roles pensions play in securing the well-being of older populations, Nepal's pension system faces several persistent challenges. Coverage remains a significant issue, as large segments of the workforce, particularly those in the informal sector, are excluded from formal pension schemes. Non-contributory schemes, while essential for vulnerable groups, are underfunded and increasingly strained by fiscal pressures, raising concerns about their long-term sustainability (ADB, 2020). Additionally, inadequate benefit levels in both contributory and non-contributory systems fail to meet the financial needs of retirees, undermining the ability of these schemes to maintain beneficiaries' living standards (ILO, 2021).

The specific objectives of a pension system vary in countries. However, the three fundamental objectives of economic *security, poverty reduction, and redistribution are common to most* *pension systems. The objectives of a pension system vary depending on the goals and priorities of the country or organization implementing it. Generally, the primary objectives of a pension system are as follows:*

1. Adequate retirement income: The principal objective of a pension system is to furnish retired individuals with a consistent income, enabling them to sustain an acceptable standard of living throughout their retirement period. This pension should substitute a portion of their pre-retirement income, guaranteeing financial stability during old age.

2. Social protection and poverty alleviation: Pension systems aim to protect elderly individuals from falling into poverty after retirement. By providing a reliable source of income, pensions help alleviate financial hardships for retired individuals and reduce the risk of old-age poverty.

3. Income redistribution: Pension systems can incorporate elements of income redistribution to address social inequalities. Governments may design pension schemes to provide higher benefits to lower-income individuals or those with specific needs, promoting a more equitable income distribution.

4. Long-term financial security: Pension systems are structured to ensure social protection for retirees over the long term. Adequate and sustainable funding is critical to meet pension obligations for current and future generations.

5. Encouraging workforce participation and retirement behaviour: Pension systems can influence workforce participation and retirement behaviour. Pension policies can shape labour market dynamics and support workforce planning by offering incentives or disincentives for early or delayed retirement.

6. Promoting economic stability: Well-designed pension systems promote economic stability by fostering savings and investments. Pension funds can be invested in the economy, promoting growth and providing capital for productive investments.

7. Encouraging long-term savings: Pensions encourage individuals to save for retirement, ensuring they have sufficient funds to support themselves after they stop working.

8. Flexibility and customization: Pension systems may offer flexibility and customization options, allowing individuals to tailor their retirement plans to meet their needs and circumstances.

9. Adapting to demographic changes: Pension systems should adapt to demographic changes, such as population ageing and life expectancy, to maintain effectiveness and sustainability.

10. Enhancing social well-being: A well-functioning pension system contributes to the overall social well-being of a nation by providing financial security to its elderly population and contributing to social cohesion.

Policymakers need to consider these objectives while designing, reforming, or evaluating pension systems to ensure that they effectively address the needs of retirees and contribute to broader societal goals.

The pension system in Nepal encompasses government employees, public sector employees, and formal private sector employees. Civil servants have a retirement age of 58, while others retire at 60. The pension benefit is calculated using a formula that considers the average of the last three years of salary and the number of years of service (Social et al., 2021). In 2009, the elderly population in Nepal, defined as individuals aged 60 and above, constituted 6.1% of the total population. This proportion is projected to increase to 10% by 2025 and 15.6% by 2050 (UN, 2008).

Out of approximately 11 million workers in Nepal, in the formal and informal sectors. Less than 5% of Nepal's population is covered by a formal pension or provident fund scheme. This coverage includes approximately 320,000 government employees and 130,000 salaried employees from both private and public sectors who are mandatory members of the Employees' Provident Fund. Smaller private sector businesses with at least ten employees can participate voluntarily in the provident fund arrangement. Some larger employers have implemented voluntary provident fund schemes for their employees.

