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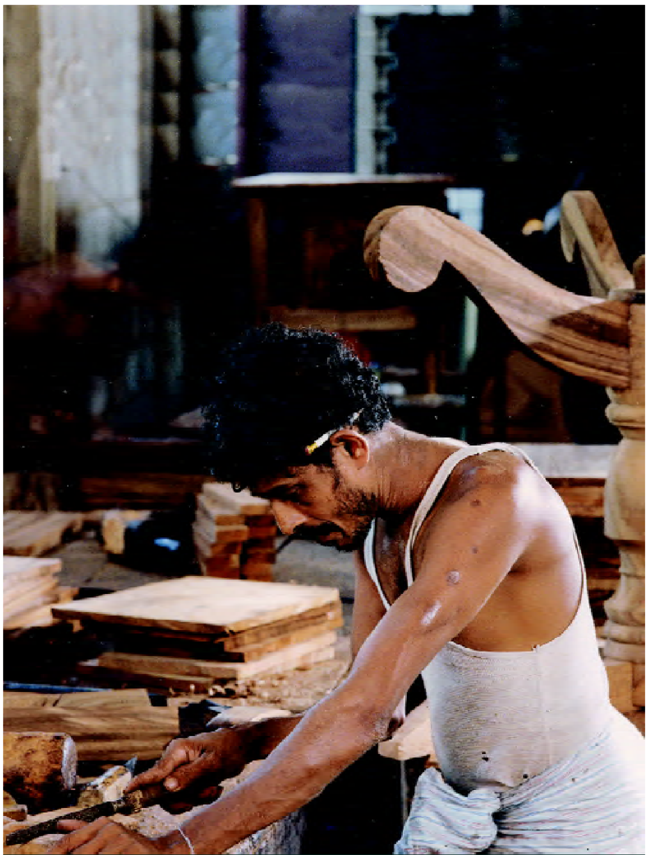
August 2003

Assessment of the Pension and Social Security Benefit Scheme for the Self-Employed Persons in Sri Lanka



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Contents

List of Tables

List of Figures

Acronyms

CO	Coordinating Officers
DS	Divisional Secretariat
GDP	Gross Domestic Product
GN	Grama Niladharis
LFS	Labour Force Survey of Census and Statistics Department
NCP	North Central Province
NWP	North Western Province
PO	Post Office
SPO	Sub Post Office

Foreword

Extension of Social Security Coverage to the Excluded

Only one in five people in the world has adequate social security coverage: yet social security is a basic need and a basic human right. Its fulfilment would contribute to the promotion of decent work and to the reduction of poverty. As a result of discussion during the International Labour Conference in June 2001, an international tripartite consensus emerged which urged member states to give priority to this issue and the ILO was called upon to launch a global campaign on extension of coverage. The Director General of the ILO formally launched the Global Campaign on Social Security and Coverage for All at the International Labour Conference in Geneva in June 2003.

The overall objective of the campaign is to extend social security to the excluded through the mobilisation of key actors at the national and international levels. The process relies heavily on social dialogue and on innovative approaches to meeting social protection needs. Technical cooperation projects in many developing countries will be an important instrument in this process and, in as many countries as possible, an action plan for extension will be formulated based on a diagnosis of social security needs and weaknesses. Financial support was secured from the Government of the Netherlands for a technical cooperation project to be executed from early 2002 in three developing countries - Sri Lanka, Honduras and Mali.

In Sri Lanka, a national diagnosis of social security provisions and needs in Sri Lanka has been completed and a report is being prepared which will assess the existing system as a basis for formulating a national action plan. This diagnosis is based on a series of special studies of existing schemes and information on background issues.

This report is concerned with assessing the effectiveness of the special contributory scheme which seeks to provide social security for the self employed in Sri Lanka.

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Executive Summary

The self-employed, excluding those involved in farming and fishing, account for 15-20 per cent of the Sri Lankan workforce. The Pension and Social Security Benefit Scheme for Self-Employed Persons was established in 1996 to meet the recognized lack of formal pension and social security schemes covering this segment of the workforce, with the primary objective of providing social security to them in old age. The Scheme is administered by the Sri Lanka Social Security Board, and is supervised by the Ministry of Social Services. To date the Scheme has enrolled 75,000 persons, representing a net coverage of less than 4 per cent of the envisaged target population. Net coverage is relatively higher in the more developed Western and Central Provinces.

The Scheme is structured in a similar fashion to its counterpart Farmers' and Fishermen's Pension Schemes. It is funded by an initial government capital grant, contributions by members and returns on investment of its fund assets. The Scheme is designed to be nominally self-financing, but of the original capital funding promised by GOSL of Rs. 100 million, only Rs. 29 million was provided, which is a major factor behind the Scheme's funding deficit. Investments are made in a low-risk portfolio of treasury bills and fixed deposits. Fund balances, which are split 85:15 between pension and insurance funds, were Rs. 24 million in 2001. As a new Scheme, it currently runs a large positive cash-flow, with gross income of Rs. 26 million and gross expenditures of Rs. 2 million in 2001. The administrative expenses of the Scheme are met by a recurrent budget provided by the Treasury, which seems to work well.

Enrollees can choose from three contribution schedules (A, C and D). In Schedule A, the contributions are made on a quarterly basis while in each of the other two, the contributions are required to be made on a monthly basis, and are fixed from the time of enrolment. Contributions can only be made up to the age of 60, at which point they receive a monthly pension benefit. The pension benefit decreases and the fixed level contribution increases with increasing age at enrolment. In Schedule A, which covers 95 per cent of members, the annual contribution varies from Rs. 200/= to Rs. 940/=, and in Schedule D from Rs. 1,860/= to Rs. 40,836/=. Schedules C and D provide for higher pension benefits in return for higher contribution levels. In Schedule A the annual pension ranges from Rs. 30,000/= to Rs. 6,000/=, and in Schedule D from Rs. 96,000/= to Rs. 36,000/=.

The Scheme's major operational problems arise from inadequate staffing, which is compensated for partially by relying on the existing divisional secretariat administration and other external collection agents to assist in collecting contributions from members. The maintenance of records is reasonably up to date, and is computerized, thus the Board does have access, with some time lag, to relatively timely and accurate data on the profile of members and their payment histories. It appears that 10-30 per cent of enrollees had defaulted by 2002, although it is not known whether many of these had subsequently eliminated their defaults.

The Scheme, as currently constituted, suffers from three major deficiencies, which call into question its effectiveness in meeting the original policy goals:

(i) It does not provide its members with an adequate level of replacement income, as its pension benefits are not inflation-protected, and will become essentially worthless over time, both during the working-life of the member, as well as during retirement itself

(ii) It is not financially self-sufficient, and will require significant future government subsidies to honour its pension commitments to existing enrollees. The net present value of the funding deficit for current enrollees is estimated to be Rs. 100-1,200 million

(iii) It has failed to achieve significant coverage of the self-employed workers

In addition, the current contribution schedules contain a perverse feature whereby the implicit subsidy per member in Schedule D is greater than for Schedule A, even though Schedule C is targeted at richer workers.

The Scheme can and should be restructured to make it financially more viable and to substantially improve its ability to provide adequate income security in old age, before addressing the problem of low coverage. In its current form, expansion of coverage is not desirable, as it will be associated with increasing unfunded liabilities for the government. In addition, the low level of replacement income ultimately is self-defeating and will reduce the attractiveness of the Scheme to potential new members. Both problems must be dealt with first.

The following changes would address these two critical areas:

(i) The notional retirement age implicit in the Scheme should be increased beyond 60 years in a gradual process, with provision of options for those who wish or need to retire earlier. At this time, a notional retirement age of 65 years would be more prudent, but increasing longevity would in the long-term make it necessary to increase it further to 67 years or more. An increase in the notional retirement age from 60 years to 65 years would reduce the unfunded deficit in the Scheme by 50-75 per cent, and represents the least costly and most efficient way to close the funding gap

(ii) Overall contribution rates should be increased to permit the final replacement level of income to be raised, and to permit inflation-indexing of the pension benefit

(iii) The Scheme should shift from a fixed contribution schedule set at enrolment to permitting more flexibility in payments during a worker's lifetime, with the final pension benefit set individually according to the worker's lifetime contributions

(iv) Increasing the retirement age, and increasing contribution rates for new members, will not be sufficient to eliminate the funding gap entirely. The government must recognize that it will need to eventually fund the pension liabilities already created

Once restructured, a financially-viable scheme might be expanded to the bulk of the self-employed population, without risk of creating fiscal problems. Policies that would support this include the following:

(i) Extending coverage to the lower-income self-employed will require some element of subsidy. Additional tax-funding will be necessary to support coverage expansion, but could be tied to explicit subsidies to reduce the contribution rates for low-income workers

(ii) Creating mechanisms for members to transfer their pension benefits to other formal sector schemes if they switch from self-employment to formal sector employment

(iii) Consideration should be given to merging this Scheme with other similar schemes, in order to improve risk-pooling, to achieve economies of scale in management and administration, and in order to make it feasible to build the technical and actuarial expertise necessary for running such large social security schemes

Introduction

A substantial proportion of the Sri Lankan labour force is made up of self-employed persons and workers engaged in the informal sector. According to the Labour Force Survey data, 27 per cent of the labour force in Sri Lanka comprise own account workers (Central Bank Annual Report, 2001), which is the next largest segment of workers in the country, after the private sector employees who account for the largest occupational category (48 per cent). The contribution the self-employed persons and the informal sector employees make towards the economy of the country and to the community at large is extensive and significant. Yet, it is doubtful if they are sufficiently rewarded or compensated in terms of economic and social benefits that the other occupational categories enjoy for the services they provide, particularly those employed in the formal sector. Of all the benefits that the formal sector employees receive, the provision of a retirement income security to lean on in their old age could be cited as the most important reward granted to them by way of pension and social security systems already in existence.

Unfortunately, this is not so in the case of the majority of the informal sector workers and the self-employed persons. For the most part, they are left to fend for themselves even when incapacitated by age and by life contingencies of disability. Many of them are left without any source of income of their own to fall back on and are forced to rely on the quantum of the family support. As such, many of them are faced with a bleak future in the twilight years of their lives. It is evident that very little thought has been given in this regard. It is also obvious that all of those retirement provision systems that are already in operation have so far failed to incorporate this category.

The recognition of the importance of this much-neglected issue of social security provision for the employees in the informal sector was first given force with the initiation of the Farmers' Pension and Social Security Benefit Scheme in 1987. Since then, the Government of Sri Lanka has taken steps to further expand this facility to other informal sector workers by introducing other similar schemes. As a result, the Fishermen's Pension and Social Security Benefit Scheme was introduced few years later in 1990. Third, in furtherance to this attempt, the Pension and Social Security Benefit Scheme for Self-Employed Persons was set up in 1996.

1. Establishment and Organization of Pension and Social Security Benefit Scheme for the Self-Employed in Sri Lanka

1.1 Establishment and Enabling Legislation

The Pension and Social Security Benefit Scheme for the Self-Employed was established in 1996 via legislation though the Social Security Board Act, No. 17 of 1996. The mission of the Scheme is to "provide leadership and initiative to the Self-Employed persons and those employed in the informal sectors to enhance their socio-economic conditions and thereby make them contribute to the social development" (Social Security Board Annual Report, 1999). The specific objectives of the Scheme are as follows:

- To provide social security to self-employed persons during old age and disability
- To provide relief to dependents of self-employed persons upon death
- To encourage them to be in their profession and develop capabilities and skills
- To encourage youth to be self-employed and develop capabilities and skills
- To educate self-employed persons on the benefits of thrift and resource management
- To improve the living standards of self-employed persons.

