Towards a Fair Pension System: Legal and Fiscal Dilemmas in Nepal's Education Sector

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Abstract

This study investigates the structural challenges and reform needs of Nepal's public pension system, with a particular focus on government schoolteachers. Drawing on pensioner data from fiscal year 2011–12 to 2023–24, the study identifies a sharp increase in the number of retirees, with the teaching sector exhibiting the highest average annual growth rate among all public sectors. This trend is closely linked to rising life expectancy, which correlates strongly (R=0.8568) with the growing number of pensioners. The delayed and uneven implementation of the contribution-based Pension Fund Act, 2075, has created legal ambiguity, especially for transitional appointees, and contributed to administrative inefficiencies and inter-agency coordination gaps. The lack of actuarial valuation further impedes evidence-based pension planning. In response, the study proposes a Mixed Pension Scheme that preserves non-contributory benefits for legacy teachers while introducing a contributory model for new entrants. Comparative analysis of SAARC countries, including India, Bangladesh, Bhutan, and Pakistan, supports the feasibility of phased, multi-pillar reforms. The study recommends regular actuarial assessments and designates the Employees Provident Fund as the most capable institution to manage teacher pensions, due to its administrative experience and financial credibility. The findings call for urgent, balanced reform to ensure sustainability, equity, and fiscal resilience.

Keywords: *Pension Reform, Mixed Pension Model, Contributory Pension System, Non-Contributory Pension, Fiscal Sustainably, Education Sector, Actuarial Valuation*

INTRODUCTION

Every labourer shall have the right to appropriate remuneration, facilities and contributory social security (Nepal Law Commission, 2015). Therefore, the Government of Nepal has recently launched a contributory pension system and 87 different social security provisions (High-Level Economic Reform Recommendation Commission, 2024).

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The Commission advised integrating all social security data with the National Identity Card to prevent duplication and proposed a contributory-based system to expand coverage. It recommended raising the retirement age of government employees from 58 to 60. A broader contributory system would reduce budget pressure and boost capital formation for economic growth. The report urged clarity in roles among the Employees Provident Fund, Citizen Investment Trust, and Social Security Fund, and sought investment in high-return, safe projects. The Government of Nepal endorsed this in the 2025 budget (Ministry of Finance, 2025), mandating 10% (contributions from both employers and employees.

The Government of Nepal introduced the Pension Fund Act, 2075, to replace the unsustainable pay-as-you-go system with a defined contribution model for newly appointed permanent public employees from Shrawan 1, 2076, aiming to enhance fiscal sustainability, equity, and transparency in pension distribution (Nepal Law Commission, 2019).

The share of the education sector to the Gross Domestic Product (GDP) in FY 2023-24 is estimated at 8.5%. Additionally, it is estimated that the gross value added from the education sector will expand by 2.7% during this period. In the previous year, the education sector's contribution to GDP was 8.3%, while its value added increased by 3.9% (Ministry of Finance, 2025). The actual government revenue of Nepal for FY 2023-24 is estimated to increase by 17% in the two consecutive years. However, the total expenditure is estimated to have increased by 22% in FY 2025-26. The visible 5% gap is due to a steep increase in pension and social security expenditure. The wide gap between revenue and expenditure should be addressed and minimized through academic research in contributory social security schemes.

While the contribution-based pension system is active for most government employees, public school teachers will be included only from Baisakh 1, 2082. This seven-year delay has cost the government around six per cent in lost teacher contributions and created legal and policy inconsistencies within Nepal's broader public pension framework.

1. Statement of the Problem

Although the contribution-based Pension Fund Act, 2075, has established a new pension framework for government employees, its uneven implementation timeline between civil servants (effective from Shrawan 1, 2076) and teachers (effective from Baisakh 1, 2082) has resulted in a policy gap with potential legal and social consequences (Nepal Law Commission, 2019 and Paudel, 2023). The lack of legal clarity and transitional guidelines has contributed to growing dissatisfaction among teachers, who demand a pension system based on principles of equity and parallel treatment with civil servants. (MyRepublica, 2025)

The issue necessitates comprehensive legal, fiscal, and policy analysis to develop a fair and sustainable pension strategy while addressing the legitimate concerns of the teaching community (Dhakal, 2025).

