

# Pakistan


## Pakistan: pension system in 2008

Workers of an industry or establishment with 5 or more employees are required to be insured under earnings-related pension called employees' old-age benefit scheme.

The model assumes that workers are covered by earnings-related pension (EOBI).

## Key indicators

|                         |                             | Pakistan | OECD      |
|-------------------------|-----------------------------|----------|-----------|
| Average earnings        | PKR                         | 82 700   | 3 292 700 |
|                         | USD                         | 1 000    | 40 600    |
| Public pension spending | % of GDP                    |          | 7.0       |
| Life expectancy         | At birth                    | 66.4     | 78.9      |
|                         | At age 65                   | 79.6     | 83.1      |
| Population over age 65  | % of working-age population | 6.9      | 23.6      |

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## Qualifying conditions

Normal pension age for earnings-related pension is age 60 for men and 55 for women with 15 years of contribution (relaxation is provided for those joining the scheme at older ages).

Normal pension age for employees is 60 for both men and women. Civil servants could retire any time once minimum service period of 25 years is fulfilled.

## Benefit calculation

### Earnings-related

The pension is calculated as 2% of the insured's average monthly earnings in the last 12 months multiplied by the number of years of covered employment. Indexation rule for pension in payment is discretionary and the model assumes price-indexation.

### Minimum pension

Minimum pension is PKR 2 000 per month in 2009. Indexation for pension in payment is discretionary and the model assumes price-indexation.

The amount of (both maximum and minimum) insured monthly wage is PKR 6 000.

### Earnings-related pension for civil servants

Accrual rate is 7/300 for each year of service subject to a maximum of 70% (i.e. maximum 30 years service). Earning base is last drawn basic pay plus (in some cases small element of) non-wage pay. Various allowances that are part of the compensation package are not included in the earning base for pensions. The relevant earning measure is about 54% of the total wage. Indexation for pension in payment is discretionary and the model assumes price-indexation. The pensioners are entitled to commute 35% of their gross pension at retirement calculated as per the defined commutation factors.

## Variant careers

### Early retirement

For the private sector employees, the earliest age at which men can start claiming pension is 55 and this is 50 for women. In the civil service pension, individuals could start claiming pension after 25 years of service.

The reduction applied (for EOBI) is 0.5% for each completed month by which age at retirement falls short of 60 (55 years for women). This reduction is also applicable to the minimum pension. However, no reduction is applied to government workers. They are entitled to receive 100% of their accrued pension after 25 years service.

### **Late retirement**

It is possible to start receiving pension after normal pension age.

## **Personal income tax and social security contributions**

### **Taxation of workers**

The amount paid to Workers' welfare fund and Workers' participation fund by the employer is deductible allowance (expense) for employer.

### **Taxation of worker's income**

| Taxable income   | Tax rate (%) |
|--|--------------|
| Where taxable income does not exceed PKR 180 000                             | 0            |
| Where taxable income exceeds PKR 180 000 but does not exceed PKR 250 000     | 0.5          |
| Where taxable income exceeds PKR 250 000 but does not exceed PKR 350 000     | 0.75         |
| Where taxable income exceeds PKR 350 000 but does not exceed PKR 400 000     | 1.5          |
| Where taxable income exceeds PKR 400 000 but does not exceed PKR 450 000     | 2.5          |
| Where taxable income exceeds PKR 450 000 but does not exceed PKR 550 000     | 3.5          |
| Where taxable income exceeds PKR 550 000 but does not exceed PKR 650 000     | 4.5          |
| Where taxable income exceeds PKR 650 000 but does not exceed PKR 750 000     | 6            |
| Where taxable income exceeds PKR 750 000 but does not exceed PKR 900 000     | 7.5          |
| Where taxable income exceeds PKR 900 000 but does not exceed PKR 1 050 000   | 9            |
| Where taxable income exceeds PKR 1 050 000 but does not exceed PKR 1 200 000 | 10           |
| Where taxable income exceeds PKR 1 200 000 but does not exceed PKR 1 450 000 | 11           |
| Where taxable income exceeds PKR 1 450 000 but does not exceed PKR 1 700 000 | 12.5         |
| Where taxable income exceeds PKR 1 700 000 but does not exceed PKR 1 950 000 | 14           |
| Where taxable income exceeds PKR 1 950 000 but does not exceed PKR 2 250 000 | 15           |
| Where taxable income exceeds PKR 2 250 000 but does not exceed PKR 2 850 000 | 16           |
| Where taxable income exceeds PKR 2 850 000 but does not exceed PKR 3 550 000 | 17.5         |
| Where taxable income exceeds PKR 3 550 000 but does not exceed PKR 4 550 000 | 18.5         |
| Where taxable income exceeds PKR 4 550 000 but does not exceed PKR 8 650 000 | 19           |
| Where taxable income exceeds PKR 8 650 000                                   | 20           |

