Pension Coverage in Sri Lanka

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Outline

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3. Pension Coverage
4. Issues with Coverage
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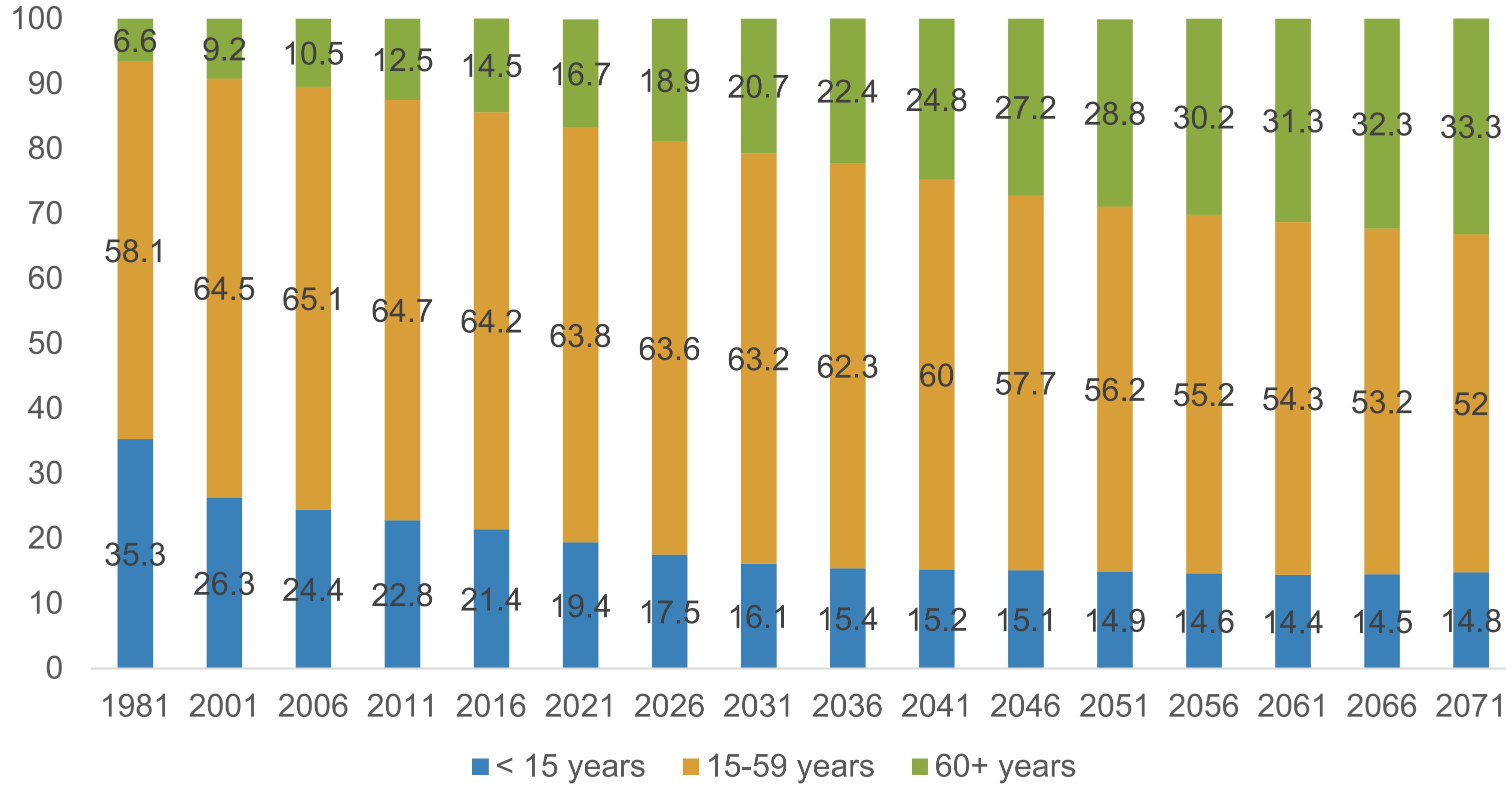
Introduction

