Challenges for sustaining a pension fund: Determinants of defaulting from a contributory pension scheme in Sri Lanka

W.S.M. Goonatilaka

PhD Candidate

Department of Geography, Faculty of Social Sciences

University of Kelaniya, Sri Lanka.

W. Indralal De Silva

Emeritus Professor, Department of Demography, Faculty of Arts

University of Colombo, Sri Lanka.

Nishan Sakalasooriya

Senior Lecturer, Department of Geography, Faculty of Social Sciences

University of Kelaniya, Sri Lanka.

Outline

▶ **Introduction**

▶ **Research question/s**

▶ **Objectives & significance of the study**

▶ **Methodology**

▶ **Results**

▶ **Conclusion/s**

▶ **Policy implications**

Introduction

▶ Ageing is to become a major social transformation of the 21st century, that would create substantial implications on the social security and well-being of the elderly.

▶ Self-employed and informal sector workers are the most vulnerable to misfortunes in their old age.

▶ The Sri Lanka Social Security Board (SLSSB), established under the Act No. 17 of 1996, play an important role by providing a social security pension for informal sector workers.

▶ As a developing country, the unexpected COVID-19 pandemic highlights the importance of providing an adequate social security coverage for all citizens, specially the informal sector employees.

Research Questions

▶ What are the reasons for defaulting of pension policy by the self-employed ?

▶ How does the defaulting affect the sustainability of the pension fund?

Objectives & significance of the study

<u>The objective/s</u> is to investigate determining factors leading to defaulting from the contributory pension scheme offered by the SLSSB and

to explore appropriate strategies to sustain the pension fund.

<u>Significance</u>

Sri Lanka which experiences a rapid ageing process urgently requires a sustainable system to provide old age social security.

Empirical research is vital for policy makers to revisit existing policies and to make new policy on the old age social security.

Methodology

▶ **Design :** Mixed method approach.

▶ **Data:**

Secondary data from the SLSSB database

Primary data based on questionnaire survey from 150 defaulted respondents participated in the study.

▶   - Random sampling technique was used to select 150 defaulters from the Kurunegala district.

▶ Three focus group discussions (FGD) were conducted with defaulters

One FGD was held with selected government officials

▶ In order to assess the impact of COVID-19 on the defaulting pattern during the first six months of the year 2020, a 20 contributors to the pension scheme were identified in June 2020 and their defaulting pattern was investigated by assessing official and field data.

▶ **Limitation of the study:**

▶ Although there are three types of contributory pension systems covering farmers, fisherman and the scheme of SLSSB, to cater to the informal sector workers, only the pension scheme offered by the SLSSB was considered in this study.

Need for social security for the elderly

➢ Traditionally, the Sri Lankan elderly have depended on familial support systems.

➢ This may not be a viable option in the future due to the reduction of family size and migration of young people.

➢ With the changing age structure of the population, there will be a smaller share of economically active people and hence higher old age dependency ratios- approaching the end of demographic dividend period.

# Distribution of population by broad age groups, 1981 to 2042

Year	less than 15	15-59	60 and above	Total	Total population
	%	%	%	%	('000)
1981	35.3	58.1	6.6	100.0	14,846
2001	31.4	60.4	8.2	100.0	18,734
2012	25.2	62.4	12.4	100.0	20,360
2017	24.9	60.9	14.2	100.0	21,341
2022	23.9	59.9	16.3	100.0	22,232
2027	22.9	58.9	18.2	100.0	23,036
2032	21.4	58.6	19.9	100.0	23,765
2037	20.5	58.2	21.3	100.0	24,401
2042	19.7	57.2	23.1	100.0	24,918

Source: Department of census and statistics, 2012, W.I. De Silva, 2015

This slide explains the growth and age structure transition of the Sri Lankan population. 20.4 million population in year 2012, is expected to increase to 22.2 million and 24.9 million by year 2022 and year 2042 respectively

