



**ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC (ESCAP)
INSTITUTE OF POLICY STUDIES OF SRI LANKA (IPS)**

National Consultation on Income Security for Older Persons in Sri Lanka

23 October 2015

Colombo, Sri Lanka

**REPORT OF THE
NATIONAL CONSULTATION ON INCOME SECURITY
FOR OLDER PERSONS IN SRI LANKA**

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I. ORGANIZATION

1. The National Consultation on Pensions in Sri Lanka was jointly organized by the Institute for Policy Studies for Sri Lanka (IPS) and the Economic and Social Commission for Asia and the Pacific (ESCAP), and was held on 23 October 2015 in the Taj Samudra Hotel in Colombo.

II. ATTENDANCE

2. The National Consultation was attended by 38 experts from Government, academia, private sector, civil society and development practitioners.

III. BACKGROUND

3. The Asia-Pacific region is currently the fastest ageing region in the world, due to rapid fertility declines and increased life expectancy. In 2015, older persons comprised 12 per cent of the population of the ESCAP region. It is expected that their share will rise to one fourth of the overall population of the region by 2050. While other regions, such as Europe, began to age when comprehensive social protection systems had already been put in place, countries in the Asia-Pacific region are rapidly ageing without having such systems in place, particularly those for older persons. Thus, income security for older persons will be a key concern in the future.

4. Many countries in the Asia-Pacific region already have pension systems for certain population groups such as those working in the public sector, and in some cases, formal private sector employees. These pension funds can be funded by contributions, or they can be tax-funded. Due to an increasing number of pensioners, sustainability of these funds is a critical issue to be addressed in the future. Several countries such as Nepal, Samoa, or Thailand, have also introduced universal social pensions for older persons, allowing all older persons to receive a basic level of income security. Some other countries have introduced social pensions specifically targeting older persons below the poverty line.

5. Thus, there is a need to assess prevailing systems of income security for older persons in Asia and the Pacific with regard to their sustainability and ability to provide effective income security for older persons. As countries in the Asia-Pacific region are at different stages of the demographic transition and have different experience with contributory and non-contributory pensions, including social pensions, there is considerable scope for regional cooperation through the sharing of experiences and knowledge on designing systems of income security for older persons.

6. In this context, ESCAP is conducting a project on “Income security for older persons in Asia and the Pacific”, which is aimed at strengthening regional cooperation to address ageing populations. The project studies the experiences of select countries in Asia and the Pacific in providing income security for older persons and seeks to identify good practices and areas for reform.

7. As Sri Lanka is the most rapidly ageing society in South and South-West Asia and seeks to increase coverage of pensions by introducing several pension funds for different occupational groups, it is worthwhile studying and discussing the situation in Sri Lanka in

depth to provide recommendations for reform. In this context, ESCAP commissioned a study on income security for older persons in Sri Lanka, which was presented at the National Consultation.

IV. PROCEEDINGS

Welcoming remarks

8. Welcoming remarks were delivered by Mr. Rajendrakumar Ganesarajah, Assistant Country Director, UNDP, Dr. Saman Kelegama, Director, IPS, and Ms. Vanessa Steinmayer, Population Affairs Officer, ESCAP.

9. Mr. Rajendrakumar Ganesarajah welcomed participants of the National Consultation pointing out that population ageing and income security for older persons was a pertinent issue for the Asia-Pacific region as a whole and particularly for Sri Lanka. He illustrated the need for income security for older persons with examples from his own family. He pointed out that the National Consultation on Pensions in Sri Lanka came very timely and wished every success for the National Consultation.

10. Dr. Saman Kelegama, Director, IPS, welcomed participants and emphasized that pension reforms are becoming an increasingly pertinent topic in Sri Lanka. He outlined the history of pensions in Sri Lanka, which started with a pension fund for Government employees, founded in 1901. Subsequently, other pension funds were established, including one for the informal sector. With more than 60 per cent of the working population being in the informal sector, covering the sector was a particularly relevant issue. In addition to contributory pensions, there are also government welfare programmes. But with rapid population ageing in Sri Lanka (by 2030, almost one fifth of the Sri Lankan population will be 60 or older) there was a need to re-think existing pension programmes and to provide income security for all older persons. Currently, most older persons are still relying on filial support. However, families are becoming smaller and the proportion of the working population is shrinking. In the future, there will be less people at working-age to support an increasing number of older persons, which will make large numbers of older persons vulnerable to poverty in old age. Thus, there is a need to increase coverage of pensions. He also pointed out that contributory pensions were an employment-based instrument and therefore, due to their lower labour force participation, women were inadequately covered by contributory pensions. Expanding contributory pensions to the informal sector has been a continuing challenge, as informal sector workers were often not able to pay regular contributions, as their income was unstable. Thus, comprehensive solutions needed to be found to address these issues.

