THE INTERVIEW TO: JOHN WOODALL

SOCIAL SECURITY EXPERT

"EXAMPLE OF HOW A SIMILAR TECHNICAL ASSISTANCE IN 3 COUNTRIES CAN LEAD TO DIFFERENT RESULTS"

Interview to Mr. John Woodall, social security specialist from The Social Security Department (SECSOC) at the International Labour Office in Geneva, Switzerland.

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GESS: What pension schemes exist for formal sector workers in India, Sri Lanka and Nepal?

John Woodall: In Sri Lanka, India and Nepal, formal sector workers are enrolled in provident funds. These funds are defined contribution individual savings accounts whose value is based directly on contributions paid and returns on these. When retiring, the insured receives a lump sum that can be converted into an annuity. However, the conversion is not automatic or compulsory.

The ILO has been providing technical assistance to the ministries of labour and the relevant social security institutions in these three countries for a long time, with the aim of progressively transforming the provident funds into more "modern" pension schemes. In 1995 India took a major step in this direction passing the law which created the Employees' Pension Scheme through a partial conversion of the provident fund. In Sri Lanka and Nepal such a transformation has not yet happened, for various reasons.

GESS: What do you mean by a "mixed" pension scheme?

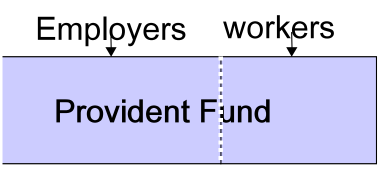
John: Previously, all contributions (employer and employee) were credited to the workers' individual savings account. After the reform, the workers' contributions continue to accumulate in the individual savings accounts while the employers' contributions are transferred to the defined benefit scheme.

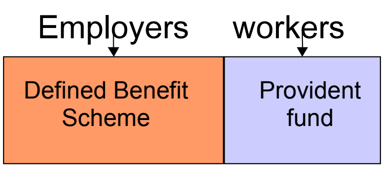
GESS: What are the advantages of transforming provident funds into defined benefit schemes?

John: Provident funds as they are established in India, Sri Lanka and Nepal give insufficient protection to the retirees, since it is not compulsory to establish an annuity: the retiree can either establish the annuity or take the retirement benefit as a lump sum. Many beneficiaries prefer receiving the lump sum in order to invest it in assets, productive goods or social activities (e.g., weddings). Whereas this practice is understandable in countries like Nepal where the conversion of the lump sum into annuities is more or less impossible given the low level of development of the financial markets, in India the financial market is sufficiently developed to enable this transformation.

Another reason is that in defined benefit schemes the total amount of contributions is generally accumulated in an individual account. The accumulation includes interest earned during the individual's active working life. Therefore, the market fluctuation risks are carried in full by the individual.

In the case of a financial crisis like the one we are experiencing today, the value of the assets can decrease dramatically, since reduced investment returns have had a direct impact on the value of the savings. At the time of retirement, the lump sum may therefore be even lower than the amount of contributions accumulated. Because the provident fund is based on individual accounts, the scheme incorporates no financial mechanism to protect the contributing members from the impact of such a risk.





A third reason is that in order to calculate the pension, the balance in the account is divided by an annuity factor, which is linked to the interest rate. In case of a decrease in interest rates, which is the case today, the amount of the pension people get is also likely to be reduced, not only by reason of poor investment accumulation, but also because of unfavourable annuity prices.

GESS: What does Sri Lanka's pension scheme look like?

John: In Sri Lanka, a defined contribution savings scheme for all corporate and private sector employees is provided by the Employees' Provident Fund (EPF), a contributory old-age benefit scheme for Sri Lanka's private sector workers, established in 1958. The scheme is managed by two institutions: the Department of Labour and the Central Bank.

The Department of Labour is responsible for the administration and is involved in registering employers and employees, enforcing on delinquent employers and processing housing loan guarantee applications and refund applications. The Central Bank is responsible for the management of the fund. It collects monthly contributions from employers, invests the fund's assets, maintains members' accounts and makes refund payments on application.

ILO Diagnostic Assessment and Issues Studies (August 2003) identify at least 3 problems: The replacement level is relatively low, with male workers working 42 years on average and receiving a lump sum worth only 65 per cent of final wage. For women and those not working continuously, the lump sum is much less (<20 per cent on average). There is no mechanism to convert the lump sum into a pension. In addition, there is a certain level of evasion which it is difficult to counter.

GESS: What was the nature of the ILO's technical advice in Sri Lanka?

