

# Status of Social Protection of Elderly in Sri Lanka



Workshop on the World Bank's Study of Ageing

February 27, 2005

Hilton Residencies

Colombo 2

**DR RAVI P. RANNAN-ELIYA**

**& COLLEAGUES**

**INSTITUTE FOR HEALTH POLICY**

**WWW.IHP.LK**



# Outline

**Recent Assessments**

**Formal Schemes**

**PSPS: An object lesson?**

**Issues**

**Agenda for Research**



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## **Recent Assessments**

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# Recent Assessments



- ILO Phase 1: 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

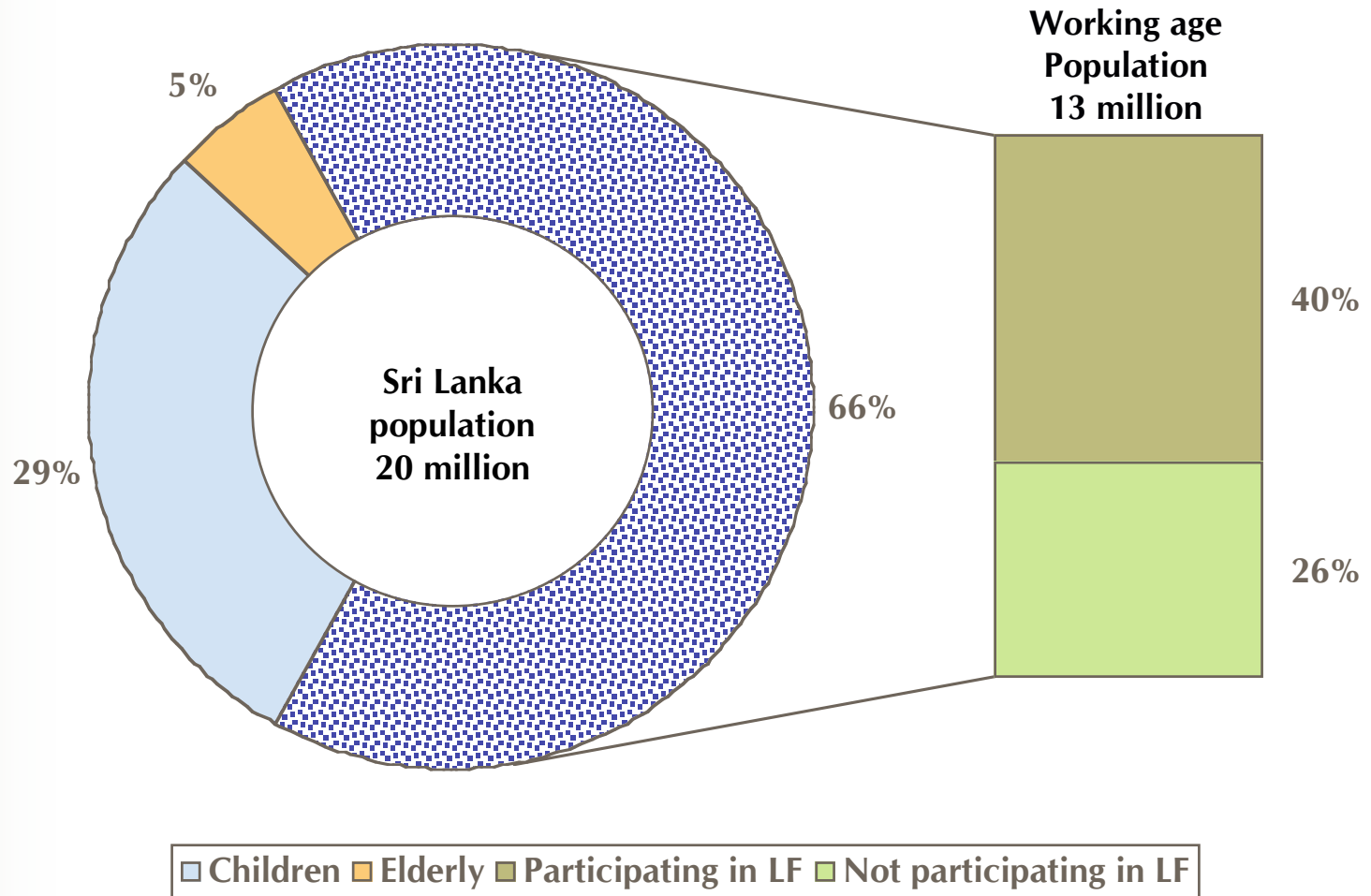


# Social Security Coverage

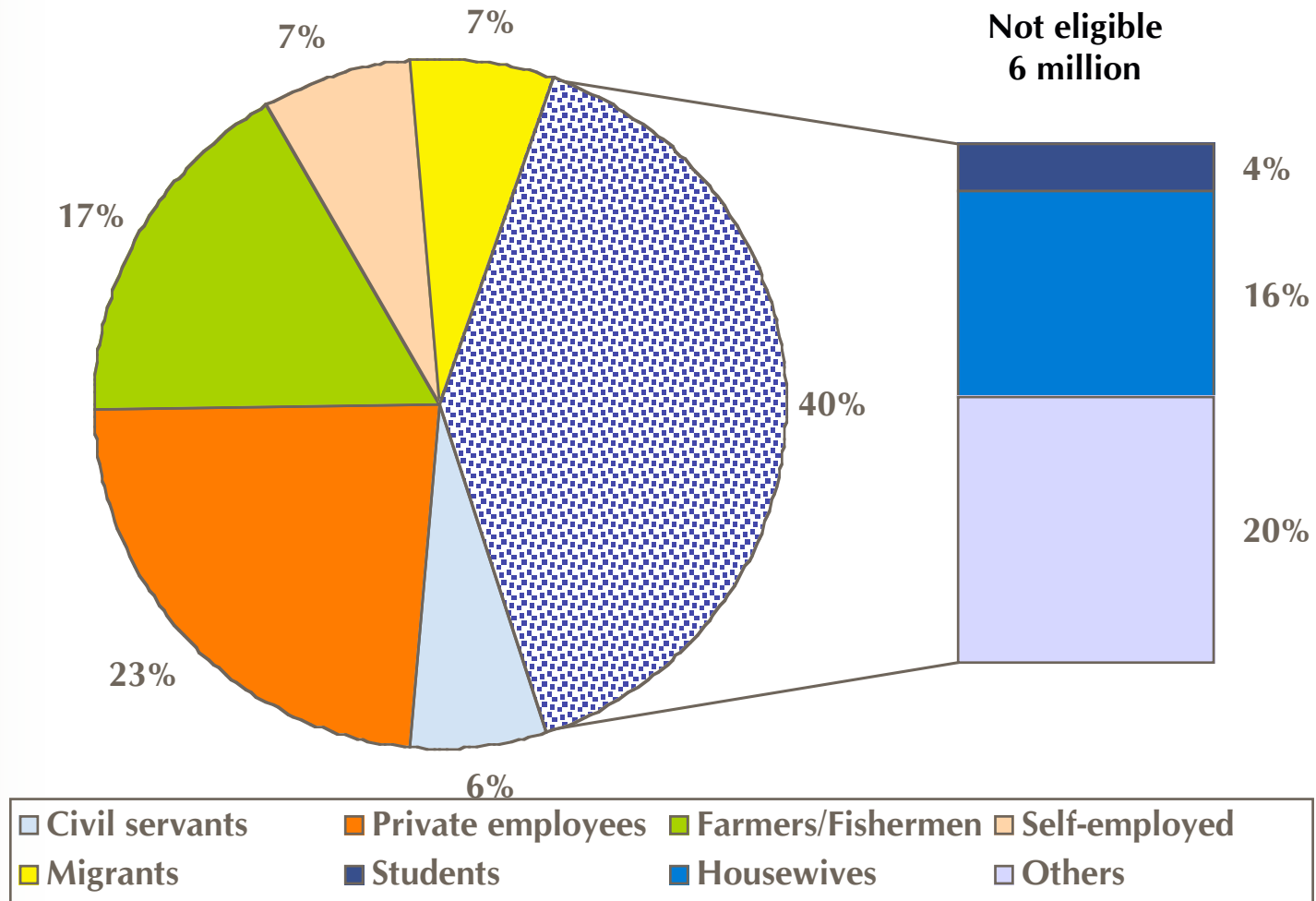
- Eligibility not the same as coverage
  - Voluntary schemes- not everyone joins and is covered. Not all those who join maintain membership (e.g., Farmers)
  - Mandatory schemes - not everyone is covered who should be. Might be evasion, fraud, lack of knowledge (e.g., EPF/ETF)
- Eligibility and coverage are both low
  - Eligibility ~ only 54% of working age population
  - Coverage ~ only 28% of working age population