Pensions a Key Issue in Sri Lanka

1. Ageing Population

Distribution of Population by Age Groups (%), 1981-2071

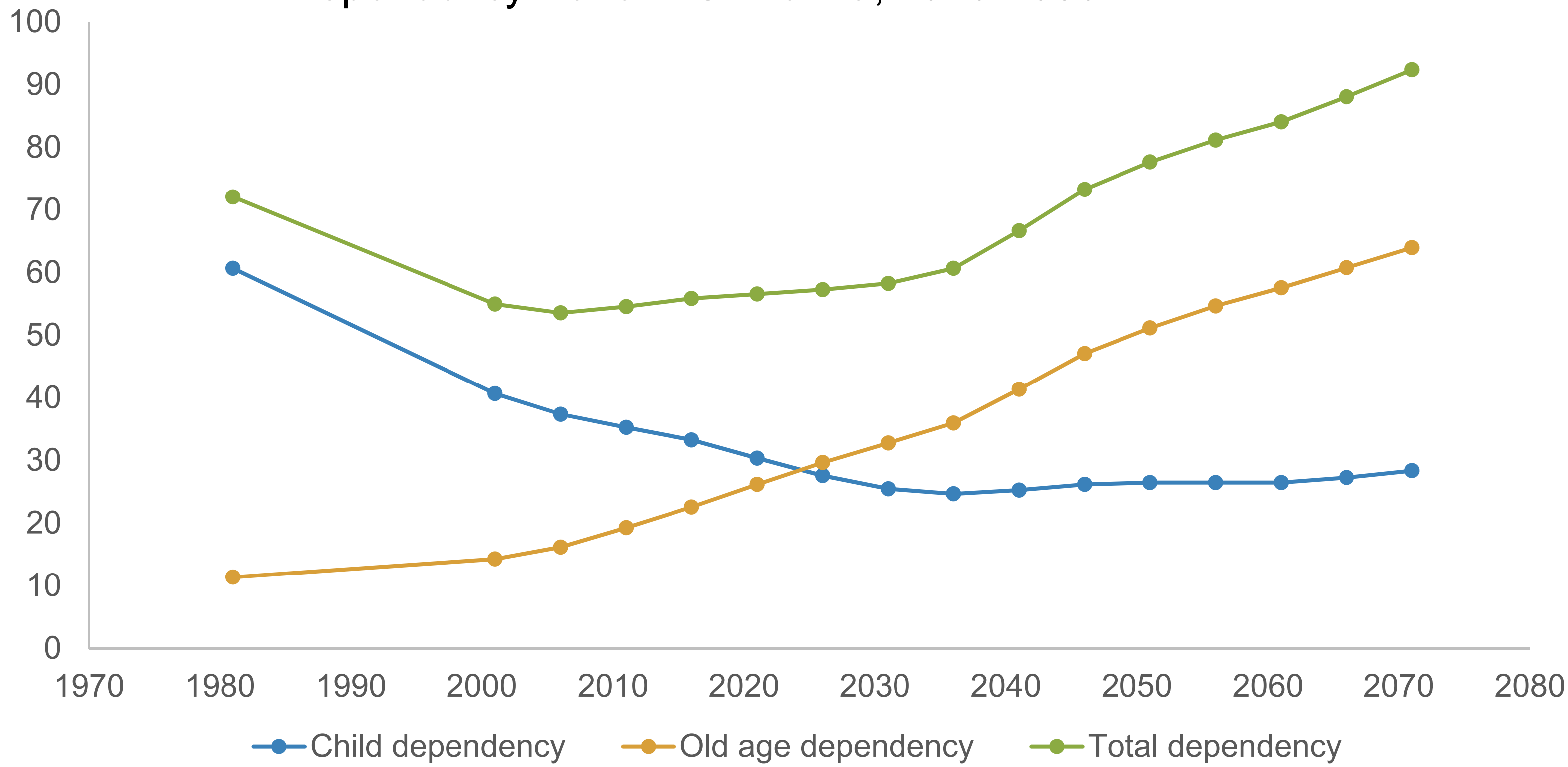


Source: De Silva (2012), *The Age Structure Transition and the Demographic Dividend*

2. Increasing old-age dependency ratio

Dependency ratio = number of dependents to every 100 people in the working age group

Dependency Ratio in Sri Lanka, 1970-2080



Source: De Silva (2012), *The Age Structure Transition and the Demographic Dividend*

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Pension Schemes

5 Employment-Based Schemes

Public sector

1. Public Service Pension Scheme (PSPS) → Non-contributory

Private sector

2. Employee Provident Fund (EPF)
3. Employee Trust Fund (ETF)

Informal sector

4. Farmers' Pension & Social Security Benefit Scheme (FMPS)
5. Fishermen's Pension & Social Security Benefit Scheme (FSHPS)
6. **Self-employed Persons Pension Scheme (SPPS)**