As of end of January 2003, the total number enrolled in the Scheme was 74,809 out of an estimated 1.7 million self-employed persons.

The Sri Lanka Social Security Board functions as the primary administrative body vested with the responsibility of managing and operating the Scheme. It was established as a statutory organization in 1996, by the original enabling legislation primarily to implement a pension and social security benefit scheme for the self-employed persons and for those employed in the informal sector. The name Social Security Board that was given to the Board at its inception has been changed to Sri Lanka Social Security Board, by which it is referred to as today, by way of an amendment in 1999 (Social Security Board Amendment Act, No. 33 of 1999). The Sri Lanka Social Security Board consists of a Board of Directors and several administrative divisions established to carry out its functions effectively and efficiently.

1.2 Organization and Structure of the Sri Lanka Social Security Board

Board of directors

The Social Security Board Act, No. 17 provides for the appointment of a Board of Directors consisting of seven members by the Minister under Section 3 of the Act. Accordingly, the Social Security Board consists of a Director Board to hold office for a period of 3 years. As specifically mentioned in the Act, one of the appointed members of the Board has to be a representative of the General Treasury. One of the Directors of the Board is to be appointed as the Chairman of the Social Security Board by the Minister. The Chairman thus appointed also acts as the Chief Executive Officer of the Board (Section 20 of the Act).

Functions of the board of directors

In addition to performing the overall function of administration of affairs of the Sri Lanka Social Security Board, the Board of Directors is also expected to carry out certain other duties in respect of the Pension and Social Security Benefit Scheme for Self-Employed Persons. These include the realization of the above-mentioned objectives, which are the statutory function of the Board. Apart from this, the Board is vested with the powers and responsibilities of:

(i) Administration and Management of the Scheme
(ii) Maintenance of required actuarial, financial operational reports in respect of the Scheme
(iii) Employing officers, servants and other employees as are necessary for the efficient management of the Scheme
(iv) Determining the benefits to be paid to the contributors under the Scheme
(v) Collaborating with state institutions or non-governmental organizations discharging functions similar to the functions of the Board, and
(vi) Carrying out any other activities necessary for the administration and implementation of the Scheme.

Technical advisory committee

The Sri Lanka Social Security Board Act, 1996 makes provision for the appointment of a Board of Directors to discharge the administrative and managerial functions in relation to the Scheme. However, it does not provide for the appointment of an Advisory

Committee, as is the case with the enabling legislation for both the Farmers' and Fishermen's Pension and Social Security Benefit Schemes. It is unclear why this element was omitted. Nevertheless, with the progress of the activities with regard to the Pension and Social Security Benefit Scheme for Self-Employed Persons, the Sri Lanka Social Security Board felt the serious need to refer to a similar committee in relation to activities of the Scheme, and as a result, proposed the formation of such a committee. Subsequently, the Minister of Social Services took action for the appointment of a Technical Advisory Committee with effect from 1997. It was enacted by its inclusion in the Social Security Board (Amendment) Act, No. 33 of 1999.

According to the Amendment, the Technical Advisory Committee is appointed by the Minister. It consists of not more than nine members. The members are selected from different fields based on their experience and capacities in relation to the various subject areas. As such, the Advisory Committee consists of members with experience in the fields of social security, social welfare, insurance, actuarial evaluation, administration, finance or management. However, the Chairman of the Social Security Board acts as the Chairman of the Technical Advisory Committee.

Functions of the technical advisory committee

As specified in Section 6A (3) of the Amended Act, the functions and duties of the Technical Advisory Committee are as follows:

(i) To advise the Board on such matters relating to the administration and management of the Scheme as may be referred to it by the Board from time to time

(ii) To advise the Board on any matter the Technical Advisory Committee deems necessary or conductive to the attainment of the objectives, for which reason the Scheme is being administered and managed in the first place

(iii) To advise the Board with regard to the making of rules by the Board.

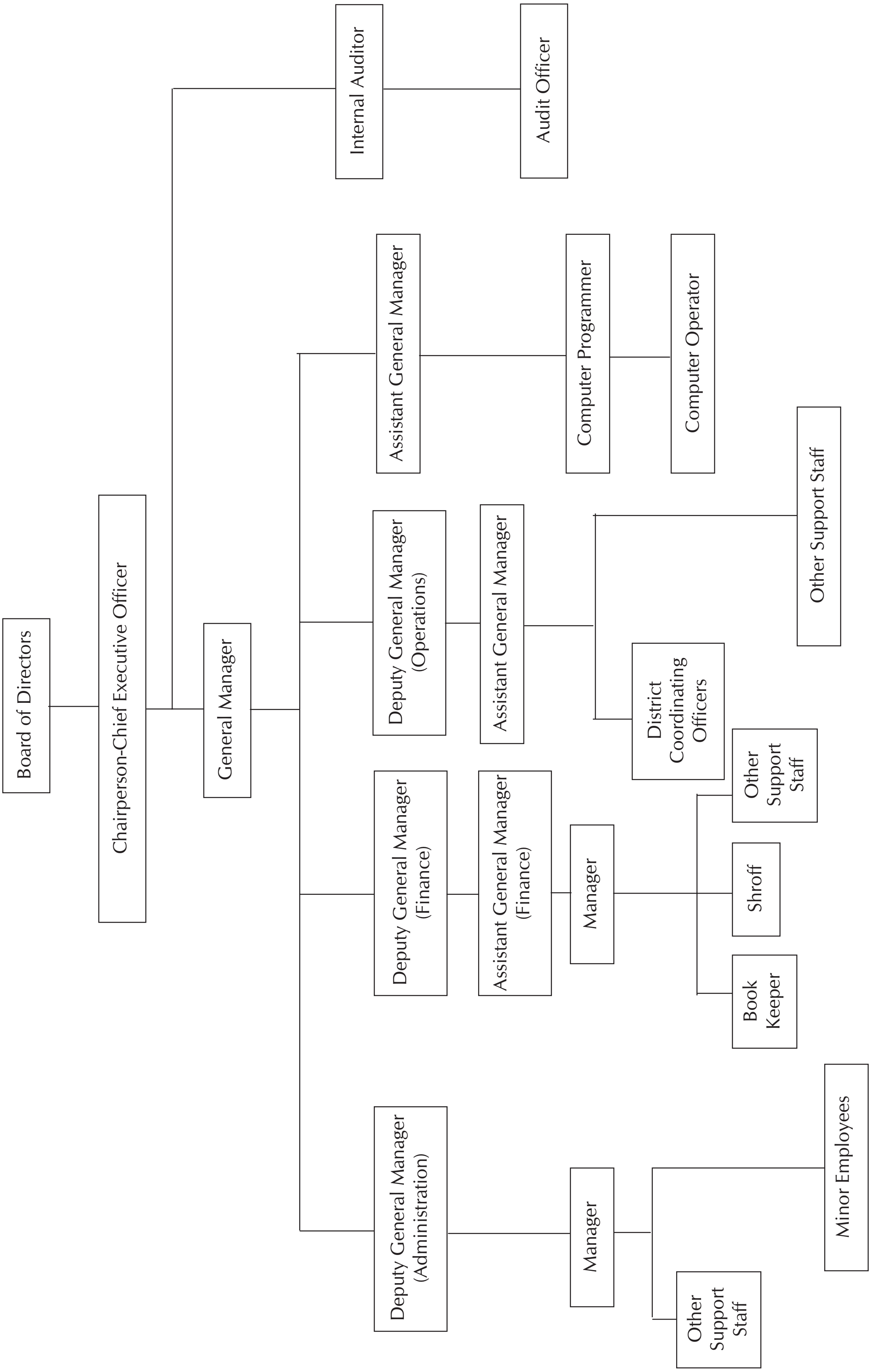
In addition to the Board of Directors and the Technical Advisory Committee, the Social Security Board is organized under different divisions in order to carry out its duties and responsibilities in an efficient manner. Accordingly, it consists of five main divisions which include the Administration Division, Finance Division, Operations and Development Division, Information Systems Unit and the Internal Audit Division. While the Administration Division is assigned with the tasks of carrying out the overall administrative activities of the Board, the Operations Division is responsible for the operational activities with regard to the Scheme. The Finance Division handles the financial affairs of the Board and the Information Systems Unit performs the vital duties of data processing in relation to various aspects of the Scheme, such as recording of enrolments, monitoring of periodic contributions, etc.

Field organization of the scheme

While the Sri Lanka Social Security Board functions as the primary administrative body and secretariat of the Pension and Social Security Benefit Scheme for the Self-Employed, the Board also discharges its functions in relation to the Scheme at District level through liaison with the Divisional Secretariats countrywide. The Divisional Secretariats function under the supervision of Divisional Secretaries and District Secretaries and their support staff. The Divisional Secretaries are assigned to act as the authorized agents of the Sri Lanka Social Security Board in carrying out the enrolment process in respect of the Scheme at District level. The Divisional Secretariat employs a team of field officers assigned with the tasks of identifying prospective members, enrolling new members, and collecting the first premia. The field staff mainly consists of Social Services Officers, Grama Niladharis (GN) and Samurdhi Niyamakas attached to Divisional Secretariat Divisions.

In addition to the above staff, the Sri Lanka Social Security Board also employs its own cadre, who are the Coordinating Officers (CO), to carry out enrolment activities. Accordingly, to each District there is appointed one Coordinating Officer. The District Coordinating Officers are mainly graduates, who work alongside other field staff in carrying out the above responsibilities. Further, the Board collaborates with other Public Corporations and Non-Governmental Organizations in obtaining support to implement the Scheme effectively. Some of these include the Department of Textile Industries, Sri Lanka Foreign Employment Bureau, Sri Lanka Pre-school Teacher's Association, Sarvodaya, Vocational Training Institute, Blind Populations' Service Board, Department of Probation and Childcare Services, "Hameedia" clothes shops and Pre-school Development Foundation. These organizations function as authorized agents of the Social Security Board in carrying out enrolment activities and thus are given powers and duties as those similar to Coordinating Officers.

Figure 1.1: Organization Chart of the Social Security Board



Source: Based on Social Security Board documentation.

Apart from these agents, Postal Department offices island-wide play a key role in the collection of second and successive instalments. The collection of contributions through the Postal Department commenced with effect from 1997 resulting from an agreement between the Sri Lanka Social Security Board and the Sri Lanka Postal Department. The collection of premia is done under the supervision of the Regional Accountant's Office of the area. Accordingly, once enrolled, the contributors can pay the second and successive instalments through the Post Office (PO) or Sub Post Office (SPO) of their choice. The Divisional Secretary/Assistant Divisional Secretary would submit a list with the names and other necessary details of the persons enrolled to the relevant PO/SPO. The POs levy 10 per cent of contributions as service charges and the rest of the balance is remitted to the Board through the Regional Accountant's Office. However, the first payment is still collected by the Scheme's own enrolment agents.

1.3 Eligibility and Enrolment

Eligibility

Only certain workers are eligible to join the Scheme. The qualifications are determined taking into account such factors as age, income, and membership/non-membership in other schemes, etc. (Table 1.1).

