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Investigating Pension Choice Diversity within a Dynamic Institutional Environment of Public Sector Universities in Pakistan

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In literature, the mixed empirical results about employees' retirement choices for different pension systems make it difficult to conclude lucidly. This is because the pension benefits represent a diverse pool of preferences and expectations based on complex socioeconomic, cultural and demographic factors. In Pakistan, a multitude of factors in addition to the aforementioned diversity severely threaten the sustainability of the current defined benefit pension system. This is particularly important in the public-sector institutions where the major root for the pension is pay-as-you-go. The current study addresses this issue by developing an important framework with the help of previous literature and interviews conducted with faculty members working in public universities of Pakistan. The study suggests a framework for harmonizing pensioners' preferences and government policies towards a shift from defined benefit to a more sustainable pension plan. Using line-by-line analysis of interviews, this study also analyses the positive and negative dimensions of selecting different pension systems. For the themes identified, the study proposes a causal map to signal the relationship between concepts and result in a revised framework. The empirical findings are then synthesized with the previous literature and comprehensive policy suggestions are offered.

Key words: *Defined benefit, defined contribution, monetization, sustainability, multi-dimensional framework.*

Introduction

Governments of different countries around the world have adopted different pension systems to ensure the financial security of older people. These pensions are part of a collective bargaining agreement: they represent deferred compensation for work that has already been done. The most adopted pension system today is the defined benefit (DB) pension system, which is maintained on an unfunded basis through payroll taxes and meets the mandatory Pillar 1 of World Bank's pension conceptual framework (Holzmann & Hinz, 2005). However, following the recognition of inherent problems in DB pension plans by policy makers, many countries have been striving to transform their DB pension system into a privately-owned defined contribution (DC) pension system (Choi, Laibson, Madrian & Metrick, 2002) which is aligned with the Pillar 2 of World Bank's pension model.

Regarding DB pension plans in Pakistan, until recently, public-sector employees were not concerned about making savings for retirement, because their pension was guaranteed by the government. However, due to increasing burden of DB pension plans, funding volatilities and decision of the Pay and Pension Committee (2008) regarding the shift from DB to DC pension system, most of the public institutions are now planning to switch from DB to DC pension schemes. In view of the need for pension reform, the government of Pakistan (in one of the models) offers a lump-sum package to its employees under a new pay and pension system. Currently, the tenured track system (TTS) administered by the Higher Education Commission (HEC) for faculty members is one of the most prominent examples. An appointment on TTS does not include any pay, pension, or general provident fund benefits at the end of service. For this reason, many of the decisions about financing retirement are shifting from institutions to individuals, making employees responsible to become more financially literate. In such a situation, understanding employees' retirement choices is an essential step in the process of policymaking. Nonetheless, these choices vary across the different parts of the world and hence lead to significantly varying results (Alserda, 2017). Therefore, this study attempts to report the preferences of faculty members working in public sector universities for different types of pension systems and its monetization in Pakistan. The findings may then be integrated into a framework that may provide important directions to harmonize the recent policy interventions with employees' real time needs and preferences.

The study has many contributions. Firstly, it contributes to the literature by exploration of new themes and constructs through the analysis of interviews. Secondly, the pension choice represents multiple phenomenon, which is sensitive to different social and economic factors; hence, grouping them into a single uni-dimensional construct may not be a rigorous effort. Consistently this research tries to address the issue through empirical investigations to develop a multidimensional framework for pension and retirement choice. Thirdly, the structural changes in the pension system of the country are new and emerging. Therefore, the study findings will provide insights for policy makers in conceptualizing the employees' preferences for different pension plans that may suit the ongoing pension reforms in the country.