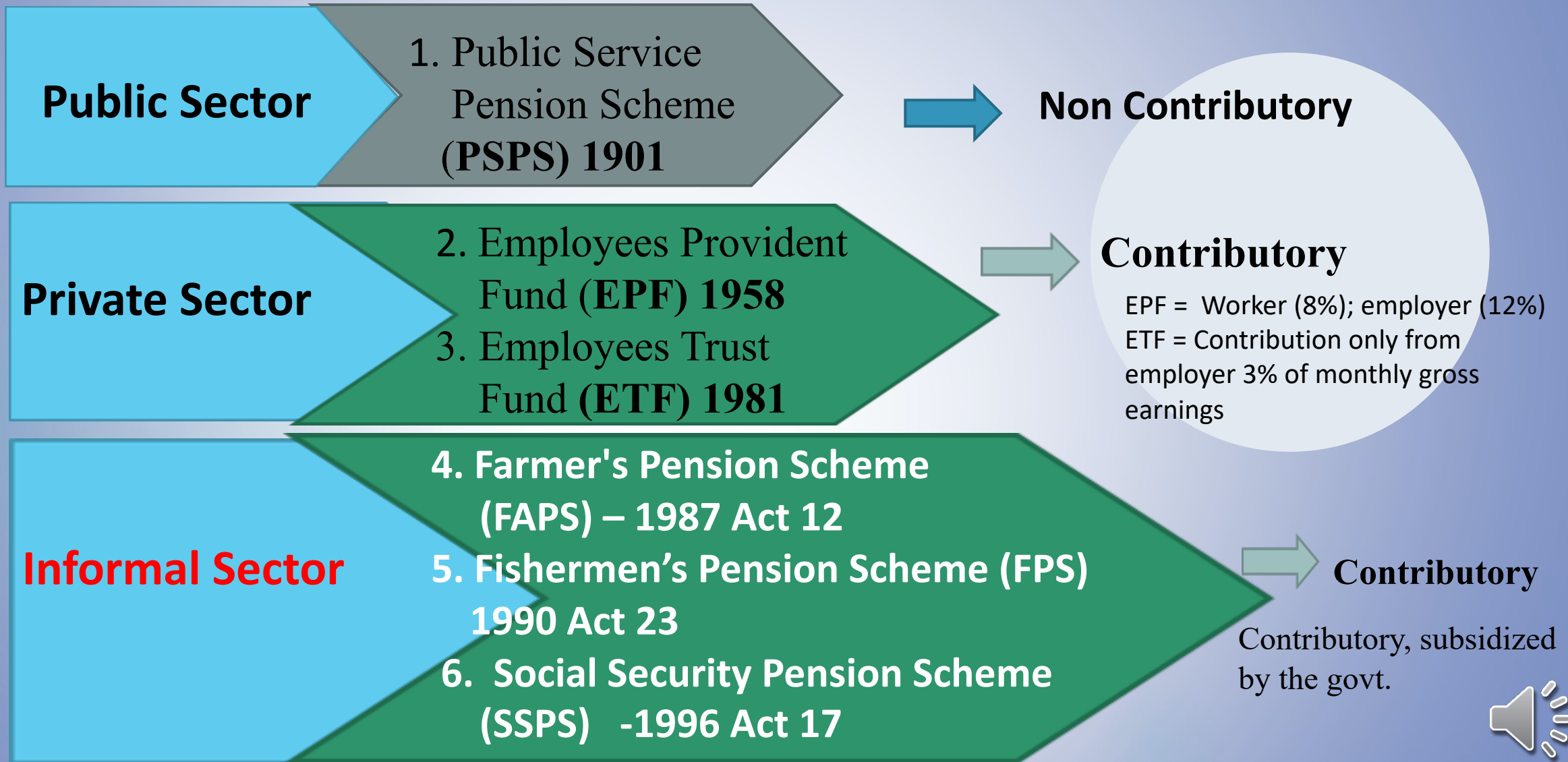# Proportion (%) of elderly population age 60+ years , 1981–2062
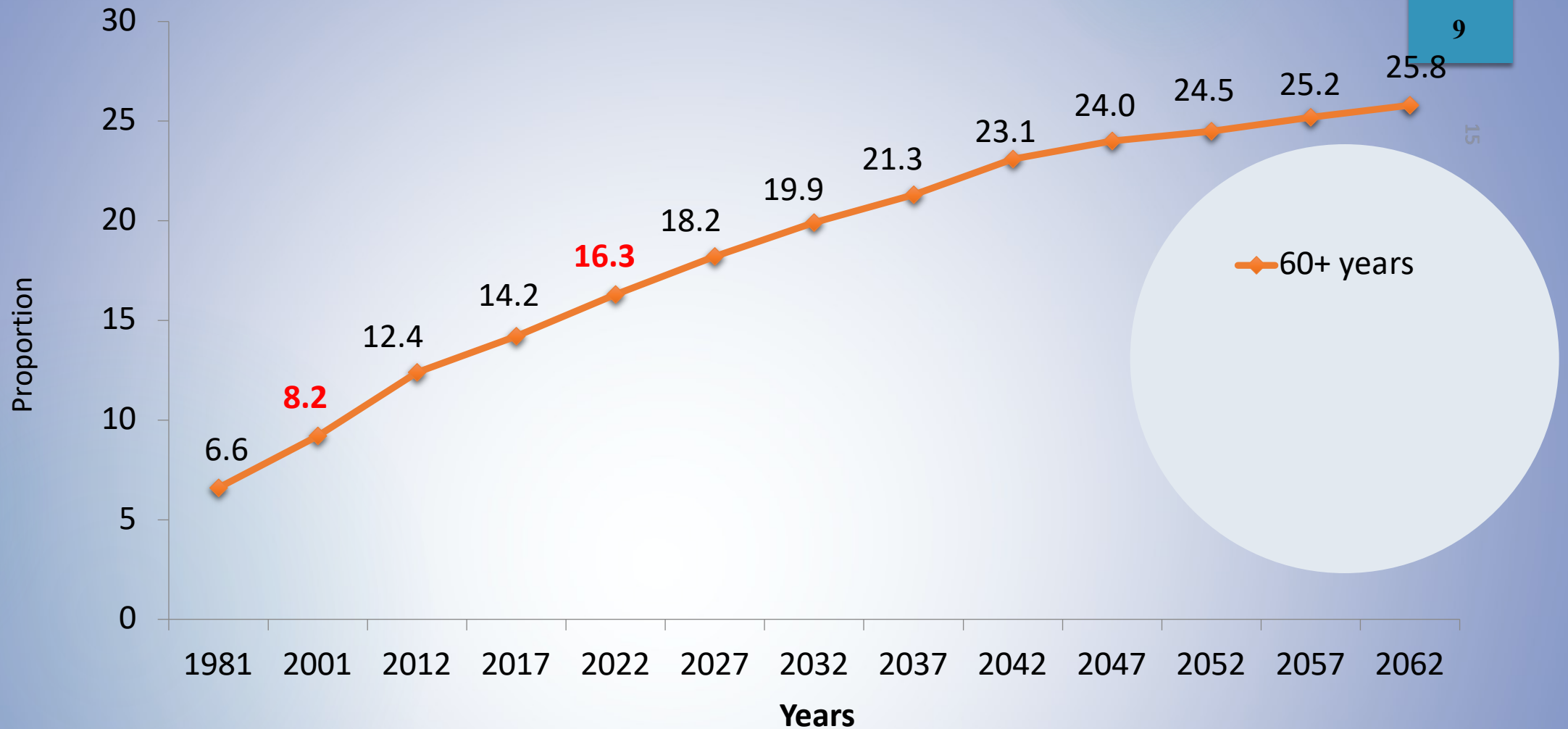
The slide explains the rapidity of population aging in Sri Lanka. In the Year 2001 elderly was population close to 8.2 percent of the total population and it would doubled to 16.3 percent by year 2022. The population aging is very rapid and year 2032 when one out of five person would be elderly in Sri Lanka.

