

Repositioning Social Security in Sri Lanka's Private Sector



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30 June 2021

Outline

1. Motivation

2. Research objectives & questions

3. Literature review: 3.1 SS systems in SL
 3.2 International examples

4. Survey & KII findings

5. Benefit calculations

6. Policy recommendations

Motivation

- COVID-19 created **unprecedented challenges** to labour markets across the world
- Adverse effects **more in countries with inadequate SS**
- Significant **adverse impact** on SL's **private and informal sectors**
- EFC survey in May 2020 showed triple shocks: **cash flow crisis**, **investment cuts** and slowdown in **demand**
- 2021 Budget proposed establishment of a new “**COVID-19 Insurance Fund**” – **0.25%** of employer turnover
- A concern to private sector businesses already suffering to keep businesses afloat
- Limited relief for workers who lost jobs or work hours due to the pandemic.

Research Objectives

Examine how **existing SS** schemes can be improved to provide **better benefits to both workers and firms**, without additional costs

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1. **Job & enterprise protection**
 2. **Emergency relief during crises**
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Research Questions & Methods

Question	Methods	Data/Sample
1. How do other countries provide SS to workers and firms?	Lit review	Brazil, Singapore, Thailand, Malaysia, South Korea, India, Nepal
2. How have SS schemes been used to provide support during COVID-19?		
3. How can SL's schemes be better designed?	Employer & employee surveys	<ul style="list-style-type: none"> • 100 employers • 50 employees
	KIIs	18 labour market actors
	Costing of proposed benefit payouts	LFS 2016

Typology of Social Security Schemes

- **Income security and support** to people throughout their lifetime
- Build **resilience to shocks** and strengthen links to productive activities (ILO)

Objectives



- Workers
 - Elderly
 - Sick
 - Disabled
 - Children
- Dependents of diseased
- Unemployed

Target groups



- **Non-contributory:** state-financed & covers public sector
- **Contributory:** employers, employees & state contribute to a centrally-managed Fund
- **State as GLR**

Financing



SS Schemes in SL's Private Sector ...

Two main schemes: EPF & ETF

Defined contributions:

only contributions defined; not benefits

**Gratuity
payments**

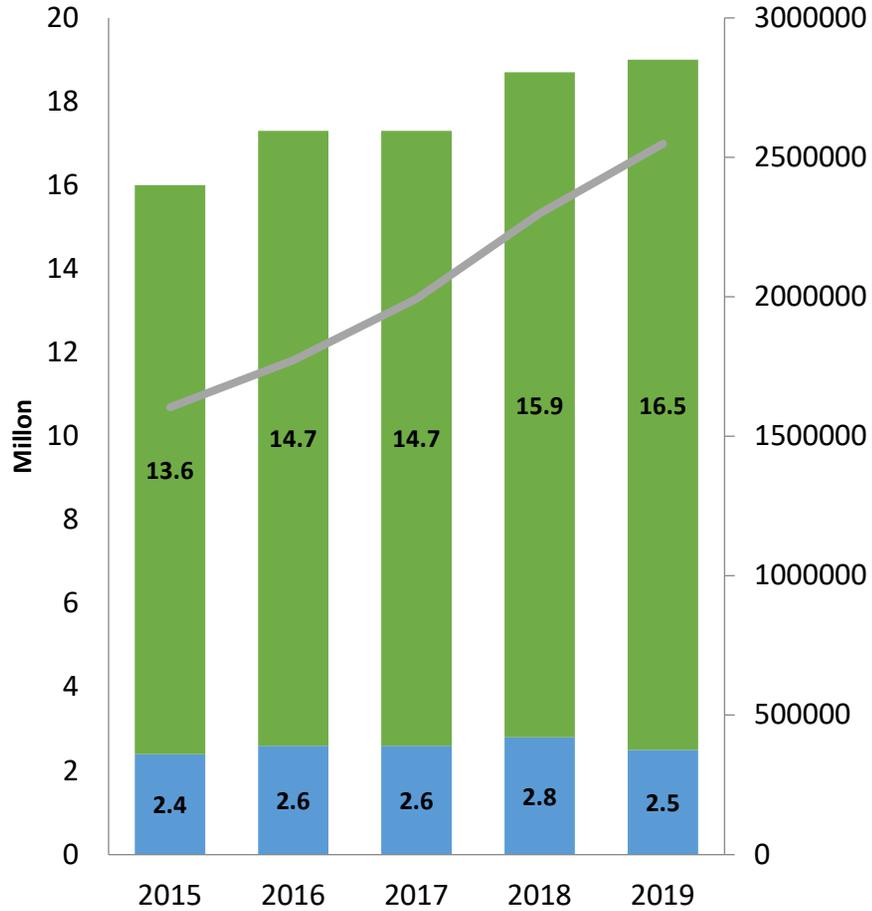
Other legislative acts and policies
for **termination, maternity,
healthcare, disability and social
safety nets**

