Status of Social Protection of Elderly in Sri Lanka

Workshop on the World Bank’s Study of Ageing

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Hilton Residencies
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Outline

Recent Assessments
Formal Schemes
PSPS: An object lesson?
Issues
Agenda for Research
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Recent Assessments

- ILO Phase I: Assessments of Farmers, Fishermens’, Self-Employed and EPF schemes, Focus groups of pensioners, Community NGOs
- ILO Phase 2: Assessments of migrant workers, domestic workers, PSPS, labour force trends, overview paper
- IPS HPP/UK DFID: Projection of fiscal costs of PSPS
Gaps in social security coverage

Health care

- Government hospital system explicitly designed in 1940s as insurance system - tax-funded hospitals = health insurance (Jennings, 1948)
- System continues to perform insurance function - Sri Lankan poor better protected than rest of South Asia, many SE Asian countries, China
- Deficiencies: Burden of out-of-pocket payments for drugs, specialist primary care, long-term care
- Comparators: Hong Kong SAR, Malaysia, Mauritius, Jamaica
- Future: Social Insurance/Taxation or Taxation?
Gaps in social security coverage

- **Unemployment insurance**
  - No current system.
  - Scheme proposed for public enterprises - not true unemployment insurance

- **Disability insurance**
  - No current system. Disabled can apply for state assistance - but limited

- **Income security when old**
  - Major challenges remain
Situation of the Elderly

- Elderly are currently not more likely to be poor - can depend on family support
- Income sources of elderly -
  - Family transfers ~ 15%
  - Work ~ 33%
  - Pensions ~ 17%
  - Most elderly own their homes/pensioners less poor
- Potential future problems
  - Declining family sizes -> declining transfers
Social Security Coverage

- Eligibility not the same as coverage
  - Voluntary schemes - not everyone joins and is covered. Not all those who join maintain membership (e.g., Farmers)
  - Mandatory schemes - not everyone is covered who should be. Might be evasion, fraud, lack of knowledge (e.g., EPF/ETF)

- Eligibility and coverage are both low
  - Eligibility ~ only 54% of working age population
  - Coverage ~ only 28% of working age population
Who is potentially in work?

- Sri Lanka population: 20 million
- Working age Population: 13 million
  - Children: 29%
  - Elderly: 5%
  - Participating in LF: 40%
  - Not participating in LF: 26%
Who is potentially eligible?

- Civil servants: 23%
- Private employees: 40%
- Farmers/Fishermen: 17%
- Self-employed: 7%
- Migrants: 7%
- Students: 6%
- Housewives: 4%
- Others: 16%

Not eligible: 6 million
Who is actually covered?

- 28% Enrolled Farmers/Fishermen
- 12% Enrolled Self-employed
- 23% EPF members
- 9% Self-employed
- 1% Private employees
- 1% Not covered

Total not covered: 3.5 million
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Public Servants Pension Scheme

- Covers 8 lakhs civil servants
  - 3 lakhs pensioners.
  - Closed to new entrants in 2002

- Features:
  - Provides high level of replacement income, but lack of automatic inflation adjustment causes dissatisfaction -> reactive adjustment.
  - Provides significant insurance benefits to widows, orphans
  - Major defect - too early retirement (58 yrs versus 67 yrs in private)

- New scheme (2002)
  - Reduction in replacement level
  - Substantially removes insurance features for early death
  - Does not substantially address early retirement problem
Employees’ Provident Fund

- 1.9 million active members (2003)
  - Contributory-accounts based system
  - Minimal insurance and other benefits

- Features:
  - Low replacement level - Male worker working 42 yrs will receive lump sum only worth 65% of final wage. For women and those not working continuously lump sum is much less (<20%)
  - No mechanism to convert lump sum into pension
  - Investment return in recent years is good - low admin costs
  - Some level of evasion - difficulty to counter?
  - In practice, PAYG in context of high fiscal deficit
Farmers and Fishermen’s Schemes

- Voluntary schemes
  - Mostly contributory, but government subsidy necessary
  - Eligible ~ 1.1 million farmers, 50,000 fishermen
  - Enrolment ~ 0.6 million farmers, 40,000 fishermen
  - Actual coverage ~ 0.4 million farmers, 30,000 fishermen

- Issues:
  - Pension benefit is not inflation indexed - will be worthless for most. Current adjustments are ad-hoc via cabinet
  - Fixed contribution schedule barrier to participation
  - Lack of government commitment to honour subsidy major constraint to further expansion
  - High administrative costs. Inadequate technical capacity
Self-Employed Scheme

- Voluntary scheme
  - Mostly contributory, but government subsidy necessary
  - Eligible ~ 1.1 million self-employed workers
  - Enrolment ~ 40,000 (4%)
  - Actual coverage ~ 30,000 (3%)

- Issues:
  - Pension benefit is not inflation indexed - will be worthless for most.
  - Fixed contribution schedule barrier to participation
  - Lack of government commitment to honour subsidy major constraint to further expansion
  - High administrative costs. Inadequate technical capacity
Migrant workers

= Temporary contract workers

- 1.1 million - Most in Middle-East, SE & E Asia. 10% of workforce.
- 70% women, most unskilled, poor - heavy social/family cost
- Major contribution to national economy (17% of national savings, biggest source of foreign exchange)

Issues:

