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## Economic Implications of Demographic Changes in Sri Lanka

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### Introduction

Sri Lanka's population is ageing. At present, close to 10% of Sri Lanka's population is 60 plus. This will increase to 27% by 2051. Low fertility rates associated with fertility control policies of the government and greater access to education and high life expectancy are the main forces contributing to population ageing.

Sri Lanka's fertility rate has decreased from 3.45 in 1981 to 1.96 in the 1995-2000 time period. At the same time life expectancy at birth has increased from 67.7 to 69.9 for males and from 72.1 to 75.7 for females, from the 1980-1982 period to 2001-2006 period. These changes have resulted in changing the demographic structure of the country. By 2050, the working age population will shrink to 93% from its 2001 size while the over 60 population is projected to increase to 30% of its 2001 size (see graph). As female life expectancy increases relative to that for males, the share of elderly females will increase over time. In 2001 there were 97 elderly males to every 100; this is estimated to reduce to 82 by 2051.

The fact that Sri Lanka's population is ageing has been well known for the last couple of decades. But its consequences on the economy are less well known. One of the key channels through which ageing affects the economy is through the labour market. The extent to which ageing influences the economy through the labour market can depend on the organization of the economy and the structure of the labour market institutions. This article examines how present demographic changes can influence economic growth and welfare in the country through its effects on the labour market institutions.

### Economic consequences of ageing

Most countries with ageing populations are developed countries. Main challenges faced by these countries due to population ageing are the increased budgetary burden of pension payments and labour shortages. This is because the



ratio of pensioners to the number of productive workers (and therefore tax payers) has increased with the ageing of populations. This problem has been aggravated, with individuals entering the labour force later (due to education participation till late 20s or early 30s) and exiting the labour market earlier. One common approach used by policy makers to reduce costs of pensions and overcome the problem of labour shortages is to delay retirement age or workers. Enticing the elderly to continue to work require changes at the national, enterprise and individual levels.

At the national level, legislations that promote early retirements and make elderly workers more costly (e.g., seniority based payment systems) or difficult to retrench (e.g., firing costs that are linked to experience) needs to be reformed.

At the enterprise level policies that discriminate elderly workers should be removed, while work-places should promote more flexible work-

ing conditions to allow workers to balance their personal life style needs with their work. At the individual level, workers should be given the opportunity to upgrade their skills or re-train for a different career, so that they can be productive in the market place. Longer working lives are only possible when individuals are healthy. Health systems should promote practices that improve adult health.

### Reforming old-age social security

Unlike with most developed countries, Sri Lanka's public pension scheme is not well developed. Only around 25% of the currently employed are covered by a retirement scheme. Most of those who are covered by a retirement scheme are non-poor. Unlike in countries with well established public pension schemes, the fiscal burden of retirement payments is low in Sri Lanka. This is mainly due to the low coverage of retirement schemes and the low levels of pension payments.

However, at the same time it has created other social problems. First, low payment levels do not provide adequate incomes to pensioners to be financially independent in retirement. Second, a large proportion of the less educated informal sector workers are not covered by any retirement scheme (although a few pension plans have been introduced for the informal sector workers they have been largely unsuccessful). These individuals are either forced to work to make ends meet or are totally dependent on families or the government. As the proportion of 60 plus population increases, the welfare problems relating to lack of old age social security coverage are likely to augment.

At present many elderly rely on transfer incomes (from pensions and other government welfare programs), as well as support from family in their elderly years. Globalization has distanced families breaking traditional family support systems. If these trends persist, the elderly poverty rates could increase, putting increasing pressure on government welfare systems and reducing growth.

There is an urgent need to improve old-age so-

cial security coverage to the wider population, including the better old age-security coverage for informal sector workers and non-labour force participants.

### Need to encourage longer work lives

Encouraging longer working lives is another area that can improve elderly welfare. International comparisons show that Sri Lanka's labour force participation rates for old people lag behind the rates of its regional comparators although mostly exceeding those in developed countries.

Further, most elderly are working in the informal sector as self employed or as wage or casual workers. This is partly the result of the current organization structures that discriminate older workers against career promotions, and provide early retirement benefits. Present inflexible working arrangements that do not take into account life style needs of the elderly is another deterrent for elderly workers.

There are arguments for and against employing older workers. Some argue that, elderly workers are more productive as they are more experienced. Others argue that older workers are less able to keep up with changes in technology and therefore less adaptable to changing skill needs of the market.

Developed countries that experience population ageing have introduced special training and career guidance schemes aiming to help elderly to retrain and find work that suit their personal requirements. These show that a little research on the needs and requirements of the work places and the elderly workers make successful matches that benefit both parties.

### Need to be healthier

Longer working-lives are made possible, only when elderly are healthy. Along with ageing and advancements in medical care, the epidemiological patterns of countries have changed from infectious diseases that are more common for younger populations to non-communicable diseases that are more common amongst the elderly. According to the latest annual health bulletin (2003), the hospitalizations due to non-communicable diseases are on the increase in Sri Lanka.

The productivity of an elderly person depends largely on their ability to stay healthy in elderly years. Literature examining the determinants of health amongst elderly shows that income, education and better living conditions at younger ages contribute to better health as an adult.

In addition personal behavior such as exercise, eating and smoking have also been found to affect health in later years in life. Creating awareness about developing healthy habits from younger ages and policy measures aimed at improving living conditions - such as housing, sanitation and urban planning - can improve productivity in elderly years. Moreover, there is a need to improve access to preventive health care and screening for non-communicable diseases, for better detection and management of these diseases.

- Insights courtesy of Institute of Policy Studies (IPS), Sri Lanka

Age structure of the population - 2001 and 2051