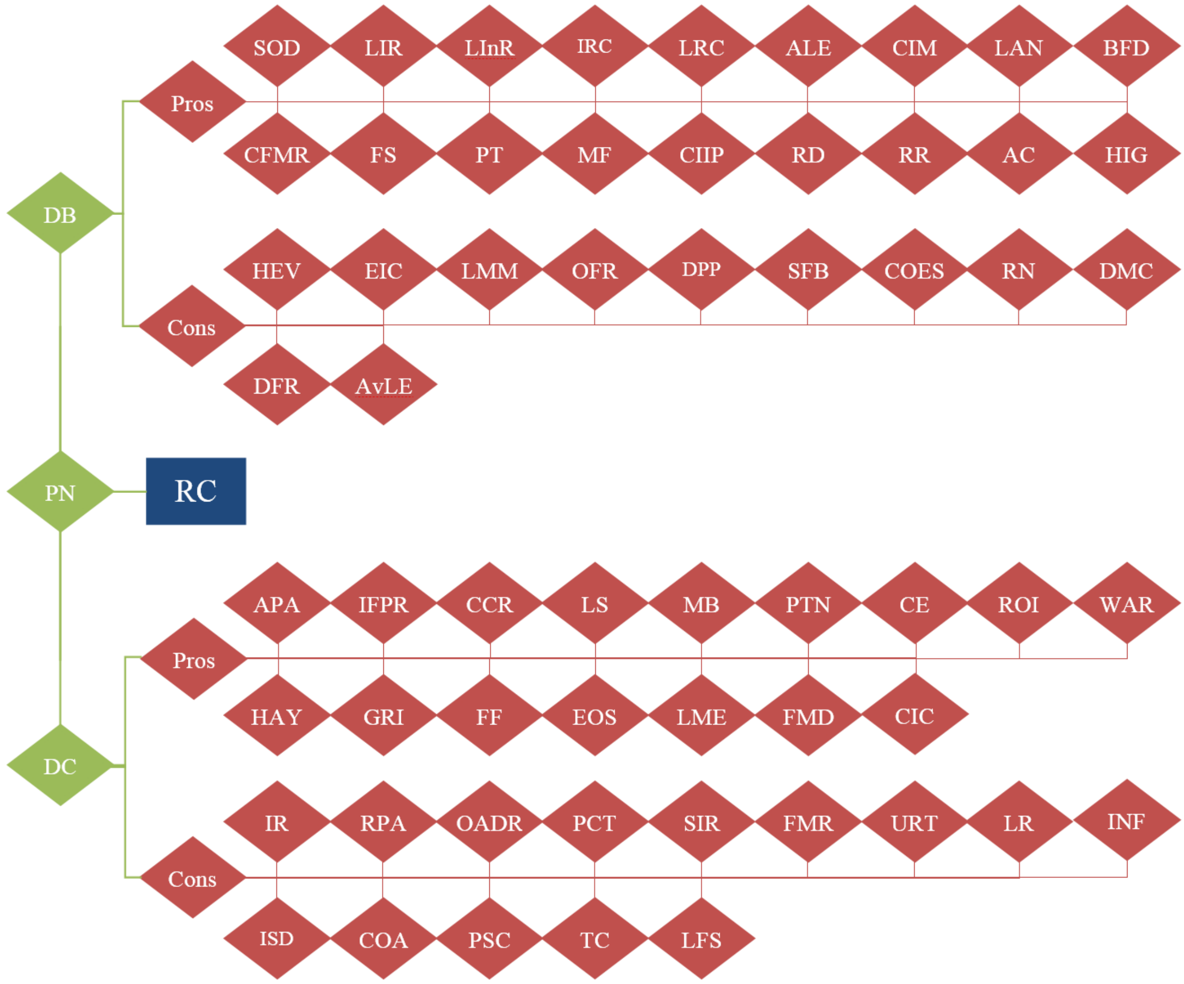
Review of Literature

Factors Affecting Employees' Choices of Pension System and Monetization

The individual ability and willingness to save for retirement can be determined by various factors. To conceptualize these factors a pre-empirical framework was developed from the literature review. In the pre-empirical framework (Figure 1), the phenomenon under consideration is retirement choices, coded RC. Two forms of retirement choice were identified from the literature. These are pension (PN) and monetization of pension (MN). Two prominent pension choices were embedded under pension: defined benefit (DB) and defined contribution (DC). From the literature, 29 constructs were aligned under the DB pension system. The sub-constructs relating to the advantages (pros) of DB pension system include, simplicity of design (SOD), limited information requirement (LIR), Limited infrastructure requirements (LInR), Indexation risk compensation (IRC), longevity risk coverage (LRC), average life expectancy (ALE), compensate for individual myopia (CIM), life annuity (LAN) benefits for dependents (BFD), compensate for financial market risks (CFMR), financial security (FS), paternalism (PT), market failure (MF), compensate for individual inappropriate planning (CIIP), redistribution (RD), revenue raising (RR), administrative cost (AC), higher income growth (HIG). Sub-constructs relating to the disadvantages (cons) of DB pension plans include, higher earnings volatility (HEV), probability of employer-initiated changes (EIC) in pension rules and labor market mobility (LMM) and own-firm risk (OFR), default in pension promises (DPP), severe fiscal burden (SFB), and crowding-out effect of savings (COES), retention of employees (RN) and demographic changes (DMC) like decrease in fertility rates (DFR) and increase in average life expectancy (AvLE).

In the same way, DC was also checked with its advantages (pros) and disadvantages (cons) for employees. The sub-constructs relating to the advantages of DC pension system include, address population aging (APA), insulation from political risk (IFPR), consumer choice and regulation (CCR), lump-sum (LS), mobility (MB), portable nature (PTN), career earnings (CE), return on investment (ROI), willingness to accept risk (WAR), hired at a young age (HAY), group insurance rates (GRI), fully funded (FF), economies of scale (EOS), labor market efficiency (LME), financial market development (FMD) and consumer investment choices (CIC). Similarly, the sub-constructs relating to the disadvantages of DC pension system include investment risk (IR), risk of purchasing annuity (RPA) after retirement, old-age dependency ratio (OADR), public choice theory (PCT), significant institutional requirements (SIR), financial market risk (FMR), uncertainty concerning retirement timings (URT), longevity risk (LR), irrational savings decisions (ISD), cost of advice (COA), and pension system complexity (PSC) and transition cost (TC), lack of financial sophistication (LFS).

Figure 1. Pre-empirical framework



Methodology

To understand employees' retirement choices a multiple case strategy has been employed (Yin, 2003) and data has been collected from faculty members who are on Basic Pay Scale (BPS), Special Pay Scale (SPS) and TTS scales. The availability of the three types of systems (i.e., DB, DC and monetization systems) is one of the key reasons for selection of the education sector as a case. The study design comprises two main parts: a pre-empirical coded framework and a post-empirical coded framework. The coding framework can either be developed 'inductively' (also called bottom up approach) by reading through the interviews and identifying themes, or 'deductively' (also called top down approach) by applying a pre-empirical framework that has been developed from reading the previous literature or theory (Braun & Clarke, 2006). In our experience, first, pre-empirical framework was developed from the existing literature because Yin (2003) suggests that one should not go to the field with an empty mind as to guide the data collection. Based on themes identified from the literature, interview questions were designed. These questions were open ended and broader in nature.

In total 21 in-depth interviews were conducted with faculty members by using snowball sampling technique. To get more meaningful insights about the issue 4 further in-depth interviews with the treasurers/finance directors from public universities and 1 interview with the additional finance secretary of KP Finance Department was conducted. In-depth interviews with treasurers/finance directors and additional finance secretary will confirm and reiterate the findings of faculty members and multiple sources of data will enhance the results quality in terms of conformability and dependability (Dey, 2003).

Based on the analysis, similar concepts were grouped together under high-order categories and another framework was constructed. This is known as the post-empirical framework. The framework mainly consists of global/major theme, organizing themes and basic/sub-themes. For an optimal plan design, the analysis of in-depth interviews enumerates the relative pros and cons of each retirement plan and presents a scenario in which one plan might dominate over another.