Characteristics: Public and Private Sector Schemes

Name	Eligibility	Pension calculation	Administration	Financing
PSPS	Permanent public employees with at least 10 years of service	% of final salary based on period of service; payable from 55 to be taken by 60	Dept of Pension	Treasury
EPF	Private formal sector workers	Lump sum payment at retirement; linked to level of income & years of contributions made (55 for males/50 for females)	EPF Dept of Central Bank	Joint contribution: • Worker - 8% • Employer - 12%
ETF	All private and public sector employees not entitled to govt pension scheme	Lump sum payment at retirement	Employees Trust Fund Board	Contribution only from employer: 3% of monthly gross earnings

Characteristics: Informal Sector Schemes

Name	Eligibility	Pension Calculation	Administration	Financing
FMPS	Cultivators: • Not entitled to benefits under EPF/ETF • Land ownership criteria	Monthly pension after 60, or upon completion of 5 years of contributions	Agricultural and Agrarian Insurance Board (AAIB)	Contributory, subsidized by govt
FSHPS	Fishers in the sea, lagoons, inland waters: • Not entitled to benefits under EPF/ETF • Ownership criteria	Monthly pension after 60/upon completion of 5 years of contributions	AAIB	Contributory, subsidized by govt
SPPS (*Surakma*)	Those not eligible for a govt pension	Monthly pension after 60	Social Security Board (SSB)	Voluntary, contributory scheme

Effectiveness of Pension Schemes

1. Coverage

Share of population covered by different pension schemes

2. Adequacy

Adequacy of pension benefits in keeping elderly out of poverty

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Current Coverage

Coverage Rate

- Coverage of **eligible population** =

$$\frac{\text{Enrolled in the program}}{\text{Eligible for the program}}$$

- Coverage for **total working population** =

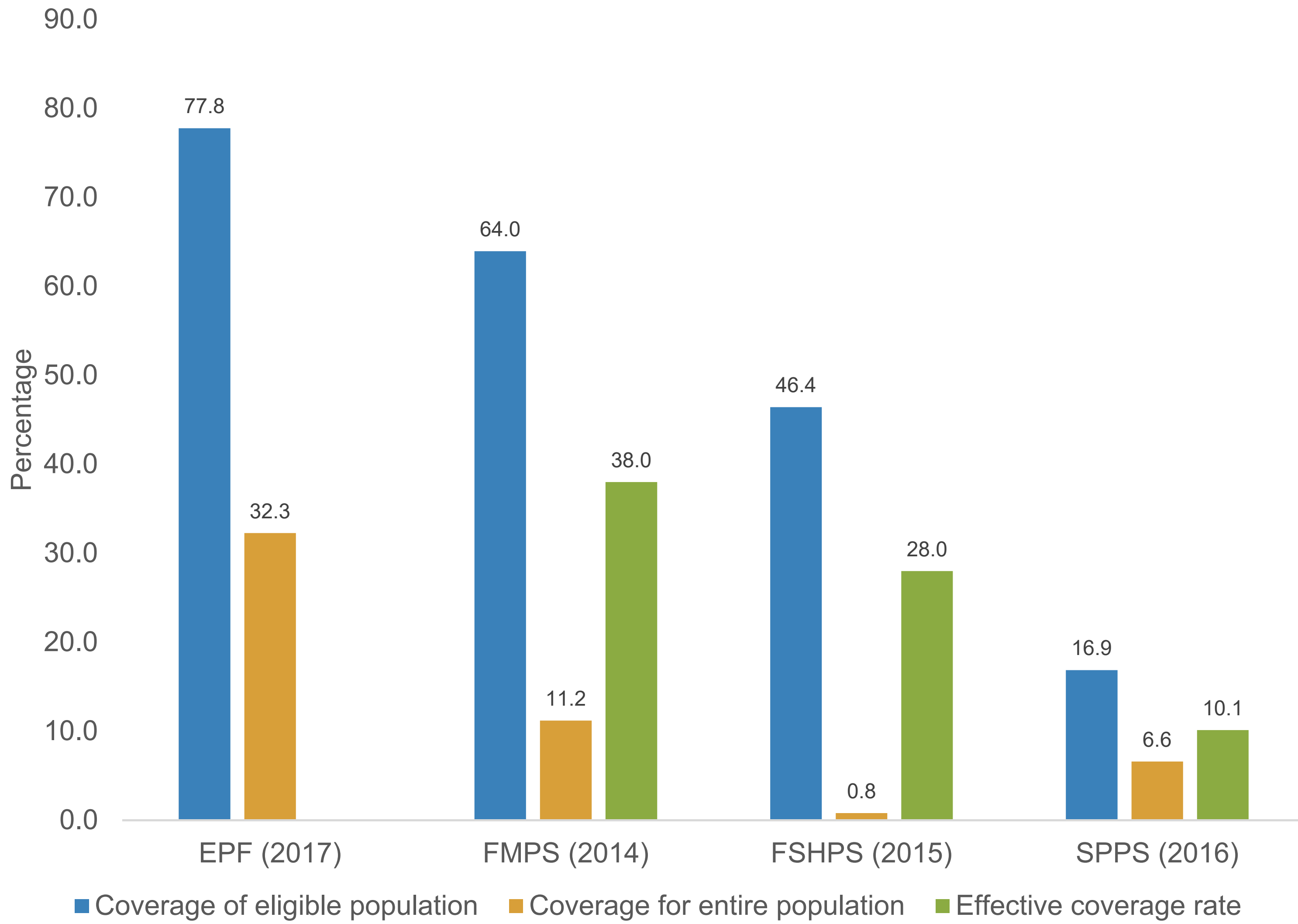
$$\frac{\text{Enrolled in the program}}{\text{Total working population}}$$