SS Schemes in SL's Private Sector

Scheme	Financing	Management	Benefits
EPF (1958)	Employers: 12% Employees: 8%	Central Bank Monetary Board, Commissioner of Labour, EPF Dept	<ul style="list-style-type: none"> • Lump-sum at retirement = accumulated contributions + interest • Early withdrawal for exiting job/workforce, housing loans (75% col) & medical treatment
ETF (1980)	Employers: 3%	ETF Board of 9 members	<p>Lump-sum at retirement</p> <p>Early withdrawals: retirement, resignation, dismissal</p> <p>Welfare benefits:</p> <ul style="list-style-type: none"> • Life insurance • Disability insurance • Education scholarships (top per.) • Housing loans
Gratuity (1983)	Employer		Half month's/14 day's salary for each year of service

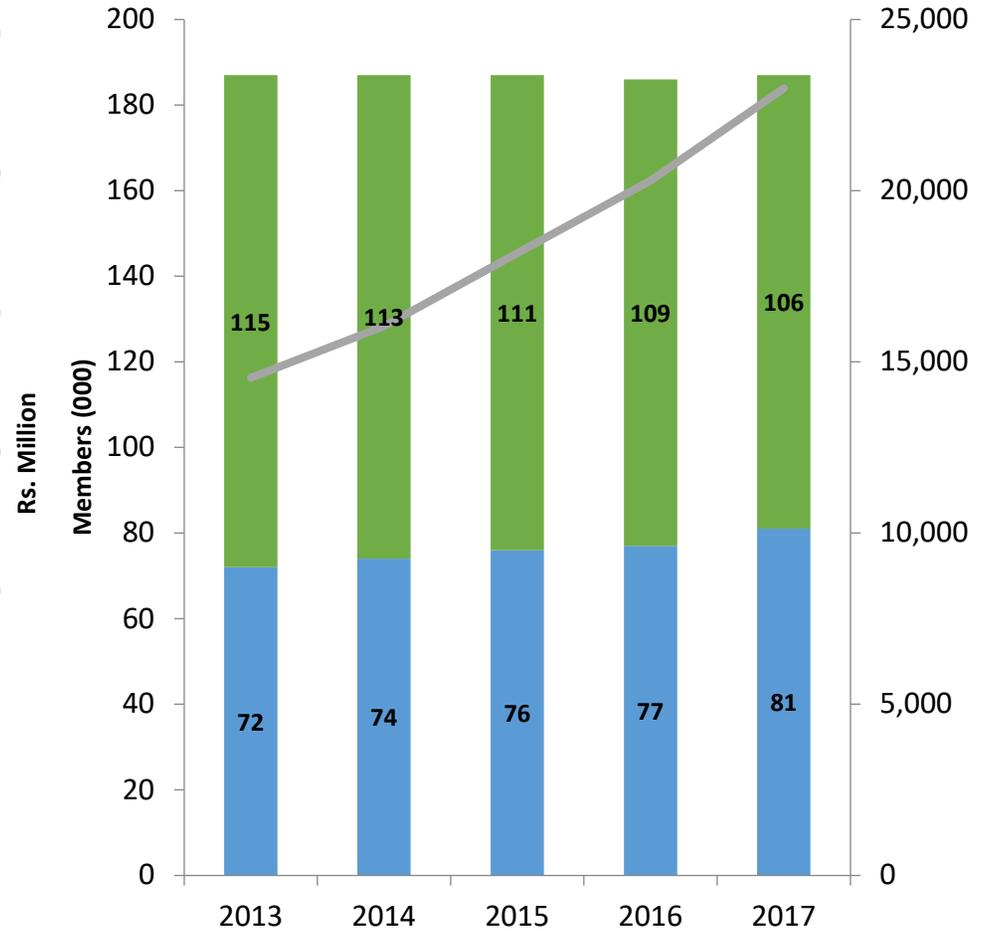
Investment Portfolio & Membership

EPF



Source: CBSL Annual Reports

ETF



Source: ETF Board, 2017

■ Active members ■ Inactive members
— Investment

BP1: Benefit Comparison



Maternity (paid leave)

India: 130

Brazil: 120

Thailand: 98

Singapore: 80

SL: 84



Sickness (paid leave)

Singapore: 14
(60 if hospitalized)