Explanation of the Post-Empirical Framework
The DB Pension System

The first question put forward for discussion sought to understand the participants' views on the main advantages and disadvantages of choosing DB pension plans. Participant 1 said:

> The choice of a pension system depends on not only personal preferences but also other factors, such as the employee's economic and social class. For instance, in my experience, if an employee is on a low or middle income (LMI) then he or she would prefer a DB pension. That's because the DB system provides job security (JS) and future economic security; so, middle-income families, which are mostly in the form of an extended family, will also prefer DB…(P1)

This is consistent with the claim made by Bilquees (2006) that in many developing countries (where jobs are scarce) the civil services jobs are secured and is one of the key reasons why employees prefer it.

In addition, Participant 1 said:

> The DB pension system will give financial security (FS) both to me and to my dependents (BFD). If I retire when I am in a higher grade my pension will be a handsome sum and will be sure to provide economic relief to me and my family...(P1)

Another factor that compels employees to choose DB pension schemes is the fear of disability (FOD). This is discussed by Participant 2:

> I'd like to have benefits after I retire, because I will only receive my current salary while I am performing my duties in good health; if I do not have any benefits after retirement, what would I have if I became disabled or something else happened to me?...(P2)

This makes clear that fear of disability influences the psychology of individuals in Pakistan when they are thinking about pensions. In DB pension system, the duration of 'invalidity pension' continues until the invalidity persists.

Furthermore, Participant 1 stated that our society is based on collectivism (joint families), therefore it is important to consider the opinions of peer groups and family members (FPGI) when choosing a pension plan. For example, a person may wish to switch to the TTS, but their family or peer group may dissuade them from doing so as in DB pension systems, after a pensioner dies, their family is supported...(P1).

Participant 3 raised concerns about the adjustment of pension benefits in his monthly salary by identifying compulsory saving (CS) as an important reason for choosing a pension over monetization. He stated:

> If my pension was added to my monthly salary, I would not be able to make any savings. I think in a system like that, at the end of the day I would be standing there with empty hands...(P3)

Individuals often sacrifice their current needs for their future gains. This mindset paves the way for saving through pension system, both compulsory and by choice. Participant 1 stated that as compared to my individual investment decision, I assume that the Government would have more and better options for investments (BOFI). Furthermore, he stated that:

> Being employed on DB (BPS) gives the employee a guarantee that they will be employed until they reach the age of retirement. TTS, on the other hand, does not guarantee that an employee will be successful in gaining subsequent tenures as there are stricter evaluation criteria for pay increases, promotions, and contract renewals in TTS…(P1)

To elaborate, in the case of BPS, an appraisal of whether an employee should be promoted is conducted by the university only. Meanwhile, in the case of TTS, HEC conducts an evaluation alongside that of the university.

In addition, Participant 1 said that faculty who are directly hired on the TTS system are even more insecure than those who were first selected on BPS and then switched to TTS: they stand to lose their job if they underperform. Therefore, according to Participant 1, BPS provides more security.

Participant 4 stated:

> Previously, recruitment on a DB pension scheme was norm in public sector, but recruitment on that basis are ceased. Although some of our retired public-sector employees are still receiving that type of pension, new appointments are not made based on a DB pension system...(P4)

Participant 5 confirmed this by stating that even though older universities are still offering DB pensions to their employees but there are public documents in which it is clearly highlighted that they are facing a sustainability issue. Like, University of Peshawar requested the Chief Minister of KP for the bailout package as it was faced with 203.597 million rupees shortfall and therefore unable to pay the salaries and pensions to its employees on 1st February 2020. Moreover, Participant 5 said that the HEC in Islamabad is facing government cuts and is therefore providing less funding to universities. This places the burden on provincial governments. Moreover, each year there is an increase in pension benefits ranging from 10-30 percent that increases the financial burden further on the governments.

Participant 5 while discussing about the current pension reforms in the country identified that:

> Government at times tried to abolish the current DB pension system and they offered contracts to the people even hired through the Public Service Commission. However, later these employees started protesting and pressurizing the governments through their elected MNA's and MPA's to make them permanent and offer them full pension benefits. Consequently, the government was forced to offer them full pension benefits...(P5)

This indicates that for the government it is important to evaluate the choices of employees before bringing any changes in the DB pension system as this may elicit the negative emotions of employees.

Participant 4 stated:

> Currently, we have two types of recruitment: one where GP fund and CP fund policies apply, which we call "recruitment on a regular basis," and one where neither GP fund nor CP fund facilities are offered, which is "recruitment on a contract or fixed pay basis". To allow for the selection of the fixed pay basis, the Medical Teaching

> Institutions Reforms Act (2015) was introduced. The recent provincial bill on increasing the retirement (IRA) age is another step towards decreasing the pension burden. This signals that the government has insufficient funds (INF) to make payments to its pensioners. This is one of the key reasons that public-sector organizations are now making appointments on a fixed pay basis...(P4)

Furthermore, Participant 4 raised his concerns about the appointments on fixed pay basis by stating that he was hired three years back on a fixed pay basis. After serving for three years on one position and with no increments on salary is causing de-motivation. Therefore, he is planning to switch to other good organization. The participant was asked whether, in the case of recruitment on a fixed pay basis, pension and other related benefits are provided in the form of a higher salary. The participant replied as follows:

> I don't agree that selections on a fixed pay basis offer favorable salaries. Moreover, I think [the salary offered] is even lower than the salaries offered to employees in private sector organizations. Moreover, employees who are hired through the MTI Reforms Act face job security issues (JSI), as any extensions to the employment period are granted only after meetings of the Board of Governors...(P4)

To probe further, the participant was asked why employees stay with a government organization if they are offered a lower salary and there are issues with job security. The participant said:

> Because, they hope that government policy on regularization will change and that they might be offered retirement benefits at some point in the future. This hope prevails in the minds of many employees because of the longstanding DB pensions system in the country...(P4)

Being confronted with pension crises, Participant 1 stated that many strategies could be followed to make the current pension system more sustainable. One such strategy could be to examine the private universities model (PUM). If private universities can manage their employees' salaries and pensions, government-run universities could do the same. However, there are loopholes and funds are not being used properly (FNPU).