For female tax payers, no tax shall be charged if the income does not exceed PKR 240 000.

### **Social security contributions payable by workers**

Employer pays 5% of the minimum wage (PKR 6 000) and employee pays contribution at the rate of 1% of minimum wage.

### **Taxation of pensioners**

The additional tax relief for older people is 50% for taxable income less than or equal to PKR 750 000.

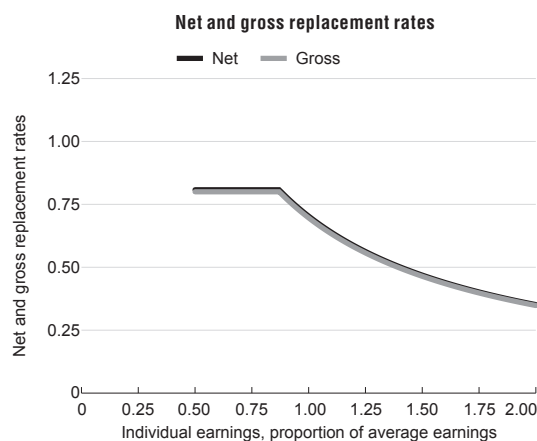
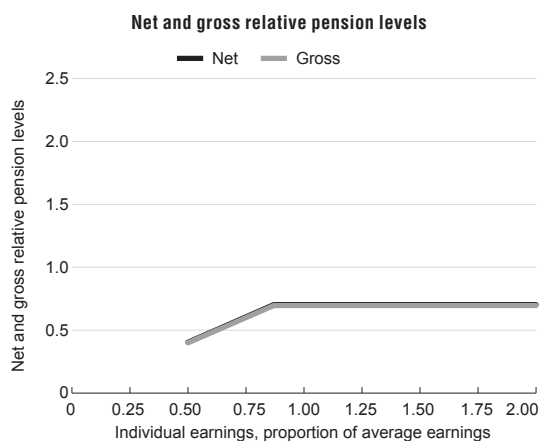
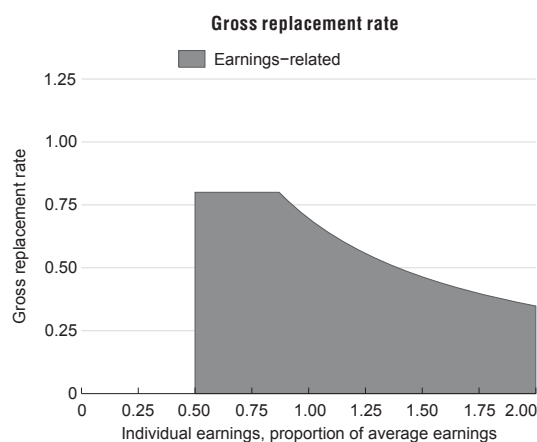
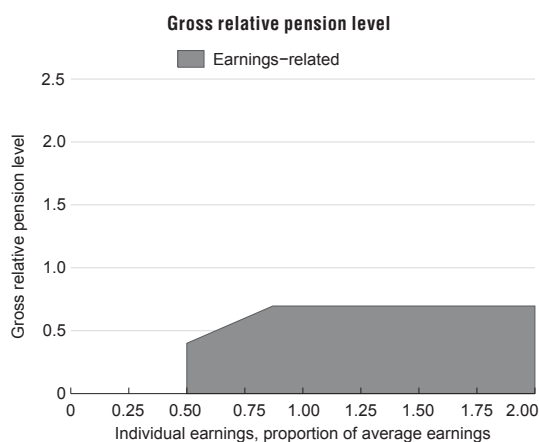
**Taxation of pension income**

All benefits received from the government pension scheme or from a registered private sector superannuation (Pension) scheme on retirement or death are not taxed. Lump sum withdrawal on death and retirement from an approved pension fund under the Voluntary Pension System is tax free up to 25% of account balance, but regular monthly drawdown even after retirement or death is taxable income. Pension payments from EOBI are nominal and do not cross taxable limits although they are not exempt by any specific provision.