11. Ms. Vanessa Steinmayer made clear that population ageing was a pertinent issue for the Asia-Pacific region. Currently, only 27 per cent of the working-age population in the region are paying into a pension system and there is a risk that many people could fall into poverty as they age. The recently adopted 2030 Agenda for Sustainable Development calls for eradicating poverty at all levels, eliminating inequalities and providing basic income security for all, but this cannot be achieved without addressing the needs of older persons. She highlighted that Sri Lanka was a good example to study, as it was the fastest ageing country in South Asia. Sri Lanka had also made efforts to cover different occupational groups with pensions, including the informal sector. However, in spite of this, overall coverage was still quite low, although higher than in other South Asian countries.

Keynote address

12. Mr. W. A. Wijewardena, Former Deputy Governor, Central Bank of Sri Lanka delivered the keynote address. Mr. Wijewardena expressed that Sri Lanka had made efforts in earlier times to reform the social security system, but those proposed reforms could not be implemented. He stressed that the issue was becoming more relevant than ever and therefore, the study on income security in Sri Lanka, which would be presented today as well as the corresponding national consultation, came at an opportune moment. He also emphasized that income security for older persons was a particularly important issue, because older persons were often overlooked, as it is assumed that older persons would receive support from their children. However, Sri Lanka is a rapidly ageing society and there will be a time when young people will no longer be able to fully support their parents as a result of smaller family sizes and the increased labour force participation of women. Unemployment is another issue that can hamper young people's ability to support their ageing parents. Moreover, life expectancy has increased significantly, which will also increase the number of years older persons will require support.

13. Mr. Wijewardena stressed the importance of designing a sustainable system of support for older persons which is financially sustainable. He pointed out that financial sustainability can only be achieved if people save enough in working age and contribute to a pension system. In addition to mandatory contributions there should be a system to encourage additional voluntary contributions. However, this requires financial sector development and the development of attractive financial products. A stable macroeconomic environment is a key requirement so that people entrust their savings to the financial sector. He mentioned that in the past, inflation had been too high, leading to minimum rates of return, which reduced people's trust in savings and contributory pensions. He also expressed concern that the current young generation saved less than previous generations because they sought to consume all their revenue, and in some cases they were even indebted. Further, he mentioned that the pension fund itself had to be sustainable. In the current situation, contribution rates are low and the pension fund requires support from the Government to be sustainable. In conclusion, he emphasized that Sri Lanka should work towards a universal pension, with mandatory contributions to ensure the sustainability of the fund.

Presentation on pension systems in Asia and the Pacific

14. Ms. Vanessa Steinmayer gave a presentation on the current status of pension systems in Asia and the Pacific. She outlined that almost every country in the Asia-Pacific region had a pension system, but coverage was low in most countries and limited to the formal sector or sometimes the public sector only. She also reported on studies conducted by ESCAP, which showed that non-contributory pensions, such as for public sector workers in India, were becoming an increasing fiscal burden because of the increasing number of pensioners. Nevertheless, in many countries, only a small proportion of older persons currently received a pension. Among those who received a pension, most were in the richest income quintile. She also emphasized that women were even less likely to be covered by pensions than men because of their lower labour force participation. Many countries sought to address this through voluntary pensions, but data showed that in most countries, more men were contributing voluntarily than women because women who are not in the labour force are usually not able to afford regular contributions. She also pointed out that benefit levels were low in many countries of the region. As a result, pensions were not enough to provide income security and many older persons still had to work. She concluded that poverty of

older persons could become a key concern in the future and recommended designing comprehensive policies on population ageing including providing income security through a multi-tier system made up of contributory pensions, voluntary contributions, tax-funded social pensions and private pensions to ensure coverage. She further concluded that pension systems should also be designed in a way that they address existing inequalities rather than perpetuating them.