- **Effective coverage rate** = discounting eligible population who default (discount rate of 40%)

PSPS

- Coverage of eligible population = 1,062,470/ 1,062,470 = **100%**
- Coverage for entire population in labour force = 1,062,470/8,567,000 = **12.4%**
- **614,288** beneficiaries in 2018 - **21.2%** of the 2.9 million older persons in the country

Coverage of Other Pension Schemes



Sources: Central Bank, DCS, SSB, AAIB, Samarakoon, S. & Arunatilake, N. 2015, *Income Security for Older Persons in Sri Lanka*, UNESCAP Working Paper

To sum up..

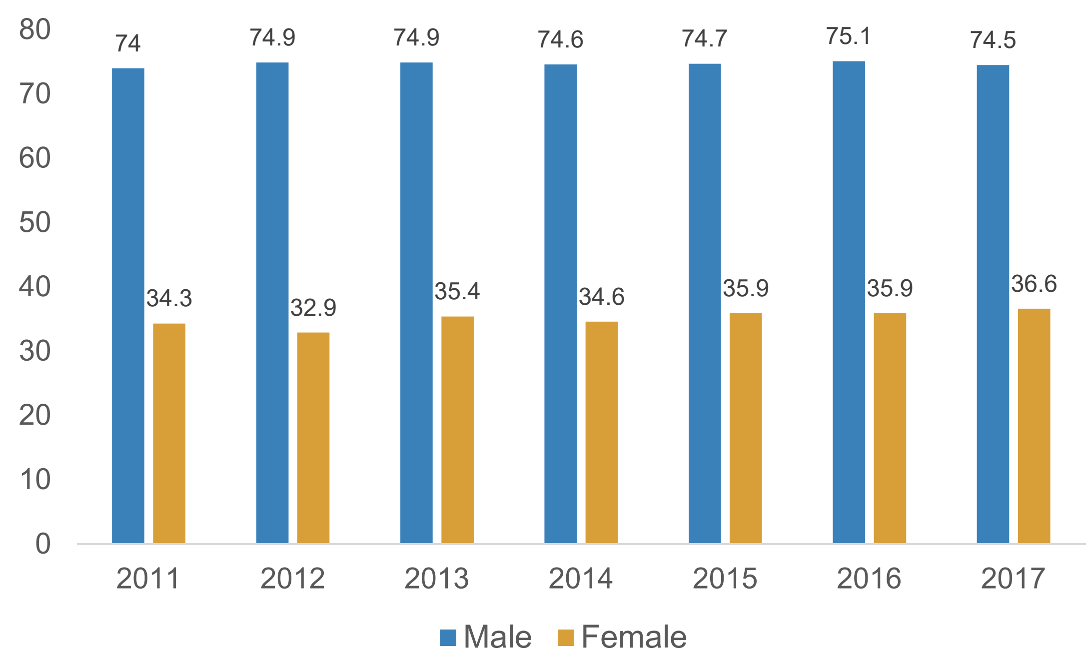
- About **9.6 million** people estimated to be eligible for at least one pension scheme
- But current enrollees account for only around **56%** of eligible people
- Provide retirement income to only about **30%** of older persons