Malaysia: 8-16

SL: 7



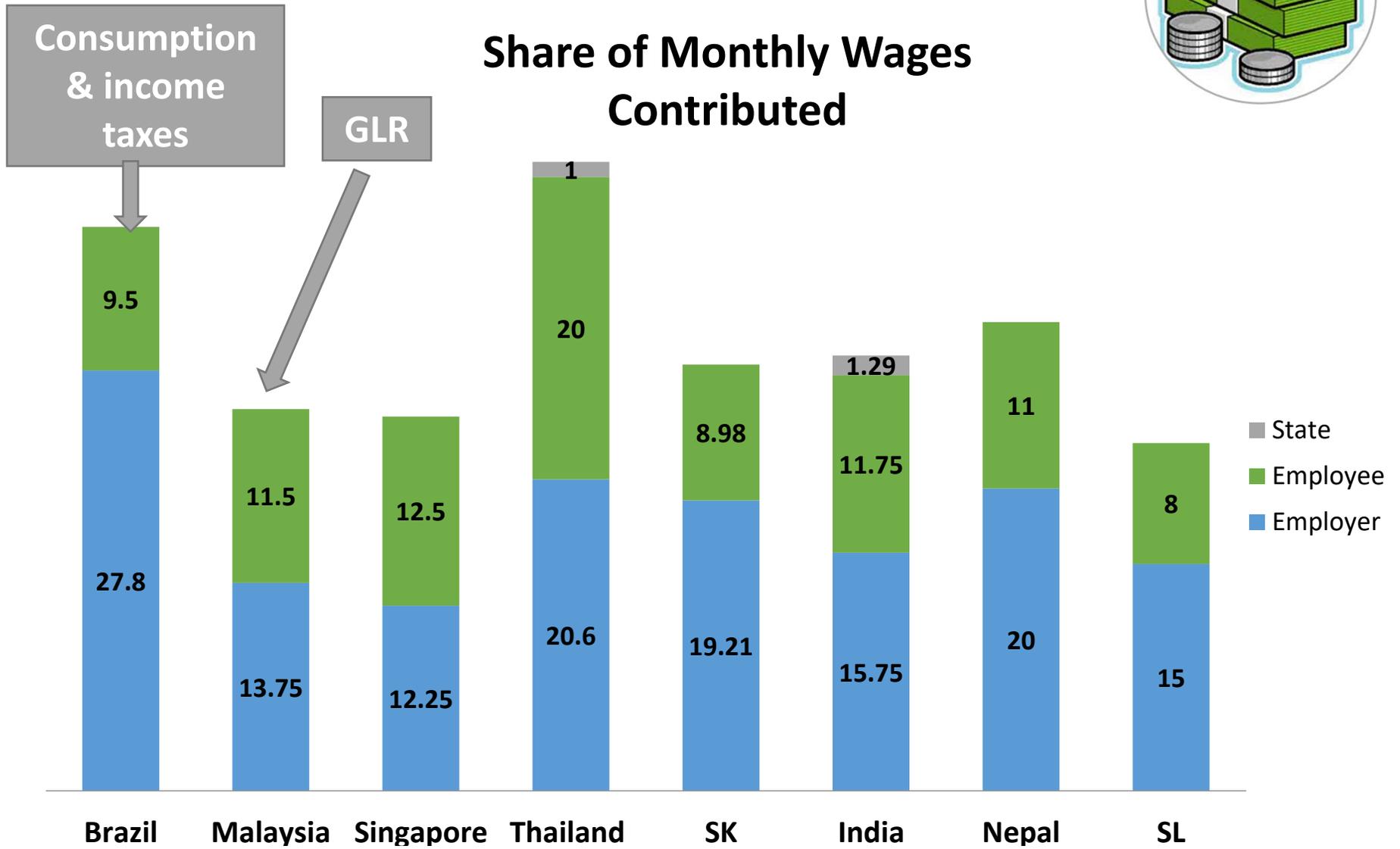
Disability (% of wage)