2. Objectives of the Study:

- To critically examine the legal and policy frameworks governing the pension systems of civil servants and teachers, with a particular focus on identifying and analyzing the gaps between the two policy regimes.

- To analyze the financial challenges associated with managing the teachers' pension fund during policy implementation and to recommend the most suitable model for effective pension management.

3. Review of Literature

The Constitution of Nepal provides a strong legal basis for equality and social protection, directly impacting pension rights for public sector workers, including teachers (Nepal Law Commission, 2015). Article 18 guarantees the Right to Equality, ensuring non-discrimination in law and in implementation. The Education Service Regulations grant pensions under a non-contributory model, whereas the Pension Fund Act, 2075, establishes a defined contribution system applied immediately to civil servants from 2019 but delays teachers' inclusion until 2025, raising concerns about policy inconsistency and constitutional equality (Nepal Law Commission, 2015). Such differential treatment among public servants, in the absence of a dedicated Teachers' Act, may result in perceived inequities and administrative confusion (Paudel, 2023). The lack of harmonization not only affects legal clarity but also risks undermining the morale of the teaching workforce.

Several countries have adopted integrated pension systems to enhance equality and fiscal sustainability. Chile's fully funded defined contribution model applies to all formal workers (Barr & Diamond, 2008). India's National Pension System (NPS), mandatory for central government employees, including teachers, since 2004, follows a contribution-based approach (PFRDA, 2022). The United Kingdom's Teachers' Pension Scheme emphasizes equity and sustainability (OECD, 2023). In South Asia, reforms vary: India runs both contributory and non-contributory schemes (World Bank, 2019), Bangladesh introduced a voluntary contributory scheme in 2023 (Rahman, Khan, & Sabbih, 2021), and Sri Lanka maintains defined-benefit pensions amid fiscal concerns (ILO, 2020). Nepal is similarly advancing the Contribution-Based Pension Fund Act, 2075. Global pension reforms emphasize consistency and inclusiveness (Nepal Law Commission, 2019). Nepal's dual system for teachers contrasts with international norms and needs urgent legislative reform.

4. Methodology

This study employs both qualitative and quantitative research designs using exclusively secondary data. Its primary aim is to analyze the legal, administrative, and policy aspects of Nepal's pension system, focusing on teachers' inclusion during the transition to a contribution-based model. Secondary data were gathered from various sources and analyzed through tables and visualizations such as line, bar, and pie charts. Simple mathematical and statistical methods, including addition, percentages, average annual growth rate, and correlation, were applied. The Pearson Correlation Coefficient was used to assess linear relationships between variables, meeting all statistical assumptions (Social Science Statistics, 2025).

Equation

$$r = \frac{\sum_i (x_i - \overline{x})(y_i - \overline{y})}{\sqrt{\sum_i (x_i - \overline{x})^2}\sqrt{\sum_i (y_i - \overline{y})^2}}$$

This study uses Social Science Statistics' online tool to calculate Pearson's correlation coefficient. Although regression analysis with time-series econometrics is planned for future research, data limitations prevent it here. Employee turnover rate, a key human resource metric, indicates work culture and management effectiveness and helps improve retention and growth (Forbes, 2025).

- Employees Annual Turnover = [(number of employees who left/average number of employees) x100]
- Where, average number of employees= [(number of employees at the beginning + number of employees at the end)/2]

Data were collected both physically and online from institutions such as the Pension Management Office, the School Teachers' Record Office, the National Statistics Office, and the Ministry of Finance. Research articles, books, and legal documents, including the Constitution of Nepal (2072) and the Pension Fund Act (2075), were thoroughly reviewed. Policy papers, government reports, and international publications provided context. Field visits to key offices in Kathmandu enabled informal consultations with officials and access to supplementary materials, offering insight into the practical implementation of pension policies, especially concerning teachers' eligibility and enrolment under the new scheme.

