

Status Assessment of Social Security Provision in Sri Lanka



Findings of the ILO Diagnostic
Assessment and Issues Studies

ILO National Seminar

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Institute of Policy Studies



Outline

Organization of studies

Gaps in social security

Key Findings: National Trends

Key Findings: Existing Schemes

Key Issues

Next Steps



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Organization of the ILO Assessment



- Phase 1: Assessments of Farmers, Fishermen's, Self-Employed and EPF schemes, Focus groups of pensioners, Community NGOs
- Phase 2: Assessments of migrant workers, domestic workers, PSPS, labour force trends, overview paper



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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
- Future: Social Insurance/Taxation or Taxation?



Gaps in social security coverage

■ Unemployment insurance

- No current system. No proposals for reform
- 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



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Population Trends

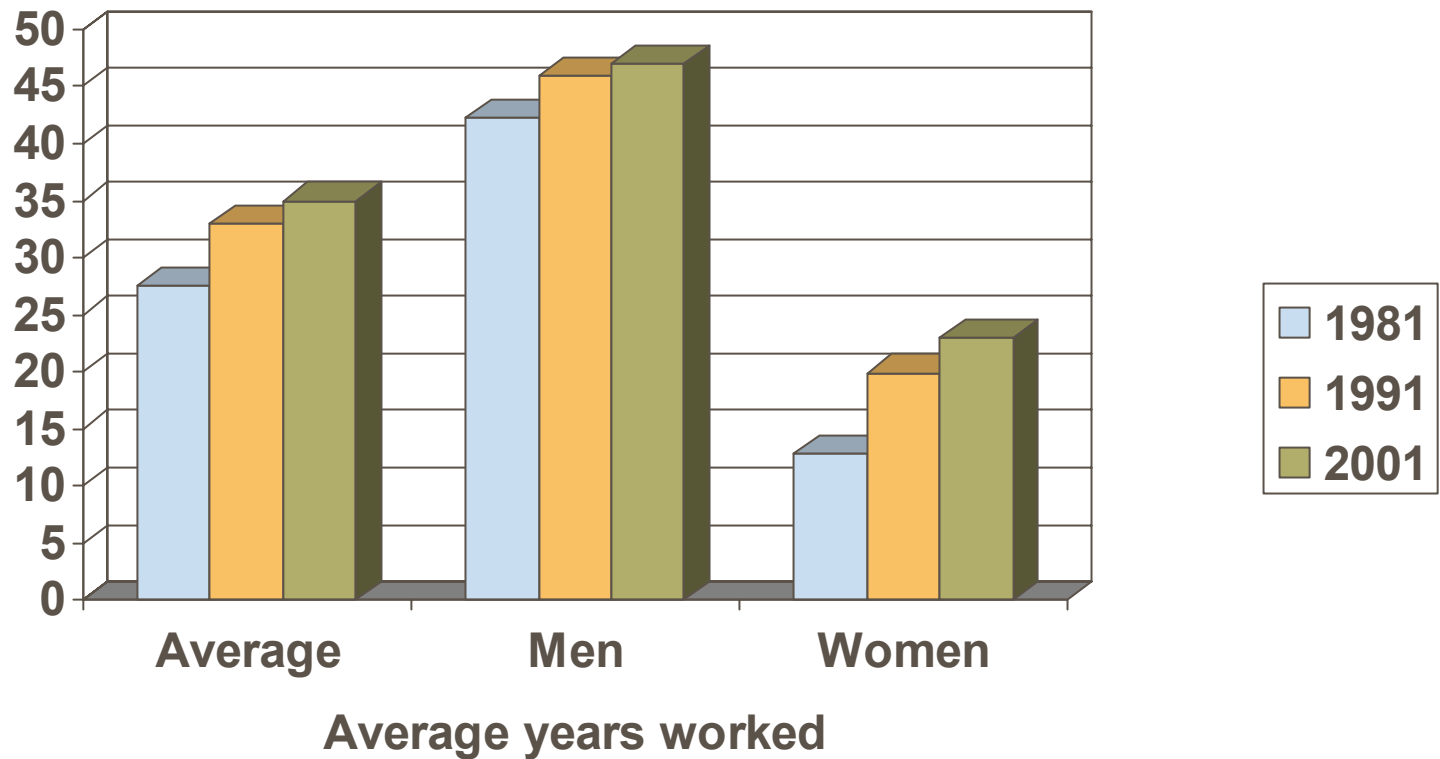
- Sri Lanka population = 20 million (includes 1 million temporary migrant workers)
- Ageing
 - Fertility is below-replacement level (TFR 1.9)
 - Life expectancy ~ 73 years
 - Percentage aged > 65 years, 1990 = 5.4%
 - Percentage aged > 65 years, 2000 = 7.0%
 - Percentage aged > 65 years, 2030 = 17.0%
 - Elderly increasingly female (60% of those aged over 65y)
- Household size is declining (5.2 -> 4.2)



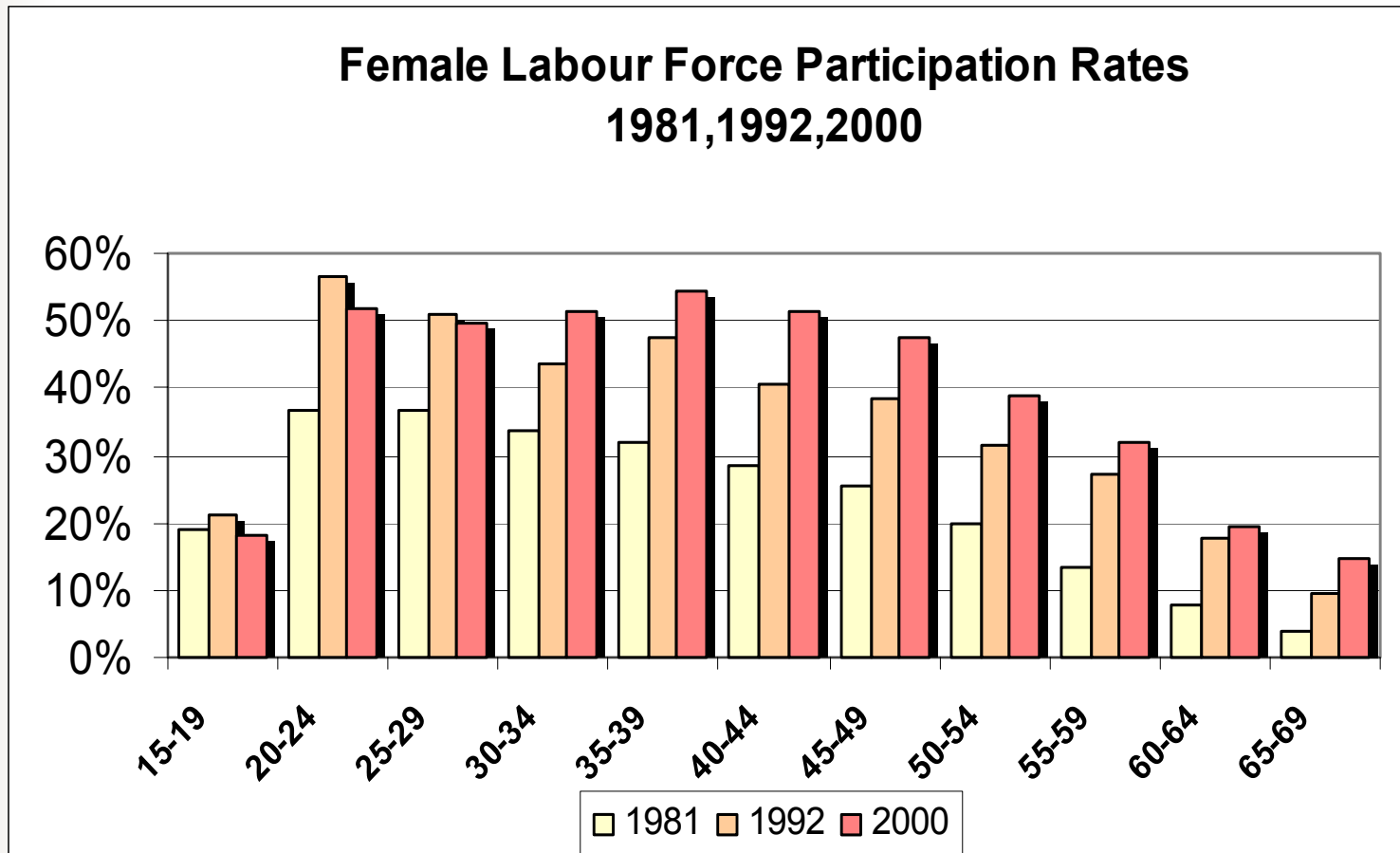
Labour Force Trends

- Population aged 18-65 years - 66%
- Labour force participation rates increasing in 1980-90s:
 - More for women, but big gender disparity exists
 - Increase in full-time work, but many self-employed
- Sri Lankans retiring later
 - Average age of retirement for men - 67 years
 - Rising average number of years worked

