

SOCIAL SECURITY AND POST-RETIREMENT BENEFITS OF DEVELOPING COUNTRIES: THE CASE OF BANGLADESH

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ABSTRACT

Bangladesh is undergoing rapid economic growth. With the economic growth, it is also undergoing rapid social change. Population is moving from rural to urban areas. Majority of its population is very young. When they reach the retirement age, the traditional safety net of extended family: "children taking care of their parents during their old age", may not be there. This paper discusses the social security systems of Bangladesh and USA; it will explore how a developing country like Bangladesh can benefit by emulating the US system.

Keywords: Social Security, Pension, Post-Retirement

1. INTRODUCTION

At present, there are 16 million people in the old age category (60 years or older) that represents about 10 percent of the population (Rahman, A, ASM, 2010). About eighty percent of them live in rural areas. Providing social security, health care and other safety net program to this group of people is a daunting task (Rahman, A. ASM, 2010).

Drawing from conceptual insights and from empirical lessons provided by the experience of other countries, for example, USA, a framework can be developed to formulate an agenda for further expansion of the social security system. This paper will explore the possible contents of such an agenda. The paper will discuss the elements of the formal social security model that can be adapted for Bangladesh

2. EXISTING SOCIAL SECURITY SYSTEM IN BANGLADESH

The extent and coverage of existing social security in Bangladesh suffers from a number of shortcomings. Firstly, the mere availability varies considerably across the population. Pensions or provident funds do not provide adequate retirement benefits. Work related injury benefits are available only to employees of bigger firms. Benefits for disability and to survivors are scant. Availability of schemes covering sickness or maternity is restrictive. Unemployment benefits are mostly not available.

"Secondly, most of the schemes cover only workers in the government and quasi-governmental sectors and workers in organized employment in larger factories where the work force is stable, employment is regular. Large segments of workers in the agricultural sector, in rural non-farm employment, and in the urban informal sector are excluded" (www.questia.com).

Thirdly, formal social security is inadequate in many ways. Evasion of employer liabilities is widespread for work injury. Pension or provident fund disbursement is delayed and is subject to cumbersome procedures. Recently, the finance minister of the country announced that the government will be adopting a universal social security and pension plan (Tribune, Dhaka, June 6, 2018).

The following examples serve as representative illustrations of some basic social security type of services available in Bangladesh (Ministry of Social Welfare, Bangladesh; SSA (2016):

1. "Bangladesh Government introduced Old Age Allowance Program in 1998. Coverage is limited to Low-income citizens aged 65 (men) or age 62 (women) or older. Only one member from each family can receive the pension. The monthly pension currently is 500 taka (Bangladesh Currency 80 taka equals 1 US Dollar) and is paid quarterly. Government bears the total cost. Ministry of Social Welfare (<http://www.msw.gov.bd>) administers the program. Old-age pensions are paid through local branches of the government-run banks. About 4 million people are receiving this benefit (World Bank Group: Program Brief, 2019; Pension Watch, 2019).
2. Allowances for the Widowed, Deserted, and Destitute Women: About 1.4 million people are receiving this benefit. The monthly pension is 500 taka. (World Bank Group: Program Brief, 2019)
3. Allowances for the Financially Insolvent Disabled. About 1 million people are receiving this benefit. The monthly is 700 taka. (World Bank Group: Program Brief, 2019)
4. Vulnerable Group Feeding. About 10 million people are receiving this benefit. Amount of food 10-30 kg of rice per month per household with different provisions for specific vulnerabilities. (World Bank Group: Program Brief, 2019)
5. Employees in manufacturing and in establishments with five or more worker are covered under the Labor Law of 2006 for sickness and maternity benefits (SSA, 2016). On-site medical facilities are provided for employees of firms with at least 300 employees; workers may also use certain government-run hospitals. Total cost is borne by the employers.
6. Sickness benefit: The benefit is 100% of earnings and is paid for up to 14 days a year.
7. Maternity benefit: A cash benefit, depending on the level of the insured's earnings, is paid for 8 weeks before and 8 weeks after child birth for up to two live births. Unpaid leave is provided for the third and subsequent births. If the mother dies during childbirth or up to eight weeks after the childbirth, the benefit is paid to the person who cares for the child.
8. A medical allowance of 100 taka a month is paid to workers whose employer does not provide medical facilities.
9. Temporary Disability Benefits: The benefit is 100% of the insured's earnings for the first 2 months, 66.7% of earnings for the next 2 months, and 50% of earnings for subsequent months of disability or for up to a year, whichever is shorter.
10. Permanent disability benefit: Up to 125,000 taka is paid.
11. Partial disability: A percentage of the full pension is paid according to the assessed loss of earning capacity.
12. Unemployment benefits. The 2006 labor law requires employers to provide a termination benefit, a retrenchment and layoff benefit, and a benefit for discharge from service for ill health to workers in commerce and industry. The payment is 30 days of wages of every year of service. Permanent employees with monthly salaries receive half of the average basic wage for 120 days (plus a lump-sum payment of 1 month of salary for each year of service); casual workers for 60 days (plus a lump-sum payment of 14 days of wages for each year of service); and temporary workers for 30 days."