- No coverage - most cannot participate in host countries
- Do generate substantial savings ($1-2 billion), but no mechanism to channel into social security system. Constraints to imposing mandatory requirements
- Potential for developing voluntary pension/term insurance products under EPF management?
- Legal obligation to extend right to vote
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Ratio of average public sector salary to per capita GDP

World Bank Data
Importance of raising retirement

<table>
<thead>
<tr>
<th>Year</th>
<th>Years in work</th>
<th>Years in retirement</th>
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</thead>
<tbody>
<tr>
<td>1947</td>
<td>30</td>
<td>17</td>
</tr>
<tr>
<td>2000</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>2025</td>
<td>30</td>
<td>31</td>
</tr>
<tr>
<td>2025 with retirement at 65</td>
<td>40</td>
<td>22</td>
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</tbody>
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Legend:
- Gray: Years in work
- Green: Years in retirement
Public Sector Wages and Pension Model (2003)

- Actuarial projection model 2001-2051

- Inputs
  - Historical data on inflation adjustment of PSPS
  - Macro-economic model (GDP, inflation)
  - Demographic projection model & standard life-table
  - Pensions Dept data on age/sex distribution of new pensioners and annual pension payments
  - Assumptions on wage increments by age

- Parameters
  - Size of public sector workforce relative to population
  - Mean age of retirement
  - Pension and wage indexation
PSW&P Fiscal Costs

Wage & pension cost (% GDP)

- Inflation indexation of W & P
- GDP per capita indexation
- Increase in retirement to 65 yrs
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Key Issues 1

- **Eligibility for social security will stall at 55%**
  - Effective coverage may not go much beyond 40-45% of labour force because of limitations in current schemes
  - 70% of those left out are women, and most are below-average income - the very groups in most need of social security

- **Basic constraints in current schemes**
  - Poor replacement levels, & lack of inflation-indexation in benefits
  - Lack of proper pension benefit in EPF
  - Large gap in social protection: (1) Voluntary schemes impossible to fully extend to low-income workers outside formal sector; (2) Cannot cover the large numbers not in formal work (students, dependent house-wives, family workers, chronically ill, etc)
Key Issues 2

- Weak policy formulation
  - Underlying rise in effective retirement age not supported by current policies, even though this is critical intervention (IMF/OECD)
  - Implicit direct/indirect subsidies being given to elderly, but ignored by policy framework (e.g., liabilities in farmers pension, income transfers to poor)
  - Despite subsidies being given, no explicit strategy as to how and for whom subsidies will be necessary
  - Government’s goal of greater labour market flexibility is not consistent with pensions approach which allows for no cross-sector portability in pensions benefit or flexibility in life-time contributions
  - Failure to see social security reform as a social and political process with path dependence - Lack of recognition of need to incorporate opinion of public and key stakeholders into policy formulation process - makes for unrealistic and unimplementable policy
Key Issues 3

- Weak technical capacity
  - Strategic planning suffers from limited national expertise on issues - national ownership critical for effective, sustained reform
  - Underdevelopment of technical capacity advising government - wrong tendency to see problems as purely technical economic ones (Incomplete analysis)
  - Lack of national awareness of social security experiences in relevant Asian market economies: Japan, Taiwan, Thailand, Malaysia, Korea; and in advanced democracies such as UK, USA, France, Sweden, etc.
  - Limited human resources to manage costs of multiple pension schemes - eg: actuaries
Key Issues 4

Leadership myopia

- Failure to learn that sustained market-driven growth requires social stability - Latin America versus Germany, UK, USA, Japan, Korea, Taiwan, Thailand, etc.
- Failure to appreciate pensions as part of overall compensation package
- Failure to see connection between funding of schemes and need for fiscal consolidation
- Failure to plan for public pressures for increased coverage
Critical Questions

- How likely is that Sri Lanka can ignore need for universal social security?
- Can social security be extended without government fiscal commitments?
- Can expansion succeed incrementally without a coherent national strategy?
- What next?
Likely outcomes

- Pensions coverage will be rolled out to non-formal sector/non-workers
  - Historical record, political economy and public opinion polling do not support ability of state to resist

- Pensions expansion will be piece-meal and unplanned

- High risk of inefficient, high cost schemes with gaps in coverage
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Research Agenda: Policy options

- Better understanding of alternative road-maps
  - International comparative review for Sri Lankan audience of lessons from pensions/social security expansion in democratic industrialising Asian market economies with substantial rural populations (Japan, Korea, Taiwan, Thailand, Malaysia)

- Systematic appraisal of political economy
  - International comparative review for Sri Lankan audience of impact of public opinion on pensions/social security expansion
  - Appraisal of long-term political economy constraints parameters in Sri Lanka
  - Public opinion polling of preferences and demands of population
Research Agenda: Current schemes

- PSPS reform as role model
  - Modelling of impact of revising retirement policies with more flexible/realistic wage assumptions
  - Incorporating realistic life expectancy assumptions
- Compliance and coverage of EPF
  - Population survey using CSD LFS linked to EPF records to determine actual coverage and evasion rates
  - Scenario modelling of costs/benefits of introducing redistributive elements, changing payroll rates and altering retirement behaviour
- Governance and performance of APPFs
  - Detailed survey of actual APPF performance and portfolio management practices
  - Assessment of governance issues arising in new APPFs