Similar to other South Asian nations, Nepal administers a noncontributory defined benefit pension scheme designed for government employees. Despite its limited coverage, this scheme exerts substantial fiscal pressure. In the fiscal year 2008-2009, pension disbursements to 170,511 retired government employees amounted to NRs 10.37 billion ($144 million), accounting for 7.23% of the government revenue receipts and 4.75% of the government revenue expenditure. The implicit pension debt (IPD) for the 82,000 current civil servants alone was estimated at NRs 26 billion ($361 million), representing 4.6% of the country's GDP. This computation does not include the IPD for teachers, armed forces, police personnel, or the 170,511 pensioners. The number of pensioners has since increased to 309,175 individuals receiving pensions. (PMO, 2024)

This study evaluates the current state of Nepal's pension system by examining its adequacy, sustainability, and inclusiveness. Using a mixed-method approach, it identifies the key factors influencing beneficiary satisfaction and preferences while proposing evidence-based reforms to address existing gaps. The findings contribute to ongoing policy discussions, offering actionable recommendations to align Nepal's pension framework with global best practices and ensure its resilience in the face of demographic and economic challenges.

2. Literature Review

The concept of pensions dates back to ancient civilizations, with early forms of pension-like benefits provided to veteran Roman legionnaires in land grants or special appointments. Augustus Caesar is credited with introducing one of history's earliest recognizable pension schemes. In 13 B.C., Augustus established a pension plan for retired soldiers, entitling them to a lump sum pension after serving 16 years in a legion and four years in the military reserves. Initially funded by general revenues, a special fund known as the "terrarium military" was later established to support these pensions. While this initiative helped appease military tensions within the Roman Empire, it also posed financial challenges that contributed to the eventual collapse of the Empire (Wickens, 2005).

A pension refers to a fund accumulating money over an individual year of employment, from which regular payments are made to support persons retiring after leaving the workforce. Pension plans can be "defined benefit plans," where fixed sums are regularly paid to retirees, or "defined contribution plans," in which fixed amounts are invested and accessed upon retirement. It is necessary to distinguish pensions from severance pay. The former involves regular instalments provided throughout one lifetime after retirement while the latter is a fixed amount given after involuntary termination before retirement.

Employers establish an occupational or employer pension for the benefit of their employees. Pension revolves around providing financial compensation to individuals who have devoted their younger and more energetic years to contributing to an organization or the country.

Globally, pension systems mitigate income insecurity during retirement, ensuring financial stability and social protection for older populations. The International Labour Organization's (ILO) *Social Protection Floors Recommendation No. 202* underscores three core principles for effective pension systems: universal coverage, adequacy of benefits, and fiscal sustainability (ILO, 2019). These principles aim to establish a baseline for social security systems, promoting inclusivity and economic resilience.

In South Asia, diverse pension frameworks reflect regional economic and demographic variations. India, for instance, employs a hybrid model combining contributory and non-contributory schemes, exemplified by programs such as the Atal Pension Yojana, which extends coverage to informal sector workers through co-contributory mechanisms (ADB, 2020). Bhutan, in contrast, adopts a universal approach, offering old-age allowances to its citizens, ensuring broad social protection without means testing (World Bank, 2021).

The World Bank's multi-pillar framework further emphasizes integrating contributory and non-contributory schemes to achieve a balanced and robust pension system. According to Hinz et al. (2005), contributory systems enhance financial sustainability by sharing funding responsibilities between employees and employers. Conversely, non-contributory schemes act as a social safety net, providing essential income security to vulnerable and economically disadvantaged populations. This dual approach mitigates fiscal burdens while addressing coverage gaps.

In the context of Nepal, challenges such as limited coverage and administrative inefficiencies have hindered the effectiveness of its pension system. Gautam (2007) highlighted the pressing need to expand pension coverage to informal sector workers, who constitute a significant portion of Nepal's workforce. Strengthening administrative capacity is also essential for improving service delivery, ensuring timely disbursements, and fostering trust in the system. As Nepal navigates these challenges, global examples provide valuable insights for enhancing its pension framework.

Pension System in Nepal

The inception of Nepal's pension system dates back to the late 19th century when the first pension scheme was introduced for Nepal Army personnel on 17th Bhadra 1998

BS. It marked the pioneering social security initiative in the country, with the pension amount set at 1/5th of the last salary. Subsequently, on 14th Mangsir 1999 BS, the pension scheme was extended to civil servants, with the pension amount established at 1/6th of the salary, with a minimum requirement of 25 years of eligibility service. Over time, this eligibility criterion has been lowered to 20 years of service to receive a pension throughout their life.