Brazil: 100% for 15 days; 91% thereafter; 125% if constant carer needed

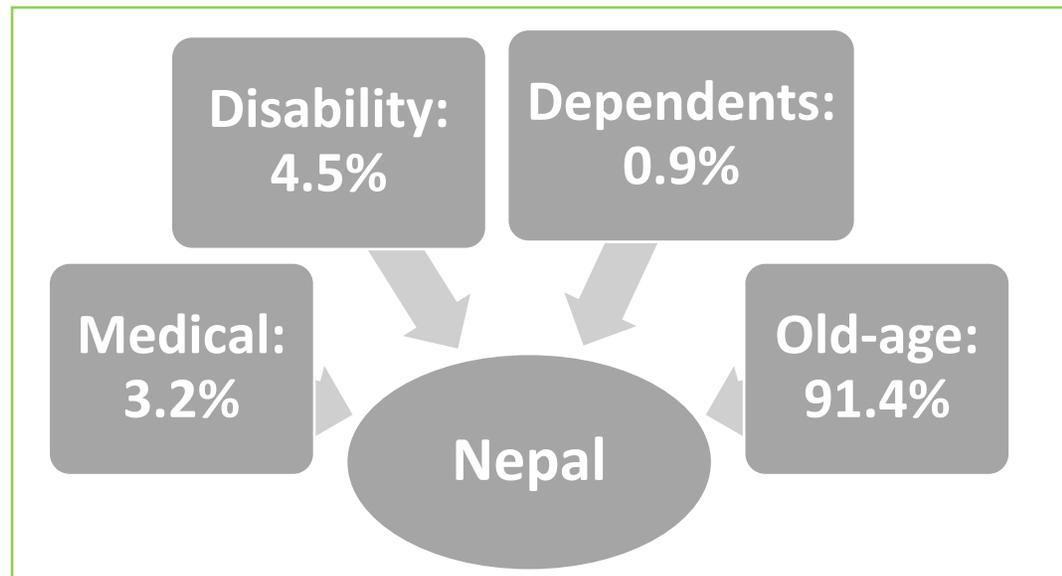
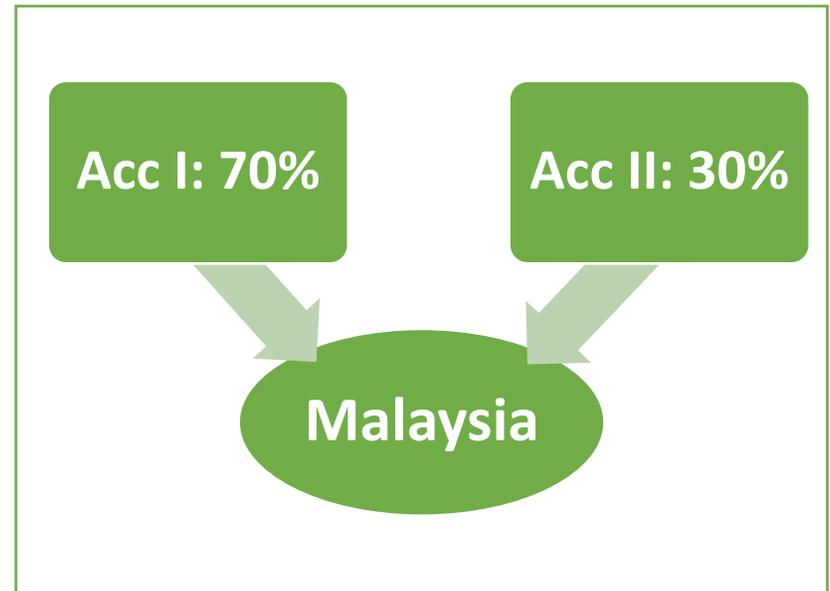
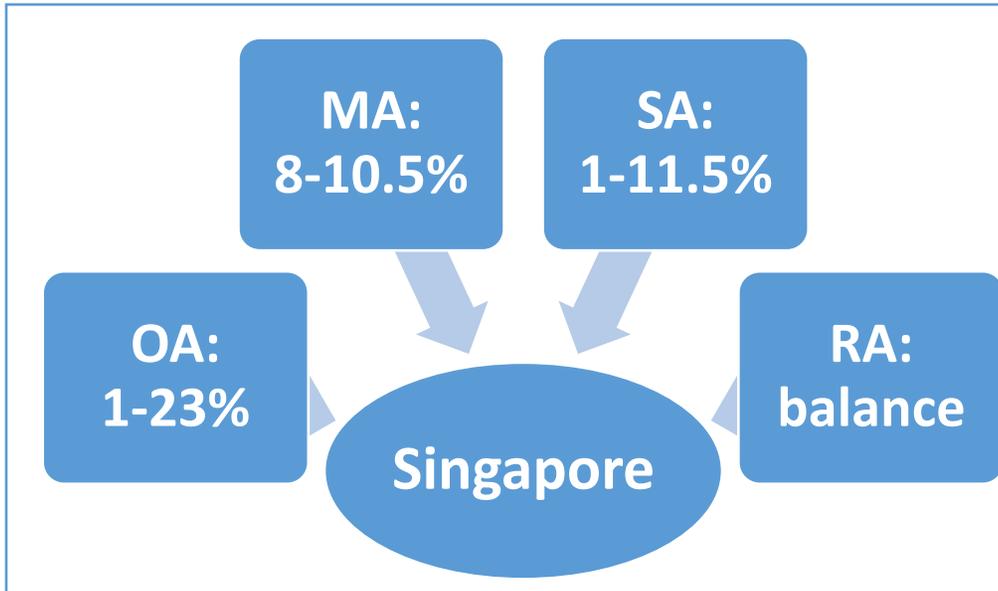
India: 60%

SL: Permanent:
Rs 550,000 one-off
Temp: Rs 5,500
every half month

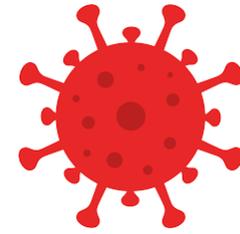
BP2: Financing the Fund



BP3: Channeling Contributions



BP4: Covid-19 Support



Job retention schemes

- **S'pore:** **25%** CPF employee wage cash grant to employers
- **SK:** Support companies to **reduce staff or suspend operations**

Wage subsidies

- **Malaysia:** allowance to pay wages if **loss of income over 50%**
- **S'pore:** **subsidies of 75% of wages** for the first S\$4,600 of wages paid to employees

Amending SS contributions

- **India, Malaysia, Thailand:** early withdrawals from PFs; cuts in contribution rates
- **Nepal:** Govt provided full employer contribution for firms closed due to lockdowns

Perceptions on Social Security in Sri Lanka

-Benefits, Coverage, Financing , Governance

Perceptions on EPF& ETF Benefits

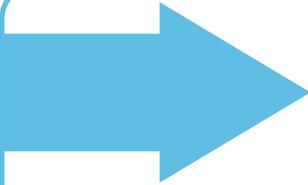
- **Fail to encourage regular contributions due to Inadequacy benefits** compared to contributions (59% Employers)
- Prevailing benefits are **outdated** (Ex: *Scholarship*)
- **Insufficient rate of returns** (Ex: poor investments, *erosion due to inflation and taxation*)
- **Lack of transparency** in how the funds are invested
- Lengthy and **cumbersome procedures in claiming benefits** (Ex: *Documentation in withdrawals*)
- **Poor service mentality under the current system** (Ex: Funds are a grant vs worker's own earnings)
- **Lack of awareness on services and benefits offered**