# Employment based pension schemes in Sri Lanka

Public Sector

1. Public Service Pension Scheme **(PSPS) 1901** → **Non Contributory**

Private Sector

2. Employees Provident Fund **(EPF) 1958**
3. Employees Trust Fund **(ETF) 1981**

→ **Contributory**

EPF = Worker (8%); employer (12%)
ETF = Contribution only from employer 3% of monthly gross earnings

Informal Sector

4. **Farmer's Pension Scheme (FAPS) – 1987 Act 12**
5. **Fishermen's Pension Scheme (FPS) 1990 Act 23**
6. **Social Security Pension Scheme (SSPS) -1996 Act 17**

→ **Contributory**

Contributory, subsidized by the govt.

Coverage of the Informal sector pension schemes

Coverage of pension schemes in Sri Lanka

Public sector pensions — 21
Private sector (ETF,EPF) — 26
Informal sector pensions — 6.8
Non- pension — 46.2
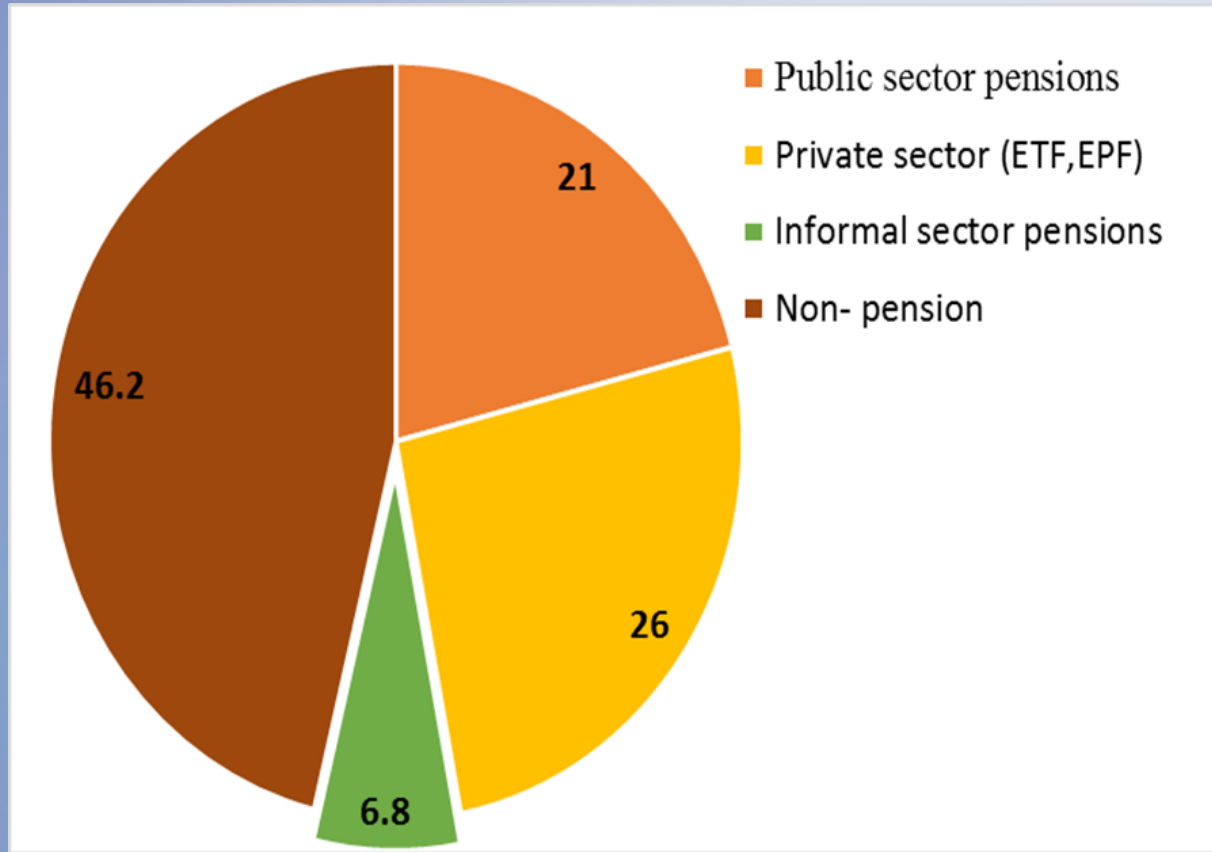
Effective coverage of informal sector employees as a percentage of working age population in Sri Lanka