Occupational criteria

Section 6 of the Social Security Board Act specifies that any self-employed person who falls into the categories of self-employed specified by Order of Gazette as fulfilling the required qualifications are entitled to join the Scheme. This section also provides for the Minister to determine the categories of self-employed persons entitled to the Scheme. As a result, By Order of Minister of Health, Highways and Social Services, published in Gazette (Extraordinary) No.948/10 of November 6, 1996, self employed persons employed in the following sectors were specified as those eligible to join the Scheme (Annual Report, 1999):

- Production excluding primary produce of agriculture, fisheries and livestock
- Forestry and hunting
- Mining and quarrying
- Manufacturing
- Storage and packing
- Building and construction
- Electricity, gas and water
- Transport
- Repair and maintenance
- Trade and commerce
- Insurance and banking
- Real estate and business services
- Communications
- Community, social and personal services
- Occupation in any other sector excluding those covered by Farmers' and Fishermen's Social Security Benefit Scheme Acts

Table 1.1: Rules of eligibility

Occupational Category	Age		Other Qualifications	Age at which pension is payable
	Min	Max		
Production excluding primary produce of agriculture, fisheries and livestock Forestry and hunting Mining and quarrying Manufacturing Storage and packing Building and construction Electricity, gas and water Transport Repair and maintenance Trade and commerce Insurance and banking Real estate and business services Communications Community, social and personal services Occupation in any other sector excluding those covered by Farmers' and Fishermen's Social Security Benefit Scheme Acts	18	59	Non-entitlement to a pension/benefit under EPF Not beneficiaries or pensioners under EPF/ETF Non-entitlement to benefit upon death of spouse Non-income tax payers	On completion of 60 years if enrolled at 18-54 years of age On completion of 5 years from the date of joining Scheme if enrolled at 55-59 years of age

Source: Analysis of legislation and gazettes by authors.

Occupational exclusions

The Scheme is primarily targeted at low-income self-employed groups, both female and male, employed in the informal sector, who are not eligible for participation in other existing schemes. Consequently, one of the important eligibility criteria for a person to join the Scheme is that he/she should not be already a member of the Farmers' or Fishermen's Pension and Social Security Scheme implemented by the Agricultural and Agrarian Insurance Board. If a person is already enrolled in one of the above schemes, he/she is considered to be disqualified to obtain membership of the Pension and Social Security Benefit Scheme for the Self-Employed. Similarly, those self-employed persons and those, who are employed in the informal sector, who wish to gain membership of the Scheme must not be entitled to participate in the Employee's Provident Fund or similar scheme, or in pensionable employment.

Income criteria

The Gazette regulations (22 November 1996) to the original Act No. 17 of 1996 specifies that self-employed persons with an annual income not exceeding Rs. 36,000/= are entitled to apply for the membership of the Scheme. However, this has been repealed in the regulations later published (Gazette of 11 March 1999), with the substitution that a person who is not liable to pay income tax is eligible to join the Scheme.

Age criteria

Only those who are between 18 - 59 years of age are entitled to enrol in the Scheme.

Enrolment process

As already mentioned, the enrolment of the qualified persons to the Scheme is carried out through the Social Services officers, Grama Niladharis, the Samurdhi Animators and Coordinating Officers of the Sri Lanka Social Security Board at District level. Such prospective contributors who wish to join the Scheme based on prescribed eligibility criteria, are required to fill out an application form which could be obtained from the above mentioned enrolment agents. The enrolment activities are carried out at the Divisional Secretariats. The duly filled application then has to be handed over to the officers. The enrolment officers would then examine the veracity of the particulars contained in the application form and recommend it if it meets the prescribed requirements. After their recommendation, the application will be forwarded to the Divisional Secretary/Assistant Divisional Secretary along with the first premia for his/her certification and the applicant would be given an enrolment number by the agents performing the enrolment activity.

After the authorized officer of the Divisional Secretariat has reviewed it, the application is forwarded to the Sri Lanka Social Security Board along with the amount collected as first instalment and other supporting documents from the applicant within 30 days from the receipt of the application. If the Board approves the application, he/she is enrolled as a new member after which, he is issued with a policy. The policy specifies the terms and conditions of the policy, the obligations of the enrollee and the benefits he/she is entitled to, details regarding payment of premia, and the due dates for such payments etc. In the event that the Board decides to reject the application, the applicant would be informed of the decision and the amount of money collected from him/her would be refunded.

The Board is vested with the power to terminate the policy issued to a contributor under certain circumstances. These include the inclusion of incorrect or untrue information in the application form, or withholding of important information. Failure to make payments by the due date and the occurrence of a situation where the contributor has ceased to have the qualifications to remain in the Scheme are also grounds for the termination of the policy. In the instance that the policy is terminated due to failure to pay the required amount of instalments on or before the deadline stipulated by the policy, or when the contributor has ceased to hold the required qualifications, the Board is bound to refund the net contributions made by the member along with the accrued interest. However, in the latter instance, the contributor could also opt to enrol as a new member, in which case the net contributions earlier made by him/her could be set off against the instalments payable thereafter.

1.4 Contributions

The Pension and Social Security Benefit Scheme for the Self-Employed provides its members with the facility of paying their required contributions either on a regular basis or as a lump sum contribution.

A significant feature of this Scheme, which is in contrast to the Farmers' and Fishermen's Schemes, is the availability of three different contribution and pension schedules. The contributors can select a Schedule of their choice according to their financial capacity. These schedules are named Schedule 'A', Schedule 'C' and Schedule 'D'.

Schedule 'A'

At the inception of the Scheme in 1996, there was only one payment schedule, which is the Schedule A (Table 1.2). This was designed to be similar to that applying to the Farmers' and Fishermen's Schemes. According to this Schedule, there is a flat-rate fixed contribution that must be made each year, with the rate set according to the age at which the person joins. The contribution itself must be paid in four instalments during the year under normal circumstances. The amount to be paid as quarterly contributions varies from Rs. 50/= up to Rs. 235/= depending on the age of the contributor. The pension entitlement also varies in accordance with the age at enrolment and corresponding contribution level. The monthly pension benefit ranges from Rs. 2,500/= when the member has enrolled at the age of 18, to Rs. 500/= if enrolled at the age of 55-59.

Members are also given the option of making a single lump sum contribution instead of regular annual payments, under a discount system. This lump sum can itself be paid in 4 instalments within the period of one year of enrolment.

Schedules 'C' and 'D'

The Sri Lanka Social Security Board Act was amended in 1999 and new provisions were introduced. Under these provisions, two new schedules of pensions are incorporated, namely, Schedule C and Schedule D (Tables 1.3 and 1.4). These give prospective new members additional options as to the level and frequency of contributions, and ultimately the final pension benefit. Under the two new schemes, the pensions payable range from Rs. 1,500/= to Rs. 5,000/= and from Rs. 3,000/= up to Rs. 8,000/= respectively. The contributions payable also differ from one schedule to the other. Under the Schedule C, a 18 year old contributor has to make a monthly contribution of Rs. 100/= under the regular system, while the monthly contribution for this age category under the Schedule D would be Rs. 155/=, under the regular payment system. Unlike in the Schedule A where the contributions are paid on a quarterly basis under the regular payment system, in the case of both Schedule C and Schedule D, such contributions have to be made on a monthly basis. At the same time, while the option of paying the premia as a lump sum payment is available similar to that provided in the Schedule A, the members of these two Schedules are also given the opportunity of paying the lump sum benefit in 4 instalments within a period of one year.

As already mentioned, the members of the Scheme have the choice of paying the instalments either under the regular payment system or under the lump sum payment system together with the choice in deciding which Schedule to attach oneself to.

Payment procedures

As shown in Table 1.2 the members who opt to enrol under Schedule 'A' are required to make quarterly contributions. Accordingly, the payments are to be made on or before 31st of March, 30th of June, 30th of September and 31st of December as stipulated in the policy issued to the members. Those who choose to attach themselves to Schedules 'C' or 'D' are expected to pay the contributions on a monthly basis under the regular payment system (Tables 1.3 - 1.4). Nevertheless, while the prescribed period for paying contributions under the regular system is once in three months or once a month, the members could, if they so wish, make any number of payments in advance.

The regular method of payment is found to be the most popular among the members of this Scheme as well, as it is among the contributors of the Farmers' and Fishermen's Schemes. Even within the regular payment method, Schedule 'A' remains the most attractive to the contributors. Of the total number of persons (65,583) enrolled in different Schedules as of October 2002, more than 95 per cent (63,358) of the persons were enrolled under Schedule A while another 2,204 which is 3.3 per cent were contributors to Schedule C. The Schedule D had attracted only 21 persons up to then, which is less than 1 per cent of the total number of enrollees. Presumably, Schedules C and D are not so attractive because of the higher contributions required and also the greater frequency of payments involved.

Similar to the procedure adopted in the Farmers' and Fishermen's Pension and Social Security Benefit Scheme, all the contributors enrolling under the regular payment system are issued with a passbook in order to keep track of the payments made by the contributor.

Table 1.2: Contribution and Pension Schedule A, Self-Employed Social Security Benefit Scheme

Age of joining the Scheme as at next birthday (in years)	Total number of quarterly contributions to be paid till pension entitlement	Quarterly contributions to be paid till pension entitlement	Entitled monthly pension (Rs)	Total contribution payable till pension entitlement if paid quarterly	Lump sum payment if all quarterly contributions paid at enrolment (Rs)	Instalment payable when the lump sum is paid in 4 instalments within 12 months from the date of joining the Scheme (Rs)	Percentage discount offered under the lump sum payment system at enrolment
18	168	50	2,500	8,400	1,920	497	77
19	164	51	2,300	8,364	1,940	502	77
20	160	52	2,100	8,320	1,965	509	76
21	156	53	1,900	8,268	1,985	514	76
22	152	54	1,750	8,208	2,500	519	76
23	148	55	1,600	8,140	2,020	523	75
24	144	56	1,450	8,064	2,040	528	75
25	140	57	1,325	7,980	2,055	532	74
26	136	58	1,200	7,888	2,070	536	74
27	132	59	1,100	7,788	2,080	539	73
28	128	60	1,100	7,680	2,095	543	73
29	124	63	950	7,812	2,175	563	72
30	120	66	900	7,920	2,255	584	72
31	116	69	850	8,004	2,330	603	71
32	112	73	800	8,176	2,440	632	70
33	108	77	750	8,316	2,515	651	70
34	104	81	725	8,424	2,605	675	69
35	100	85	700	8,500	2,695	698	68
36	96	88	690	8,448	2,760	715	67
37	92	91	680	8,372	2,820	730	66
38	88	96	670	8,448	2,925	758	65
39	84	100	660	8,400	2,975	771	65
40	80	104	650	8,320	3,020	782	64
41	76	109	640	8,284	3,095	802	63
42	72	114	630	8,208	3,165	820	61
43	68	122	620	8,296	3,305	856	60
44	64	128	610	8,192	3,385	877	59
45	60	135	600	8,100	3,445	892	57
46	56	144	590	8,064	3,560	922	56
47	52	152	580	7,904	3,615	936	54
48	48	163	570	7,824	3,705	960	53
49	44	174	560	7,656	3,755	973	51
50	40	180	550	7,200	3,670	951	49
51	36	185	540	6,660	3,545	918	47
52	32	192	530	6,144	3,000	881	45
53	28	205	520	5,740	3,115	859	42
54	24	220	510	5,280	3,185	825	40
55-59	20	235	500	4,700	2,955	765	37

Source: Social Security Board.