Other Social Security Benefits

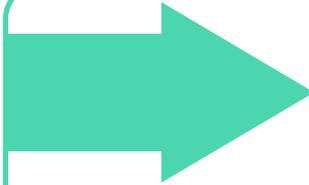
- The **absence of a health insurance** scheme for workers and their families
-
- Allowances offered for prevailing **health covers** are **insufficient** (Ex: Bypass surgery)
- Satisfied with gratuity payments as opposed to the EPF and the ETF (due to reliability)
- High acceptance on the Maternity benefit revisions in 2018 (Ex: Amalgamating rules and allowances under MBO & SOEA) (However, anomalies across public and private sectors)



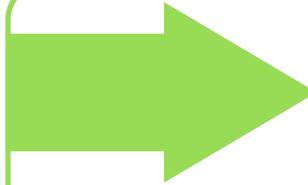
Coverage



Participation in EPF is low, although this is a requirement according to legislation



Benefit schemes are not attractive informal sector workers (i.e. to self-employed wage earners),



The coverage of gratuity payments deemed inadequate (do not cover small firms & outsourcing firms)

Financing during COVID-19 Crisis

Employee Perspectives:

Government needs to invest the funds better to get better returns, and supplementary funds during crisis

Revisiting contribution rates

Introducing other social safety nets

Employer Perspectives:

No further contributions should be expected from employers as they are shouldering the burden of all the private sector social security funds

Support during COVID-19 Crisis

Employer & Employee Perspectives

A majority of both employers (70%) and employees (56%) believe that the EPF/ETF should provide financial support during crisis situations

Trade Union Leaders

Govt to provide support through the EPF/ETF or through a "Crisis Fund"

Better relief to the unemployed due to the crisis

Reskilling and job search support to unemployed workers

Government Officials

No legal provision to provide additional benefits

The only legal provisions:

- Giving employees additional time to pay EPF contributions
- Reducing surcharges on delayed payments
- Providing flexibility to employers to pay in installments

Governance - Employer

- ✓ Management of funds needs to be improved
- ✓ (EPF) Sole management by the Government, with lack of representation from employers or employees
- ✓ No transparency, communication, or accountability, as to how the funds are managed or invested and how returns on investment are obtained
- ✓ Failure to adopt new technologies in terms of administering the fund, fast-tracking procedures, communicating information, and facilitating withdrawals has impeded improvements in efficiency
- ✓ Lack of professionalism

Governance – Government

- Funds are well managed by the Central Bank and the Ministry of Labour
- Decisions are taken after discussions at monthly meetings
- Representation is assured by discussions with the National Labour Advisory Committee (NLAC)

COVID-19 Insurance Tax (0.25% on turnover)

Employee Perspectives



69% are in favour COVID insurance tax

Tax viewed as a “social responsibility” amidst challenging situations

Against:

Businesses should not be burdened further
Sudden implementation in the proposed manner will have a detrimental impact on already suffering firms

Employer Perspectives



The Government should take responsibility for relief

The term ‘**tax**’ not a **conducive term** for social security contributions

No trust on how credibly the fund would be managed (e.g., not trust in governance of the EPF and ETF)

The tax should on profits, as opposed to turnover

Many SMEs unable to afford such a tax

❖ Replacing EPF/ETF with a Pension Scheme

Views regarding replacing EPF and ETF with a pension scheme are *mixed*:

FOR

“Good because it gives flexibility to select a customisable plan”

“A pension scheme would also be more sustainable, beneficial, and provide better security to many workers who may not use a one-time lump-sum payment responsibly and wisely”

AGAINST

“Erosion of the real value of EPF and ETF when it is claimable owing to inflation”

“Many employees who have been expecting to receive a lump-sum do not want the ETF to be replaced by a pension scheme”