Participant 6 stated that DB pension schemes could be easily reshaped if they divert the contributions to private schemes. Managers of private funds in the market are very good, especially managers of Islamic funds, the Muslim Commercial Bank, United Bank Limited, and some others. Just look at State Life: they have invested in real estate and are reaping the benefits from that; it is a successful model...(P6)

The respondents were also asked about the recent decision by the provincial government of KP to increase the retirement age from 60 to 63. One participant replied as follows:

> The government's recent decision to increase the retirement age (IRA) is not appropriate, as employee productivity will drop because of demotivation. What's more, if you recruit somebody on the terms and conditions of a pension and a retirement age of 60, how can you change those retirement policies?...(P4)

Participant 4 and 7 stated:

> This decision to increase the retirement age will also result in fewer employment opportunities (REO) for young people. If retirement is delayed for three years, it will have an influence on new appointments for up to three years...(P4 & P7)

This can further be confirmed by the recent notification issued by the government of KP to ban all kind of recruitments in all public-sector universities due to financial crisis.

In contrast with the concerns of some participants, Participant 8 replied that it is illogical to link the increased retirement age with effects on new appointments by stating;

> Millions of new jobs could be created by expanding institutions and investments into the private sector once the private sector has regained confidence in the economy...(P8)

> Moreover, any extension to an employee's retirement age is dependent on the health of the employee: if one can still perform well at age 63 then one should perform one's duty. The retirement age for judges in Pakistan is already 65 years…(P8)

Participant 8 further stated that:

> Recruitment processes should be checked, as there are three types of requirements, each of which is based on a quota, requirements for new appointments and for promotion…(P8)

In support of increase in retirement age by the provincial government Participant 8 mentioned following three reasons as:

> Firstly, our Treasury is so empty that it is echoing. Secondly, in the years 2020 and 2021, thousands of KP employees will retire. The government is simply taking this step to avoid the extra burden of paying pensions, lump sums and billions of gratuities that it must pay to retiring employees. Thirdly, new incumbents are naive at first; they need training to deal with gruesome official procedures which experienced staff can handle with minimal effort…(P8)

In addition, Participant 8 pointed out that making high-level decisions involves lengthy procedures, discussions and proposals for approval from the Chief Minister, Cabinet, Parliament, Chief Secretary of the Finance Department, and highly intelligent bureaucrats. The government has many obligations, and it has a better understanding of the situation. Moreover, the participant stated that in 2022, almost five thousand government employees are due to retire.

Participant 9 stated that from the perspective of national finances, increasing the retirement age will have a positive impact on the treasury: the longer an employee serves for, the less pension benefits they will be paid. Therefore, extending the retirement age is better for the economy but worse for individuals. Participant 10 argued that increase in the retirement age is a positive step in the short term; that is, for the three years that follow the increase. Once those three years have passed, the government will face the same problems that led to the original decision to increase the retirement age. However, according to Participant 10, in terms of emergency financial planning, it is the best decision.

To further probe into the matter an interview was arranged with the Additional Secretary Finance from the Finance Department of KP (P11). The Participant 11 said that the retirement age of civil servants was 50 on eve of independence in 1947. This age was gradually increased to 60 by 1973. This means that there was an increase of 10 years within the first 25 years of independence. However, the retirement age remained frozen at 60 for the next 35 years, even though life expectancy is increasing. Traditionally, an increase in retirement age had direct benefit in terms of deferring some of immediate payments. In case of other benefits such as retaining some of our most experienced talent, being able to plough back the money saved into the economy and create more jobs in the private sector. In context of Pakistan/KP, the potential benefit of increase in age is even more pronounced as the hierarchy of pensioner and their dependents, for all practical purposes, made it a one-way movement of people whereby people keep on entering the pool of pensioners and there is hardly any movement out of this pool. Finance Department, accordingly, proposed the revision of superannuation age of pensioner from 60 to 63 through amendment in the act (P11).

Participant 11 also suggested that this step of increase in the retirement age is in line with a global trend where most of the countries (like, India, EU, Brazil, Japan, USA and others) increased the retirement age with increasing life expectancy. The proposed increase in retirement age shall ensure approximately Rs. 6 billion per year saving to the Government and will rationalize the in/out flow to some extent by reducing the number of retirees per year as contemporary Pension Rules allow pension to continue for an indefinite time period to the eligible family members.

The DC Pension System

It is important to understand employees' participation in and opinions on 'DC personal pension plans', because this has fiscal implications for pension reform (the shift from DB to DC pension schemes). In response to a question about how the current pension system could be improved, respondents made the following suggestions:

> The government should move on from its traditional paternalistic approach to governance and citizens and adopt market-based policies, such as introducing universal health, old-age pension schemes for citizens...(P12)

> Contributions could be made from existing salaries, and state-run or private companies could also invest to mitigate huge future expenditure on the health and care of elderly citizens...(P13)

Similarly, another participant stated:

> Although a pension is an employee's savings for their life after retirement and for their dependents, it could be improved if the government fixed a minimum time period (MTP) and minimum pension amount (MPA). In addition, employees could be given the option to withdraw some percentage (say 50%) of such an amount immediately after retirement, or whenever deemed necessary. This would give individuals the opportunity to invest an amount in a business of some sort or pay for costly health expenses in later life...(P14)

Along with this we could refer to pension contributions and the time for which people make those contributions. The two that may work are 'minimum saving period' (MSP) and 'minimum monthly pension contributions' (MMPC).

A participant while highlighting the advantage of mobility factor associated with the DC pension schemes said:

> Currently, due to contractual jobs in most of the organizations, workforce mobility is very common and there is a need to provide such pension systems which allow employees to tape into that pool in any location that they are in…(P15)

Although employees are in favor of having a pension system in place, the above answers indicate that there is still room for improvement in the DB pension system. The responses also indicate that some participants favor a DC pension system. However, at the same time people are mostly not aware of the risks of managing pensions and investments themselves. In DC plans, the risks associated with investment performance are shouldered by employees rather than their employers.