John: Based on the success in India, the ILO suggested a similar approach in Sri Lanka (i.e., consisting of transforming the provident fund into a mixed scheme).

The TC-RAM project in Sri Lanka (2000-2003) aimed at providing a comprehensive review and assessment of the social security schemes in Sri Lanka, including those for the informal economy workers, and more specifically describing existing schemes, coverage gaps, key issues and recommendations for overcoming existing challenges.

The ILO suggested redesigning the pension system in Sri Lanka, and transforming the existing EPF and Farmers' and Fishers' pension schemes into an integrated national pension system. The ILO also proposed redesigning the unemployment insurance system so that it would cover workers not only in case of group dismissal but also in case of individual dismissal.

GESS: What happened in the wake of the TC-RAM project?

John: During the TC-RAM project a steering committee was created with tripartite representation. The project led to a national action plan, which was drafted and ratified by the committee. After the project was finished, we envisaged that the committee would continue to meet and work, but they did not do so on a regular basis. The recommendations formulated in 2003 have not led to any concrete reform so far, although we think that the capacity to do so exists in the same way as in India.

GESS: What about the two missions conducted by the ILO SECSOC department in 2008?

John: Yes, you are right. The ILO participated in the 50th anniversary celebration of the Employees' Provident Fund (EPF), which took place in Colombo on September 11, 2008. On that occasion, the ILO SECSOC department had prepared a diagnostic review of Sri Lanka's social security system and presented the main findings of the review report. The main message is that while Sri Lanka clearly has one of the most developed social security systems in the region, there remain a number of deficiencies in the system that need to be addressed: deficiencies in population coverage in pensions, inadequate benefit levels provided by the provident funds and the social assistance scheme Samurdhi, cost effectiveness and underfunding problems in the healthcare system and lack of coherence between the different subsystems.

Hence, in the review report the ILO recommends:

1)That a national forum for social dialogue is established and the ILO Task force on social security is revitalized, perhaps under a new name.

2)That a fresh inventory of existing statutory social security schemes is made, in order to identify the coverage gaps precisely.

3)That the provident funds' lump sum old-age benefits are converted into periodical payments.

4)That a basic social security benefit package is implemented, and integrated with the framework of the existing Samurdhi social assistance programme, so as to guarantee essential income to those who are most vulnerable.

In the medium–term, the ILO recommends designing and establishing a maternity insurance scheme in compliance with the ILO maternity protection convention, 2000 (No183) (noting that in 1993 Sri Lanka ratified the earlier Maternity Protection Convention 103 (1952) and still needs to bring some aspects of national law into conformity) and integrating existing and future social security schemes as well as policy-making and oversight functions, presently distributed among many ministries (e.g., the provident fund is overseen by the Ministry of Labour and the Central bank, whereas Farmers' and Fishers' schemes are overseen by the Ministry of Agriculture and the Ministry of Fishers, respectively).

GESS: Have these recommendations already led to concrete action?

John: Not really… Sri Lanka has many experts who would be well able to manage the task of designing and implementing the social security reforms. Therefore, the present inaction cannot be explained by a lack of technical skills and resources. Sri Lanka can easily mobilize funds to develop, rationalize and integrate existing schemes, all the more so because rationalizing may increase cost-effectiveness. However, before you even get to the design and implementation questions, you need political support and a clear view of the respective responsibilities. Today it is obvious that the government has other priorities to face but the ILO will continue to remind them of the importance of social security!

GESS: What can the ILO do to accelerate the process?

John: The main idea is to revitalize the steering committee (or task force) including representatives of all relevant ministries and trade unions. If we could find the way to encourage the committee to meet regularly, all the other things would develop relatively naturally. The ILO office in Colombo could perhaps take on the role of persuading the committee to meet regularly, and progressively develop a shared vision and strategy for extending social security based on the ILO review and recommendations. It is also very important to find a good, reliable and stable entry point in the various ministries concerned (e.g., chief secretaries in at least one or two of them), which has not really been the case so far.

GESS: To what extent should the ILO push the process?

John: To conduct the reform of the provident fund, a tripartite agreement of the steering committee should be sufficient. However, if we are willing to design and implement a more radical reform (e.g., implementing a basic social security benefit package and integrate it into the framework of the Samurdhi social assistance program) we would need a larger consensus in order to go ahead.

Thank you

+ For more information see GESS

- **See the Pensions section**
- **See the Country profile of India**
- **See the Country profile of Sri Lanka**
- **See the Country profile of Nepal**

{Interview conducted by Valerie Scmitt-Diabette and Veronika Wodsak, Social Security Department ILO, Geneva, Switzerland)