**Social security contributions payable by pensioners**

Pensioners do not pay any social security contribution.

### Pension modelling results: Pakistan



| Men<br>Women (where different)          | Median earner | Individual earnings, multiple of average |      |      |      |      |
|---|---------------|--|------|------|------|------|
|   |               | 0.5                                      | 0.75 | 1    | 1.5  | 2    |
| Gross relative pension level            | 64.8          | 40.0                                     | 60.0 | 69.6 | 69.6 | 69.6 |
| (% average gross earnings)              | 56.7          | 35.0                                     | 52.5 | 60.9 | 60.9 | 60.9 |
| Net relative pension level              | 65.5          | 40.4                                     | 60.6 | 70.3 | 70.3 | 70.3 |
| (% net average earnings)                | 57.3          | 35.4                                     | 53.0 | 61.5 | 61.5 | 61.5 |
| Gross replacement rate                  | 80.0          | 80.0                                     | 80.0 | 69.6 | 46.4 | 34.8 |
| (% individual gross earnings)           | 70.0          | 70.0                                     | 70.0 | 60.9 | 40.6 | 30.5 |
| Net replacement rate                    | 80.8          | 80.8                                     | 80.8 | 70.3 | 46.9 | 35.2 |
| (% individual net earnings)             | 70.7          | 70.7                                     | 70.7 | 61.5 | 41.0 | 30.8 |
| Gross pension wealth                    | 13.1          | 13.1                                     | 13.1 | 11.4 | 7.6  | 5.7  |
| (multiple of individual gross earnings) | 14.2          | 14.2                                     | 14.2 | 12.3 | 8.2  | 6.2  |
| Net pension wealth                      | 13.1          | 13.1                                     | 13.1 | 11.4 | 7.6  | 5.7  |
| (multiple of individual gross earnings) | 14.2          | 14.2                                     | 14.2 | 12.3 | 8.2  | 6.2  |

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**Alternative economic and career length assumptions**

40 year career under OECD economic assumptions

| Men   | Median earner | Individual earnings, multiple of average |      |      |      |      |
|---|---------------|--|------|------|------|------|
|   |               | 0.5                                      | 0.75 | 1    | 1.5  | 2    |
| Women (where different)   |               |  |      |      |      |      |
| Gross relative pension level<br>(% average gross earnings)      | 64.8          | 40.0                                     | 60.0 | 69.6 | 69.6 | 69.6 |
| Net relative pension level<br>(% net average earnings)          | 65.5          | 40.4                                     | 60.6 | 70.3 | 70.3 | 70.3 |
| Gross replacement rate<br>(% individual gross earnings)         | 80.0          | 80.0                                     | 80.0 | 69.6 | 46.4 | 34.8 |
| Net replacement rate<br>(% individual net earnings)             | 80.8          | 80.8                                     | 80.8 | 70.3 | 46.9 | 35.2 |
| Gross pension wealth<br>(multiple of individual gross earnings) | 13.1          | 13.1                                     | 13.1 | 11.4 | 7.6  | 5.7  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 16.2          | 16.2                                     | 16.2 | 14.1 | 9.4  | 7.0  |
| Gross pension wealth<br>(multiple of individual gross earnings) | 13.1          | 13.1                                     | 13.1 | 11.4 | 7.6  | 5.7  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 16.2          | 16.2                                     | 16.2 | 14.1 | 9.4  | 7.0  |