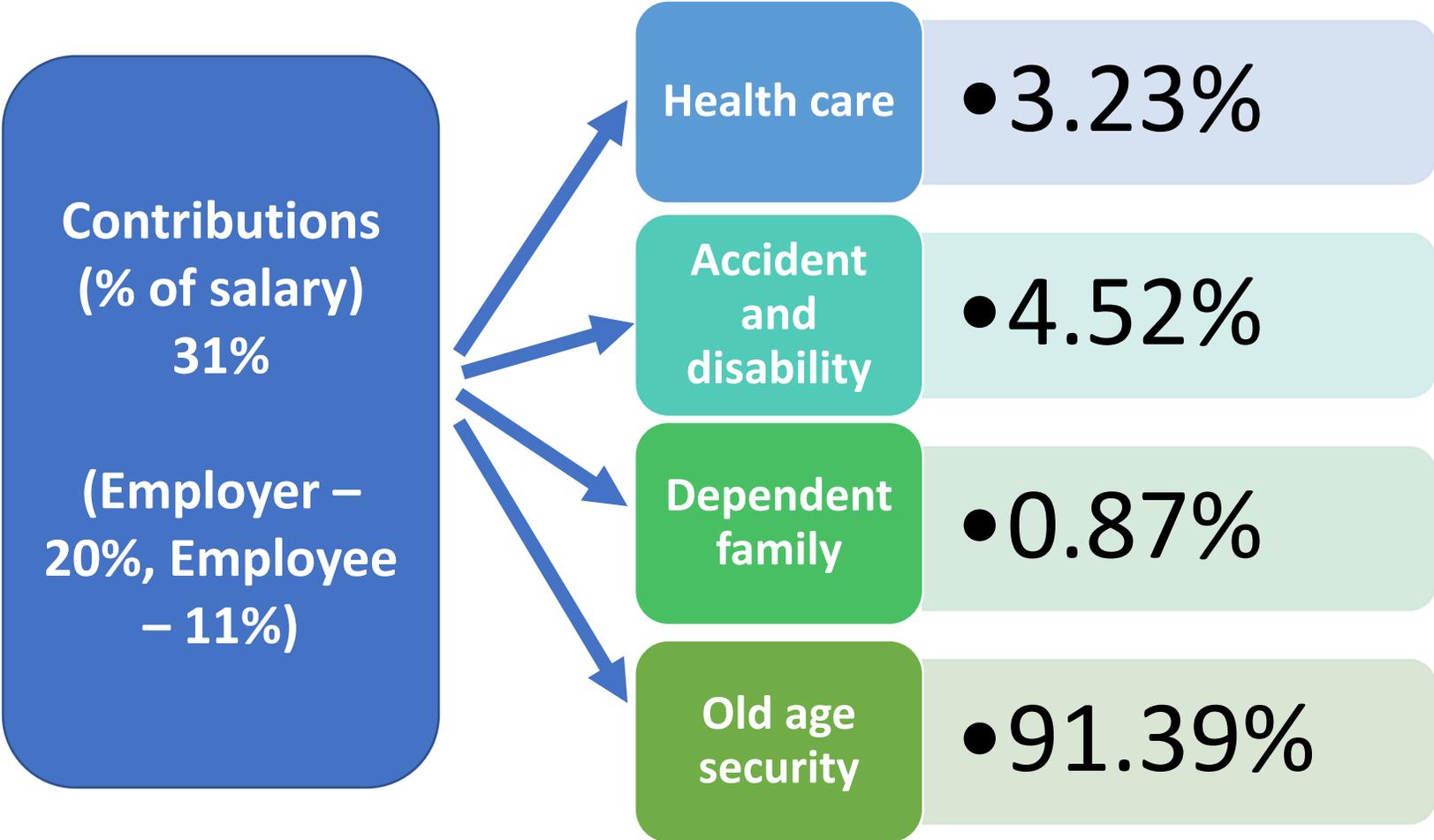
“EPF cannot be substituted, to which workers have been contributing and expect to receive their full savings upon retirement”

Recommendations

- **Use existing SS contributions to provide more types of benefits**
- Improve governance of social security funds by
 - Inclusive professional representation in management boards
 - Better transparency and accountability through timely and comprehensive information
- Improve efficiency of services through digitization and professional staff
- Improve adequacy of funds for low income earners by
 - Regulating minimum payment
 - Not charging taxes
- Awareness programmes to educate workers regarding benefits