2.2%
0.8%
4.3%

Famer's pension
Fishermen's pension
Social seurity pension
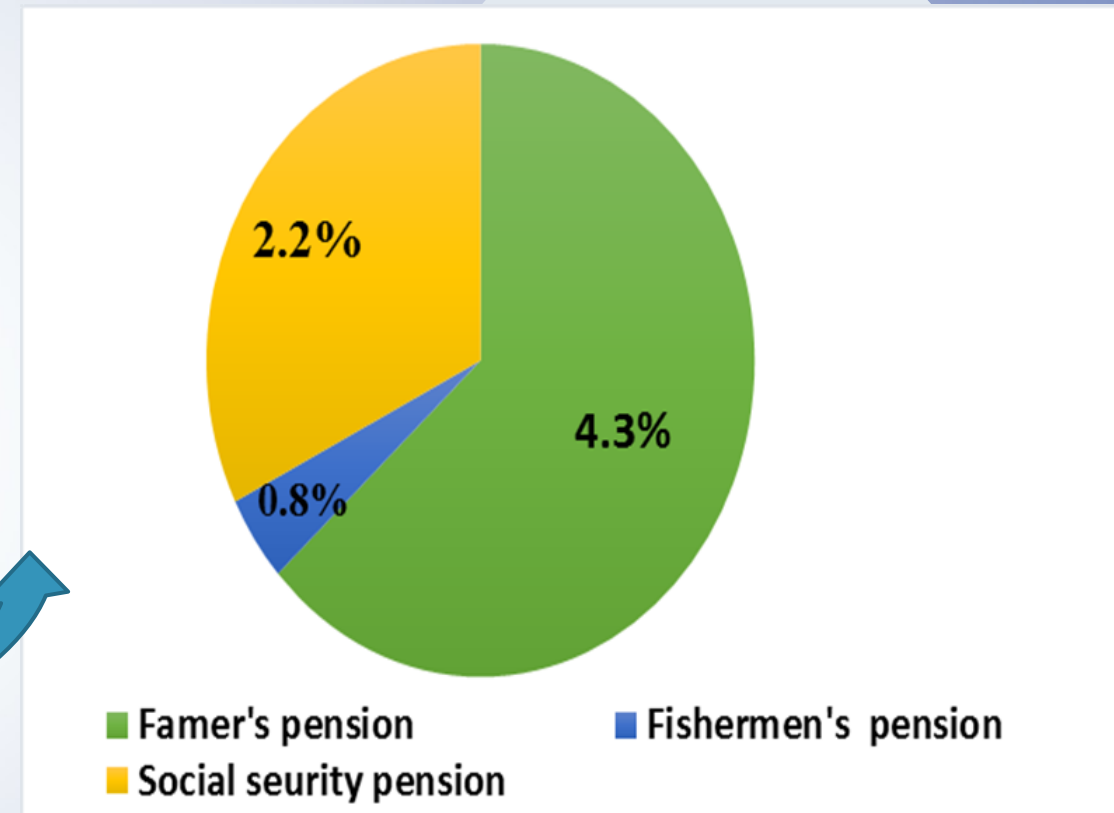
Source: Central Bank, DCS, SSB, AAIB, Samarakoon, S. & Arunatilaka, N. 2015, Income Security for older pension in Sri Lanka, UNESCAP Working paper

Socio-demographic characteristics of respondents (N= 150)

Variable	Category	%
Gender	Male	64.0
	Female	36.0
Age	18-29	47.3
	30-39	29.3
	40-49	16.7
	50-59	6.7
Marital status	Married	53.3
	Single	32.0
	Divorced/ Widowed	14.7
Education	No schooling	0.0
	Primary	15.3
	Secondary	22.0
	Tertiary	62.7
Family size	1-3	9.3
	4-5	68.0
	6-8	22.7
No. of dependents	0-2	14.0
	3-4	62.7
	5 <	23.3