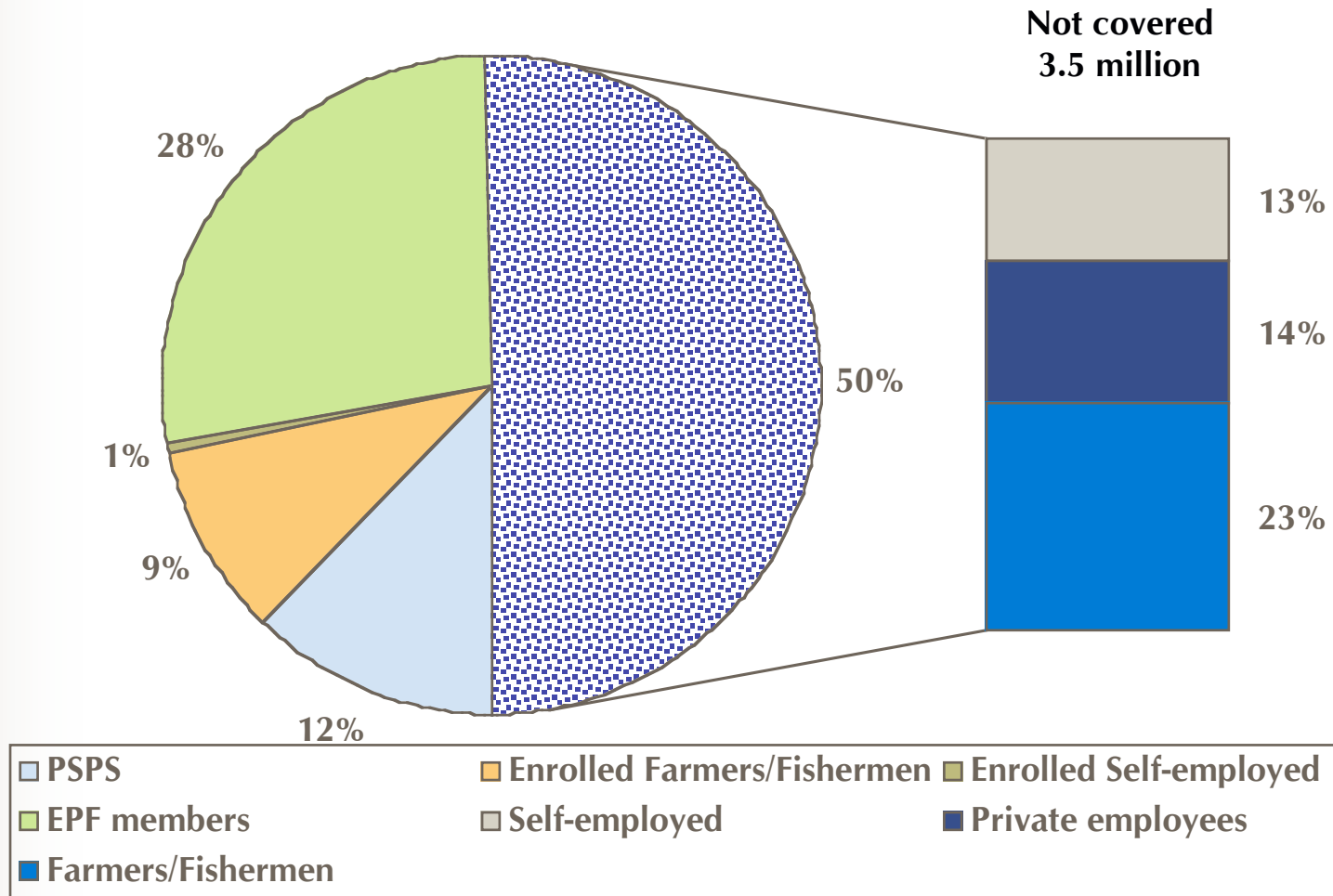
# Who is potentially in work?