3. US SOCIAL SECURITY SYSTEM

The current social security system in the United States of America was designed in 1936 and after undergoing several changes over the decades has the following features (SSA.gov, 2019):

1. Social security covers retirement, disability, and survivorship benefits. Wage earners contribute 6.2% as social security tax (known as FICA); employers are required to contribute 6.2% matching fund as payroll tax: a total of 12.4% of employee's earnings.
2. Workers must work for at least 10 years to get vested; different rules apply if workers get disabled. When employees turn 66, they qualify for full benefits. General formula to compute benefit is based on average monthly income of thirty-five years of maximum earnings. Employees generally get 40% of monthly average earnings. In 2019, average retiree got about \$1,400 a month. Maximum benefit currently is about \$2,800 a month.
3. Non-working spouse gets 50% of the benefit paid to working spouse benefit.
4. Children under 18 also gets some support when a worker starts collecting benefit.

Medicare was added in 1966. Medicare pays for basic hospital and health care benefits. Medicare kicks in when an employee turns 65. For very poor individuals, social security administration has a program called Medicaid that pays for basic hospital and health care benefits.

4. POST-RETIREMENT BENEFIT (PENSION) SYSTEM IN BANGLADESH

In Bangladesh the elderly people above 60 years constitutes about 10% (Demographics of Bangladesh, Wikipedia, 2019; CIA- World Fact Book, 2019). Even though, average age of Bangladeshi is only 27, 40% of the population belongs to 25-59 years category. In about 10 to 35 years, a big group of these people will reach the retirement age.

At present, there are around 1.5 million public employees, which is only 5% of the employed population, who are enjoying the pension benefits. On the other hand, only 8% out of the 95% of the private sector employees are officially involved in the formal sector. They are however, deprived of the pension benefits (Dhaka Tribune, June 6, 2018).

The different types of Pension plans that are typically applicable to public employees are (Miyan, 2019; Mohsin, 2016) are as follows:

Superannuation Pension - Completion of 58 years of age. One year leave preparatory retirement (if leave is available). On completion of 59 years of age, to be fully retired. Retirement ages for judges and university professor is 65. For them, one year leave preparatory to retirement starts at 64. Full retirement age is 65.

Retiring Pension - On completion of 25 years of government service, an employee may retire from services which is called Retiring Pension.

Invalid Pension - If an employee become invalid to discharge his / her services due to physical or mental disability, may retire and will get Invalid Pension.

Compensation Pension - On termination from services due to declaration of the employee's services redundant to the governments' requirement, the employee is eligible to get Compensation Pension.

Family Pension - If an employee dies after completion of minimum period of ten years of services, successors will get Family Pension. If any employee commits suicide, successors would get pension under the Family Pension Category.

Extra-ordinary Pension - If an employee dies or gets injured during discharging services beyond the normal risks accompanying the nature of duty, will get Extra-ordinary Pension.

Provident Fund - Own contribution and Employers Contribution, Equivalent to one month's salary for each years of service.

Government Housing - Retired person and his family is entitled to remain in the allotted accommodation for a period of two years. If the retired employee dies within this period, his family can still stay in the housing for two years.

Monthly retirement benefit is typically 80% of the pay drawn during the last three months of the retiree's work history. A retiree can sell 50% of pension benefits for a lump sum, called "commutation". The lump sum is computed using a simple formula: monthly benefit times 200. For example, let's say, a retiree is entitled to retirement benefit of Tk.20,000 per month. He can commute half of it, i.e., Tk.10,000 times 200. He will get a lump sum of Tk.2,000,000. His pension for the rest of his life will be Tk.10,000 .

(Mohsin, I.M.M., 2016). Retirees are also entitled to two festival bonuses equivalent to one month's pension each, this payment cannot be commuted.

Recently, the finance minister of the country announced that the government will be adopting a universal pension plan during his 2018-2019 fiscal year budget speech (Tribune, Dhaka, June 6, 2018).

Finance Minister Mr. AMA Muhith said: "Government pensioners occupy a mere fraction of the entire population. So, we want to ensure that besides the public employees, everyone else can enjoy the public pension fund. Our primary goal is to transform Bangladesh into a welfare state."

There will be an instruction accompanying the new fiscal year budget which will outline the pension plan. The proposal is underway to include employees working in private corporate firms or in companies involved with the share market in the public pension plan. Consequently, other types of businesses will also be included under the plan (Dhaka Tribune, June 6, 2018).