Those Requiring Urgent Attention

1. Females

- Current employment-based pension systems exclude those outside the labour force
- Females are vulnerable since:
  - Female LFP only half of male rate
  - Older females estimated to outnumber males

Labour Force Participation Rate (%) in Sri Lanka, 2011-2017



Source: DCS, *Labour Force Survey Annual Report*, various years

2. Self-employed

- Low coverage:
  - Workers' inability to pay contributions to the scheme
  - Lack of awareness/information of available schemes

- Low attractiveness:
  - In the case of default, amount already contributed refunded only if 25% of required contributions are made to receive a monthly pension
  - Lack of inflation protection severely erodes value at age of retirement

3. ‘Independent’ workers in gig economy

- ‘Independent’ workers: those who are neither proper employees nor self-employed
- Have typically less bargaining power and limited ability to negotiate contracts
- Paid based on the number of jobs or ‘gigs’ they perform rather than receiving a traditional salary
- Often do not earn enough to put money aside into a private pension

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Issues for Coverage Expansion

Fiscal sustainability

- Limited ability of Government to continue to support the PSPS:
  - Rising number of older persons drawing benefits over time
  - **9.3%** of recurrent govt expenditure spent on pensions in 2018
- Fiscal unsustainability of informal schemes:
  - Low and irregular contributions (high default rates)
  - Inactive membership – **51%** of dormant contributors to SPPS in 2016

Fragmented system

Institutional misalignment

Coordination and implementation challenges

PSPS:
Dept of Pensions

EPF:
EPF Dept

Other elder assistance:
National Secretariat for Elders

FMPS/FSHPS:
AAIB

Self-employed schemes:
SSB

Implementation Challenges

- Intentions to introduce a public sector contributory pension scheme – **National Pension Plan** in 2016 – still on hold
- Progress on formulation and implementation very slow
- FMPS proposed to be revised in 2014, but approval still not granted
- Enrollment of new farmers stalled as a result

Resource constraints

- Limited assignment of officers to district offices impede promotional and awareness building activities
- Lack of sufficient capital for publicity work in electronic, print, and other media
- Delays in deeds issued for new enrollees in SPPS schemes
- High employee turnover

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Policy Implications

1. Make participation compulsory

- Semi-compulsory or fully compulsory – practiced in NZ & Italy
- Good in situations where informal sector workers are not adequately covered by other types of voluntary pension schemes
- But irregularity of income and limited income generating capacity a potential constraint
- Only viable if forced savings plans do not reduce the ability of workers in the informal sector to meet their basic needs
- May not work well in SL

2. Introduce non-contributory pension schemes

- Can ensure old-age income security for entire population, regardless of earnings/occupation
  - Means-tested – targeting needy/priority groups
  - Universal – available for all elderly
- Means-tested programmes are difficult to administer in countries with weak administrative structures
- Non-means-tested approach potentially better for SL
- Has been successful in China – proportion of people enrolled in a pension almost doubled between 2009 and 2012, from 30% to 55%

Fiscal cost of extending coverage

- Extending access to all eligible people at pensionable age

$$Cost = A + \left(\frac{Number\ of\ 60 + population}{Total\ population}\right) x \left(\frac{Pension\ entitlement}{GDP\ per\ capita}\right)$$