Results

Reasons for defaulting from the contributory pension scheme
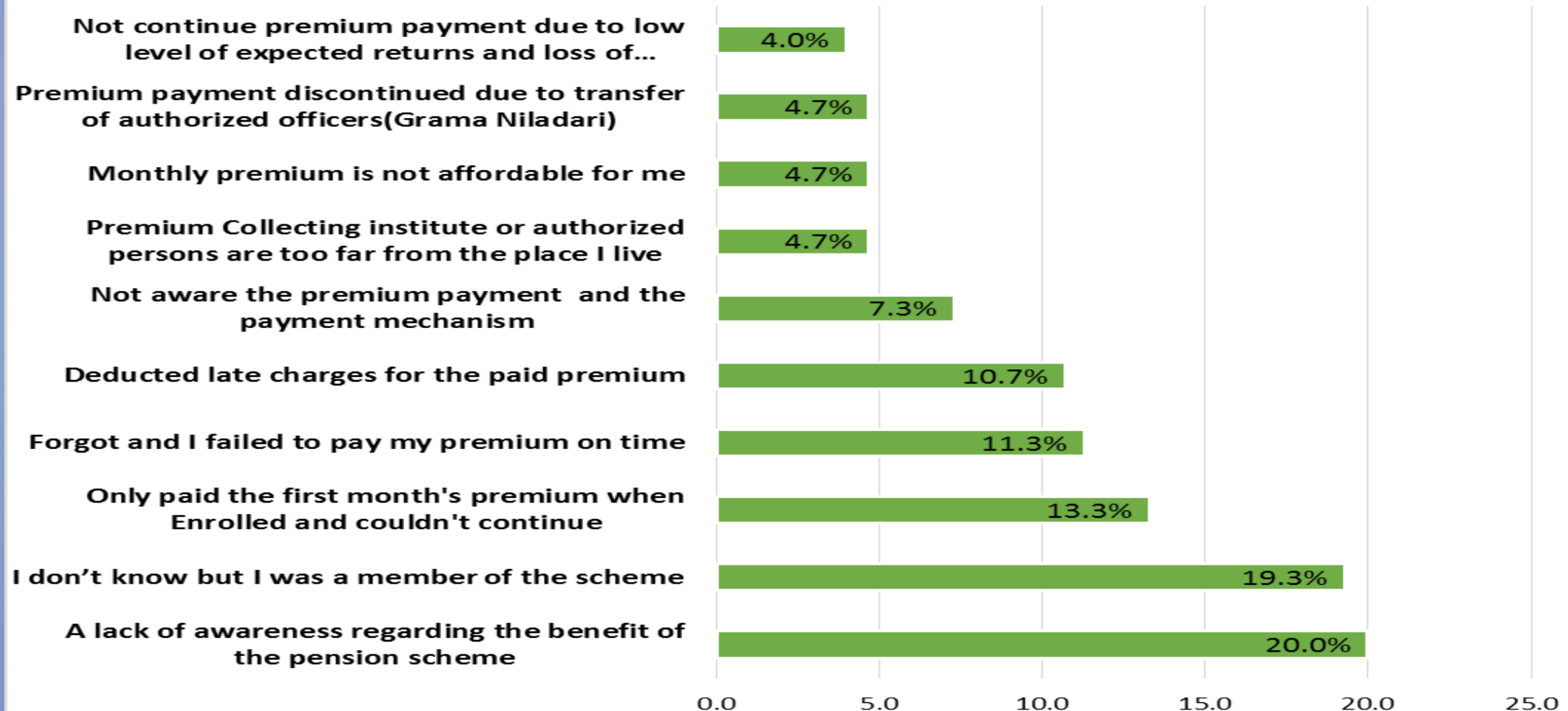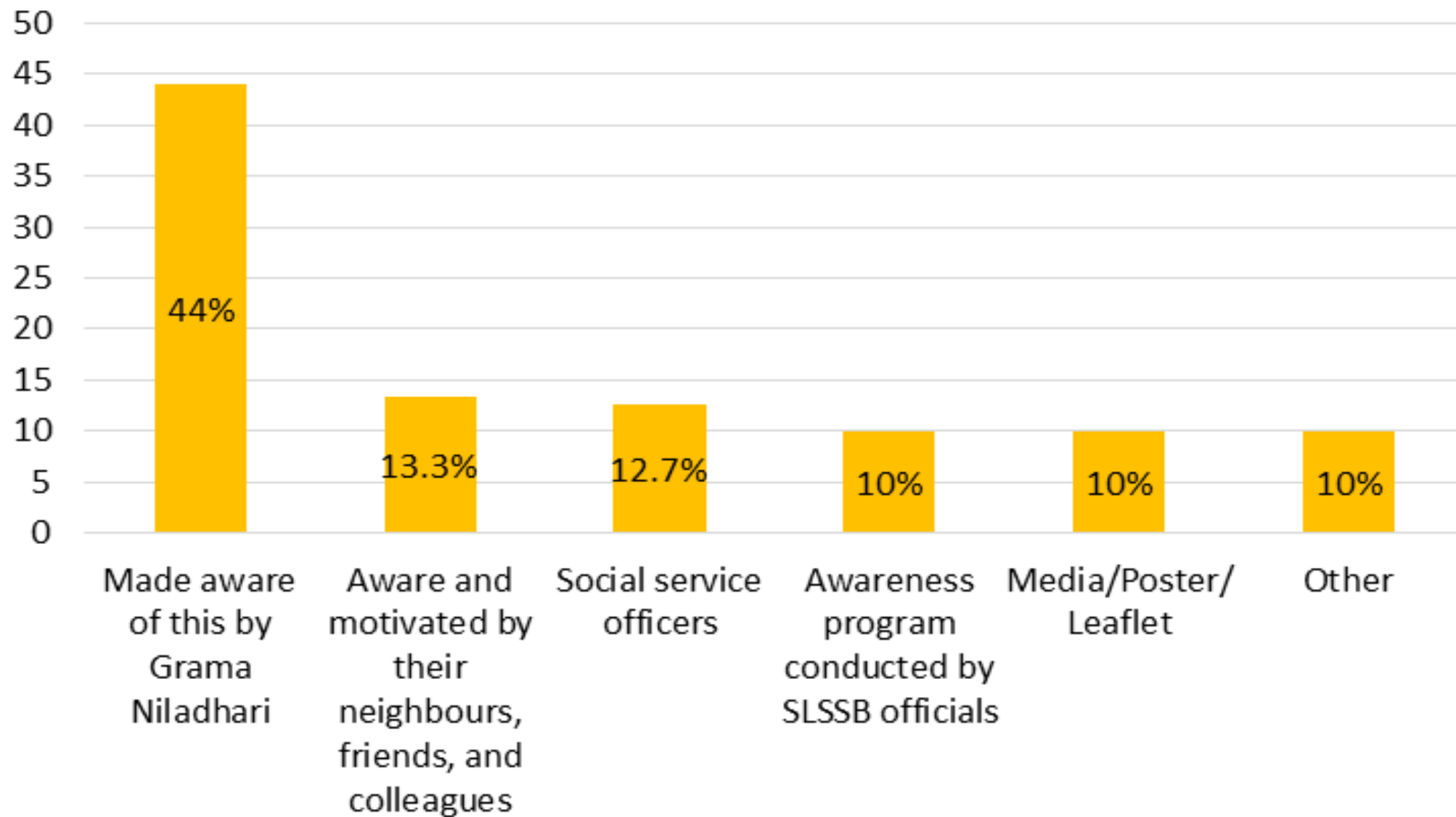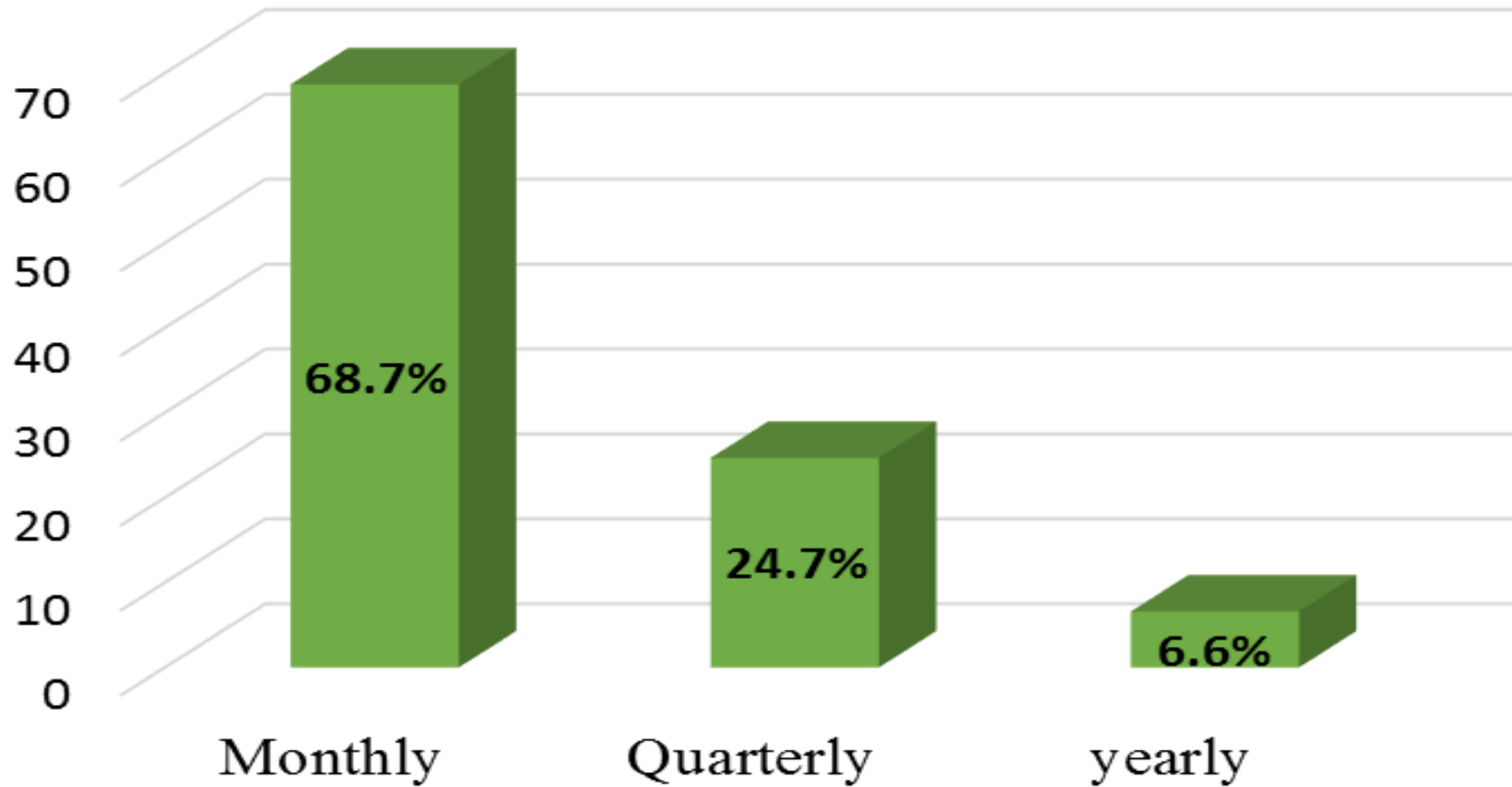