Using SS funds for better benefits

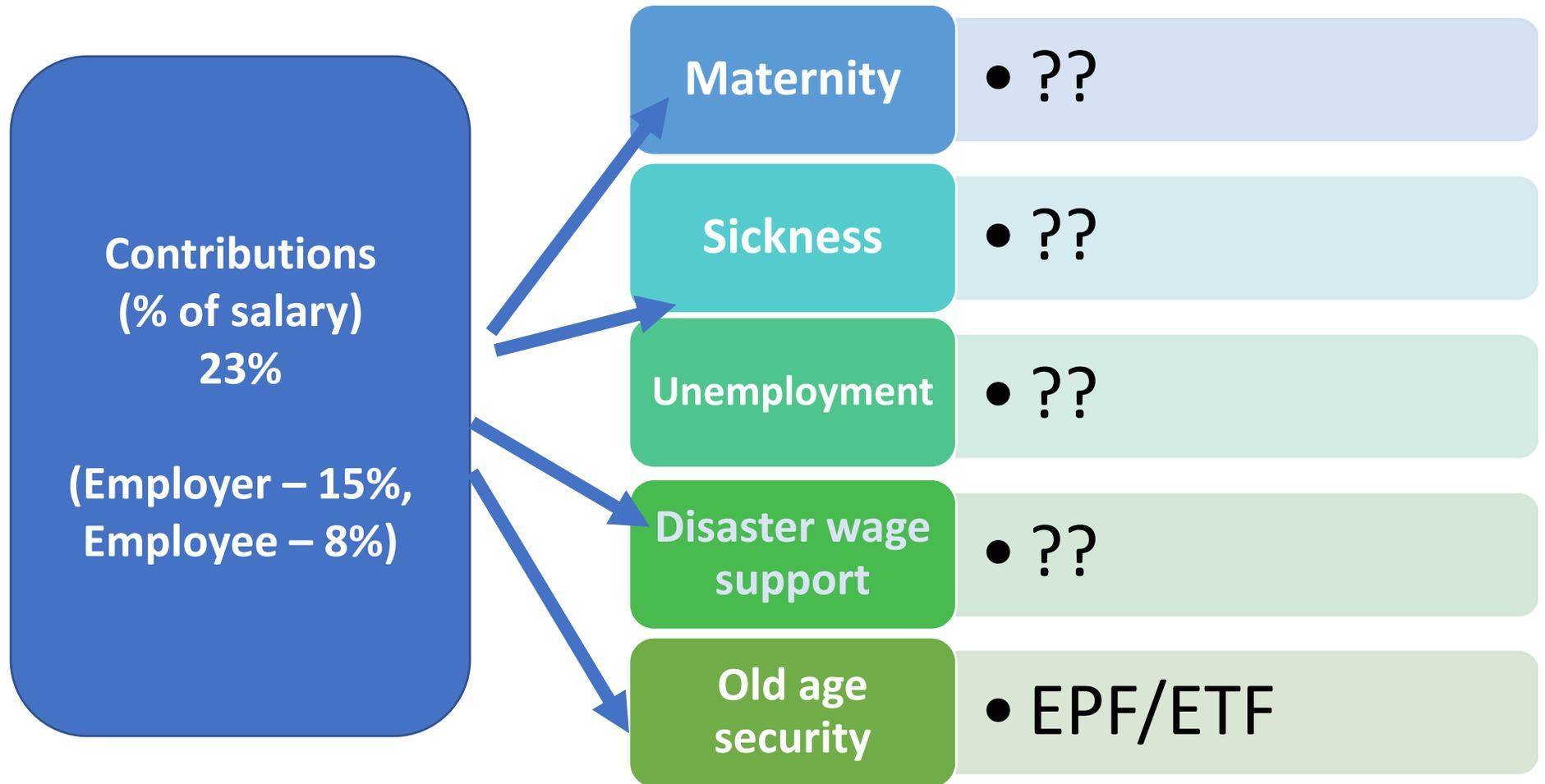
How Social Security funds are channeled in Nepal



Social Security (Minimum Standards) Convention No. 102 of 1952

Benefit	C. 102	Comment
Medical care		Available from public hospitals
Sickness	45% wages 6 months	Some paid sick leave for 7 days
Unemployment	45% wages 3 months	Some benefits from gratuity, ETF payments but 5+ yrs service
Old age		EPF/ ETF
Employment injury		Compensation available but no wage benefits
Family benefit		
Maternity	45% 12 weeks	Sole responsibility on employer
Invalidity		Some benefits from EPF, ETF
Survivor's		Some benefits from EPF

Recommendation – Channel funds to different accounts for different purposes



Nature of benefits

ILO C.102 on Social Security – Minimum Standards

Type of benefit	Length of benefit	Benefit level (Percent of wages)
Maternity*	84 days	100
Sickness	6 months (26 weeks)	45
Unemployment	3 months (13 weeks)	45
Disaster wage support	3 months (13 weeks)	45

Source: ILO Social Security (Minimum Standards) Convention No. 102 of 1952

Maternity Benefit

$$(1) MB = \sum B^a * \mu DWR^{as} * 84$$

Assumptions: ASFR general = ASFR for working women; 20days of work a month.
84 – number of legislated days of maternity leave

Age group	Age specific fertility rate(ASFR) (per 1000 women)	No. Births per female permanent worker	Average daily wages of a female (LKR)	Cost of maternity benefits (LKR Mn)
		$A= B^a$	$B= mDWR^{as}$	$MB=A*B*84$
15-19	36	392	785	26
20-24	107	8477	1054	750
...				
Total				6,786

Sickness Benefit

$$(2) \quad SB = \sum S^s * \mu MWR^s * 6 * 0.45$$

Item	Male	Female
Number of employed persons not working due to sickness injury or personal reason ¹	7035	4,156
Ave monthly wages	38,504	30,895
Cost of wages support during sickness or injury (Assuming 45% of wages for six months) (LKR MN)	731	346
		1,078

Note: 1 Based on LFS data

Unemployment Benefit

$$(3) UB = \sum \sum UE^{as} * \mu WR^{as} * 3 * 0.45$$

3 months- Duration of benefit

Age group	No. of unemployed with social security funds ^{2 1}		Yearly cost of unemployment benefits (LKR MN)
	Male	Female	
20-24	13316	30676	1,684
25-29	50601	8131	1,600
Total			5,266