B. DATA PRESENTATION AND ANALYSIS

The legal framework and policy provisions governing the pension system, with the application gap in the Pension Fund Act between civil servants and teachers, are discussed, and the implications of delayed implementation for teachers are presented. The legal and financial challenge provides a basis for a sustainable and equitable pension model for teachers.

1. Legal Framework and Policy Provisions Governing Pension Systems

Nepal's public pension system is governed by the contribution-based Pension Fund Act, 2075, the Constitution (2072), and sector-specific rules. The Act mandates a 6% contribution from both employers and employees for civil servants appointed after Shrawan 1, 2076 (Nepal Law Commission, 2019). However, teachers lack specific pension legislation and remain under older non-contributory schemes. The Teacher Service Commission Regulations, 2057 (Amended), exclude teachers appointed after Baisakh 1, 2059, from non-contributory pensions, requiring a new legal framework

(Nepal Law Commission, 2000). Despite this, no such legislation exists, creating legal and financial inconsistencies as these teachers still receive benefits under the outdated system.

Table 1: Legal Documents and Applicability

Key Legal Documents	Applicability to Civil Servants	Applicability to Teachers
Constitution of Nepal, 2072	Guarantees equality and social security rights to all citizens	Same guarantees exist but less explicit implementation
Pension Fund Act, 2075	Fully applicable for appointments after Shrawan 1, 2076	Planned application from Baisakh 1, 2082, pending legislation
Teacher Service Commission Regulation, 2057	N/A	Currently regulate pension under non-contributory scheme
Federal Education Bill (Pending)	N/A	Expected to clarify pension provisions

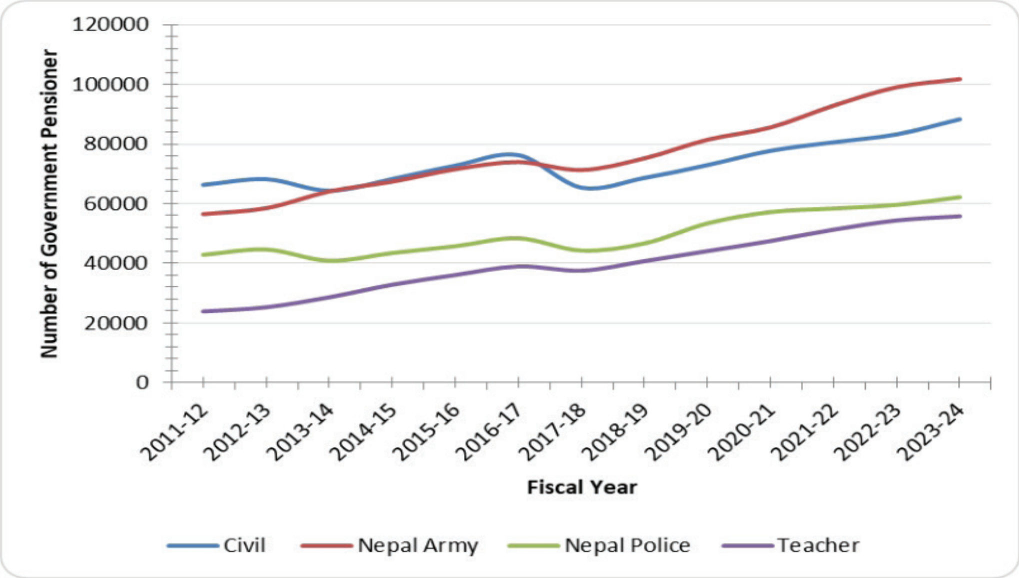
Sources: (Nepal Law Commission, 2000), (Nepal Law Commission, 2015), and (Nepal Law Commission, 2019)

This indicates a clear legal disparity between civil servants and teachers, resulting in confusion and contestation.