On this subject, one respondent said:

> The ideal situation is when fund contributions are on an equal basis for employers and employees. Or [the scheme] should follow the army format, in which they give plots and agricultural land to employees...(P16)

Another respondent stated:

> I have been associated with two different types of pension choices. Previously, when I was serving at COMSATS, where the DC pension system prevails, I had planned to invest in real estate. However, recently I joined FATA University where DB pension system prevails and I haven't made a plan yet, and might I not need to plan at all, as in the DB system it is the employer's responsibility to invest (REI) the pension funds in order to generate enough to pay pensions to employees. Frankly, therefore I prefer DB over DC...(P1)

Another important point highlighted by Participant 4 is that 'whenever there was a shortfall in the institute's reserve funds, employees' CP funds contributions were used to pay urgent invoices of the institute'. The participant cited two reasons for this: the first was that funds were not invested due to a lack of proper planning (LOPP) and secondly the rules were not defined (RND). To overcome these issues, the institute created a joint CP fund account for all employees; it is now planning to create CP fund accounts for individual employees. However, the participant mentioned that the rules for the CP fund account have still not been properly defined. This is evident from the following statement:

> An interesting point to note is that the government has not yet made its contribution to the CP fund account. This represents inefficiency on the part of the government, and if the government promises something then they should deliver it (GBP)...(P4)

This explanation represents that current system lacks the ability to be 'predictable' (Holzmann, et al., 2008). A system is considered as 'predictable' where the benefit formula is specified by law and not subject to the discretion (Holzmann, Hinz & Dorfman, 2008). Furthermore, with regard to CP fund rules participant 4 said;

> We want to make it flexible for employees; for example, so that if an employee wants to withdraw a certain amount from their contributions, they can do so easily. To maintain the essence of retirement savings, we will recover that amount from the employee's monthly salary later, in the form of instalments. Achieving this flexibility in withdrawal (FIW) options is possible only if we have individual accounts for each employee, so they can be easily managed. What's more, for better utilization of funds, expertise in investments (EII) is essential. For example, in the AG offices there are

> dedicated teams with relevant expertise who manage savings and investments activities...(P4)

Underperforming management (UM) can also pose a threat to employee investments. This issue has been observed in many organizations. The following statement from Participant 17 provides an example:

> The institute transferred the employee contributions (deducted from their salaries) from [X] to [Y][1] financial investment company without asking for the employees' consent. After finding out about this, the faculty and other employees asked for their contributions to be returned. The result was that the institute returned all the contributions of those employees who opposed the finance director's decision...(P17)

The explanation for underperforming management has a theoretical grounding in public choice theory (PCT). One of the basic principles of PCT is that to further their personal interests, elected officials and public administrators make suboptimal decisions and disregard the interests of the public.

Another issue associated mostly cited in literature with DC pension schemes is income inequality (II). Most of the authors agree that any conversion from a DB pension system to a DC pension system will increase income inequality among retirees. This is because the DC system is based on investment performance, and the final amount in a DC pension plan may also be affected by economic fluctuations. Participant 5 cited the following concerns about the DC pension system:

> Keeping in mind the country's economic conditions, rising inflation, the performance of stock exchange, and weak regulatory role of the SECP, I am only expecting a 10% to 15% return on the contributions deposited each month with NAFA, and the monthly pension payable to me when I reach age 60 will only partially cover my expenses in old age. At this stage, if the regulator keeps a good eye on pension providers and the government provides some good incentives, then we can hope for better pension payments...(P5)

Other factors that contribute to the selection of DC pension plans include group rates for insurance (GRI) and economies of scale (EOS) in the purchase of some benefits (Clark, 2003).

[1] For the sake of confidentiality, the names of the companies are anonymized.

The Monetization System

When asked about pension alternatives, Participant 18 stated that monetization (MN) is a better option than receiving pension benefits after one retires. Meanwhile, in response to a question about other ideas for improving the existing pensions system, Participant 19 said, "I would prefer modifications to the existing system because the current pension system might not be sustainable (SUS) in the future." This lack of sustainability is due to the increasing strain created by the need to make pension payments and the tightening of government budgets. Moreover, a pension system that is not sustainable exposes workers to own-firm risk (OFR). Some employees with DB pension plans may find that their plan is terminated if the government does not have sufficient resources to pay the accrued benefits. This is also consistent with the claim made by Wilcox (2006) that due to the inability of employers to pay accrued pension benefits to employees, the Pension Benefit Guarantee Corporation covered only a small portion of losses when the risk of defaulting on pension payments was observed.
Participant 20 stated a preference for monetization or a TTS system because "after I complete my tenure on TTS it will be easy for me to shift to another, better job (STBJ) or go abroad (GAB) without any sacrifice of pension benefits." Unlike in the BPS system, pension benefits in a TTS system are adjusted in accordance with one's current monthly pay. In the BPS or DB pension system, benefits are accumulated and are paid at the time of retirement in the form of lump sum (commutation amount or gratuity) and periodical pension payments. To build this up, an employee needs to stay with a public-sector organization for a long time. Moreover, Participant 21 stated that: Young` people have other priorities at their stage in life: to look after their children, buying a house, and then perhaps aging parents come along, and it is only then that they can put pensions high on the list.