Table 1.3: Contribution and Pension Schedule C, Self-Employed Social Security Benefit Scheme

Age on next date of birth at the time of joining the Scheme	Monthly instalment payable till entitlement to pension (Rs)	Total number of monthly instalments payable till entitlement to pension	Total amount payable under the regular system	Total contribution payable, when paying in lump sum at the time of joining the Scheme (Rs)	Instalment payable when the lump sum is paid in 4 instalments within 12 months from the date of joining the Scheme (Rs)	Monthly pension entitlement (Rs)
18	100	504	50,400	11,817	3,061	5,000
19	102	492	50,184	12,034	3,117	4,906
20	104	480	49,920	12,248	3,172	4,812
21	106	468	49,608	12,458	3,227	4,718
22	108	456	49,248	12,665	3,280	4,624
23	110	444	48,840	12,869	3,333	4,530
24	112	432	48,384	13,067	3,385	4,436
25	114	420	47,880	13,261	3,435	4,342
26	116	408	47,328	13,449	3,483	4,248
27	118	396	46,728	13,631	3,530	4,154
28	120	384	46,080	13,805	3,576	4,060
29	126	372	46,872	14,430	3,737	3,966
30	132	360	47,520	15,052	3,896	3,872
31	138	348	48,024	15,638	4,050	3,778
32	146	336	49,056	16,442	4,259	3,684
33	154	324	49,896	17,224	4,461	3,590
34	162	312	50,544	17,980	4,657	3,496
35	170	300	51,000	18,708	4,846	3,402
36	176	288	50,688	19,185	4,969	3,308
37	182	276	50,232	19,629	5,084	3,214
38	192	264	50,688	20,464	5,300	3,120
39	200	252	50,400	21,035	5,448	3,026
40	208	240	49,920	21,554	5,583	2,932
41	218	228	49,704	22,216	5,754	2,838
42	228	216	49,248	22,804	5,906	2,744
43	244	204	49,776	23,893	6,189	2,650
44	256	192	49,152	24,476	6,340	2,556
45	270	180	48,600	25,126	6,508	2,462
46	288	168	48,384	25,988	6,731	2,368
47	304	156	47,424	26,484	6,860	2,274
48	326	144	46,944	27,242	7,065	2,180
49	328	132	43,296	26,198	6,786	2,086
50	360	120	43,200	27,242	7,056	1,992
51	370	108	39,960	26,281	6,807	1,898
52	384	96	36,864	25,306	6,554	1,804
53	410	84	34,440	24,697	6,397	1,710
54	440	72	31,680	23,751	6,152	1,616
55	470	60	28,200	22,121	5,729	1,522
55-59	470	60	28,200	22,121	5,729	1,500

Source: Social Security Board.

Table 1.4: Contribution and Pension Schedule D, Self-Employed Social Security Benefit Scheme

Age on next date of birth at the time of joining the Scheme	Monthly instalment payable till entitlement to pension (Rs)	Total number of monthly instalments payable till entitlement to pension	Total amount payable under the regular system	Total contribution payable, when paying in lump sum at the time of joining the Scheme (Rs)	Instalment payable when the lump sum is paid in 4 instalments within 12 months from the date of joining the Scheme (Rs)	Monthly pension entitlement (Rs)
18	155	504	78,120	22,402	1,936	8,000
19	165	492	81,180	23,997	2,074	7,878
20	176	480	84,480	25,532	2,206	7,756
21	188	468	87,984	27,162	2,347	7,634
22	201	456	91,656	28,892	2,497	7,512
23	215	444	95,460	30,727	2,655	7,390
24	229	432	98,928	32,673	2,823	7,268
25	245	420	102,900	34,737	3,002	7,146
26	262	408	106,896	36,925	3,191	7,024
27	280	396	110,880	39,243	3,391	6,902
28	300	384	115,200	41,699	3,603	6,780
29	320	372	119,040	44,300	3,828	6,658
30	343	360	123,480	47,052	4,066	6,536
31	367	348	127,716	49,965	4,318	6,414
32	392	336	131,712	52,793	4,562	6,292
33	420	324	136,080	56,036	4,842	6,170
34	450	312	140,400	59,465	5,139	6,408
35	484	300	145,200	63,086	5,451	5,926
36	520	288	149,760	66,908	5,782	5,804
37	559	276	154,284	70,941	6,130	5,682
38	602	264	158,928	75,195	6,498	5,560
39	649	252	163,548	79,677	6,885	5,438
40	701	240	168,240	84,398	7,293	5,316
41	759	228	173,052	89,367	7,722	5,194
42	819	216	176,904	94,189	8,139	5,072
43	889	204	181,356	99,667	8,612	4,950
44	969	192	186,048	105,420	9,110	4,828
45	1,058	180	190,440	111,457	9,631	4,706
46	1,160	168	194,880	117,788	10,178	4,584
47	1,277	156	199,212	124,417	10,751	4,462
48	1,412	144	203,328	131,353	11,351	4,340
49	1,572	132	207,504	138,599	11,977	4,218
50	1,756	120	210,720	145,680	12,589	4,096
51	1,986	108	214,488	153,560	13,269	3,974
52	2,272	96	218,112	161,757	13,780	3,852
53	2,636	84	221,424	170,268	14,713	3,730
54	3,120	72	224,640	179,126	15,479	3,608
55	3,792	60	227,520	188,273	16,269	3,486
56	3,647	60	218,820	181,066	15,646	3,364
57	3,502	60	210,120	173,853	15,023	3,242
58	3,334	60	200,040	165,523	14,303	3,120
59	3,403	60	204,180	168,936	14,598	3,000

Source: Social Security Board.

The passbook is issued by the Divisional Secretariat of the area. The passbook thus issued has to be submitted to the Sri Lanka Social Security Board on completion of 60 years of age by the contributor when he/she becomes entitled to receive the pension. In the case of a lost passbook, a contributor is expected to pay a sum of Rs. 100/= in order to obtain a new one. However, if the loss of the passbook is due to a justifiable reason, no fine is charged from the contributor but is issued free. This is applicable in instances of administrative delays and mistakes by the agents, where sometimes the passbook is issued to the contributor who does not receive it.

After paying the first instalment at the Divisional Secretariat, the second and successive payments are made through the Post Offices (PO)/Sub Post Offices (SPO) as already mentioned.

Discount payment procedures

The discount system offered to the members of the Scheme operates in two ways, where the payment could be made:

(i) Outright upon enrolment, or
(ii) In instalments (divided discount system).

Unlike in the Farmers' and Fishermen's systems, where the lump sum payment can be made either in two instalments or four instalments, the Pension and Social Security Benefit Scheme for the Self-Employed offer only the divided discount of paying the lump sum money in four instalments within a period of one year. It could be noticed that all the contributors of all the schedules are offered the opportunity to make the lump sum contribution under a divided discount system.

The discount system enables the contributors to obtain the membership of the Scheme by paying only a small amount as against the amount payable under the regular payment system. Accordingly, a person enrolling under Schedule A at the age of 18, is required to make a lump sum payment of Rs. 1,920/= as against the total amount that he/she otherwise has to pay, which is Rs. 8,400/=. A contributor to Schedule D of the same age group will have to pay a sum of Rs. 78,120/= under the regular payment method, while under the discount system he/she is required to pay a much reduced sum of Rs. 22, 402/= in order to obtain the benefits provided by the Scheme. As such, the contributors who opt to make the payments under the discount system are given the facility of a rebate on premia up to 77.1 per cent from a minimum of 37.1 per cent when joining the Scheme. The rebate and the amount to be contributed are directly linked to the age of the contributor as could be seen above. All the contributors under this Scheme are issued a discount certificate, as are the members of the Farmers' and Fishermen's Schemes.

1.5 Benefits

The entitlement to benefits provided as well as the types of benefits provided by the Scheme shows much similarity to those granted by the Farmers' and Fishermen's Pension and Social Security Benefit Schemes to their members. In this respect, the Pension and Social Security Benefit Scheme for the Self-Employed is also represented by the same benefit components that are characteristic of the above two schemes:

(i) Pension benefit providing retirement income
(ii) Social Security benefit providing insurance benefits.

The two sub-schemes are linked to two different funds, derived from the contributions from the members of the Scheme. As such, 85 per cent of the total fund is allocated to the Pensions Fund through which the pension scheme is sustained and the other 15 per cent is credited to the Social Security Fund, whereby the benefits under the Social Security Scheme are provided to the members of the Scheme.

Pension benefit

The foremost benefit provided under the Pension Scheme is a monthly pension benefit granted to all qualifying and fully-paid up contributors of the Scheme. The basis of the pension payable to the qualified members is determined by the age, the period of contribution and the amount contributed. A member who joins the Scheme at the age of 18 to 54 is entitled to receive a lifetime pension on reaching the age of 60 provided that he/she has duly completed paying all the amount of contributions required without any arrears. However, a person, who enrols in the Scheme after 55 up to 59, will be qualified to receive a full pension only after paying the total sum of contributions and on completion of 5 years from the date of gaining membership of the Scheme.

After setting up the Pension and Social Security Benefit Scheme for the Self-Employed in 1996, the Scheme first commenced paying pensions in the year 2001, where 4 contributors were qualified to draw the benefit of a pension. By end of 2002, the number of pensioners benefiting from the Scheme amounted to 398 showing a rapid increase within a period of one year.

A notable feature about the pension benefit provided by the Pension and Social Security Benefit Scheme is that the minimum pension receivable by a contributor also differs according to the Schedule he/she is entitled to, other than the consideration of age and the period of contribution. Accordingly, under the Schedule A, the monthly pension payable ranges between a minimum of Rs. 500/= and a maximum of Rs. 2,500/=, whereas under Schedule C, it remains between Rs. 1,500/= and Rs. 5,000/=, and under Schedule D it is at Rs. 3,000/= and Rs. 8,000/= a month. Therefore, the pension payment is set in accordance with his/her choice as to the basis of enrolment.

A contributor is entitled to a full pension only on the ground that he/she has paid all the required amount of contributions within the due period without any delays or forfeiture of the policy issued to him/her, as mentioned. However, in the event that a certain member has failed to pay the due amounts within the due period, then his/her eligibility for a pension would depend on the adequacy of the payments he/she has made. In this sense, if the total number of contributions made by him/her is less than the total amount that entitles him/her to a full pension but more than 75 per cent of the total requirement, he/she has the opportunity to claim a reduced pension. Such reduced pension will be calculated after considering the amount of payments made, any default or delays occurring in the process of paying the premia.

A contributor who has paid less than 75 per cent of the total number of instalments payable but more than 25 per cent of it, is not entitled to receive a pension of any kind but is entitled for a refund of the money that consists of the net contributions paid together with interest thereon. The contributors who fall into this category do not have to wait till they complete 60 years of age to claim the refund as is required of those enrolled in the Farmers' and Fishermen's Pension Schemes. Instead, a contributor could express his/her desire to leave the Scheme with valid reasons for doing so by way of a written appeal to the Board and request refund of money paid as contributions. When such an appeal is forwarded, after considering it and upon the validity of the reason, the Board would make necessary arrangements to refund the money as soon as possible. However, the money is refunded after deducting 15 per cent as administrative costs from the total amount of net contributions lying in the account of the contributor and 2 per cent from the compound interest (For instance, if the interest derived from investment is at 6 per cent then the rate in the above instance would be calculated at 4 per cent).

A contributor could refund the money and leave the Scheme under certain other circumstances as well. These include situations where the contributor had ceased to become qualified as a result of default and as a result of increase in the income level or in the event of finding employment in a pensionable job, or entitlement to another pension. In such a circumstance, the contributor is required to inform the Board immediately in writing and with an appeal to refund the money. The Board would then take necessary action to do so after inspecting the supportive evidence and the appeal.

However, where a contributor has paid less than 25 per cent of the total required amount payable for a full pension and fails to make any other payments, he is not entitled either to a reduced pension or a refund of the money. Under such circumstances, the contributions paid by him would be credited to the fund of the Scheme.

It could be noted that, the regulations pertaining to the original Act (Gazette of 22 November 1996, Regulation 5) does not make any provision for a reduced pension in the event of failure to pay the total amount required. Instead, it enables a particular member who has made a lesser amount of contribution than what is required of him/her, to claim a refund of the money he/she had made along with the interest. Nevertheless, he/she could do so only if he/she has paid more than 10 per cent of the required amount of money. If the sum of the contributions thus made does not exceed 10 per cent, then he/she has no possibility of claiming the said amount, in which case it will be allocated to the fund. This arrangement has been changed by repealing the above regulation by another Gazette notification in 1999 (Gazette of 11 March 1999, Regulation 6) whereby the forfeiture level has been raised and a new system has been introduced.