# Who is potentially eligible?



# Who is actually covered?





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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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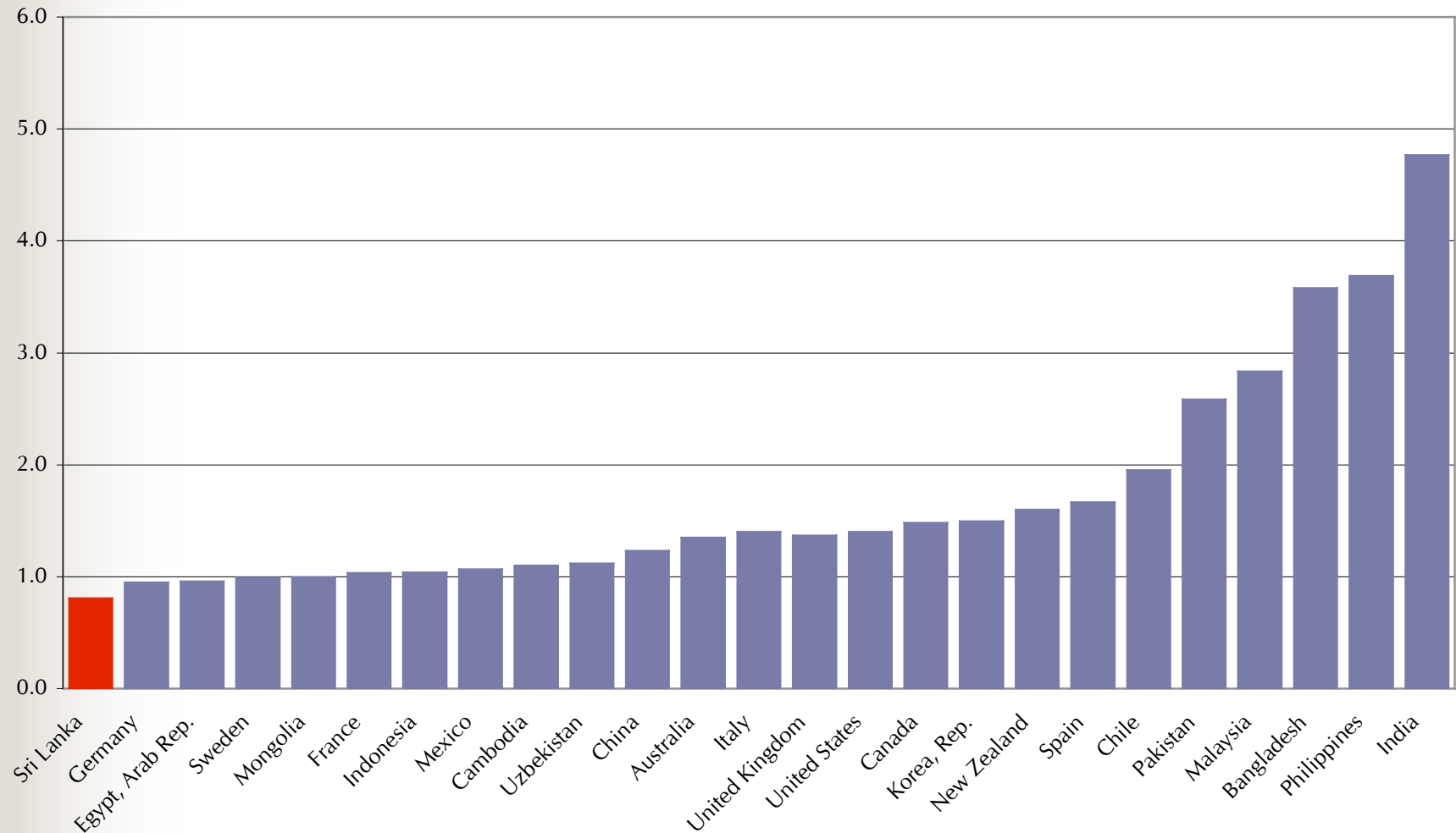
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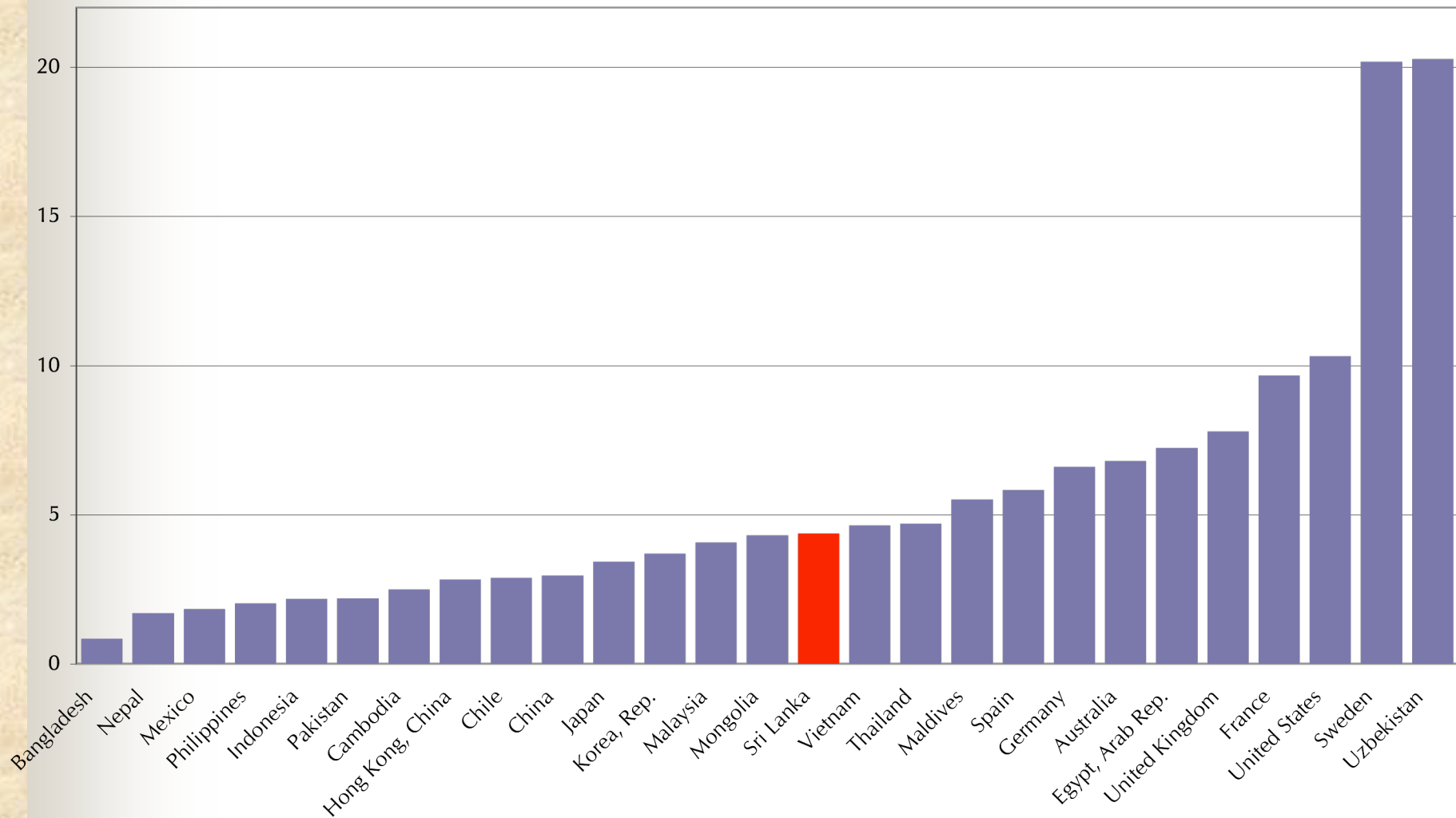