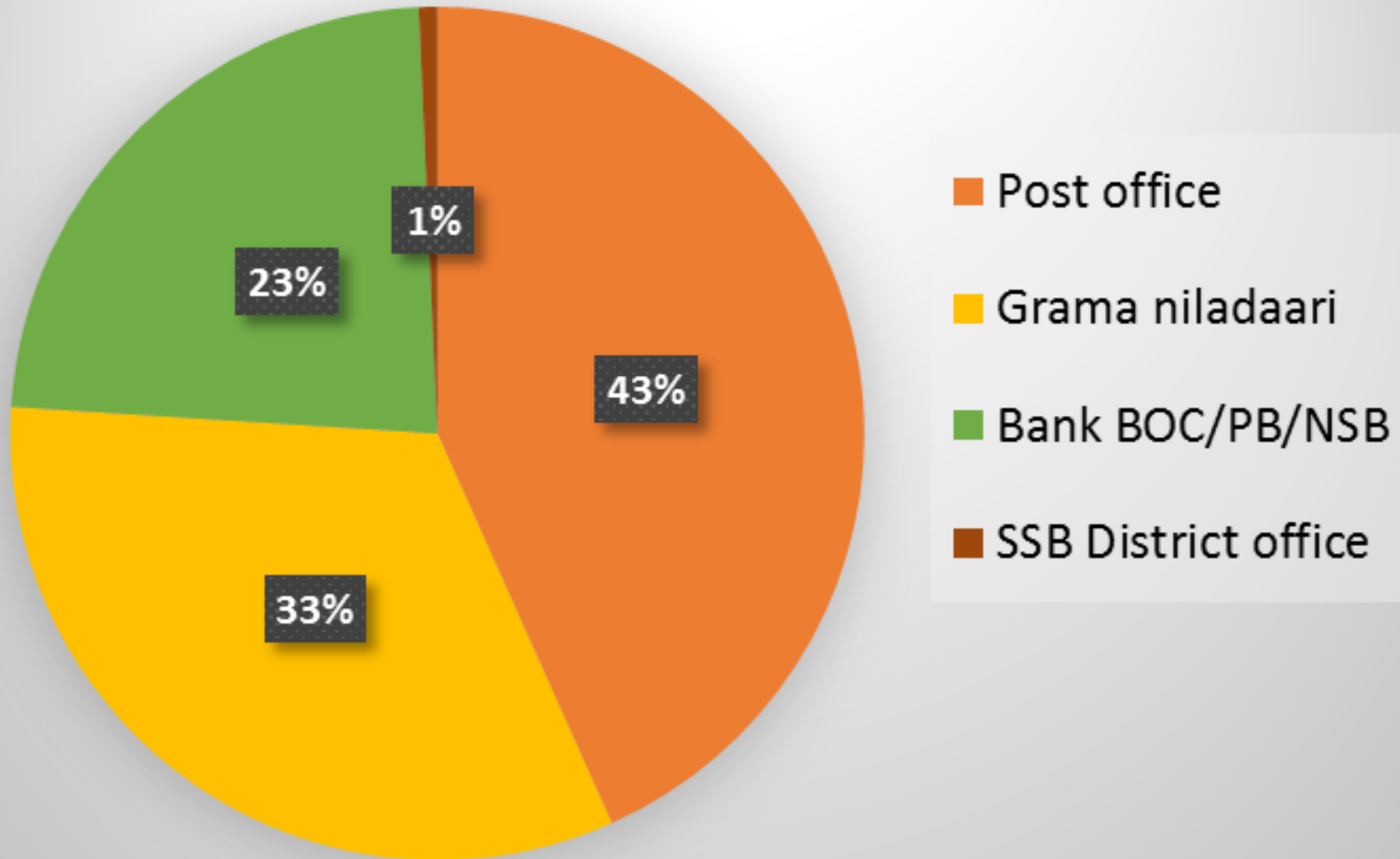
Awareness of the pension scheme
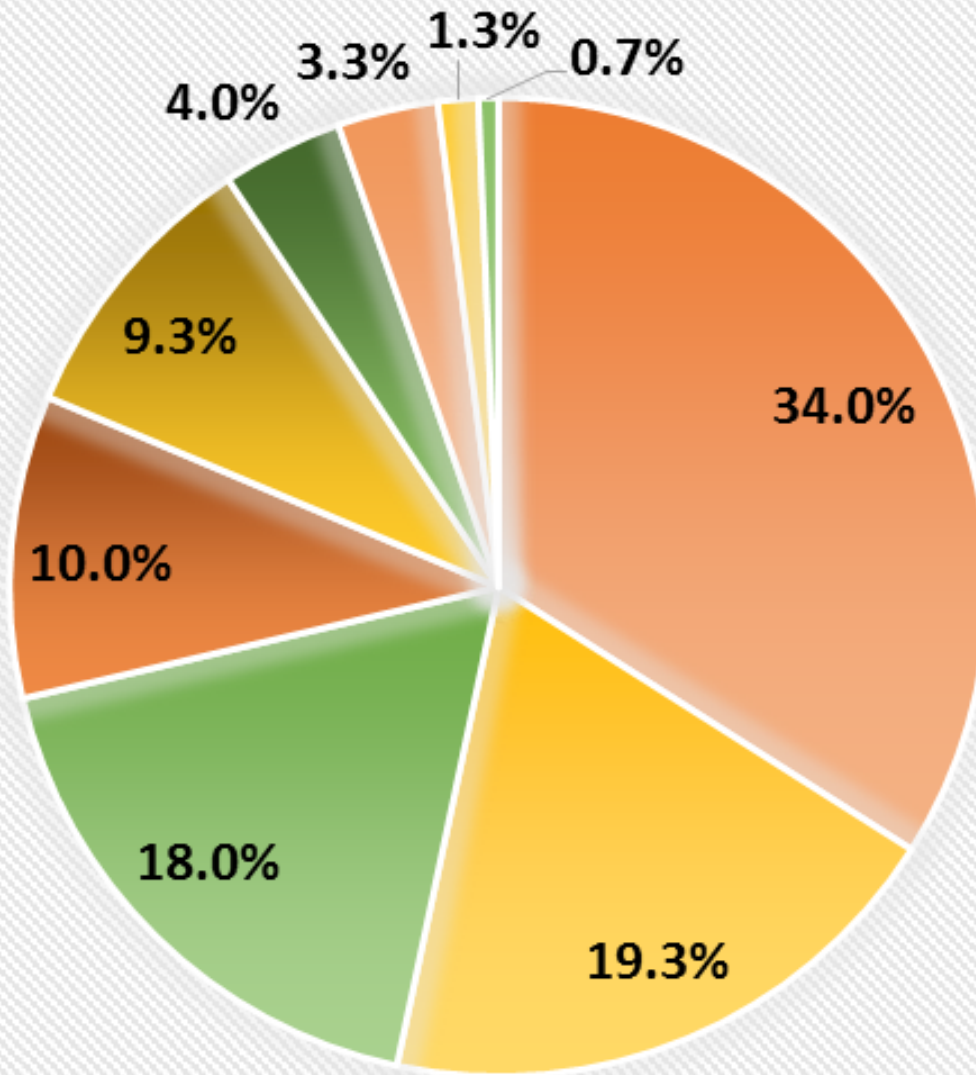
Type of premium payment by defaulters

