ANALYSIS

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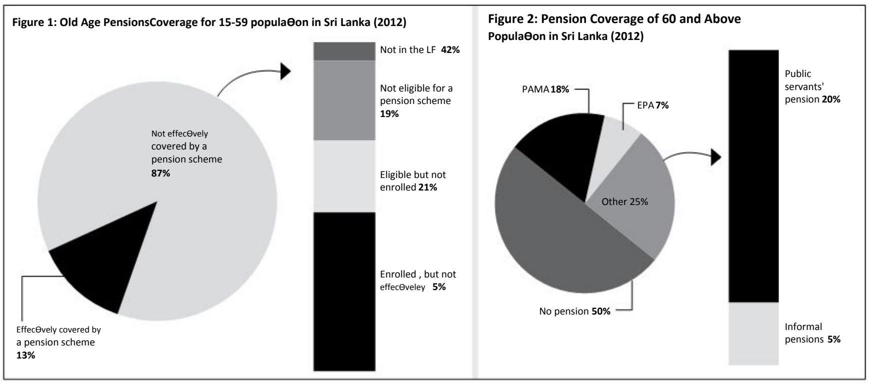
Eliminating pension anomalies

Reaching beyond public servants



By Nisha Arunatilake

This article was written to mark the National Pensions Day - 8th October 2015


Nisha Arunatilake

The Sri Lankan government's efforts to alleviate discrepancies in the pensions received by public servants, in July this year, are highly commendable. However, pension anomalies in the country are present not only amongst different types of public servants. As highlighted below, the access to pensions is highly uneven in the country. Sri Lanka's population is ageing at a rapid pace. The 60 and above population is estimated to increase from its 2001 level of 9.5 percent to 19.7 percent by 2030. As such, an adequate pension is essential to ensure income security for elderly, without being dependent. This article argues for the need to eliminate pension anomalies for all elderly in the country.

A good pension system has three main conditions. One, it should provide at least one affordable pension scheme per individual. The scheme may have different pension options for different people, but each person should have access to at least one affordable pension scheme. Two, it should be sustainable. That is the chosen pension should be available uninterrupted till the death of the beneficiary. Three, the pension amount received should be adequate. The adequacy of a pension amount will depend on the lifestyle of a person. But, in the very least the pension amount should keep a person out of poverty. In summary, all elderly should have access to at least one reliable, affordable and adequate pension.

Sri Lanka has several old age income support schemes. These include, the Public Service Pension Scheme (PSPS), which is available for public servants. The Employee Provident Fund (EPF), which is used mainly by those in the private sector. There are also several contributory pension schemes for the informal sector workers. These include the Farmers Pension and Social Security Benefit Scheme the Ministry of Social Services gives a monthly cash transfer of Rs.2,000 to eligible elders aged 70 and above under the Elderly Assistance Program (EAP), since the end of 2014. Some elders benefit from both the PAMA allowance and the Elderly Assistance program. In addition, poor and disadvantaged 60 and above elders also receive a cash transfer under the Samurdhi Program.

> **The pension benefit amounts are inadequate for all pension schemes except for the PSPS. Only the PSPS provides benefits greater than the poverty line. The average monthly pension for beneficiaries of PSPS ranged from 307 percent of the poverty line to 441 percent of the poverty line**

Is everybody covered by old age income support?

In 2012, 13.2 million of the population was 15 to 59 years old. Of these, 7.6 million were economically active. However, only 5 million workers were eligible for pensions under various employment based pension schemes. Of those, only 2.3 million workers were enrolled in a pension scheme. Even then all enrolled were not effectively covered. Only PSPS covers the total eligible population. The estimated coverage for other pension schemes fluctuates

Figure 1: Old age pensions coveragefor15-59population in Sri Lanka (2012)

Source: IPS calculations based on Labour Force Survey data, Department of Pensions, Sri Lanka, Agriculture and Agrarian Insurance Board, Sri Lanka Social Security Board.

Note: When data for 2012 was not available, the data for the closest available year was used.

Are the pension amounts adequate?

The pension benefit amounts are inadequate for all pension schemes except for the PSPS. Only the PSPS provides benefits greater than the poverty line. The average monthly pension for beneficiaries of PSPS ranged from 307 percent of the poverty line to 441 percent of the poverty line. The benefit amounts for beneficiaries of FMPS, PSHPS and self-employed were 40 percent, 34 percent and 26 percent of the poverty line. Further, all informal sector pension programs define benefits in nominal terms. The real value of these benefit amounts will be much less when the pensions are received. For example, the pension scheme for Self-Employed promises a Rs.1000 pension benefit at retirement. The real value of this benefit for a person aged 40 today will be Rs. 471, assuming 5 percent inflation.

Of the 60 and above population who is receiving a pension?

At present only 30 percent of the 60 plus population in the country is receiving any pension. These include those receiving the public servants pension, as others are not adequate enough to keep them out of poverty, if they are solely dependent on the pension.

Figure 2: Pension coverage of 60 and above population in Sri Lanka (2012)

Source: IPS calculations based on data from the Department of Pensions, Sri Lanka, Agriculture and Agrarian Insurance Board, Sri Lanka Social Security Board, (Tilakaratna, Galappattige, & Jayaweera, 2013), and (Institute of Policy Studies of Sri Lanka, 2014).

Note: Public servants' pension includes pensions received by widows, widowers and orphans. Those receiving EPF is included under 'No pension' category as it is not a pension. PAMA numbers include some non-elderly, and EPA and PAMA numbers may overlap. In addition to these some elderly who are Samurdhi beneficiaries also receive cash transfers.

The above analysis shows that only 20 percent of the population has access to an adequate pension in the population. This July the government undertook to reform pensions to alleviate long overdue pension anomalies in the public sector. It is now time to think of alleviating pension anomalies in the greater population.

(Dr. Nisha Arunatilake is a Research Fellow at the Institute of Policy Studies of Sri Lanka (IPS). To view this article online and to share your comments, visit the IPS Blog Talking Economics http://www.ips.lk/talkingeconomics/. This article

TALKING ECONOMICS

Fiscal, financial weaknesses remain in South Asia: WB

Economic growth expected to accelerate to 7.4 percent in 2016 from 7 percent in 2015

Led by a resilient India, South Asia is expected to maintain its lead as the fastest-growing region in the world, with economic growth forecasted to accelerate from 7 percent in 2015 to 7.4 percent in 2016, a World Bank report said.

According to the twice-a-year South Asia Economic Focus, this positive performance hinges on solid growth in services, domestic consumption, and a gradual rise of investments. Limited exposure to the financial turmoil and an improved external position have given most South Asian countries important policy space.

In Sri Lanka, growth is expected to increase to 5.6 percent in 2016 due to higher public sector wages and higher disposable incomes. However, the looser fiscal stance behind this strong domestic demand is also putting pressure on the external balance. Maintaining the growth momentum will require higher tax revenue, rationalized public spending and greater competitiveness.

Given India's weight in the region, its performance greatly influences the projections for South Asia as a whole. Improved investor sentiment and resilience to external shocks are expected to increase India's growth rate to 7.5 percent in fiscal year (FY) 2015 and further to 7.8 percent in FY2016.

Thanks to low food and commodity prices, as well as a slowdown in the growth of administered prices, inflationary pressures have eased markedly in South Asia. Yet the pace of disinflation varies depending on the price index considered. Revisions to national accounts, together with new comparable data on purchasing power around the world, also raise questions regarding the measurement of prices in the region. According to the report, South Asia could actually have cheaper prices, faster growth and bigger economies than previously thought.

"While the region is now in a position of strength, structural constraints holding back export and investment growth do persist. To keep the momentum and accelerate job creation, governments should enact reforms easing infrastructure bottlenecks and paving the way to greater competitiveness," World Bank South Asia Chief Economist Martin Rama said. "Fiscal space remains limited while financial sector vulnerabilities persist."