## Ratio of average public sector salary to per capita GDP World Bank Data



# Government employees to population ratio (%)

World Bank Data



# Importance of raising retirement

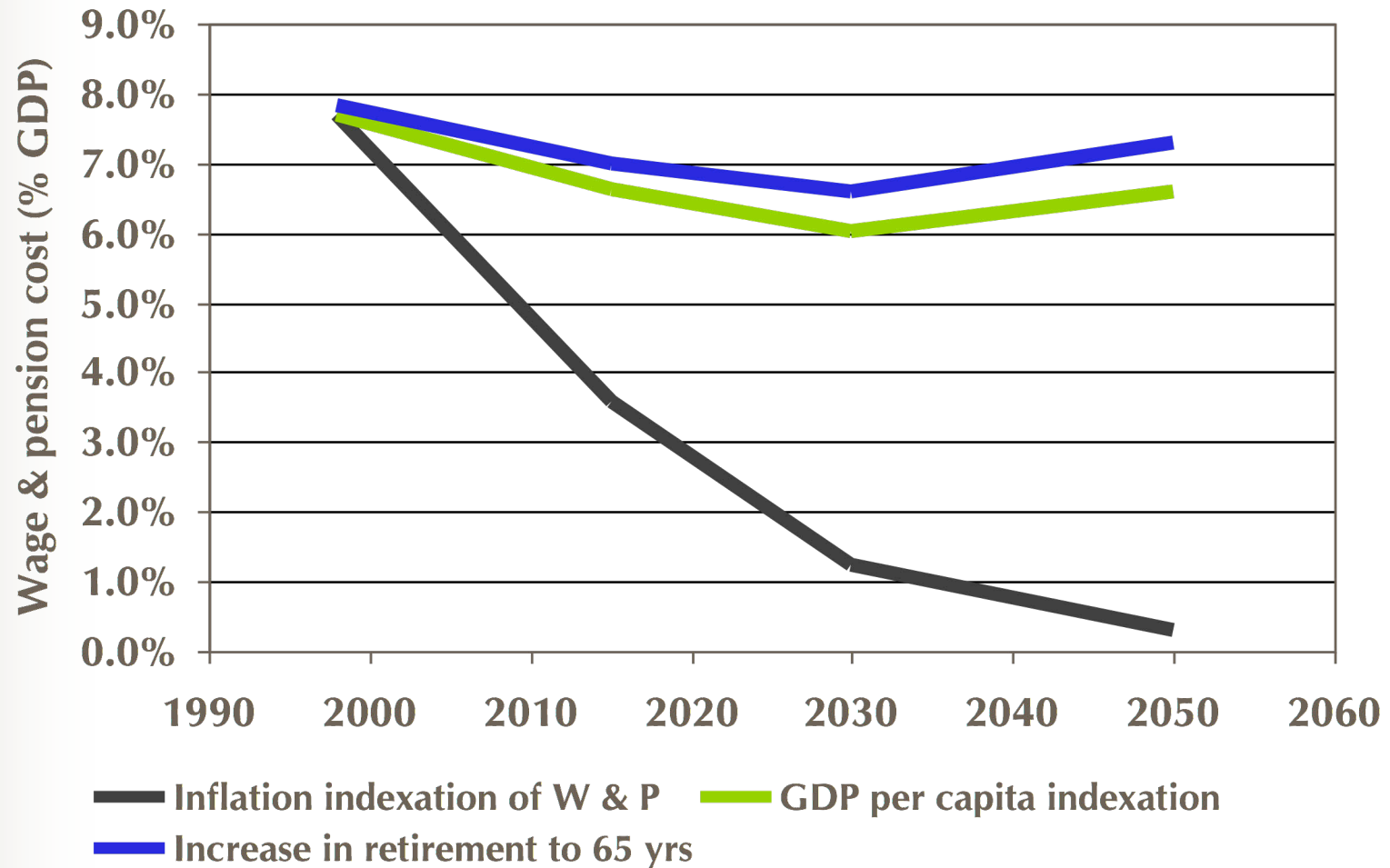




# Public Sector Wages and Pension Model (2003)

- 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







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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