Most of defaulters selected their premium payment mode on monthly basis.

Premium payment mode of defaulters

Pie chart legend:
- Post office
- Grama niladaari
- Bank BOC/PB/NSB
- SSB District office

Values shown on chart: 43%, 33%, 23%, 1%

Future expectation of survival strategies in the old age of default members

- 34.0%
- 19.3%
- 18.0%
- 10.0%
- 9.3%
- 4.0%
- 3.3%
- 1.3%
- 0.7%

Legend:
- Living with children or depend on their children
- Not decided yet about retirement
- Starting a business (petty trading) in retirement age
- Framin, Livestock-keeping and animal husbandry
- Surviving on ETF and EPF
- Cash saving
- Rent room/house/business place / land
- Find a new pension scheme
- Other

Expectation of the premium paid by the defaulters
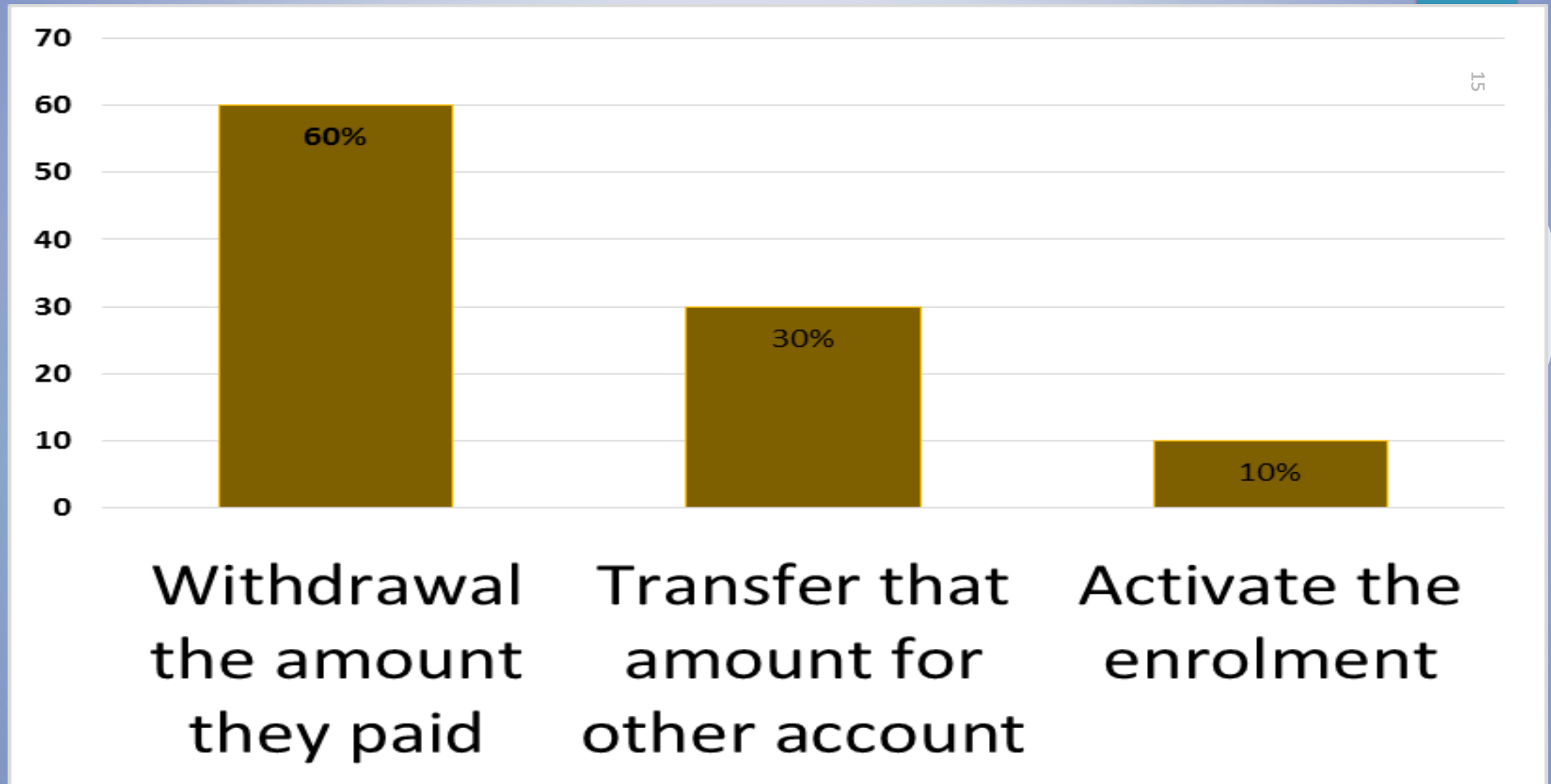
Qualitative data