Furthermore, Participant 21 while making comparison of monetization with other pension systems stated:

> The other barriers are probably a lack of engagement amongst people on particularly in relation to pensions and a sort of lack of confidence in considering financial decisions not necessarily knowing which areas to get advice on and to be able to identify the issues. I think a lot of employees do not really understand what is available through the workplace in terms of benefit provision and what the value of those benefits may be...(P21)

Participant 12 said that monetization of the existing pension system should be viewed from two perspectives: economic/financial and social. Adjusting pension benefits according to one's current salary may be a good financial choice, but what would happen to employees who have not invested judiciously in pension schemes or other business investments? Such people would face difficulties meeting future spending needs. Incomes in Pakistan are generally very low, and any increase offered by adjusting employees' current salary would be used up in the same month. Another issue is how much money society and its members would contribute to ensuring the well-being of older citizens who have reached their retirement age. Likewise, respondent 22 stated that pension-related salary adjustments would improve their current living standards (CLS), because they would be able to afford to improve their quality of life; however, it would leave nothing for life after retirement as saving is not that much and investment of savings is usually eaten up by inflation (INF). Participant 22, further stated that:

> The investment-management organizations disappear overtime. The capitalist system has a provision for filing for bankruptcy, and I have examples where the investors have suffered at the end. There is too much fraud, and people who are poor are left with no safety net for their life in old age...(P22)

Apart from this, there have been certain institutions from time to time which have drowned the investments of individuals. These institutions have shaken people's trust in investment institutions; therefore, most people rely on the largest institutions, even if they are only offering a low return on investment. In the post-empirical framework, this is termed ghost investment institutions (GIIn). Moreover, Participant 22 highlighted that unfortunately, most of the public sector employees do not have sufficient information regarding the different retirement options available in the market. More interestingly, even those who are entitled to pension benefits, are not aware of their current pension systems. So, how we can expect them that they will make appropriate savings and investment decisions for their life after retirement. Moreover, comparing pension systems and monetization, Participant 22 stated:

> In the case of a pension system, individuals expect to continue getting something for their old age and the government will always be there (hopefully) (TOG) and have a better system to use money, if it is not very corrupt. They also benefit from compulsory savings (CS). Both are beneficiaries. You may be aware that where there is no pension, the organizations must pay a 30% higher salary (HS). The individual gets protection and the government gets the much-needed money for development and other purposes (MDP)...(P22)

According to Participant 23, the monetization system may have tax implications (TI); and sometimes this may even be a substantial amount therefore careful planning is needed. As argued by Clark (2003), employees prefer their retirement benefits in the form of a pension because this defers income tax. This deferring income tax allows employees to accumulate relatively large retirement funds through pension plans provided by their employers.

Extending the same line of thinking, the HEC introduced the TTS. In TTS only thirteenth salary (accumulated every year) is paid as a pension to employees after they retire, and it operates under the basic principles of monetization. Faculty on BPS scale after retirement will receive all pensions, and GP fund benefits at the end of their service. But under HEC directives, no public universities are appointing successful candidates under a fresh BPS-19; they are offered only TTS, which does not include any pension or GP fund benefits at the end of service.

Regarding this Participant 24 stated;

> Almost all the teaching staff associations in universities are protesting about the new system and are struggling to restore BPS-19 and onwards. Therefore, most university faculties are still in favor of pension benefits...(P24)

Comparing monetization with pension benefits an interview participant was asked that the average life expectancy is 66 in Pakistan and the retirement age is 60 now and the government is thinking to increase the retirement age to 63 still he will prefer DB pension system. As the benefits of monetization will be received for 30 years if he or she is appointed at the age of 30. The participant stated that:

> Yes, apparently it seems more beneficial to have a high package during service as the serving years of an employee on average are more than the retirement life. However, due to irregular revisions in salaries (IRIS) of faculty on TTS the difference now remained very less and hence, TTS became less attractive...(P1)

Furthermore, the respondent stated:

> One of the disadvantages of the monetization of pension system is that being Pakistani, we don't have saving habits (SH) and the amount adjusted in the monthly payments will be used in the same month. Therefore, I prefer a DB pension system over the other options...(P1)

One respondent mentioned that if the government change its policy on the current DB pension system because it is difficult to sustain, this will have a big influence on the motivation level of employees. He quoted the example of COMSATS University, where lecturers were on an OG scale, but once they had received a PhD and wished to be promoted to the role of assistant professor, they were given only one option: TTS. Initially, the faculty welcomed the TTS system, because it was having many advantages and represented a large increase in salary. However, the gap in salary between those who are on TTS and those who are on BPS has narrowed. Other employment conditions (for example, research publication requirements) are stricter for those on TTS than those on BPS. Keeping in view the strict promotion criteria (SPC) and reduced salary gap (RSG) between BPS and TTS, it is obvious that employees will feel demotivated.

Similarly, Participant 6 stated:

> TTS lacks a lot of things. Impact factor research is not carried out and there is no recognition of achievements made. Moreover, there are delays in the promotion which impacts the overall career of a person. A person cannot withhold administrative positions: for example, serving as a Dean, Registrar or other related positions. Once a person is tenured, he or she cannot take HR, Finance, procurement, controller examination related positions...(P6)

Keeping this in view TTS needs improvements and this is only possible through understanding of issues being faced by the employees on TTS.

Modifications to the Existing Pension Systems

Other constructs that were explored during the interviews included pooled investment funds (PIF), which gives employees opportunities to invest their disposable income; and portfolio diversification (PD), which is an institutional level solution. In portfolio diversification, the parent institution that is responsible for the provision of funds has multiple investment portfolios to ensure the highest return on investment for employees.

Participant 25 stated that nothing can replace pensions, owing to the psychology of Pakistani people. However, the existing pension system can be modified to create a mechanism that is beneficial for both the government and employees. This idea of ‘renovation’ was termed as ‘modifications to the existing DB pension system’ and was coded as MDB. Exploring modifications to the existing pension system led to many new constructs being discussed. For example, an important theme that emerged during the interviews was pension institutionalization (PI). This means that every organization must be held responsible for maintaining the pensions of its employees. The participants further argued that every institution would opt for better alternatives if it could manage the pensions of their employees. Participant 2 suggested that if a university was allowed to manage the pensions of its employees, it could invest a pool of monthly salary deductions in their respective schools, colleges, projects, and in other coherent institutions (CI). In line with the participants’ statements the University of Agriculture, Peshawar has already invested in building houses, which are rented out (P26).