A pension benefit serves as a significant means of old-age support. In Nepal, a pension scheme was instituted for army personnel on the 17th of Bhadra, 1998 BS (around 1939 AD). Similarly, civil servants holding positions between "nausind" and "badakaji" with at least 25 years of service are eligible to receive a pension, calculated as 1/6 of their last salary. Subsequently, civil servants with a minimum service period of 20 years qualify for a lifelong pension. The pension amount for civil servants must not be less than 50% of their basic salary and not exceed 100%, depending on factors such as service duration, final salary, and a specific denominator. Civil servants with less than 20 years of service are entitled to a lump sum gratuity. The Nepali pension system operates on a non-contributory basis whereas the entire pension liability is funded from the annual allocation in the government budget.

The current pension system for civil servants ensures that the pension amount is at least 50% of their basic salary and not more than 100%. It depended on factors such as length of service, last drawing salary, and the denominator used for calculation. In the 1950s, after the fall of the Rana regime and the establishment of a democratic government. The Civil Service Act of 1956 laid the groundwork for a formal pension system for civil servants. This act introduced the concept of providing retirement benefits to government employees based on their years of service and salary levels. The pension scheme was designed to provide financial security to retired civil servants and encourage long-term loyalty and commitment to public service.

Over the years, the pension system expanded to cover various sectors, including the Nepal Police, the Armed Forces, and the teaching profession. The government also introduced pension schemes for employees of public enterprises and other autonomous bodies.

According to Rule 7.4 of Civil Service Rule 1956, guaranteed pension for the employees after retirement. Every civil servant who served for a minimum of 25 years or more is eligible to get the pension. The pension amount was determined by the simple calculation method, one-third of the average monthly pay but not exceeding three hundred rupees, calculated from the last three years' monthly average.

Rule 7(5) of CSR 1956 made the provision for the dependent family members to be entitled to draw pension amount as a Family Pension. If a civil servant dies while in service period or within five years from the date he or she started receiving a pension.

As per the Civil Service Act of 1993, a governmental employee with over two decades of service will be eligible to receive a monthly pension at specified rates.

$$\text{Pension} = \frac{\text{Total year of service X amount of the last salary}}{50}$$

However, a civil employee dismissed from service due to disqualification for future government roles won't be eligible for the pension mentioned in this Section. Similarly, any civil employee found to have falsified citizenship, age, or qualifications to gain or continue in government service won't receive a pension. Despite the above subsection, the minimum pension amount cannot be lower than half the basic salary for an incumbent civil employee in the same position. The maximum pension, however, should not exceed the basic salary scale of the current civil employee in the same role.

Through the first amendment, a provision was added stipulating that if an employee completes fifteen years of service and then passes away, an additional five years will be included in their service period. Their family will have the choice between receiving a pension or gratuity. The second amendment introduced a provision regarding an increase in pension. When the salary of the current civil employee rises, two-thirds of that increment in the basic salary figure will be added to the retired civil employee pension in the same position. Nevertheless, this rule won't apply to civil employees entitled to pensions under Section 39B of the Civil Service Rule 1993.

Section 39 guarantees family pension and gratuity. If a civil employee passes away while in service or before completing seven years after beginning to receive a pension, their family, minor brother, or unmarried sister will receive either gratuity or pension as specified in Section 36 or 37. However, the pension will not continue beyond seven years. Once seven years have elapsed after the start of the pension, no further pension will be provided to the family. If the recipient of such pension is a minor, they will receive it until they reach the age of majority. The surviving husband or wife of a civil employee will receive half of the pension the employee receives, for life, after the period designated for family pension ends. As per the Second Amendment, if the surviving husband or wife remarries, they will no longer be eligible for this pension. Additionally, when the incumbent civil employee's salary increases, two-thirds of the total increment in the basic salary figure will be added to the family pension of the beneficiary.

In 1990, with the restoration of multiparty democracy, the government initiated further reforms to strengthen the pension system and ensure its sustainability. The Social Security Act of 1992 establishes a comprehensive framework for social security in Nepal, including provisions for old-age pensions. Nepal has a broader social pension system, primarily managed by the government and known as the Social Security Allowance (SSA) program. This program provides financial assistance to eligible citizens over 68 below the poverty line. It also extends its coverage to individuals with disabilities and single women over 60 and lacking family support.