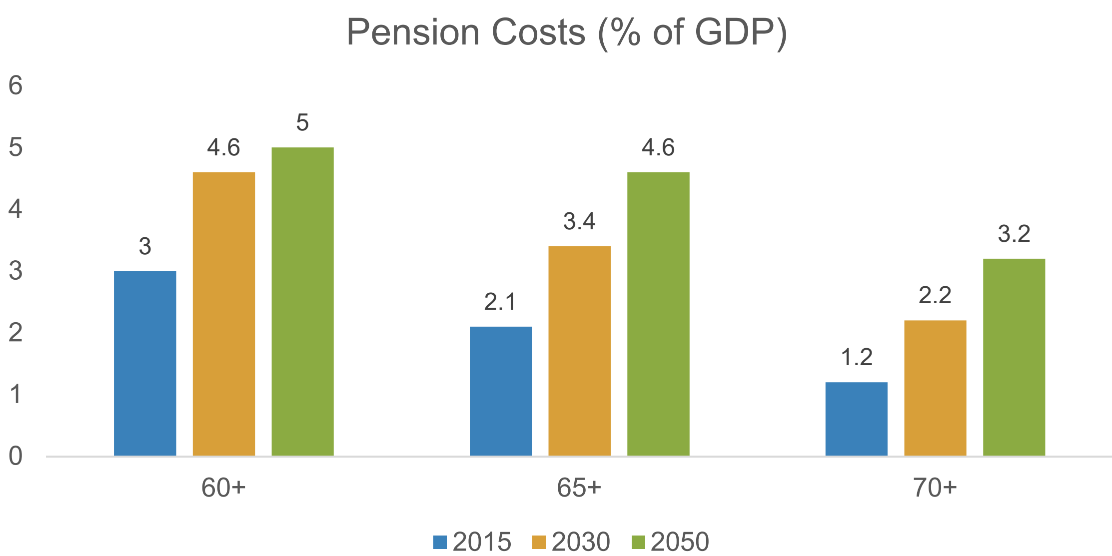
Administrative costs

5%

Share of population eligible for pension

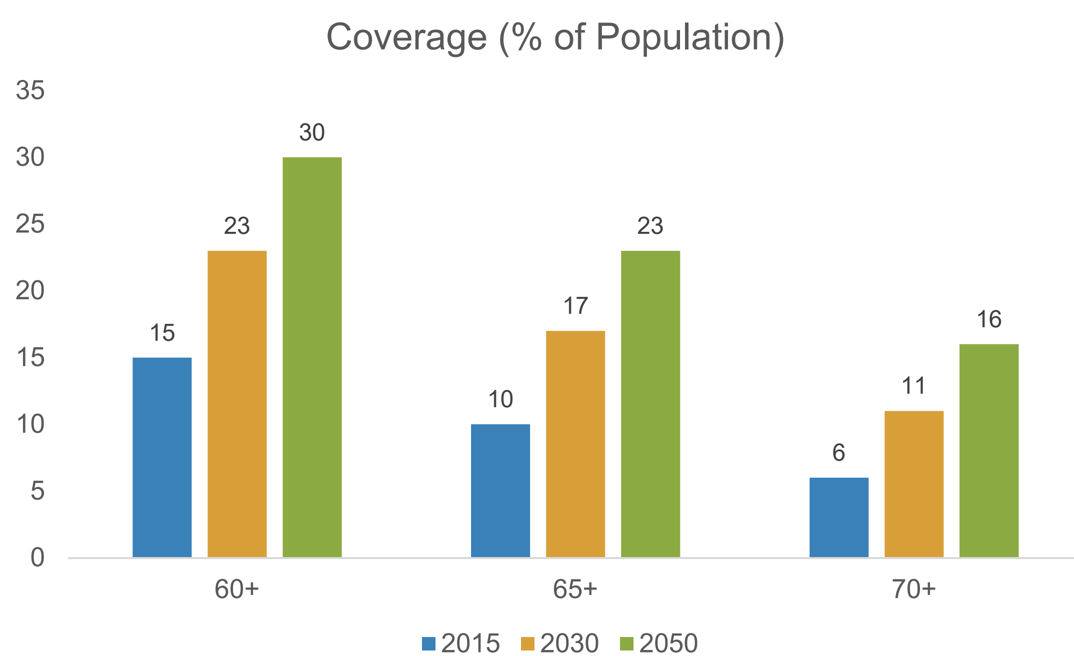
20%

Cost and Coverage of a Universal Pension



Cost increases over the 2015-2050 period in line with increase in pensioner population

Cost decreases with qualifying age



Source: Samarakoon, S. & Arunatilake, N. 2015, *Income Security for Older Persons in Sri Lanka*, UNESCAP Working Paper

3. Increase qualifying age

- Non-contributory schemes raise fiscal sustainability issues
- Fiscal cost can be reduced if qualifying age is increased
- Setting qualifying age between 60 and 65 can help make it both fiscally sustainable and effective
- Raising the mandatory retirement age would also benefit the EPF

4. Combine emerging financial technologies with insights from behavioral economics

- Use new techniques, such as auto-enrollment into pension plans to increase savings for retirement
- Use innovative fintech mechanisms to boost short and long-term savings, and induce people to allocate money for pensions
- Apply behavioral economics strategies and use technology to separate funds into different accounts
- Set up nudge devices such as automatic contributions or reminders
- **Common theme: make saving for pensions as simple and low-cost as possible**

Thank you!

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