2. Implications of the Delayed Implementation of the Pension Fund Act, 2075, for Teachers

The number of government pensioners increased from the fiscal year (F/Y) 2011-12 to 2023-24 across all sectors. The number of civil servants rose from 66,306 to 88,296 with an average annual growth rate (AAGR) of 2.61%, Nepal Police from 42,869 to 62,176 (3.33% AAGR), and Nepal Army from 56,500 to 101,761 with the highest growth rate of 5.08% annually (Pension Management Office, 2025).

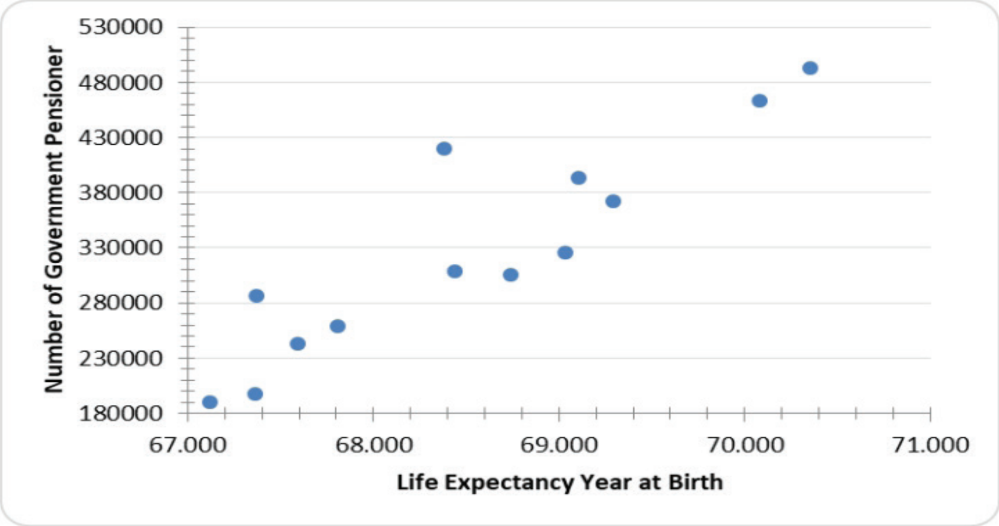
Chart 1: Number of Government Pensioners by Year



Source: Pension Management Office, 2025

Government teacher pensioners rose from 23,885 in 2011-12 to 55,786 in 2023-24, with the highest annual growth rate of 7.42%, over double that of civil servants. Notable increases occurred in 2013-14 and 2014-15, while a slight decline of 3.69% was recorded in 2017-18.

Chart 2: Impact of Life Expectancy Year at Birth to Number of Government Pensioners