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Theoretical Insights and Global Perspectives

Social security reform has been the subject of extensive research, particularly in ageing populations and slower economic growth in advanced economies. Toshihiro Ihori and Toshiaki Tachibanaki, in their work *Social Security Reform in Advanced Countries (Evaluating Pension Finance)*, emphasize the need to adapt pension systems to changing demographics and economic realities. Their analysis evaluates three primary reform strategies: transitioning from pay-as-you-go to funded systems, privatizing public pension systems, and integrating tax revenues into social security benefits. These reforms aim to address sustainability while maintaining the adequacy of benefits. Their insights highlight that pension reform is not merely a fiscal challenge but also a societal imperative to ensure intergenerational equity and financial security for retirees.

Salvador Valdés-Prieto, in his 2008 study for the World Bank, presents a "Theory of Contribution Density," offering a nuanced perspective on pension design. He proposes that contributory systems need not be mandatory for all jobs. Instead, they can be selectively applied, integrating earnings with savings and aligning incentives for job choice and financial planning. His model underscores how variations in contribution density can enhance returns for covered jobs while suggesting the importance of "two-pillar" systems combining contributory pensions and non-contributory subsidies. These insights provide a robust theoretical framework for reimagining pension systems, particularly in developing economies like Nepal.

Challenges in Nepal's Pension System

Nepal's pension system, like many developing countries, faces multifaceted challenges. These include demographic shifts, fiscal constraints, and limited coverage, particularly for informal sector workers (Panta, 2016; Dahal et al., 2019). The system predominantly caters to government employees, leaving a significant portion of the population without access to formal retirement benefits (Government of Nepal, 2020). This lack of inclusivity exacerbates inequality and undermines the system's adequacy and sustainability (Rai & Bhatta, 2018).

Efforts to reform Nepal's pension system must prioritize expanding coverage to informal workers. Baral and Bhattarai (2019) argue that introducing contributory schemes tailored to informal sector needs, with financial literacy initiatives, could encourage voluntary participation. Additionally, ensuring the adequacy of pension benefits is critical. Current payouts often fail to meet the basic needs of retirees, necessitating periodic adjustments linked to inflation and wage growth (Dhakal et al., 2019).

International Comparisons: South Asian Experiences

South Asian countries face similar challenges in reforming pension systems, driven by fiscal constraints and ageing populations. India's Atal Pension Yojana provides an instructive example, combining government support with individual contributions to extend coverage to informal workers. Bhutan's universal old-age allowances, though simple, demonstrate the benefits of non-contributory systems to ensure basic income security. Sri Lanka and Bangladesh have also made strides in integrating contributory and non-contributory schemes to address adequacy and coverage gaps (ADB, 2020).

A common thread across these nations is the focus on expanding pension coverage while ensuring the adequacy of benefits. Many countries have adopted dual systems that integrate non-contributory safety nets with contributory schemes, with a baseline level of income security for the elderly. The success of these models underscores the importance of policy innovation and administrative efficiency in overcoming fiscal and demographic challenges.

Key Reform Considerations

Nepal can draw valuable lessons from global and regional experiences. Key areas of reform include:

- **Expanding Coverage:** Ensuring pension inclusivity for informal sector workers through innovative contributory schemes tailored to their needs.
- **Ensuring Adequacy:** Adjusting benefits periodically to align with inflation and minimum living standards.
- **Enhancing Sustainability:** Exploring diversified funding mechanisms, such as sovereign wealth funds, to secure long-term fiscal stability (Budhathoki et al., 2019).

- **Improving Administrative Efficiency:** Investing in digital infrastructure to streamline service delivery and reduce delays.

By examining global best practices and the experiences of South Asian countries, Nepal can develop a resilient pension system that balances adequacy, inclusivity, and sustainability. Theoretical models, such as Valdés-Prieto's contribution density framework, and policy innovations in neighbouring countries provide valuable insights for designing multi-pillar systems that cater to diverse workforce needs. With thoughtful reforms, Nepal can ensure financial security for its ageing population, laying the foundation for a dignified retirement for all citizens.