The Amendment to the Sri Lanka Social Security Board Act in 1999 (Amendment Act, No. 33 of 1999) has introduced another important addition with regard to the payment of pensions. According to Section 7 of the amendment, a contributor who is certified to be mentally retarded by a Medical Practitioner registered under the Medical Ordinance and who has started to contribute to the Fund before reaching the age of thirty five years, is entitled to a pension on reaching the age of 40 years. Nevertheless, as of today, no such instance in this regard has occurred, according to the Board.

Social security benefit

The Pension and Social Security Benefit Scheme for the Self-Employed provides for certain other benefits to be granted under the social security fund in addition to a pension as do the Farmers' and Fishermen's Schemes. The main objective of the benefits available to the members under this Social Security Scheme is to provide some security against the life contingency of physical disablement and assist the surviving heirs of the contributor in the occurrence of his/her death. As such, the key benefits provided under this fund are of two types:

(i) Disablement benefit
(ii) Death gratuity.

(i) Disablement benefit

To date, the disablement benefit has not been a major expense for the Scheme. As of end of September 2002, the Pension and Social Security Board had paid out an amount of Rs. 205,000/= to 10 disabled persons including both partially and totally disabled persons. In addition, the Board has paid monthly disablement allowances to 6 totally disabled contributors at a total cost of Rs. 71,290/= up to end of September 2002. The disablement benefits are provided for two major types of disablement, which include:

(a) Benefits on partial and permanent disablement, and
(b) Benefits on total and permanent disablement

(a) Partial and permanent disablement benefit

A contributor who becomes permanently and partially disabled, before reaching the age of 60 years, is entitled to receive a gratuity or a periodical allowance under the benefits provided to him/her. A contributor is considered partially and permanently disabled if he/she suffers the damages cited below resulting from an illness or an accident:

- Loss of vision in one eye
- Loss of one hand or permanent disablement of one hand
- Loss of one foot or permanent disablement of one foot.

The Social Security Board Act provides for any such partially and permanently disabled member two alternatives. First, such a disabled contributor before reaching the age of 60 years could claim a lump sum and leave the Scheme. A contributor could claim the partial and permanent disablement gratuity up to an amount of Rs. 25,000/= with a minimum of Rs. 6,000/= depending on the age. A notable factor in this regard is that, while both Farmers' and Fishermen's Schemes allow contributors to claim the net contributions and the interest accrued along with the disability benefit, no such provision is made by this Scheme whereby the members could claim the contributions and its interest. The amount granted to them consists only of the money given as the disablement benefit.

Secondly, he/she could opt to remain in the Scheme even after suffering the above damages that rendered him/her disabled. Unlike in the Farmers' and Fishermen's Pension Scheme where the contributor is not expected to pay any more contributions, in this instance the contributor who is rendered partially disabled is required to pay the balance payments till he/she reaches the age of 60, if he/she prefers to stay on in the Scheme. At the same time, he/she is given the opportunity to claim the gratuity due to him/her as a result of the damages he/she suffered, whereas in the previous schemes the contributors are not granted this facility if they prefer to remain in the Scheme.

(b) Total and permanent disablement benefit

In the event of permanent total disablement, a contributor is again presented with two options where he/she could receive a lump sum gratuity and leave the Scheme as in the previous scheme or remain in the Scheme. The total and permanent disablement benefit is granted to contributors who suffer the following losses as a result of an accident or a sickness before he/she completes 60 years of age:

- Loss of both hands or permanent disablement of both hands
- Loss of both feet or permanent disablement of both feet
- Loss of sight in both eyes
- Loss of one hand and one foot or permanent disablement of one hand or one foot
- Loss or permanent disablement of one foot and loss of vision in one eye
- Loss or permanent disablement of one hand and loss of vision in one eye
- Complete paralysis below the neck.

The compensation that could be claimed by a contributor as gratuity for the losses above varies from a minimum amount of Rs. 12,000/= to Rs. 50,000/=, again based on the age of the contributor. If, on the other hand, a particular contributor decides to remain in the Scheme even after suffering the disablement, he/she has the option to do so without paying any more contributions. However, if he/she chooses to continue to remain in the Scheme, he/she is required not to claim the disablement benefit that is otherwise due to him/her. In such a situation, he/she is given the opportunity to receive an allowance from the day he/she is disabled. The allowance is calculated on the basis of the contributions, he/she has so far made to the Scheme, any delays in the payments and the interest.

The disablement gratuities, both total and partial, that the contributors are entitled to could be claimed only once with one exception. That is, where a contributor who received the partial disablement gratuity and opted to remain in the Scheme, subsequently suffers total disablement before he/she becomes entitled to a pension. In such instance he/she is given the right to claim the difference between the partial disablement gratuity already paid to him/her and the total disablement gratuity payable to him/her.

However, the disablement benefits are not paid if the disablement occurred as a result of the following incidents:

- War, invasion, alien enemy activities, hostilities in the event of declared or undeclared war, civil war, rebellion, revolution or insurrection
- The contributor engaging in aviation or aeronautics or any other form of aerial flight other than as a valid passenger of a recognized airline or charter service
- Actions of the contributor under the influence of alcohol or harmful drugs
- Attempted suicide or self afflicted injury whether being sane or insane
- Any law enforcement authority taking preventive measures against a contributor from committing an unlawful act.

(ii) Death gratuity

The other key benefit provided to the members of the Scheme by the social security fund remains the death gratuity. Under the provision of this gratuity payment, the legal heirs of a deceased contributor, that is, where a contributor dies before becoming entitled to receive a pension, are granted a death gratuity up to an amount of Rs. 25,000/=. In the case of the contributors within the age group of 55-59, the gratuity is paid if he/she dies before completion of five years since the date of joining the Scheme. The death gratuity, similar to the disablement benefits is payable only once to the legal heirs of the deceased contributor. At the same time, for an heir to be entitled to the gratuity, the death of the contributor should be essentially as a result of a sickness that occurs after the date of commencement of the policy or an accident.

As specified in Regulation 20 in the Gazette pertaining to the Act published on 22nd November 1996, when a contributor dies after he/she starts to draw the pension, but before reaching the age of 80 years, the spouse of the deceased contributor is entitled to receive the balance pension payable to the contributor till the contributor reaches the age of 80 years. However, the spouse is provided this facility only on the grounds that he/she is not a contributor to any scheme, or a receiver of any pension or is entitled to receive any other pension in the future. If the spouse is a contributor to the Scheme or is already receiving a pension or is entitled to do so, he/she is not eligible to receive the said pension of the deceased contributor, but is entitled to receive the balance of the net contributions made by the member along with the interest.

The above regulation has been repealed in the Gazette regulations (Regulation 10) published on 11th March 1999, to the effect that when a contributor dies after receiving the pension but before reaching the age of 80 years, either his wife or a person nominated by the contributor in the application form is entitled to the balance pension under the conditions mentioned above till the deceased contributor reaches 80 years. Or else, either of them is entitled to receive such pension up to the date of their death, whichever occurs earlier.

However, if the contributor dies without a nominee or a spouse and after commencing to receive the pension but before completing 80 years of age, his/her legal heir is entitled to receive the balance of the net contributions lying in his/her account along with the interest. Further, in the event that the death of a member occurs before reaching the age of 80 and while receiving the total disablement allowance, his/her legal heir is entitled to receive the balance of the contributors' net contribution and total disablement gratuity together with interest.

As mentioned above, the death gratuity is payable only if the contributor dies of an illness that occurs after the date of commencement of the policy or an accident. As such, the legal heirs of the dead contributor are not entitled to the benefit if the death of the contributor occurred in the following manner as a result of:

- War, invasion, alien enemy activities, hostilities in the event of declared or undeclared war, civil war, rebellion, revolution or insurrection
- The contributor engaging in aviation or aeronautics or any other form of aerial flight other than as a valid passenger of a recognized airline or charter service
- Actions of the contributor under the influence of alcohol or harmful drugs
- Suicide or self-afflicted injury whether being sane or insane
- Any law enforcement authority taking preventive measures against a contributor from committing an unlawful act.

If the death or the disablement of a contributor is due to an accident that occurred after the commencement of the policy, the contributor or the legal heirs of the deceased contributor are entitled to a disablement benefit or a death gratuity respectively. In addition, under the amended regulations, in the case of occurrence of death, the nominee or the legal heir of the deceased contributor is entitled to receive an ex-gratia payment not exceeding Rs. 5,000/= along with net contributions paid by him/her, if his/her death is due to a natural cause and occurred within 12 months from the date of commencement of the policy.

At the same time, for the contributor or the successor of the dead contributor to be able to obtain the disablement benefit or the death gratuity respectively, it is essential that they inform the Board in writing within 90 days of the occurrence of the incident, along with supportive evidence and other documents to the satisfaction of the Board. Furthermore, in the case of disabled members, they should be able to provide further evidence as to the continued prevalence of the type of disablement if the Board so wishes. He/she should also agree to undergo medical examination anytime by any medical practitioner that the Board prescribes. Such necessary documents have to be forwarded through the enrolment agent who would in turn, submit them to the Divisional Secretariat to which the enrollee is attached. They are then forwarded to the Social Security Board along with the certification of the Divisional Secretary/Assistant Divisional Secretary.

1.6 Default Procedures

Default occurs where a member fails to pay the stipulated number of contributions on or before the due date for a given period as set out in the policy issued to him/her and as specified in the Act. What this means otherwise is that when the contributor fails to make the prescribed amount of payments on a regular basis for the prescribed period of time, his/her policy becomes invalid and he/she becomes disqualified to obtain the benefits provided by the social security scheme. Accordingly, in the Pension and Social Security Benefit Scheme for the Self-Employed, contributors who fail to make the due payments on or before the due dates for ten successive periods cause their policy to become invalid and they become disqualified to obtain the benefits provided by the Scheme.

As already explained, the Pension and Social Security Benefit Scheme for the Self-Employed offers its contributors three Schedules of payments: Schedule A, Schedule C and Schedule D. Of these, the Schedule A requires payments to be made on a quarterly basis, while the contributors to the other two schedules have to pay the instalments on a monthly basis. As such, the forfeiture of the policy of a contributor to the Schedule A takes effect if he/she neglects paying 10 consecutive payments, which is a period of 2½ years. A person who is attached to the Schedule C and D on the other hand, would become a defaulter if he fails to make payments for 10 months.

However, the Pension and Social Security Scheme for the Self-Employed offers a grace period of 1 month, for contributors who have delayed payments to pay the back payments. If the contributor takes the opportunity to settle the back payments within this period, no changes are made to the pension amount payable on completion of 60 years, or on completion of 5 years from the date of joining the Scheme if the member joins at the age group of 55-59. In the event that the contributor pays the arrears in premia after the expiry date of the relief period granted to him, then the pension payable would be reduced according to the amounts of money paid. As such, if the amount is less than 25 per cent of the total requirement, then the contributor is neither entitled to a pension nor a refund of the money. If it is between 25-75 per cent then the member is entitled to a refund of the money but not to a pension. If the contributions made account for more than 75 per cent of the total sum required, the contributor is eligible for a reduced pension.

The Sri Lanka Social Security Board Act provides for its members to appeal to the Board in the event of forfeiture of the policy. On such an occasion, the Board is required to revalidate the lapsed policy after considering the fairness of the reasons given in the appeal. If the Board decides to revalidate the policy, the contributor is expected to pay all the back payments after which the policy will be valid again. In the failure to revalidate the policy the member is required to rejoin the Scheme as a new contributor, in which case the net contributions paid under the earlier enrolment may be set off against the amount payable under the new enrolment. Further, as the Act specifies, if such a contributor is not satisfied with the actions of the Board, he/she has the right to appeal to the Secretary to the Ministry of Social Services whose decision would be considered as the final decision.

Similar to the Farmers' and Fishermen's Pension Schemes, it is found that a considerably high rate of default is prevalent in this Scheme as well, although comparatively less than what is seen in the other two schemes. At present, of the total number of enrollees which amounts to 74,809 by end of January 2003, around 27,514 are thought to be defaulters as estimated in August 2002, giving a default rate of 37 per cent. However, this figure may be misleading due to certain reasons. First, the contributors commence paying second and successive premia through the post offices and sub post offices that they are assigned to and thus their payment history is maintained by the post offices/sub post offices. When the payments are collected, the post offices are required to submit the collected premia and the individual records of payments to the Regional Accountant's Office which in turn is responsible for forwarding the records plus the premia collected on a monthly basis to the Board. Nevertheless, it is known that there is a substantial delay in performing this task and as a result the Board receives the payment records of the contributors with considerable delay, which in turn delays the computerization of the records. The above estimated figure is derived from analysis of the computerized records and represents the number of persons to whom reminders have been sent requesting payment of outstanding premia.

1.7 Enrolment and Coverage

Availability of data

The Social Security Board's management of its schemes appears better organized than in the counterpart Farmers' and Fishermen's Schemes. Importantly, it appears to have an effective computerized information system in place for tracking individual members and their contribution and benefit history. The only major deficiency in its record system is that there are delays in updating the payment histories, as contributions are being remitted through the Postal Department with some delay, hence information on the level of default is not timely. Consequently, it is easier to assess the current status of the enrolments and coverage than with the two counterpart schemes.

Enrolment and coverage

As of end 13 July 2002, the Self-Employed Scheme had registered 64,319 new enrollees out of a total self-employed workforce estimated at inception, of approximately 2 million. Approximately, half of these were working in the community, social and personal services sectors, and another 20-22 per cent in the trade and commerce sector. Smaller percentages were from the agricultural/fishing, transport, building and construction, and manufacturing trades.

If the original Board estimate of 2 million self-employed is taken as valid, this represents a gross coverage in terms of enrolment of less than 5 per cent. Analysis of the Labour Force Survey data for 2000 indicates that 2.3 million persons were engaged in self-employment as their primary occupation (excluding unpaid family workers) in the provinces other than the Eastern and Northern provinces. Given that not all these 2.3 million will be eligible for participation in the Scheme, the figure of 2 million can be taken as reasonable. However, further analysis using the Central Bank Consumer Finance Survey of 1996/97 might be done to further refine these estimates, since it contains additional data about respondents beyond the minimal set collected by the LFS. It should be emphasized that actual coverage is thus probably less than 3 per cent, since a significant proportion of the enrolled have defaulted.

Inspection of the enrolment data shows that enrolment has not expanded at an increasing rate, as one might have expected from a new scheme. Instead, enrolment peaked in 1999, and then has declined (Figure 1.2).

Age distribution

The age distribution of new enrollees has not changed dramatically since inception, although there is a gradual shift towards younger persons (Figure 1.2). Those aged 35 years or less now make up almost half of all new enrolments. Enrollees tend to be younger than the overall self-employed workforce between the ages of 18 and 59 years (Figure 1.3).

It should be noted that not all self-employed persons are aged 18-59 years. The LFS 2002 data show that 12.1 per cent of the self-employed workforce are aged over 59 years, which implies that there are more than 270,000 self-employed persons nationally who might be potential contributors to the Scheme, but are not eligible by virtue of age.

Gender distribution

In contrast to the self-employed workforce nationally, which is 83 per cent male, the enrollees in the Scheme are almost equally divided between the genders, with a slight predominance of females by 2002 (Table 1.5). It is not clear why the Scheme has been more effective in enrolling women than men.

Geographical distribution

The geographical distribution of Scheme enrollees is skewed towards the more developed provinces and districts. The Western Province alone accounts for almost 40 per cent of enrollees. Enrolment in the Eastern and Northern Provinces is less than 4 per cent of the total, which can be explained by the problems created by the security situation. Table 1.6 contrasts the distribution of enrollees with that of the self-employed in the LFS 2000 data. As can be seen, relative coverage is much higher in the Western and Central Provinces than elsewhere.

1.8 Financial Operations

Record-keeping and audit

In general, the financial records of the Scheme appear to be maintained in a reasonably up to date and satisfactory manner. In contrast to the counterpart Fishermen's and Farmers' Schemes, the Auditor-General has generally found the annual accounts to be prepared in a satisfactory manner.

Income

The Pension and Social Security Scheme for the Self-Employed is funded from three sources:

(i) A government subsidy of Rs. 28.6 millions to date
(ii) Contributions by members
(iii) Interest and other income from its investments

Government contribution

The Scheme is designed nominally to be a self-financing contributory scheme, with an explicit government subsidy to make up for the originally anticipated shortfall in funding. However, of the original amount pledged by the Government of Sri Lanka (Rs. 100 million), only Rs. 28.6 million has been paid to the Social Security Board.

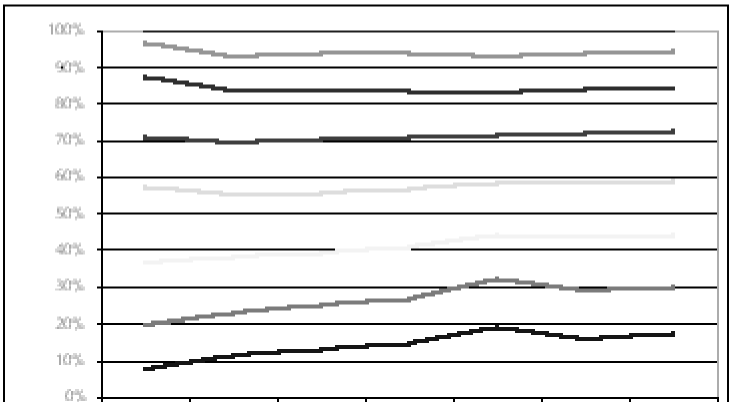
Contributions from members

The gross amount earned by the Scheme from members has been under-estimated in the past in the Scheme's accounts, as they have been shown net of commissions paid to collection agents (Report of Auditor-General on 1997 accounts). Of the total fund assets, 15 per cent is allocated to the Social Security Benefit Scheme while the other 85 per cent is credited to the pension fund. In addition, from each contribution, 15 per cent is deducted as administrative costs such as printing, postal charges, stationery etc. From its origin through 1999, the Divisional Secretaries and their staff were paid an incentive at the rate of Rs. 37/= per enrolment under the lump sum benefit, and Rs. 27/= per enrolment under the regular system. However this is no longer paid as an incentive but is deducted from the first premia as administrative charges upon enrolment.

Interest and investment income

For accounting purposes, the Scheme maintains two separate fund accounts – one for the pension fund, and the second for the insurance fund. The Scheme invests its assets primarily in Treasury Bills, with a smaller proportion in fixed deposits. Technically, it is required by law to make its investments with the approval of the Minister of Finance, indicating that the investments are explicitly under government control, but in practice such approval has not been formally obtained.

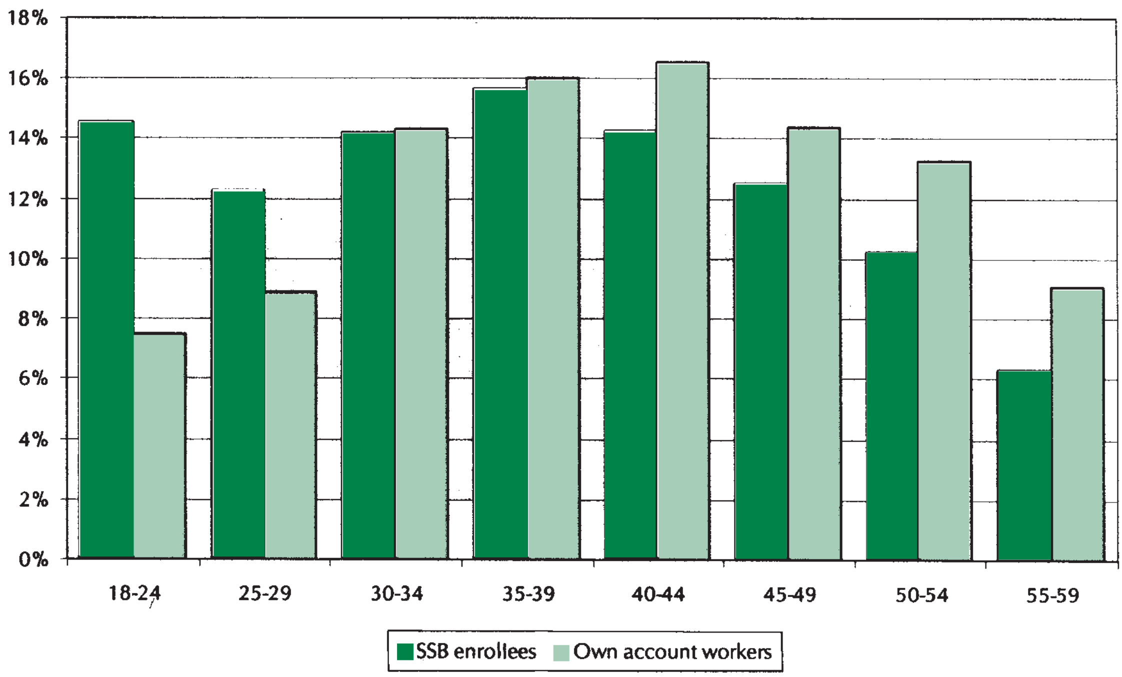
Figure 1.2: Trends and age composition of new enrollees in Self-Employed Scheme, 1996-2002



	1996	1997	1998	1999	2000	2001	2002
55-59	4	404	713	1,978	278	403	269
50-54	12	551	1,145	3,327	403	665	485
45-49	20	810	1,468	3,978	455	783	543
40-44	17	832	1,627	4,652	521	884	648
35-39	26	985	1,797	5,038	573	960	698
30-34	21	878	1,573	4,537	475	970	675
25-29	15	662	1,335	3,878	505	873	610
18-24	9	647	1,438	4,665	761	1,025	815

Source: Administrative data supplied by Social Security Board.

Figure 1.3: Age composition of SSB enrollees in comparison with Labour Force Survey data, 2001



Source: Analysis of LFS 2000 data by authors.

In recent years, the percentage of the Scheme's overall income from its investments has increased over that from other sources, including members' contributions (Table 1.7).

Although the Scheme is still new and not fully matured, the Board anticipates it will find it difficult to sustain the fund in the long run. In the first place, it is evident that there would be a steady rise in the number of pensioners. Already this number has amounted to 398 as at end of 2002 from a mere 4 in the previous year when the pension payment first commenced. Going by actuarial studies done for the Board, it is estimated that this figure would go up to 10,674 by the year 2010 at the cost of Rs. 63,650,096/=. Second, the contribution levels were defined, assuming that the government would honour its promise to grant the seed money of Rs. 100 million. In particular, the promise of this subsidy was used to justify the heavy discount offered to contributors. However, in the absence of the promised money, the Board feels this poses significant financial liabilities. At the same time, apart from the promised capital, the government had agreed to grant a subsidy at an average of Rs. 3,161/= per enrolment to guarantee the smooth running of the system. The granting of the latter is yet to be realized. In addition, the Board is bound to pay 10 per cent of the contributions to the post offices as commission for premia collection.

Table 1.5: Gender composition of enrollees in Self-Employed Scheme, 1996-2002

Gender	Percentage of enrollees by 12 October 2002	Percentage of own account workers aged 18-59 years from LFS 2002
Female	50.2%	82.7%
Male	49.8%	17.3%

Source: Social Security Board.