Rapid growth has not yet translated into significantly higher government revenue generation and improved fiscal balances. Budget deficits are expected to remain at 6.5 percent of Gross Domestic Product (GDP) in 2015, the highest among all developing regions. Tax collection remains well below estimates, and has even deteriorated across major South Asian economies.

"Mobilizing revenue is critical for the region to special regimes are crucial across most of the region."

Most South Asian countries show potential to accelerate growth

Many South Asian countries show potential for accelerated growth in the short to medium term. However, the transition in Afghanistan, the earthquakes in Nepal, and revisions to national accounts in Sri Lanka, have resulted in all three countries experiencing slower growth than previously expected.

In Afghanistan, the political and security transitions have led to a weaker outlook, with growth estimated at 1.9 percent for 2015. Fiscal vulnerabilities remain high and will require a large revenue effort and sustained levels of aid. Future prospects hinge critically on improvements in security and forceful implementation of reforms.

Bangladesh has seen an increase in domestic economic activity since April 2015. GDP is expected to grow by 6.5 percent in 2015 and next year, supported by healthy agricultural production along with a recovery in services and domestic demand. But instability, depressed export growth, an only modest rebound in remittances, and continued weakness in private sector credit growth, remain matters for concern.

Economic activity in Bhutan is expected to gain momentum with real GDP growing at 6.7 percent in 2015. This solid performance is driven by new hydropower construction and innovative tourism measures, such as "Visit Bhutan 2015." Private sector development is key to reduce the country's vulnerability to donor finance and address rising youth unemployment.

In India, GDP growth is expected to accelerate to 7.5 percent this year and 7.8 percent in 2016 lifted by cheap oil prices and limited exposure to the global financial turmoil. However, delays in the adoption and implementation of key reforms could affect investor sentiment. A weak trade performance and financial sector vulnerabilities could also hold back GDP growth.

In Maldives, economic growth continued its recovery from the 2012 dip, and inflation has slowed down, but the economy remains undiversified, primarily depending on tourism and fisheries. Growth is expected to be 5.0 percent in 2015 and 3.9 percent in 2016.

Nepal has begun to recover after the loss of life and economic devastation from the April and May earthquakes. From an expected 5 percent, GDP growth is expected to drop to 3.4 percent this year and to tick up to 3.7 percent in 2016. Although macroeconomic fundamentals remain strong, weak execution of public investment slows down both infrastructure development and post-disaster reconstruction.

In Pakistan, gradual

and Social Security Benefit Scheme (FSHPS), and the Self-employed Persons Pension Scheme (SPPS). Other than for these there is a Public Assistance Monthly Allowance (PAMA), which provides an allowance to households whose monthly income falls below a minimum amount. In addition to the above,

to 64 percent for the FMPS. However, the effective coverage is estimated to be much less (11 percent for the SPPS and 38 percent for the FMPS) due to non-payment of dues in the contributory programs. Only estimated 1.7 million were effectively covered by a pension scheme (see Figure 1).

orphans receiving benefiting fromthe public servants' pension. A further 18 percent receive an old age allowance through the PAMA. Only the 20 percent of the 60 plus persons who receive the Public servants' pension receive an adequate pension to keep them out of poverty. The benefit amounts received by

by Dr. Shanika Samarakoon and Dr. Nisha Arunatilake on the "Adequacy and Coverage of Old Age Income Security in Sri Lanka" with funding from UNESCAP. The findings of this study will be discussed with relevant stakeholders at an upcoming National Consultation on Pensions in Sri Lanka.)

deliver better social services while creating a financial cushion to address potential shocks in the future," said Annette Dixon, World Bank South Asia Vice President. "In some cases introducing and rolling out modern tax instruments holds the key to higher revenue, but containing exemptions and

percent growth by 2016 is aided by low inflation and fiscal consolidation. Increases in remittances and stable agricultural performance contribute to this outcome. But further acceleration requires tackling pervasive power cuts, a cumbersome business environment, and low access to finance.