Narratives:

▶ *"In order to achieve the assigned targets, the field officials paid the first premium of the self-employed and enrolled them in the scheme. This practice has contributed to increase the number of defaulter in SSPS".* (**Government Officer)**

▶ *"Currently I am working at garment factory in the Kurunegala district and also doing my higher studies. One day I got a call from Sri Lanka Social Security Board in Colombo. That officer informed me that , I was a member of the social security pension scheme. Therefore, he wanted to know my correct address to update my computerized data related to my enrollment in the pension scheme. I was surprised! And I told him that I was not enrolled in any pension scheme".* **(Shirani Dammika, 23 years old female, unmarried)**

➤ *Karunasena is a carpenter who is a defaulter of SSPS. His wife is Somalatha is a housewife. Their younger daughter's family is living with them. Younger daughter has migrated to Middle East for employment. Her husband and two daughters live with them. His son-in-law is an alcoholic who is not engaged in employment. They also do not have a regular income due to COVID 19. The pandemic has made their daughter unemployed. He said that "all my income disappear, we are pushed to hand to mouth economy. I couldn't continue with my monthly premium of SSPS for a long period. Consequently I became a defaulter of the pension scheme. However, so far social security board didn't inform my status of the scheme". Both Karunasena and his wife are very apprehensive about their uncertain future. (Male 53 years old defaulter)*

Conclusions

▶ The changing demographics in Sri Lanka together with an ageing population warrants special attention towards old age social security.

▶ The lack of awareness about the pension schemes, targets imposed on government officers to enroll self-employed persons to pension schemes by the organization, unsatisfactory follow-up mechanisms, default on the part of the pension provider in updating on the status when there are defaults, delay in issuing documents and benefits to the contributors are some reasons attributed to the slackness of the contributors who have enrolled in the scheme.

▶ In-depth analysis reveals that the collapse of parallel state organizations awarding pensions has also created a loss of confidence in this type of government interventions

▶ Hence, there is a possibility to draw the attention of the policy makers to plan new policies and amend the existing policies which fit to the current requirement and further to draw their attention to prepare a national policy on pension.

▶ Economic hardship due to COVID-19, particularly lockdown has created a miserable situation to the informal sector workers and a majority of them lost their income totally or drastically. Consequently overwhelmingly a large majority of them were unable to contribute to their pension scheme even during the Post-COVID-19 era.

Policy implications

▶ An appropriate strategies need to be developed and implemented by the institute, to attract more contributors with future development in mind – expansion of coverage.

▶ The policy makers should consider establishing a medium term comprehensive strategy, including both contributory pension and social pension, in order to provide a social protection floor for elderly persons.

The pension system needs to be reformed in the direction of comprehensive multilayer to ensure income security in the old age.

?

Question & Answers

Thank You

References

▶ Adzawla, W., Baanni, S. A., & Wontumi, R. F. (2015). Factors Influencing Informal Sector Workers' Contribution to Pension Scheme in the Tamale Metropolis of Ghana, Journal of Asian Business Strategy, 5(2), 37-45

▶ Ajzen, I. (2005). Attitudes, personality, and behavior (2nd. Edition). Milton-Keynes, England: Open University Press / McGraw- Hill.

▶ De Silva W.I. & Senerath, S. (2009). Longer longevity and early retirement: Justification for increasing the retirement age in Sri Lanka. Sri Lanka Economic Journal, 10 (1):1-17.

▶ Eriyagama, V., & Rannan-Eliya, R. (2003). Assessment of the Farmers' and Fishermen's Pension and Social Security Benefit Scheme in Sri Lanka. Colombo: Institute of Policy Studies.

▶ Funfgeld, B., Wang, M. (2009). Attitudes and behavior in everyday finance: evidence from Switzerland, International Journal of Bank Marketing, 27(2), 108–128.

▶ Gaminiratne, N. (2004). Population Ageing, Elderly Welfare, and Extending Retirement Cover: The Case Study of Sri Lanka. London: Economic and Statistics Analysis Unit. Overseas Development Institute.

▶ Gottret, P., & Schieber, G. (2006). Health Financing Revisited: A Practitioner's Guide. