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Pakistan's Pension Scheme Lacks Sustainable Funding

August 2, 2025

– Categories: Real Estate



A recent report by the Asian Development Bank (ADB) has raised serious concerns over the sustainability of Pakistan's pension system for government employees. While acknowledging that the scheme is "attractive" due to its generous payouts, the report criticises the lack of a structured funding mechanism, warning that the system imposes a heavy burden on the national exchequer.

The ADB, headquartered in Manila, released its findings on Friday, highlighting the financial risks associated with an unfunded pension structure. The report pointed out that without a

contributory or investment-backed framework, the ongoing liabilities continue to grow, threatening long-term fiscal stability. “The burden of government pension on the exchequer is very high,” the report stated.

Currently, the pensions paid to retired civil servants are financed directly through the national budget, diverting resources from development spending and essential services. The ADB recommended a transition towards a more sustainable, contribution-based model. In particular, it proposed expanding the scope and reach of the Employees’ Old-Age Benefits Institution (EOBI), which already operates as a contributory system but is limited in coverage and scale.

In addition to pension reform, the ADB called attention to the need for a stronger insurance sector in Pakistan. The country’s insurance industry remains underdeveloped, with limited penetration and low public trust. The report argued that a vibrant insurance market could provide greater economic resilience, especially in the face of natural disasters and other financial shocks.

It also stressed the importance of extending insurance coverage to low-income segments through targeted social insurance programs. The report urged the government to enhance the regulatory framework for insurers to improve transparency, consumer confidence, and private sector participation.

The recommendations come at a time when Pakistan is grappling with mounting debt obligations, rising inflation, and slow economic recovery. Reforms in both the pension and insurance sectors are seen as critical steps toward long-term fiscal and economic stability.

While the ADB’s findings underline the urgency of reform, any changes will require strong political will and administrative coordination. Addressing pension liabilities and building a modern insurance industry could alleviate fiscal pressure and lay the foundation for a more secure economic future.

This report serves as a timely reminder of the structural reforms Pakistan must undertake to ensure economic sustainability and resilience in the years ahead.