Table 1.6: Provincial distribution of enrollees in Self-Employed Scheme, 1996-2002

Province	Enrollees in Self-Employed Scheme (%)	Own account workers in LFS 2000 (%)	Coverage index [number of enrollees/estimated number of self-employed] (%)
Western	40	17.4	7
Central	16	12.7	4
Southern	11	14.7	2
NWP	14	18.3	2
NCP	4	14.6	1
Uva	7	10.8	2
Sabaragamuwa	7	11.6	2

Source: Authors' analysis of LFS 2000 data. Percentages exclude Eastern and Northern provinces.

Table 1.7: Income and expenditure of Social Security Pension and Insurance Funds, 1998-2001 (Rupees)

Social Security Pension Fund	1998	1999	2000	2001
Income				
Government Grant	8,500,000	8,500,000	2,550,000	3,060,000
Member Contribution	6,267,207	10,490,547	9,989,729	8,571,972
Interest Income	2,079,413	3,536,100	5,668,121	10,282,951
Expenditures				
Expenditures	80,693	29,093	519,931	624,470
Prior year adjustment	-	-	439,313	-
Surplus/(Deficit)	16,765,927	22,497,554	17,248,606	21,290,453
Social Security Insurance Fund	**1998**	**1999**	**2000**	**2001**
Income				
Government Grant	1,500,000	1,500,000	450,000	540,000
Member Contribution	1,105,978	1,851,273	1,762,893	1,512,701
Interest Income	366,955	624,018	1,000,257	1,814,638
Expenditures				
Expenditures	-	136,000	266,423	1,408,264
Prior year adjustment	-	-	102,957	
Surplus/(Deficit)	2,972,933	3,839,291	2,843,770	2,459,075

Source: Financial Statements of Social Security Board.

Fund balances

Total fund assets held by the SSB have increased from Rs. 0.1 million in its first years of operations to Rs. 23 million in 2001 (Table 1.8).

1.9 Administration and Operational Issues

Staff shortages

A shortage of staff is the major operational problem faced by the Board. Currently, the total personnel of the Social Security Board amounts to 70 in number. When considering the rapid expansion of the Scheme since its inception, the staff available to carry out the necessary administrative and operational activities pertaining to the Scheme has been found to be much less than what is required.

Although the problem of enrolling new members has been partially solved by use of authorized agents and the staff of the Divisional Secretariats, and other officers attached to the DS (Grama Niladharis, Samurdhi Animators etc.), the own staff of the Social

Table 1.8: Fund balances of Self-Employed Scheme, 1996-2001 (Rupees million)

Year	Social Security Pension Fund (Rs)	Social Security Insurance Fund (Rs)	Total (Rs)
1996	126,000	-	126,000
1997	5,029,000	-	5,029,000
1998	14,767,000	2,606,000	17,373,000
1999	22,497,553	3,839,290	26,336,844
2000	17,687,920	2,946,727	20,634,646
2001	21,290,452	2,459,075	23,749,527

Source: Financial Statements of Social Security Board.

Security Board employed in these activities remains minimal. For instance, there is clearly a lack of the Coordinating Officers (CO), who are the main agents of the Social Security Board assigned with the responsibilities of enrolling new persons, coordinating with other agents at DS, carrying out promotional activities and supervision of enrolment activities of the District assigned to them. It is to be noted that there is only one District Coordinator assigned to each District, which has undermined effective coordination and management of field activities. Consequently, it has caused problems in carrying out enrolment activities properly and efficiently. One problem that is recognized by the Board is that some accepted members may not actually meet the required criteria. For the most part, persons are enrolled on the recommendation of the enrolment agents without the direct involvement or the supervision of the COs or other officers of the Social Security Board. This is again mainly due to the shortage of necessary staff. As a result, it is sometimes doubtful if the persons enrolled in the Scheme have the necessary qualifications, or if they are actually engaged in self-employment. To the extent that the Scheme is effectively not-self-funding this will only add to the Scheme's long-run problems.

Maintenance of records

Overall, the maintenance of personal records of the contributors remains satisfactory with regard to the Pension and Social Security Benefit Scheme for the Self-Employed. The Social Security Board maintains both manual and computerized personal accounts of the contributors of the Scheme since the inception of the Scheme. It was seen that the computerization of enrolment details remains very much up to date as the details are forwarded within a month from the date of enrolment of a person by the relevant DS. There is, however, a delay in the updating of payment records. This is due to the delay in sending the updated payment records from the post offices, where there is a considerable backlog. In addition to maintenance of records, the issuing of policies also remains somewhat up to date. Currently, of the total number of enrollees in the Scheme, nearly 70,000 (69,519) contributors have been issued with policies.

Default rate

As already mentioned, though the default rate appears high, it is comparatively less than it is in the other counterpart schemes. However, the main issue in this regard is the difficulty in identifying promptly the actual number of defaulters, basically due to the reason of delay in receiving payment records from the PO/SPO. Because the contributors are assigned post offices to pay second and successive premia, and the Board has no direct involvement, it has to depend on the PO/SPO to forward the records and the collected premia. As such, it is difficult to identify clearly the number or the profile of the defaulters. Going by the available computerized records, it is estimated that there are around 27,514 defaulters by end August 2002, to whom the Social Security Board has notified of their present status. However, it may be possible that certain persons in this category have actually continued to pay the premia on a regular basis. It is also possible that this category also involves contributors, who have resumed paying after becoming defaulters, since there is no proper monitoring done in this regard.

Financial problems

As already mentioned, the Board is faced with certain financial constraints in the face of increasing number of pensioners, benefit payments, and the absence of government capital as agreed at the inception of the Scheme. Added to this, there is another type of financial constraint that the Board has had to deal with. That is, the recovery of premia collected by the PO/SPO. It is seen that around Rs. 4.3 million, which is collected as premia from the contributors is still held in the Regional Accountant's Office/PO/SPO and is yet to be forwarded to the Board.

In response to some of these difficulties, the Board has proposed certain solutions, whereby the Fund could be improved. These suggestions include organizing a 'Cess' which will enable the Board to relieve the treasury of its responsibility of annual allocation. The 'Cess' would be financed by diverting 0.1 per cent of the income earned from premia on Life and General Insurance from the Insurance companies. The Board has proposed the necessity to bring forth legislation in this regard. However, this proposal is unlikely to be welcomed by the insurance industry, which has already objected to a cess to fund the Insurance Board of Sri Lanka, the industry's regulatory agency. Given the likely political dynamics, this proposal is unlikely to be feasible at the current time.

At the same time, the Board has plans to organize a grand fair, in the month of March with a view to promoting and expanding the Scheme. The fiesta will be named "Siya Saviya" and is organized in collaboration with the Ministry of Social Services and is to be held in Embilipitiya.

Other proposals include the initiation of a lottery by the Board as an additional income, and donation of 1 per cent of the salary of the government pensioners, donation of 1 per cent of the salary of the politicians. All these proposals can be regarded as a wish-list of potential new income sources, but they do not address the fundamental design faults in the current Scheme. They and other measures being undertaken, such as the fair mentioned above, do not represent elements in a carefully thought strategic plan to address the financial viability concerns of the Board.

2. Assessment of Ability of Social Security Scheme to Provide Social Security to its target population

The primary purpose of the Scheme is to ensure that the eligible self-employed have increased income security during old age, in addition to some protection against other adverse events during their working-lives. The key questions with respect to the pension component are thus:

(i) Does the Scheme, as presently constituted, guarantee an adequate level of replacement income for members in old age?

(ii) Is the Scheme, as presently constituted, financially self-sufficient, and if not what is the extent of support that will be required from government?

(iii) Does the Scheme effectively reach its target population of the self-employed.

The cursory review that has been possible in this study indicates that the answer to the first question is no. With respect to the second question, the answer is also no with an indeterminate government liability, which has the potential to be substantial. The answer to the third question appears to be no.

2.1 Adequacy of Retirement Income

The Scheme is designed to provide a fixed pension to qualifying members, payable until death, with the actual level of monthly payments based on the age at which the member was enrolled, and which Schedule of contributions the member chose. The major defect in the design is that the Scheme does not provide any automatic protection against future inflation eroding the real value of the nominal pension payments.

In the post-liberalization era after 1977, annual inflation (as measured by the GDP deflator) has averaged 10-12 per cent. There is no indication that given current structural fiscal deficits and liberalization on the current account, that this situation of relatively high inflation will change in the medium term. Under conditions of inflation rates of the level historically experienced in Sri Lanka, the future pensions offered by the Scheme are essentially worthless for any contributors joining before the age of 50 years. In addition, for the bulk of pensioners, the actual value of the pension will be severely eroded during their likely time-period in retirement, which for the average pensioner will be at least 20 years.

Table 2.1 illustrates the impact of inflation on the real value of the pension offered. If inflation in future averages 10 per cent, which is less than recent experience, for a person who enrols at age 18, the promised monthly pension of Rs. 2,500/= will be worth only Rs. 322/= per month in today's money by the time the person reaches the age at which he/she becomes eligible to receive it. Rs. 322/= represents less than 5 per cent of per capita income in 2002. If the inflation is higher than 10 per cent the real value will deteriorate even further. Even if inflation is low in future at a level of 5 per cent, the pension of Rs. 2,500/= will still only be worth Rs. 381/= in today's money 42 years from now.

The impact of inflation will continue to be felt even after the individual retires and starts to collect his/her pension. The Scheme is designed on an assumption of 20 years average life expectancy at the age of 60 years. However, this is not a reliable guide to the actual life expectancy that Scheme members are likely to experience. First, average national life expectancy for men and women combined is now 21 years at the age of 60 years.[1] Second, it is not possible to know the actual average life expectancy of those who are currently enrolled in the Scheme when they reach age 60 for two reasons:

(i) Historically, life expectancy has risen gradually over time, and it is to be expected that average life expectancy at age 60 will be significantly higher than 22 years by the time the current 30-45 year cohorts retire

(ii) Life expectancy of the self-employed population may differ from the national average, although we cannot say whether it will be higher or lower.

Nevertheless, we can be certain that most Scheme members will draw their pensions for at least 22 years, if they reach the age of 60 years, and many will live at least 30 years after the age of 60 years. During that time period, the real value of their pensions will gradually deteriorate to a point where they are essesntially worthless. At the historical

[1] Personal communication from Prof. Indralal de Silva of Demography Department, University of Colombo.

Table 2.1: Impact of inflation on real value of pension paid by Scheme for Self-Employed

Age at enrolment (years)	Promised monthly pension (Rs)	Value of final pension in today's rupees at the age of 60 years (Rs)		
		Inflation = 5%	Inflation = 10%	Inflation = 12%
Schedule A				
18	2,500	322	46	21
40	650	245	97	67
54	510	381	288	258
Schedule B				
18	5,000	644	91	43
40	2,932	1,105	436	304
54	1,616	1,206	912	819
Schedule C				
18	8,000	1,031	146	69
40	5,316	2,004	790	551
54	3,608	2,692	2,037	1,828

Source: Authors' estimates.

average rate of 12 per cent inflation, the pension received will lose 80-95 per cent of its value in real purchasing terms after 30 years (Table 2.2).

The Scheme, as presently constituted, manifestly fails in its primary objective of ensuring sufficient replacement income for its members when they reach old age. In the best-case scenario of inflation of 10 per cent (less than the recent historical average) and a member who enrols in Schedule C at the age of 54 years, the final pension will still be worth less than one third the per capita income level in 2002. The likely real value of the pensions of members who enrol under any of the three current schemes before the age of 50 years is such that it will not be sufficient to keep them above the poverty line, and in fact will be less than the transfers given through the major poverty alleviation programmes in the country. In addition, as they age as pensioners, the real value of their pension income will diminish each year.