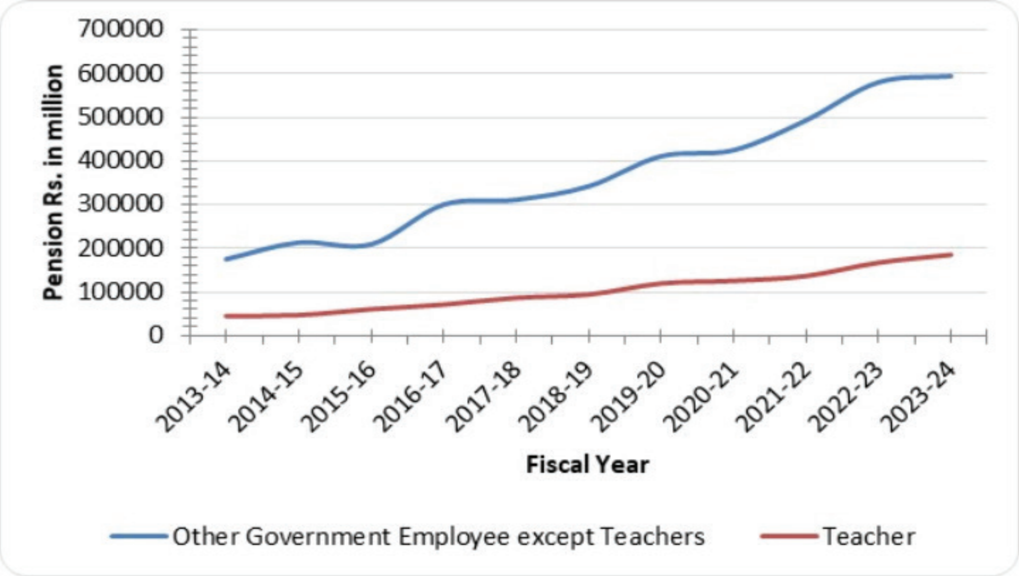


Sources: Pension Management Office, 2025 and Earthly Data, 2025

The life expectancy at birth in Nepal increased from 67 years in 2011–12 to 70 years in 2023–24 (Earthly Data, 2025). This rise shows a strong positive correlation (r)=0.8568 with the growing number of government pensioners, supported by a coefficient of determination (R^2) of 0.7341. These figures suggest that increased life expectancy significantly contributes to the rise in the recipients.

From F/Y 2013–14 to 2023–24, 2,752 to 4,980 teachers annually resigned and received either pension or gratuity. In 2023–24 alone, 3,702 teachers left their jobs, with 3,470 receiving pensions and 232 gratuities, resulting in a 4% turnover from 97,172 registered teachers (School Teachers' Record Office, 2024). This low turnover rate reflects the teaching profession's stability and relative job satisfaction compared to other government roles. The upward trend in all sectors, especially among teachers with the highest growth rate, is the reason behind the increase in burden in pension expenditure.

Chart 3: Government Pension Expenditure



Source: Pension Management Office, 2025

The government's spending on total pensions, except teachers, is increasing steeply upward from 175,000 million rupees in FY 2013-14 to 593,996 million rupees in FY 2023-24. The growth rate ranged from 2 to 43%, with an average annual growth rate of 13.67%. The spending on teachers' pensions is also increasing steeply from 45,000 million rupees in FY 2013-14 to 185,000 million rupees in 2023-24. The growth rate dispersed from 4 to 28%, while the average annual growth rate was 16%. The average annual growth rate of teachers' pensions is higher than other pensions. Therefore, the government should focus more on the teaching sector.

3. Legal and Financial Challenges

The hindrances caused by the implementation of the Pension Fund Act, 2075, to teachers with legal and financial challenges are presented in this section.

a. Legal Challenges

The transition to a contribution-based pension system for public school teachers has led to significant legal challenges, undermining both the clarity and credibility of the reform. A major concern involves teachers appointed between Shrawan 1, 2076, and Baisakh 1, 2082, who fall into a legal grey area excluded from both the old non-contributory scheme and the new contribution-based model. This ambiguity has triggered confusion, dissatisfaction, and unrest among affected teachers, who are unsure about their pension rights and future security.

The lack of clear legal provisions and the perception of retroactive implementation raise concerns about potential constitutional violations. The reform appears to conflict with Article 18 (Right to Equality), Article 29 (Right against Exploitation), and Article 51 (State Policy on Social Justice and Security). Teachers argue that their legitimate expectations under the previous system were ignored, and the shift was made without adequate consultation or safeguards. As a result, many have sought legal remedies, filed petitions and initiated legal action. The absence of transitional legislation further complicates the situation, emphasizing the urgent need for well-defined legal frameworks to ensure fairness, protect rights, and facilitate the smooth implementation of Nepal's pension reform.

b. Financial Challenges

From a financial perspective, the transition to a contribution-based pension model presents both immediate and long-term sustainability concerns. The government is currently required to manage two parallel pension schemes: the legacy non-contributory system for previously appointed employees and the new contributory system for recent recruits. This dual burden strains fiscal resources and complicates long-term pension budgeting. Moreover, the delayed enrolment of teachers into the contributory system has postponed the accumulation of contributions and corresponding employer matches, thereby reducing the time horizon for fund growth and compounding future liabilities.