Presentation on income security for older persons in Sri Lanka

15. Ms. Nisha Arunatilake, IPS, presented the findings of her study on income security for older persons in Sri Lanka, which had been commissioned by ESCAP and which she conducted in cooperation with Shanika Samarakoon. In pointing out that Sri Lanka was a rapidly ageing society, she analyzed coverage of prevailing pension systems in Sri Lanka. She explained that most old age income support schemes in Sri Lanka were employment based, thus only those who participated in the labour force received a pension. Currently, there are five employment-based pension schemes in Sri Lanka. In addition, there is the Public Welfare Assistance Allowance (PAMA) and the Elderly Assistance Programme (EAP), which provides an allowance to households whose monthly incomes fall below a minimum amount. Close to 5 million workers were eligible for pensions under various employment-based pension schemes. Of these, only the Public Service Pension Scheme (PSPS) covers the total eligible population and provides pension benefits that can be considered as adequate with benefits above the poverty line. There are also gender imbalances within existing pension schemes. Because of longer life expectancy, women need to make larger contributions to receive the same pension amount as a man. However, women's wages are, on average, lower than men's and so are the number of years worked.

16. Ms. Arunatilake further pointed out that at present, only 30 per cent of the population above 60 in the country is receiving any pension. Of this share, about 20 per cent receive an adequate pension to keep them out of poverty, which are those covered under the PSPS. Unless the Government takes action to extend pension coverage and increase the pension benefit amounts, older persons will be dependent on others and on their own savings for income support.

17. Ms. Arunatilake proceeded by presenting the results of her calculations on the fiscal cost of providing universal pension coverage. The fiscal cost of a universal pension varies depending on the age of eligibility and the size of the pension. To provide a pension benefit of 20 per cent of per capita income to the population aged 70 and above would cost the Government 1.2 per cent of gross domestic product (GDP) in 2015. Such a pension would cover 6 per cent of the total population. By contrast, the fiscal cost of extending a pension equivalent to the PSPS (47 per cent of per capita income) to the population age 70 and above would cost 2.22 per cent of GDP.

18. In conclusion, she stated that the current, employment based pension system is inadequate to provide income security for older persons in the future, primarily because of the large size of the informal sector in Sri Lanka. Thus, the Government may consider providing a universal pension to all older persons, to prevent the aged from falling into poverty.

Panel discussion on providing income security for older persons in Sri Lanka

19. The subsequent panel discussion on expanding pensions in Sri Lanka was moderated by Mr. Siri Hettige, Professor of Sociology University of Colombo and included the following panelists: Mr. Murtaza Jafferjee, General Manager of JB Securities, Mr. T.M.R. Rassedin, Ceylon Federation of Labour, Mr. Kanishka Weerasinghe, Employers' Federation of Ceylon, and Mr. Dhammika Padduka from Sri Lanka Social Security Board.

20. Mr. Murtaza Jafferjee emphasized that the National Consultation on Pensions in Sri Lanka was very timely, as it was the right moment to think of comprehensive pension reform in Sri Lanka. He suggested that a pension system should be built on different pillars, consisting of a mandatory contributory scheme and a voluntary contributory scheme, which should be supported by private savings. He also pointed out that the Employees Provident Fund (EPF) was currently not an effective pension scheme for private sector employees for the following reasons: (1) Many contributors felt a lack of ownership, as it was managed by the Central Bank of Sri Lanka on behalf of the Ministry of Labour; (2) 90 per cent of its funds were invested in Government Securities, which he did not consider as a reliable investment into a "growth source"; and (3) it had a "one size fits all scheme", instead of differing schemes fitting different population groups. Ideally, the pension system should offer a range of schemes that serve the needs of varying population groups.

21. Mr. T.M.R. Rassedin presented a human-rights perspective on ageing and social security. He suggested that social security was an essential human right and therefore he supported the introduction of non-contributory pensions as a right for all. He expressed the view that everyone, including the self-employed, those in agriculture and in the informal sector contributed to the development of the country through their work. Moreover, everyone already paid taxes. Therefore, he expressed the view that when old, everyone deserved a government-funded pension. Given Sri Lanka's rapid population ageing, the introduction of such a pension should be introduced soon and be considered in budget planning.

22. Mr. Kanishka Weerasinghe contributed the employer's perspective to the discussion. He pointed out that Sri Lanka had an ageing population, but at the same time high youth unemployment. Although the working-age population might be shrinking in the future, he felt that Sri Lanka should not consider concepts such as immigration as a way to address population ageing. He expressed the view that productivity of the labour force in Sri Lanka had to increase to generate higher economic growth which would in turn generate jobs for unemployed young people. Further, he expressed the view that people should be encouraged to work as long as possible, which would also ensure income security through work incomes. He further suggested strengthening the Employment Provident Fund (EPF) and turn it into a scheme that is based only on individual accounts. He also highlighted that employers in Sri Lanka faced many challenges and paying an employers' contribution to a pension fund would reduce their competitiveness.