3. Methodology

This study employed a cross-sectional research design to evaluate Nepal's pension system, focusing on beneficiary preferences, satisfaction levels, and perceptions. Data were collected from 384 respondents representing public and private organizations, ensuring a diverse sample of the population engaged in contributory and non-contributory pension schemes. The sampling aimed to capture variations across demographics, employment sectors, and geographic locations (World Bank, 2021).

Data Collection

A self-administered questionnaire was the primary tool for data collection, capturing quantitative data on key variables, including living standards, service delivery quality, and scheme coverage. The questionnaire was structured to include both closed and open-ended questions, enabling the collection of numerical data and qualitative insights. This method ensured that measurable data could be analyzed alongside narrative responses, adding depth to the findings (Hinz et al., 2005).

In addition to primary data, secondary data were sourced from institutional reports published by the Employees' Provident Fund (EPF), the Social Security Fund (SSF), and global organizations such as the International Labour Organization (ILO) and the World Bank. These sources provided critical benchmarks and comparative insights into pension system structures and performance (ILO, 2019; EPF Nepal, 2023).

Analytical Framework

Binary logistic regression was employed to analyze the relationship between independent variables (e.g., living standards, service delivery, and coverage) and the dependent variable (pension scheme preference). Statistical analysis was made at a 5% significance level to identify the key factors influencing beneficiary choices. This method was chosen for its ability to estimate the likelihood of categorical outcomes based on predictor variables (Hinz et al., 2005). Qualitative data from focus group discussions enriched the analysis by contextualizing survey findings.

Variables	Type	Definition
Living Standards	Independent	Income level of respondents
Service Promptness	Independent	Perceived timeliness of pension disbursements
Scheme Coverage	Independent	Extent of inclusiveness and accessibility
Pension Preference	Dependent	Preference for contributory or non-contributory

To enrich the quantitative findings, qualitative data from focus group discussions were integrated into the analysis. These discussions offered contextual insights into administrative challenges, beneficiary expectations, and perceived gaps in the current pension system. Triangulating data from multiple sources ensured a robust and comprehensive understanding of the factors shaping Nepal's pension landscape (ADB, 2020).

Reliability and Validity

The research instruments were pre-tested with a small subset of respondents to ensure reliability and validity. Feedback from the pre-test was used to refine the questionnaire, address ambiguities, and enhance clarity. Secondary data were cross-verified for consistency with multiple institutional and global reports to maintain data integrity (ILO, 2021).

This mixed-method approach enabled the study to provide a nuanced analysis of Nepal's pension system, capturing statistical trends and human perspectives to inform evidence-based policy recommendations.

4. Findings

The study categorized respondents by age, gender, and marital status. Among 384 participants, 291 were males and 93 females, with a majority aged 50-55. A significant portion of participants were married (378 out of 384).

Preferences for Pension Systems in **Non-Contributory vs. Contributory Schemes:** 79.1% of respondents favoured contributory pension systems, citing sustainability as the primary advantage. Only 20.1% supported non-contributory systems, highlighting accessibility as a key benefit.

Determinants of Preferences in terms of Living **Standards**, respondents with better living standards were 3.38 times more likely to favour CPS (OR = 3.38; CI = 1.29–11.57). Respondents' responses in **Promptness of Service** and satisfaction with service delivery increased the likelihood of choosing CPS by 4.997 times (OR = 4.997; CI = 2.62–24.9). Similarly, in terms of **Employee Behavior**, Positive employee interactions emerged as a significant factor (OR = 1.7; CI = 1.007–2.888).

Respondents' responses in terms of Adequacy, Coverage, and Sustainability are as given below:

- **Adequacy of Pension Benefits:**
  - Only 43.9% of respondents were moderately satisfied with the adequacy of benefits in the current non-contributory scheme.
  - For contributory schemes, satisfaction levels were higher, particularly among private sector employees.
- **Coverage:**
  - A significant proportion (54.7%) of respondents acknowledged adequate coverage under current schemes, though gaps for informal sector workers remain evident.
- **Sustainability:**
  - Most respondents agreed that a contributory funding model ensures long-term financial sustainability (79.9%).