Under the proposed plan, both employee and employer will contribute to the pension funds. It can be that 10% of an employee's salary will be going to the fund. Employers will also contribute similar percentage of money. The fund will be managed by professional people. Under the proposed pension scheme, the retirement age of public employees will be 60 years, while it will be 68 years for those working in the private sector.

After retiring, one can withdraw half of the cash in one lump sum called "commutation", remainder can be withdrawn in installments over the retiree's life. Funds will be monitored by a separate regulatory authority that will invest the funds where returns are high and will also be given investment security.

Some portion of the returns from the investment will be enjoyed by the stakeholders every month. The stakeholders of the funds will be given smart cards. The proposed pension scheme will enjoy 5 – 10% yearly increments.

5. POST-RETIREMENT BENEFITS SYSTEMS IN THE U.S.A.

Retirement plans in the United States can be categorized as either defined-benefit plans or defined-compensation plans.

Under the defined-benefit plans, employees' benefit is computed using a formula based on years of service times a factor times average monthly pay of last three/four years of pay. Many big companies, governmental agencies, state-owned universities offer this kind of pension plans, for example, under Pennsylvania State Retirement System, an employee gets 2.5 times the average monthly pay as pension for life (SERS, Pennsylvania, 2019). Vesting period is generally 10 years of service.

Under the defined-compensation plans employers contributes anywhere between five to ten percent of employees pay to a trust fund, employees may contribute five to ten percent of their pay to the fund. These plans are known as 401(k), 403(b) and 457 plans (TIAA-CREF, 2019).

Self-employed individuals and employees not supported by any pension schemes can contribute to an Individual Retirement Account (IRA). Money contributed to the fund are invested in trust accounts held by banks, insurance, and investment companies. Employees select where their money will be invested depending on their risk-return preference. Wide selection of mutual funds is available.

Depending on the market performance, employees fund balance may change. Once they are vested and reach retirement age, typically 60, employee can start withdrawing money from their fund. This amount is in addition to Social Security benefits provided by the Social Security Administration.

6. RECOMMENDATIONS

Using the insights from our discussion in the paper, Bangladesh can implement the following steps:

1. First, expand the Old Age Allowance Program. Kidd, S. and Khondker, B. (2013) research report recommends increasing the benefit to Taka, 1,000 per month. This recommendation was based on a micro simulation conducted using different amount of allowances.
2. Second, when the pensioners come to the city to pick up pension check quarterly, they can visit the local hospital for physical checkup. Smart card can be used for both pension and basic healthcare. Since people have access to government hospitals for free service, these two services can be combined to establish a framework for Medicare without additional expenditure. Vitamins like Vitamin A can be distributed annually to prevent night blindness.
3. Third, for self-employed individuals and employees not supported by any pension schemes, an Individual Retirement Account (IRA) mechanism should be created. Money contributed to the fund will be invested in trust accounts held by banks, insurance, and investment companies. Employees will select where their money will be invested depending on their risk-return preference. Wide selection of mutual funds should be Offered. Depending on the market performance, employees fund balance may change. Once they are vested and reach retirement age, say 60, employee can start withdrawing money from their fund. Similar program already exists in Bangladesh in the form of postal savings bond. This feature can be expanded into an IRA and individuals can save systematically for their retirement in the postal savings bonds.
4. Lastly, the proposed universal pension plan can be expanded into a social security system. Social security should cover retirement, disability, and survivorship benefits. Wage earners will contribute some portion of their earnings, say 7.5% as social security tax; employers will be required to contribute 7.5% matching fund as payroll tax: a total of 15% of employee's earnings will be collected as a result. Workers must work for at least 10 years to get vested; different rules will apply if workers get disabled. When employees turn 65, they will qualify for full benefits. General formula to compute benefit is will be based on average monthly income of say, thirty years of maximum earnings. Non-working spouse should get 50% of the benefit paid to working spouse benefit. Children under the age of 18 should also get some support when a worker starts collecting benefit.

7. CONCLUSION, LIMITATIONS OF THE STUDY, AND MANAGERIAL/POLICY IMPLICATIONS

In Bangladesh, the elderly people above 60 years constitutes about 13% (Demographics of Bangladesh, 2019; CIA- World Fact Book, 2019). Even though, average age of Bangladeshi is only 27, 40% of the population belongs to 25-54 years category. In about 10 to 35 years, they will reach the retirement age. Bangladesh must plan now!

This paper has discussed the extant social security and pension plans of Bangladesh and USA and explored the possibility of starting programs very similar to US system. Conclusion drawn in the paper is limited in scope due to non-availability of information pertaining to different pension plans. Most of the plans are nascent and evolving.

As part of policy governance, adequate provision must be kept using a public-private partnership evidenced by the active involvement of NGO's (Non-Governmental Organizations) and government agencies. Future research will look into different pension plans adopted by private companies and NGOs.

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