23. Mr. Dhammika Padduka pointed out that the Sri Lanka Social Security Board had almost 19 years of experience in operating a pension and social security scheme for the self-employed and informal sector employees, which was established in an effort to expand coverage of pensions to this occupational group. To date, the Fund has 280,000 members and in the previous month, 23,000 pensioners received pensions from the Fund. He also pointed to the existence of other pension funds, such as the farmers' pension fund. He emphasized the need to further increase coverage and provide sustainable pensions to all occupational groups in Sri Lanka.

24. In the subsequent discussion, the National Consultation agreed that population ageing was a key issue in Sri Lanka which had to be addressed urgently. Participants agreed that reforms were needed to provide income security for older persons.

25. Some participants also expressed concerns over the current low coverage rates of pensions. It was also mentioned that the current tax to GDP ratio was lower than 20 years ago; thus, there was ample scope to raise tax revenues in Sri Lanka which would allow the introduction of a universal pension and/or subsidizing contributory pensions. Achieving higher economic growth was also mentioned as a key pre-requirement to ensure the sustainability of pension funds. In this context, several participants pointed to the need to raise awareness of population ageing and to sensitize the Government on the need to reform existing policies on income security for older persons. It was further suggested to increase the mandatory retirement age to 70, restructure the EPF system and to improve the management of those funds that did not receive a Government subsidy. However, some participants also expressed concern over the suggestion to increase the retirement age, as Sri Lanka also faced the challenge of providing jobs to young people.

26. One participant also pointed out that currently, only 1 per cent of older people lived in elderly homes. However, many older persons were exposed to abuse by their own families. Studies by HelpAge had also found that the likelihood of abuse was lower when older persons received an income, although this was a small effect. Further, it was recommended that, in addition to providing income security for older persons, the Government should also invest in homes for the elderly.

27. In concluding, the moderator, Mr. Siri Hettige, pointed out that this National Consultation could be a launching point for further discussion on pensions in Sri Lanka and thanked IPS and ESCAP for organizing the event.

ANNEX I: LIST OF PARTICIPANTS

EXPERTS

- Dr. A. T. P. L. Abeykoon, Senior Fellow, Institute for Health Policy (IHP)
- Mr. Channa Dissanayake, Vice President, Ceylon Bank Employees' Union
- Mr. Dhammika Padukka, General Manager, Sri Lanka Social Security Board
- Mr. H. P. Asoka Dharmasiri, Senior Assistant Secretary, Ceylon Bank Employees' Union
- Mr. Harsha Kurukulasuriya, Senior Manager, Commercial Bank
- Mr. Kanishka Weerasinghe, Director, Employers' Federation of Ceylon
- Mr. M. P. Dharmasiri, Chief Manager –Finance, Commercial Bank
- Mr. Murtaza Jafferjee, Managing Director, JB Securities Ltd.
- Mr. Navaratne, Lanka Jathika Estate Workers Union
- Mr. R. A. A. Jayalath (New), Deputy Superintendent, Employees Provident Fund
- Mr. R. P. Wimalaweera, Senior Assistant Secretary (Labour & Foreign Relations), Ministry of Labour
- Mr. R.M.T.V. Rajaguru, Assistant Secretary (Administration) Ministry of Labour
- Mr. Rajendrakumar Ganesarajah, Assistant Country Director, UNDP
- Mr. Ralph Van Doorn, Economist, World Bank
- Mr. S. Jothikkannan, Director, Ceylon Workers Congress
- Mr. S. S. Hettiarachchi, Director General, Director General
- Mr. Samantha Liyanawaduge, Executive Director/CEO, HelpAge Sri Lanka
- Mr. Sumathipala Kariyawasam, Chairman, Sri Lanka, Social Security Board
- Mr. T. M. R. Rasseedin, President, Ceylon Federation of Labour (CFL)
- Mr. W A Wijewardena, Former Deputy Governor, Central Bank of Sri Lanka
- Mr. Wijekoon, Director, Farmers' and Fishermen's Pension Schemes, Agriculture and Agrarian Insurance Board (AAIB)
- Mrs. Myrtle Perera, Vice Chairperson, Marga Institute - Centre for Development Studies

Ms. Chandralekha Manthilaka, Deputy Director Insurance, Agriculture and Agrarian Insurance Board (AAIB)

Ms. P.K.T.P. Ariyaratne, Bank of Ceylon

Ms. Shalika Subasighe, Social Protection Specialist, World Bank

Ms. Sriyanie Wijesundara, Executive Director, Centre for Policy Alternatives (CPA)

Ms. Sriyanie Wijesundara, Executive Director, Centre for Policy Alternatives (CPA)

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