4.1 Preferences for Pension Schemes

The study revealed that 79.1% of respondents preferred contributory pension schemes, primarily due to their perceived financial stability, timely disbursement mechanisms, and broader coverage. Contributory schemes were often regarded as more reliable for ensuring long-term financial security, especially among individuals in formal employment. Conversely, 20.9% of respondents opted for non-contributory pension schemes. Accessibility and ease of enrollment were the most cited reasons for this preference, reflecting limited administrative requirements and the inclusiveness of these schemes (ADB, 2020).

4.2 Determinants of Pension Preferences

The analysis identified key factors influencing beneficiaries' preferences for pension schemes. Among them, living standards were a significant determinant. Respondents in higher income brackets were 3.38 times more likely to choose contributory schemes (OR = 3.38, CI = 1.29–11.57). This preference was attributed to the ability of contributory schemes to offer returns proportionate to contributions, ensuring better post-retirement financial stability. Additionally, satisfaction with service promptness emerged as a critical factor. Beneficiaries satisfied with timely disbursements were 4.997 times more likely to prefer contributory pensions (OR = 4.997, CI = 1–24.9). Coverage, or the extent to which a scheme catered to a beneficiary's needs, was also significant, with an odds ratio of 2.85 (CI = 1.11–7.32).

Factor	Odds Ratio (OR)	Confidence Interval (CI)
Living Standard	3.38	1.29–11.57
Service Promptness	4.997	1–24.9
Coverage	2.85	1.11–7.32

These findings underline the importance of scheme characteristics such as financial predictability, administrative efficiency, and inclusiveness in shaping beneficiary preferences.

4.3 Sustainability and Adequacy

The study highlighted significant sustainability challenges associated with non-contributory pension schemes. These schemes are heavily reliant on government funding, and fiscal constraints pose a serious threat to their long-term viability, especially as Nepal's elderly population continues to grow (World Bank, 2021). The lack of contributory elements in non-contributory schemes exacerbates these challenges and places an increasing burden on public finances.

In terms of adequacy, contributory pension schemes were found to be more effective in maintaining beneficiaries' living standards. Their design, which links benefits to contributions, ensures proportionality and predictability. Non-contributory pensions, while essential for vulnerable groups, often fell below subsistence levels, limiting their ability to provide meaningful financial security (ILO, 2019). These findings emphasize the need for reforms to enhance the adequacy and sustainability of Nepal's pension system

5. Discussion

5.1 Sustainability Challenges

Nepal's non-contributory pension schemes rely on government funding, which poses significant sustainability challenges, especially in the face of rising fiscal pressures. The growing elderly population further exacerbates this strain, as an increasing number of beneficiaries requires a proportional increase in government expenditures (World Bank, 2021). Current funding mechanisms lack contributory elements, making these schemes fiscally vulnerable in the long term.

Insights from the World Bank suggest that integrating contributory elements into non-contributory schemes can alleviate fiscal stress while maintaining the social safety net. For instance, co-contributory models, where employers, employees, and the government share funding responsibilities, have proven effective in other contexts. These models not only reduce the fiscal burden on the government but also promote individual ownership of retirement planning (Hinz et al., 2005).

5.2 Coverage Gaps

Nepal's pension system fails to address the coverage needs of the informal sector, which constitutes approximately 80% of the workforce (ADB, 2020). Workers in this sector often lack access to formal pension schemes due to the absence of structured employment relationships and limited awareness of pension programs. This exclusion represents a significant shortfall in the system's inclusiveness and equity.

India's Atal Pension Yojana offers a potential model for Nepal to address these gaps. The program incorporates informal workers into the pension system through co-contributory mechanisms, where the individual and the government contribute to the pension fund. Adapting such a model could enable Nepal to extend pension coverage to its large informal workforce while ensuring financial sustainability.

5.3 Administrative Efficiency

The study highlighted significant inefficiencies in the administrative processes of Nepal's pension system. Qualitative feedback from beneficiaries revealed dissatisfaction with delays in benefit disbursement, complex application procedures, and inconsistent service delivery. These inefficiencies erode trust in the system and hinder its overall effectiveness (ILO, 2021).