Other solutions recommended by interviewees included the following: an insurance package (IP), fixed savings account (FSA), lifetime medical insurance (LTM), hybrid pension scheme (HPS), and continuous increase in pensioners (CIP). The suggestion of the hybrid pension scheme is consistent with the findings of Goldhaber & Grout (2016) where it is stated that most of the teachers favor these schemes and through this the government could manage the risk of unfunded pension payments without sacrificing employees’ desire for DB pension system. A hybrid pension scheme may also reduce the risks associated with pure privately managed DC pension schemes. An interview participant further stated that the unlimited medical facility provided by the government motivate employees to stay with government until retirement otherwise the amount deducted from the salaries of employees for post-retirement pension benefits can be utilized in a better way if it is invested elsewhere (P1).

Figure 2. Post-empirical framework

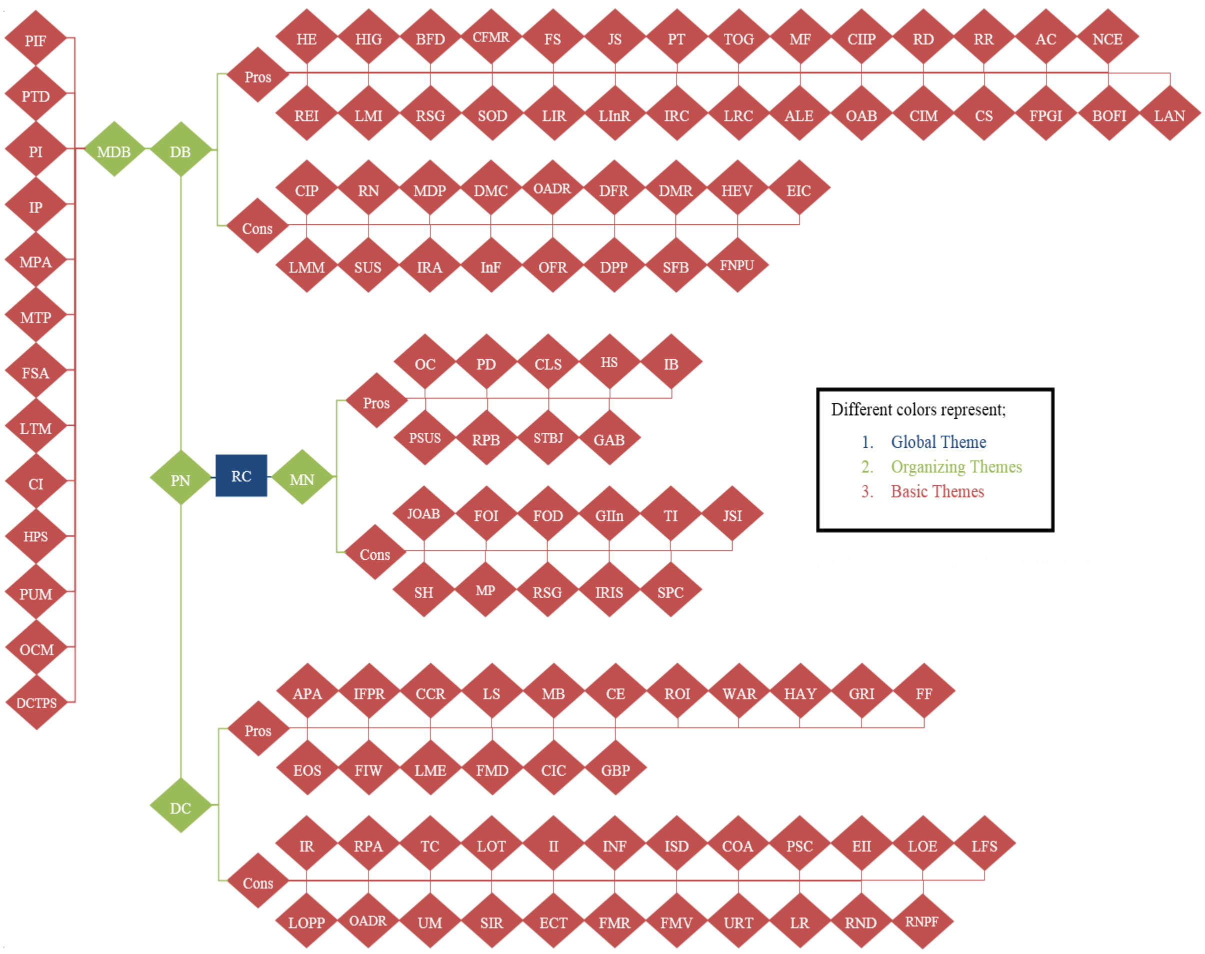
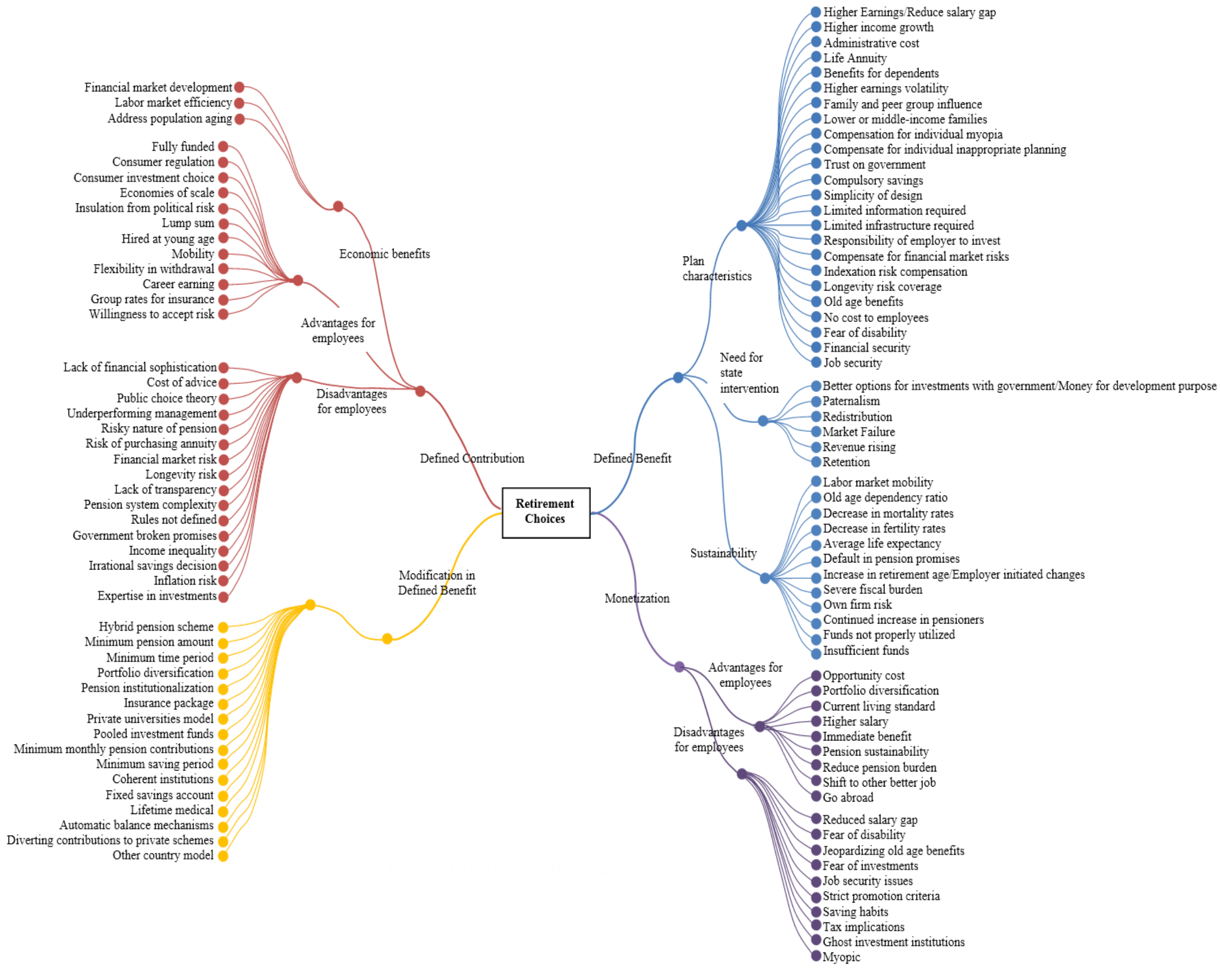