Note: 1 Based on LFS data

Wage support during disasters (WS)

$$(4) \quad WS = \sum \sum DUE^s * 3 * \mu WR^s * 0.45$$

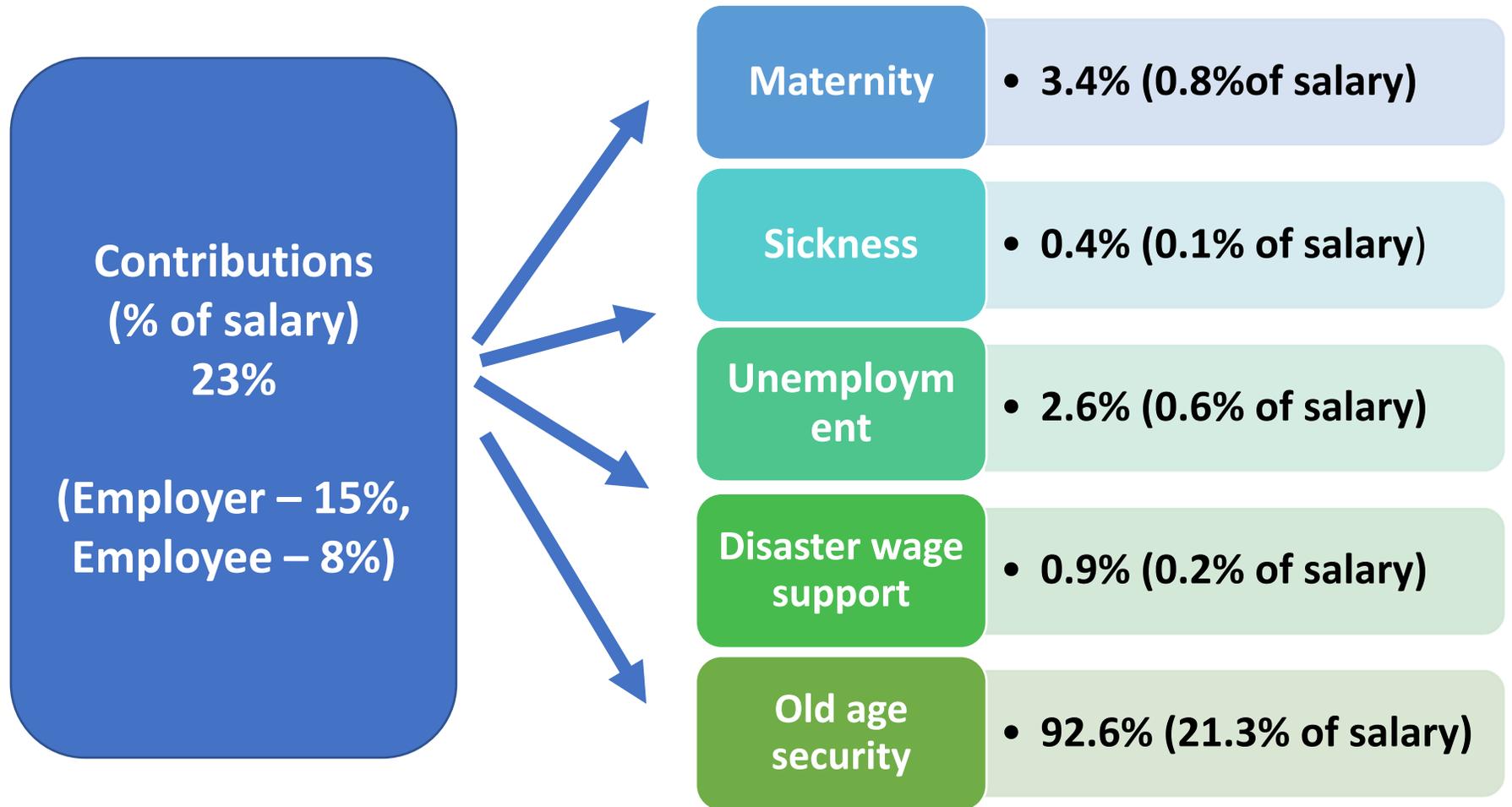
3 months – duration of benefits

Age group	Male	Female
Increase in UE during COVID-19	1%	0.8%
Number unemployed	53035	24057
Number of SS contributors unemployed	21953	14176
Disaster wage support (for 3 months = 45% wages for three months) (LKR MN)	1,141	591
	1,732	

Cost of all benefits

	Total wage bill of permanent workers	Maternity benefit	Sickness benefit	Unemployment benefit	Disaster Wage subsidy	Total
Wage bill/ Cost of benefit (LKR Mn)	866,939	6,786	1,078	5,266	1,732	14,862
As a share total wage bill	100%	0.8%	0.1%	0.6%	0.2%	1.7%

Recommendation – Channel funds to different accounts for different purposes



Recommendations

- Use existing SS contributions to provide more types of benefits
 - This could result in greater participation
- Improve governance of social security funds by
 - Better representation of stakeholders in management (representatives of employers, workers and government)
 - Professional representation in management boards
 - Improve transparency and accountability through regulation to issue timely and comprehensive information on management decisions, investments and returns
- Improve efficiency of services through digitization and professional staff
- Improve adequacy of funds for low income earners by
 - Regulating minimum payment
 - Not charging taxes
- Awareness programmes to educate workers regarding benefits

Thank you!



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