Sri Lankans are working longer



Female Labour Force Participation Rising





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
- Potential future problems
 - Declining family sizes -> declining transfers



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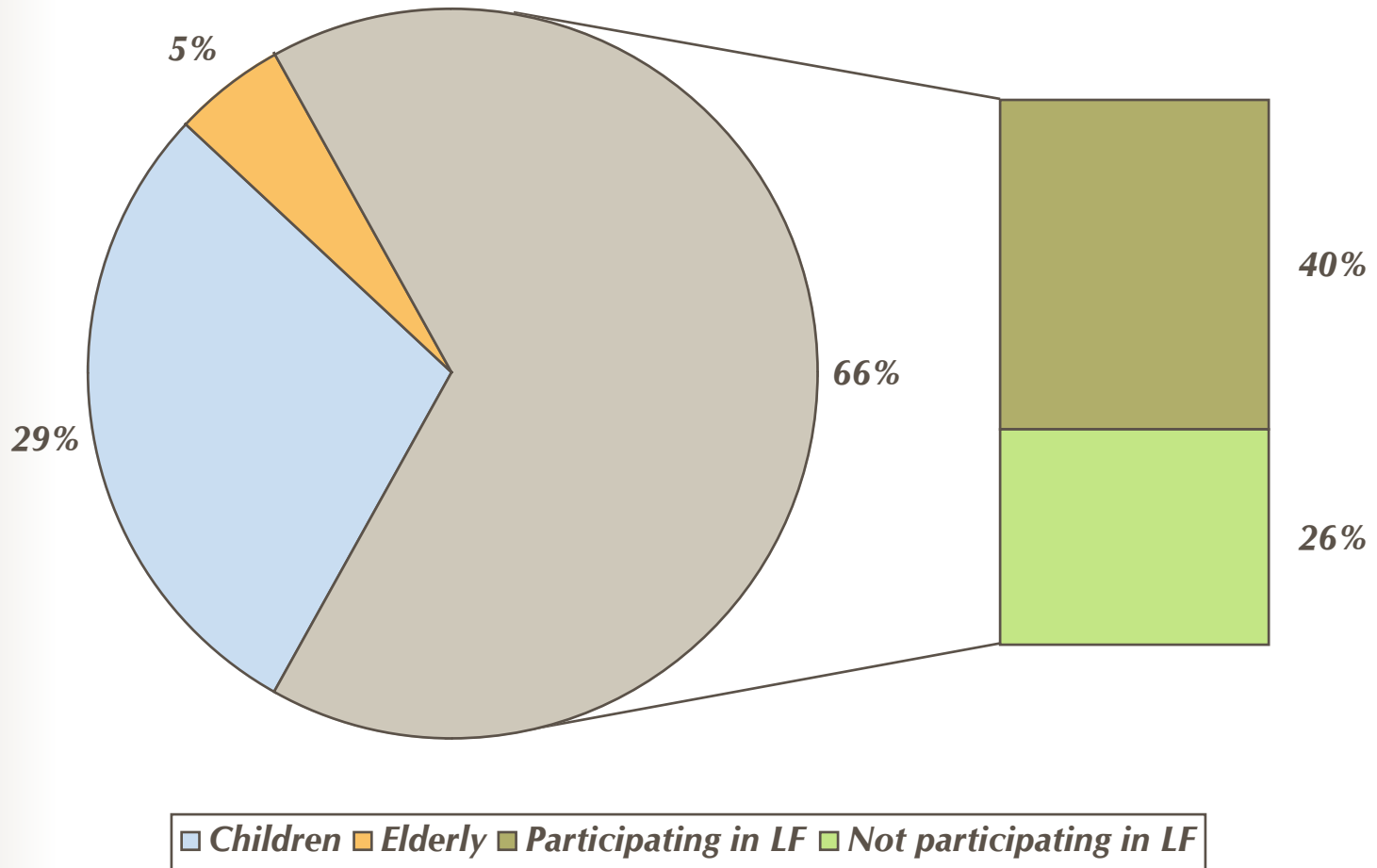
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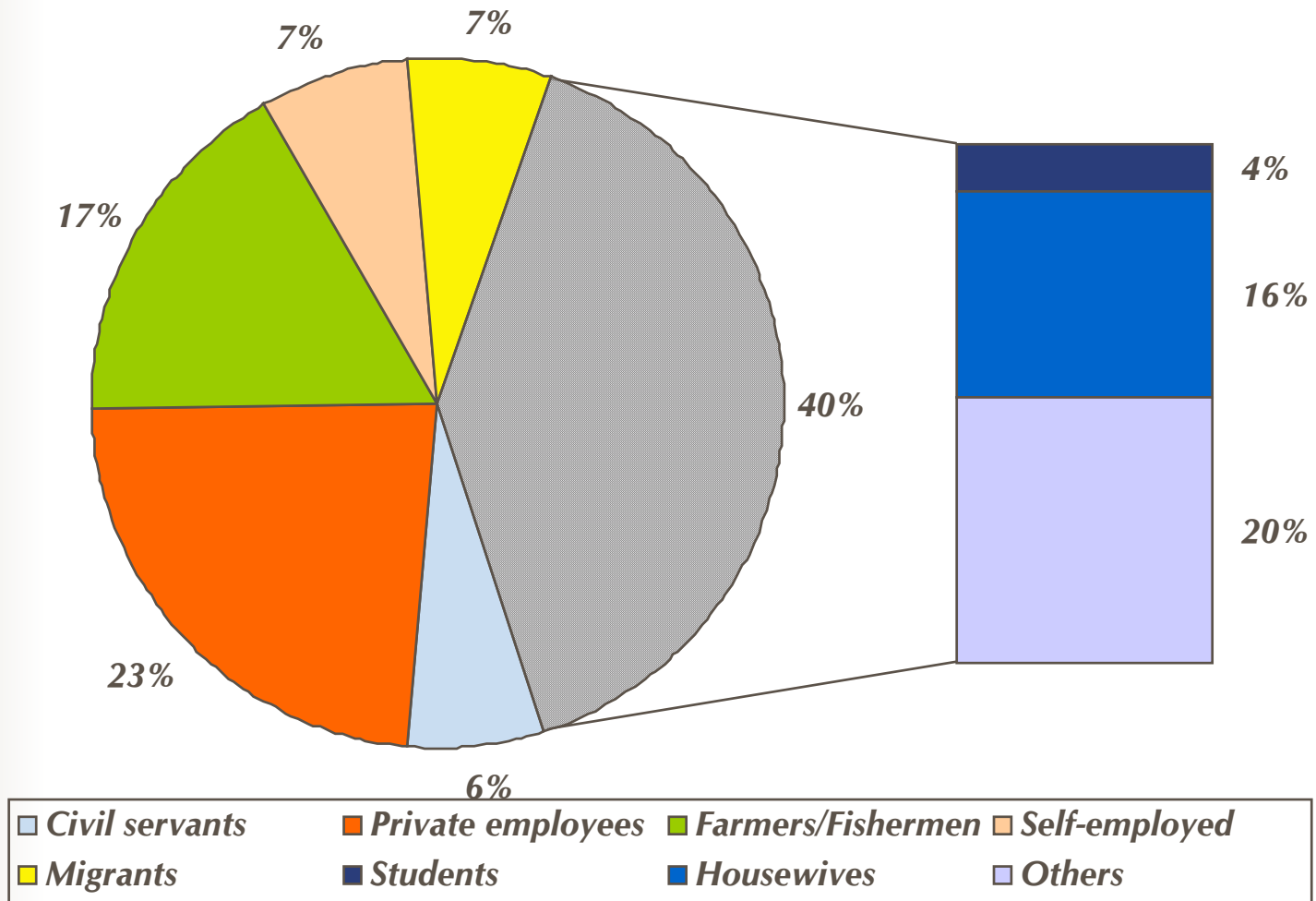
Social Security Coverage