Improving administrative efficiency is essential for fostering confidence among beneficiaries and ensuring timely access to benefits. Digitalization of pension services, such as automated disbursement systems and online application platforms, could streamline processes and reduce delays. Decentralizing pension services by establishing local administrative units may also enhance accessibility and responsiveness, particularly for beneficiaries in remote areas (ADB, 2020).

6. Policy Recommendations

To address the challenges identified in Nepal's pension system and align it with global best practices, the following policy recommendations are proposed:

1. Expand Coverage

The exclusion of informal sector workers represents a significant shortfall in Nepal's pension framework. To address this gap, inclusive schemes targeting informal sector workers should be developed. International models such as India's Atal Pension Yojana provide a blueprint for integrating informal workers through co-contributory mechanisms. Such schemes can be adapted to Nepal's socio-economic context to expand coverage while ensuring affordability and sustainability (ADB, 2020). Public awareness campaigns and simplified enrollment processes will also be critical to bringing informal workers into the pension system.

To expand the coverage, develop inclusive schemes targeting informal sector workers, inspired by international practices.

2. Ensure Adequacy

Inadequate benefit amounts undermine the ability of pensions to provide meaningful financial security. Aligning benefit levels with inflation and minimum living standards is essential to ensure retirees can maintain a dignified quality of life. Periodic reviews of benefit adequacy, informed by economic indicators and cost-of-living analyses, should be institutionalized. Additionally, contributory schemes should offer returns proportional to contributions to incentivize participation and ensure fairness (ILO, 2019).

To ensure adequacy, regularly adjust benefits to align with inflation and living standards.

3. Enhance Sustainability

Fiscal sustainability remains a pressing concern, particularly for non-contributory schemes that rely heavily on government funding. Introducing contributory elements to these schemes can reduce fiscal dependency while fostering shared responsibility among beneficiaries and employers. For instance, hybrid models combining government funding with voluntary or mandatory worker contributions can distribute the financial burden more equitably (World Bank, 2021). Such reforms would also enhance the long-term viability of the pension system.

To enhance sustainability, introduce contributory elements in non-contributory schemes to foster shared responsibility

4. Streamline Administration

Administrative inefficiencies, such as delays in benefit disbursements and complex application procedures, erode trust and hinder the effectiveness of Nepal's pension system. Investments in digital infrastructure, including automated disbursement systems and online application portals, can significantly improve efficiency and transparency. Decentralizing pension administration by establishing local offices with enhanced capacity can improve accessibility, particularly for beneficiaries in rural and remote areas. Lessons from digital pension systems in countries like Estonia can be a model for implementing these changes (ILO, 2021).

To streamline administration, invest in digital infrastructure and decentralized service delivery to improve efficiency and accessibility.

By implementing these recommendations, Nepal can build a more inclusive, sustainable, and efficient pension system that meets the needs of its growing retiree population while aligning with global standards.

7. Conclusion

Nepal's pension system is a fundamental pillar of its social protection framework, providing critical financial security to retirees and vulnerable populations. However, the system is constrained by significant challenges, including limited coverage, inadequate benefit levels, fiscal sustainability concerns, and administrative inefficiencies. Addressing these limitations requires a comprehensive approach that prioritizes reforms in key areas.

Expanding pension coverage including informal sector workers is essential to ensure inclusivity and equity while aligning benefit levels with inflation and living standards to enhance adequacy and restore trust in the system. Introducing contributory elements into non-contributory schemes can reduce fiscal dependency and foster shared responsibility, ensuring the long-term sustainability of the pension framework. Additionally, streamlining administrative processes through digitalization and decentralization will improve efficiency and accessibility.

Drawing lessons from global best practices and adapting them to Nepal's unique socio-economic context can provide a blueprint for reform. By leveraging these experiences and adopting innovative policy measures, Nepal can build a resilient and sustainable pension system that secures the futures of its retirees while contributing to broader social and economic stability.

A well-designed and inclusive pension system not only safeguards individual well-being but also strengthens societal cohesion and supports economic development. Policymakers must act decisively to implement these reforms, ensuring that Nepal's pension system evolves to meet the demands of a changing demographic and economic landscape.

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