It is highly unlikely and not credible that the Scheme pensions will not be adjusted to take into account the effect of inflation. In fact, we can interpret the decisions by successive cabinets to increase the minimum pension in the case of the Farmers' and Fishermen's Schemes as being the political mechanism at work to ensure some inflation adjustment. In the case of the self-employed, this has not yet occurred, but the lack of any such intervention might be explained both by the relative newness of the Scheme, and the considerably smaller number of voters covered by the Scheme in comparison with its two counterparts. However, if the Scheme pensions are adjusted in future, the chances are that the pension levels will be raised more than the contribution levels, thus making it inevitable that any future adjustments are paid partially, if now wholly, by the tax-payer.

Table 2.2: Impact of inflation on real value of pensions during period of retirement

Value of pension at 60 years	Inflation = 5%		Inflation = 12%	
	Real value of pension at 80 years	Real value of pension at 90 years	Real value of pension at 80 years	Real value of pension at 90 years
2,500	942	578	259	83
650	245	150	67	22
510	192	118	53	17

Source: Authors' estimates.

2.2 Financial Self-sufficiency of the Self Employed Pension Scheme

In general, the Scheme as presently constituted is not financially viable in that given likely interest rates on its investments, its existing pension commitments and contribution rates, it will not be able to honour most of its pension obligations without need for substantial additional funding from the government. However, the overall unfunded government liability is less than with its counterpart Farmers' and Fishermen's Schemes for the following reasons:

(i) The final pension commitment is lower in the more popular Schedule A
(ii) Higher annual contributions in relation to the final pension level
(iii) Smaller size of current enrollee population.

Table 2.3 illustrates the estimated net present value of the subsidy required per member under varying scenarios of long-run average investment return and an average life expectancy after age 60 , of 20 and 25 years, for all three Schedules. These calculations ignore the existing subsidy contribution given by the government when establishing the Scheme.

Table 2.4 then provides crude estimates of the total net present value of the subsidy required by the Scheme for its existing members under varying scenarios of interest rates and life expectancy, chosen to illustrate the likely range of figures. The average rate of return on investments if invested in Treasury Bills has been about 12 per cent in recent years. If the government policy to reduce the fiscal deficit is successful, this would tend to reduce the interest rate on Treasury Bills. Current life expectancy at age 60 is about 21 years, but will likely rise to 25 years for those cohorts who are currently aged 35 years or less. The following assumptions are used:

(i) The age distribution of current members is taken as the age distribution at the time of enrolment of all members who had enrolled from inception to October 2002
(ii) All members are assumed to make their full contributions, and default is assumed as zero
(iii) No members are assumed to pay on the discount basis, which would increase the subsidy required
(iv) All members are assumed to live to the age of 60 years.

The subsidy required for the existing members is in the range of Rs. 100-1,200 million in current rupees (net present value). This is equivalent to an average subsidy of Rs. 1,300/= to 16,000/= per member. This can be contrasted with the total government subsidy promised at inception of Rs. 100 million, and the actual subsidy granted of Rs. 29 million. The subsidy needed will be higher the lower the government deficit and overall interest rates in the economy, and higher the further life expectancy increases in future.

Table 2.3: Lifetime value of contributions and net present value of unfunded liability per individual enrollee in Self-Employed Pension Scheme

Age at enrolment	Total nominal contribution by the age of 60 years	Investment return = 5%			Investment return = 12%		
		Net present value of contributions with investment	NPV of liability if average pension = 20 years	NPV of liability if average pension = 25 years	Net present value of contributions with investment	NPV of liability if average pension = 20 years	NPV of liability if average pension = 25 years
Schedule A							
18 years	8,400	28,242	5,737	6,550	237,391	-	-
40 years	8,320	14,156	11,797	13,605	33,422	267	298
54 years	5,280	6,113	39,065	44,626	7,574	9,789	10,376
Schedule C							
18 years	50,400	171,135	9,571	11,196	1,496,511	-	-
40 years	49,920	85,495	50,139	58,294	205,765	613	754
54 years	31,680	36,856	114,046	131,666	46,072	25,353	27,213
Schedule D							
18 years	78,120	265,259	15,456	18,056	2,319,592	(118)	(115)
40 years	168,240	288,135	71,997	86,782	693,468	(2,332)	(2,076)
54 years	224,640	261,344	154,923	194,262	326,695	(847)	3,306

Note: Figures within parentheses indicate a negative liability, i.e., net present value of contributions is more than net present value of pension in monetary terms.

Source: Authors' estimates.

Table 2.4: Estimate of subsidy required to pay pension commitments of currently enrolled in Self-Employed Pension Scheme, 2002

Interest rate	Life expectancy at the age of 60 years	Members in Schedule A (Rs. Million)	Members in Schedule C (Rs. Million)	Members in Schedule D (Rs. Million)	Total (Rs. Million)
5%	20 years	918	80	0.5	999
5%	25 years	1,054	93	0.6	1,148
12%	20 years	109	4	(0)	113
12%	25 years	117	5	(0)	122

Source: Authors' estimates.

Distributional features

Table 2.3 illustrates two important features of the Scheme's current contribution and pension schedules:

(i) Average subsidy per member increases with age, and is highest for those members aged more than 50 years. This feature is often found in the early stages of many pension schemes, and might be justified on the basis that the older new members have had no chance to build up a life-time contribution history in the early years of the Scheme. However, if this feature persists over time, then there is less justification for it, as it in effect penalises those who join early in favour of those who join at the last possible time.

(ii) The average subsidy required is greater for members in Schedule C than for members in Schedule A, and least for members in Schedule D. If it is assumed that potential enrollees in Schedule C are richer than those in Schedule A, and that those in Schedule D are the richest, this implies that the richer members in Schedule C not only receive a higher subsidy overall than the poorer members in Schedule A, but also are in contrast to members in Schedule D who receive the lowest subsidy overall (or make the highest net contribution).

One of the benefits of a pension system is that it allows for a certain amount of redistribution between contributor groups. To the extent that there may be public policy interest in doing so, the Scheme would be better structured to ensure that the subsidy per member falls with higher levels of contributions and pension entitlements. In addition, it would be more efficient in the long-run, if the higher subsidy with age was gradually reduced. However, this would have to be done as part of a wider effort to increase overall coverage beyond the current 5 per cent or less.

Impact of changing pension age on subsidy requirement

The current Scheme was designed around a notional retirement age of 60 years. Contributions are required until this age, and the pension can only be drawn after this age, without any reference to the working status of the member. However, the overall subsidy required by the Scheme is very sensitive to changes in the pension age. If it is increased to just 65 years, with a commensurate increase in the period of contributions, it would more than halve the required subsidy. If it is increased even further, it would actually eliminate the need for a subsidy at all. Some very approximate estimates are shown in Table 2.5 to illustrate. These show that for an 18 year old joining Schedule A, increasing the pension age to 65 years would reduce the net subsidy required by more than 70 per cent. Increasing it to 70 years would even make it possible to eliminate the required subsidy, and also increase the overall pension entitlement.

That the Scheme is so sensitive to such changes points to the major pathway for reform to make the Scheme sustainable in the long-run with minimum government subsidies. In line with international best practice, the Scheme should gradually increase

Table 2.5: Impact of increasing pension age on subsidy requirement in Scheme A

Age at joining Scheme	NPV of subsidy (=100)	NPV of subsidy if pension age = 65 years (relative to baseline)	NPV of subsidy if pension age = 70 years (relative to baseline)
18	100	27%	(15%)
40	100	34%	(4%)
54	100	47%	15%

Note: Figures in parentheses indicate that no subsidy is required, and that the Scheme would generate a positive surplus. Calculations assume interest rate of 10 per cent per annum.

Source: Authors' estimates.

the pension age. This might be done for new members only, particularly if a major expansion in coverage is envisaged. In fact, appropriate modifications to the pension age, and the length of time required in the Scheme, would even make it possible to both reduce the net subsidy and improve the final annual pension paid.

2.3 Ability of the Scheme to reach its target population

The Scheme manifestly fails to reach most of its target population. Although the Scheme is reasonably managed in the circumstances, it fails to reach even 5 per cent of the self-employed in the country. There is also no indication that this will change in the future, as annual enrolment has in fact, fallen in recent years. There are probably three sets of factors behind the low enrolment:

(i) The Social Security Board lacks the human resources and operational funds to launch more aggressive enrolment efforts

(ii) The Social Security Board already fears the potential liabilities it faces in meeting future pension commitments, and this inhibits efforts to increase the reach of the programme

(iii) The Scheme as presently constituted is not sufficiently attractive to most of the self-employed

3. Policy Options and Implications

It is not the objective of this study to reach definitive conclusions as to future policy reforms. However, the study (together with that of the counterpart Farmers' and Fishermen's Pension Schemes), points to a number of issues:

(i) The establishment of the Scheme by the government points to a real imperative on the part of policy makers in Sri Lanka to respond to inadequate social security not only amongst the formal sector employed, but amongst the wider informal and self-employed segments of the population

(ii) The current Scheme, although insufficiently small in scale, and certainly capable of benefiting from operational improvements, does demonstrate that the Sri Lankan state apparatus with very little expenditure is capable of organizing and operating a pension scheme for this segment of the workforce. As such, the Scheme represents an important experiment for future social policy

(iii) The basic financial problem in the Scheme is that contributions are insufficient to pay promised pension entitlements, and inadequate government subsidies to date to permit this. Although there are options to reduce the likely liabilities, it is not realistic to believe that a Scheme for this segment of the population can be operated without some element of tax-subsidy, and this realization has perhaps not occurred to the government

(iv) The Scheme can be made more financially viable by extending the number of years that members can make contributions beyond 60 years, and allowing for an actuarially fair increased pension for those who choose to delay withdrawing their pension entitlement after the notional standard pension age

(v) The model chosen for this Scheme of funding the administration and management costs directly by Treasury grant appears to work better than the alternative arrangement in the Farmers' and Fishermen's Schemes, where the administrative costs are largely funded from the investment returns. The arrangement has the benefits of ensuring that the Scheme is in a better position to obtain sufficient funding without depleting the returns to investments made by the Pension Fund, whilst maintaining overall accountability in the use of such funds

(vi) The Scheme's contribution and pension schedule was reasonably well designed at inception to ensure overall long-term financial self-sufficiency, given certain assumptions about government support. However, there needs to be an administrative mechanism and adequate technical and actuarial resources to ensure that both contribution and pension schedules are constantly reviewed and revised as conditions change, and to adequately assess new schedules and options offered to members

(vii) The Scheme was designed on the assumption that a fixed pension schedule was adequate. However, this was inappropriate given the moderately-high inflation environment in the country. A fixed pension schedule without any adjustment for inflation will not provide security for its members in their old age. If the Scheme could obtain a real rate of return on its investments higher than inflation (which is clearly feasible as illustrated by recent experience with the EPF), then it should not be unfeasible to provide inflation-protection within the broad parameters of the current Scheme

(viii) The contribution and pension schedules of the Scheme appear to implicitly redistribute between Schedule D and Schedule A contributors, and also from older members to younger ones, which is similar to the design of other pension systems worldwide, particularly in the USA and Europe. A more explicit effort to ensure this is necessary to prevent the apparent anomaly of Schedule C members who receive more subsidies than Schedule A members

(ix) The Scheme was explicitly designed to some extent to take into account the unpredictability of income in the self-employed sector. However, this should be taken further by increasing the Scheme's flexibility, including permitting varying contributions over a working career in return for a pension entitlement based on the lifetime payments, and providing options for integration with existing schemes for the formal sector in the case of those who join formal employment

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