30 year career under OECD economic assumptions

| Men   | Median earner | Individual earnings, multiple of average |      |      |      |      |
|---|---------------|--|------|------|------|------|
|   |               | 0.5                                      | 0.75 | 1    | 1.5  | 2    |
| Women (where different)   |               |  |      |      |      |      |
| Gross relative pension level<br>(% average gross earnings)      | 48.6          | 30.0                                     | 45.0 | 52.2 | 52.2 | 52.2 |
| Net relative pension level<br>(% net average earnings)          | 49.1          | 30.3                                     | 45.5 | 52.8 | 52.8 | 52.8 |
| Gross replacement rate<br>(% individual gross earnings)         | 60.0          | 60.0                                     | 60.0 | 52.2 | 34.8 | 26.1 |
| Net replacement rate<br>(% individual net earnings)             | 60.6          | 60.6                                     | 60.6 | 52.8 | 35.2 | 26.4 |
| Gross pension wealth<br>(multiple of individual gross earnings) | 9.8           | 9.8                                      | 9.8  | 8.5  | 5.7  | 4.3  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 12.1          | 12.1                                     | 12.1 | 10.6 | 7.0  | 5.3  |
| Gross pension wealth<br>(multiple of individual gross earnings) | 9.8           | 9.8                                      | 9.8  | 8.5  | 5.7  | 4.3  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 12.1          | 12.1                                     | 12.1 | 10.6 | 7.0  | 5.3  |

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**Economy specific assumptions**

40 year career under economy specific assumptions

| Men   | Median earner | Individual earnings, multiple of average |      |      |      |      |
|---|---------------|--|------|------|------|------|
|   |               | 0.5                                      | 0.75 | 1    | 1.5  | 2    |
| Women (where different)   |               |  |      |      |      |      |
| Gross relative pension level<br>(% average gross earnings)      | 64.8          | 40.0                                     | 60.0 | 69.6 | 69.6 | 69.6 |
| Net relative pension level<br>(% net average earnings)          | 65.5          | 40.4                                     | 60.6 | 70.3 | 70.3 | 70.3 |
| Gross replacement rate<br>(% individual gross earnings)         | 80.0          | 80.0                                     | 80.0 | 69.6 | 46.4 | 34.8 |
| Net replacement rate<br>(% individual net earnings)             | 80.8          | 80.8                                     | 80.8 | 70.3 | 46.9 | 35.2 |
| Gross pension wealth<br>(multiple of individual gross earnings) | 13.1          | 13.1                                     | 13.1 | 11.4 | 7.6  | 5.7  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 16.2          | 16.2                                     | 16.2 | 14.1 | 9.4  | 7.0  |
| Gross pension wealth<br>(multiple of individual gross earnings) | 13.1          | 13.1                                     | 13.1 | 11.4 | 7.6  | 5.7  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 16.2          | 16.2                                     | 16.2 | 14.1 | 9.4  | 7.0  |

30 year career under economy specific assumptions

| Men   | Median earner | Individual earnings, multiple of average |      |      |      |      |
|---|---------------|--|------|------|------|------|
|   |               | 0.5                                      | 0.75 | 1    | 1.5  | 2    |
| Women (where different)   |               |  |      |      |      |      |
| Gross relative pension level<br>(% average gross earnings)      | 48.6          | 30.0                                     | 45.0 | 52.2 | 52.2 | 52.2 |
| Net relative pension level<br>(% net average earnings)          | 49.1          | 30.3                                     | 45.5 | 52.8 | 52.8 | 52.8 |
| Gross replacement rate<br>(% individual gross earnings)         | 60.0          | 60.0                                     | 60.0 | 52.2 | 34.8 | 26.1 |
| Net replacement rate<br>(% individual net earnings)             | 60.6          | 60.6                                     | 60.6 | 52.8 | 35.2 | 26.4 |
| Gross pension wealth<br>(multiple of individual gross earnings) | 9.8           | 9.8                                      | 9.8  | 8.5  | 5.7  | 4.3  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 12.1          | 12.1                                     | 12.1 | 10.6 | 7.0  | 5.3  |
| Gross pension wealth<br>(multiple of individual gross earnings) | 9.8           | 9.8                                      | 9.8  | 8.5  | 5.7  | 4.3  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 12.1          | 12.1                                     | 12.1 | 10.6 | 7.0  | 5.3  |

Real earnings: 6% per year converging steadily to 2%, giving an average of 4%.

Price inflation: 5% per year converging steadily to 2.5%, giving an average of 3.75%.

Real rate of return: 10.5% per year converging steadily to 3.5%, giving an average of 7%.

Discount rate (for actuarial calculations): 2% per year.

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