The financial strain is particularly pronounced in the education sector, where a large proportion of the workforce falls into the transitional category. The absence of timely contributions from both teachers and the government has created funding gaps and increased pressure on general revenue to cover pension obligations. Without a clear financial strategy to manage the transition period and ensure full compliance, the risk of future unfunded liabilities remains high. These challenges highlight the importance of establishing a well-defined financial roadmap and ensuring timely contribution flows to safeguard the long-term viability of the pension system.

c. Towards a Sustainable and Equitable Pension Model for Teachers

Drawing on legal guarantees in the Constitution, comparative practices in SAARC countries, and fiscal realities, the data suggests the need for a mixed model that:

A Mixed Pension Scheme combines elements of both:

- Non-contributory (defined benefit) for legacy teachers (appointed before a cut-off date which is before 1 Baisakh 2082), and
- Contributory (defined contribution) for new entrants, ensuring long-term sustainability.

Table 2: Rationale Supported by International Good Practices

Country	Pension Reform Practice	Relevance to Nepal
India	Transitioned to the National Pension System (NPS) in 2004 with grandfathering of existing employees	Demonstrates feasibility of phased **reform**, preserving existing rights while introducing sustainability
Bangladesh	Launched a Universal Pension Scheme in 2023, incorporating voluntary and mandatory tiers	Offers a multi-pillar model suitable for varying employment categories (formal and informal)
Bhutan	Implements a state-managed provident fund with mandatory contributions and investment return	Highlights efficient fund management under government oversight
Pakistan	Pursued gradual reforms with a focus on institutional integration and expanding coverage to informal workers	Emphasizes importance of institutional readiness and stakeholder coordination

Sources: (Barr & Diamond, 2008), (ILO, 2020), (OECD, 2023), (PFRDA, 2022), (Rahman, Khan, & Sabbih, 2021), and (World Bank, 2019)

Adopting a mixed pension scheme with phase-wise implementation is both policy-sound and operationally pragmatic. Drawing from regional practices, it offers a pathway that secures the rights of legacy teachers while introducing sustainability, transparency, and modern fund management practices for future cohorts.

C. CONCLUSION

This study highlights critical demographic, legal, and financial dynamics shaping Nepal's public pension system, with a focused analysis of the education sector. The findings demonstrate a consistent and steep rise in the number of pensioners, particularly among teachers, between FY 2011-12 and 2023-24. The high average annual growth rate in the teachers' pensioners, combined with increased life expectancy, has significantly elevated the government's pension liabilities. Although the contribution-based Pension Fund Act, 2075, aimed to enhance sustainability, its delayed and inconsistent implementation, especially in the education sector, has undermined its effectiveness.

To address these challenges, the study proposes a Mixed Pension Scheme that blends non-contributory (defined benefit) provisions for legacy teachers with contributory (defined contribution) mechanisms for new entrants. This phased and balanced model, supported by international best practices in countries such as India, Bangladesh, and Bhutan, offers a feasible path forward for Nepal. It ensures legal protection for existing teachers while advancing sustainability goals.

Furthermore, for this reform to be effective, the government must integrate regular actuarial valuation of pension liabilities into the policymaking process. This will help assess long-term fiscal risks and guide contribution rates and benefit structures. Equally important is the establishment of a well-governed fund management institution. The Employees Provident Fund (EPF), with its experience, credibility, and operational infrastructure, is best positioned to serve as the primary pension fund manager for the teaching sector. EPF's capacity in fund mobilization, investment return, and digital administration provides a strong foundation for enhancing transparency, accountability, and sustainability.

Finally, the proposed mixed model, combined with robust actuarial oversight and EPF-led fund management, offers a viable and equitable solution for transforming Nepal’s pension landscape. Timely implementation of this approach will not only secure the post-retirement future of the teachers but also safeguard the country’s fiscal health.

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