- 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

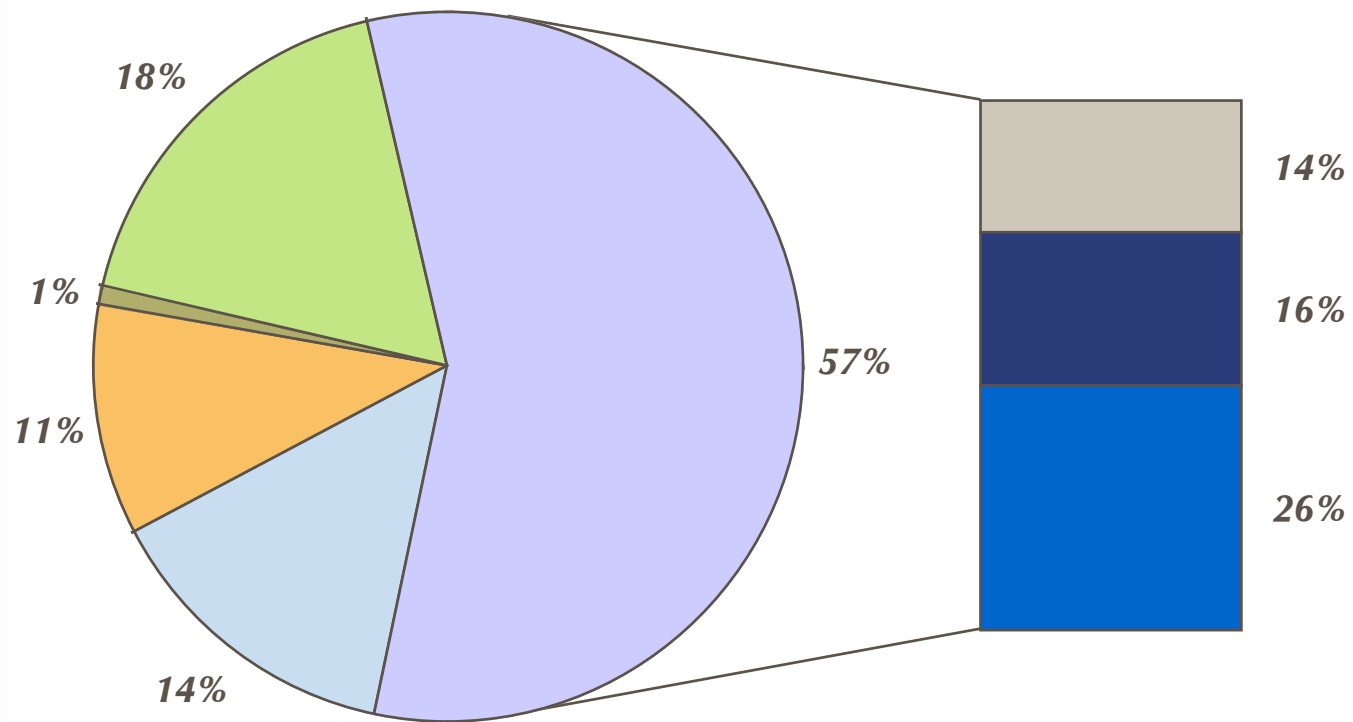
Who is potentially in work?



Who is potentially eligible?