Figure 3. Refined framework



The aim of Figure 3 was to segregate the factors into groups where each group constitutes some concept that is different from those exhibited in the other groups.

Findings and Conclusion

The historical provision of post retirement pension to public sector employees based on DB has led to many non-sustainable outcomes including, lack of saving, lack of financial planning, performance inefficiency and macroeconomic burden. The current economic crisis and funding volatilities further aggravate the situation and therefore, most of the public sector institutions are now planning to switch from DB to DC pension schemes. The practice, as endorsed by many studies, is expected to contribute towards increased financial literacy and thus planning, enhanced domestic saving and economic relief while at the same time addressing governance and performance related issues. However, the important aspect of implementing a reform scheme is the extent to which it will be accepted and how successful it would be. Employee's inability to save for retirement which is mainly triggered by lack of pension related literacy, risk of investments, current economic conditions and many other related factors exposes employees even more to the risk of poverty after retirement. Fornero (2013) has stated that a good pension reform must ensure diversification of financial risks and the reform must enhance the overall savings in the economy and improve benefits to the retirement age. Alongside, the scheme must also ensure uniformity in rules, principles of equity, information related to hidden taxes and other related factors. With the picture in mind, as a policy recommendation, the government first set the final objectives of the reform, considering the inclusiveness and dynamism in the labor market. The task is thus to design an institutional framework capable of guiding the evolution of the retirement schemes along these lines.

For instance, for the increase in retirement age from 60 to 63, the calculations made by the finance department of KP only consider few variables into account. Many other factors need to be considered when assessing a pension system reform. As suggested in the Pension Reform Options Simulation Toolkit by the World Bank the reform options should consider demography (changes in fertility rate, mortality rate, population and migration), economy (unemployment, GDP, interest rates and inflation rates), the pension system parameters (number of contributors, pensioners, wages, initial pensions) and individual behavior (retirement pattern, contribution density) (World Bank, 2018). Moreover, it requires long term projections rather than making projections only for three years as made by the finance department of KP. Wang & Shan (2016) argue, that deferring retirement can reduce financial burden but if the pension expenditure increases with the pensionable age, this will affect the financial balance negatively. Increase in the retirement age from 60 to 63 must be handled cautiously, and experiences of other countries can be very helpful precedents. Moore (2001) has cited a very relevant example of when US president Ronald Reagan established 'national commission on social security reforms' and tasked it to suggest policy recommendations for improvement in the mechanism of trust funds. The Commission suggested that the age limit should gradually be increased to sixty-six in 2015, and process must be started from raising the age limit by one month every year from 2000. The recommendation was justified by assumptions which included, increasing average life expectancy, need for more experienced people in coming times, increasing number of beneficiaries compared to taxpayers and informing employees will allow them to adjust to the later retirement age. Therefore, provincial government of KP should also adopt the same strategy of gradual increase in the retirement age.

Furthermore, pension schemes should be flexible enough to adjust to wide range of employee's retirement choices and changing environment. The flexibility is desirable for both the employers and workers. However, this will require more education and training to the employees for their awareness and trust through sufficient standardization of pension instruments and transparency. In view of ongoing pension reforms in the country, the inability to convey a clear message to its employees about reforms is one of the shortcomings of current government. For proper guidance, the government must clearly convey the overall economic and social impact of the reform along with the advantages and disadvantages of reform to the employees. A key message concerning the risks associated with DC pension schemes should also be made popular. The issue can be addressed to integrate the policy, academic institutions and financial institutions into a framework that has enough flexibility to address the diversity of choice.

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