Status Assessment of Social Security Provision in Sri Lanka

Findings of the ILO Diagnostic Assessment and Issues Studies

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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, Fishermens’, 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

Female Labour Force Participation Rates


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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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?

- Children: 29%
- Elderly: 5%
- Participating in LF: 66%
- Not participating in LF: 26%
Who is potentially eligible?

- Civil servants: 40%
- Private employees: 23%
- Farmers/Fishermen: 17%
- Self-employed: 7%
- Migrants: 7%
- Students: 6%
- Housewives: 4%
- Others: 20%
Who is actually covered?

- Enrolled Farmers/Fishermen: 26%
- Enrolled Self-employed: 14%
- Self-employed: 16%
- Private employees: 11%
- Farmers/Fishermen: 14%
- EPF members: 1%
- PSPS: 18%

Legend:
- Enrolled Farmers/Fishermen
- Enrolled Self-employed
- Self-employed
- Private employees
- Farmers/Fishermen
- PSPS
- EPF members
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 (e.g., 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 advise 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