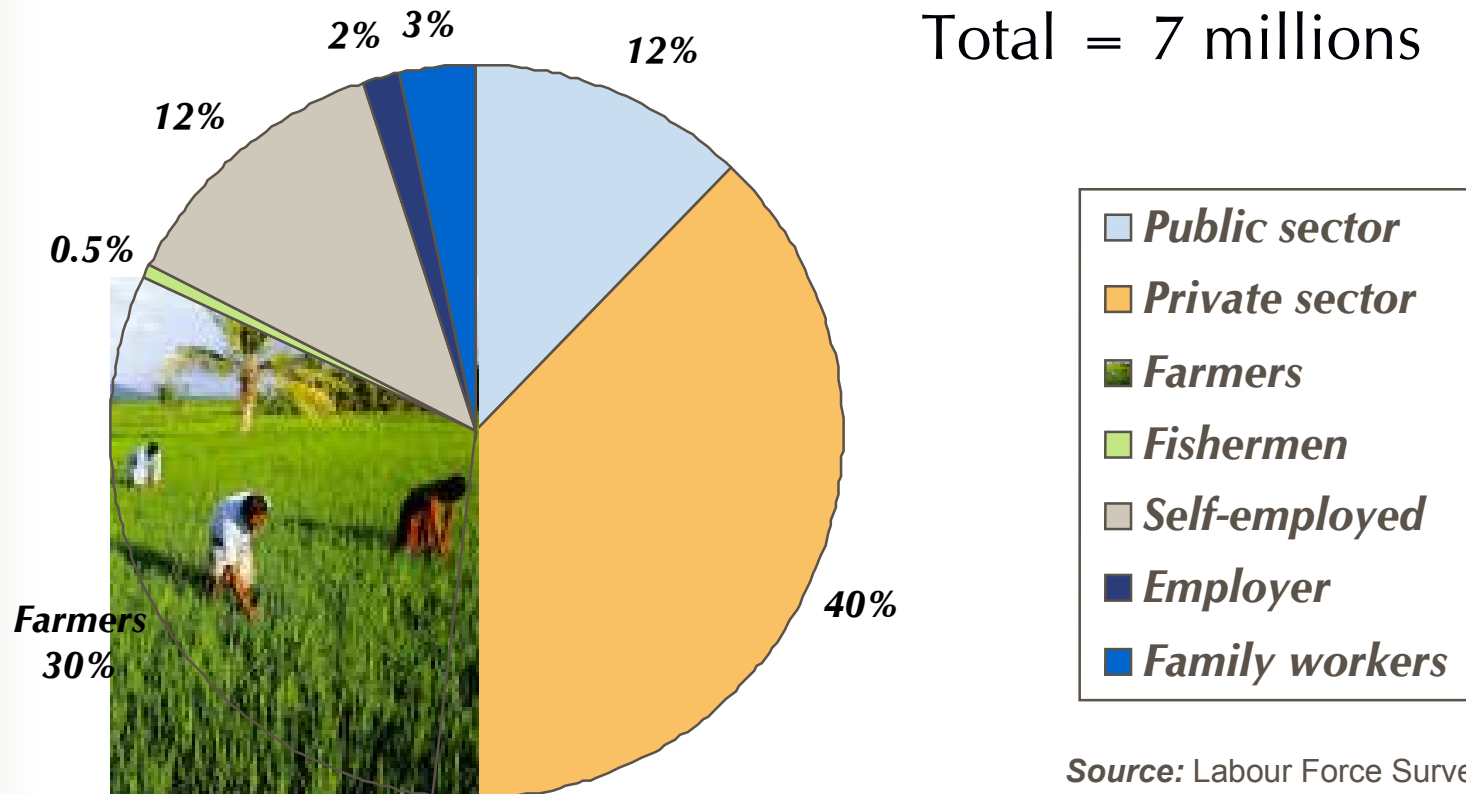


Who is actually covered?



Sri Lankan Labour Force, 2000

Total = 7 millions



Source: Labour Force Survey 2000
(Excludes EP & NP)



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 no lack of COL adjustment causes dissatisfaction. Provides significant insurance benefits to widows, orphans
- Major defect - too early retirement (58 yrs versus 67 yrs in private)

■ New scheme (not published)

- Reduction in replacement level
- Substantially removes insurance features for early death
- Does not substantially address early retirement problem



Employees' Provident Fund

■ 1.2 million active members

- 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?



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 honor 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 honor 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
- 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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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
- Voluntary schemes impossible to fully extend to low-income workers outside formal sector
- 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 retirement age is not supported by national strategy or policies, even though this is critical intervention
- Implicit direct/indirect subsidies being given to elderly, but ignored by policy framework (eg liabilities in farmers pension)
- 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 portability in pensions benefit or flexibility in life-time contributions
- Failure to see social security reform as a social and political process - 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 - tendency to be persuaded by poor advice from donor officials
- Underdevelopment of technical capacity advising government - wrong tendency to see problems as purely technical economic ones
- Lack of national awareness of social security experiences in relevant Asian market economies: Japan, Taiwan, Thailand, Malaysia, Korea
- Limited human resources to manage costs of multiple pension schemes - eg: actuaries



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Critical Questions

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



A possible road-map

- Set goal of building an integrated national pension system (eg: USA, Japan)
 - Workers would contribute to a national pension fund with a mixed lump-sum/pension benefit
 - Pension rights would be based on life-time contributions
 - Linkage between benefit and contributions would be actuarial
 - Government would provide explicit subsidy for non-workers and poor, and enforce some redistribution



Some short-term recommendations

- Introduce unique national social security number to aid scheme administration and integration
- Establish national pensions agency to provide technical support for schemes and advise on policy options
- Transfer fund management of voluntary schemes to EPF



Enrolment

■ Farmers' Scheme

- 675,000 members (56% coverage)
- Coverage higher in more developed provinces
- Enrolees younger than average
- Default rate ~ 30-40%??

■ Fishermen's Scheme

- 48,000 members (42% coverage)
- Default rate ~ 30-40%??



Recommendations

- Improve management & technical capacity
- Pay administrative costs from Treasury
- Shift to inflation-indexed contributions and pensions
- Increase period of contributions beyond 60 years for higher pension
- Base pension on life-time contributions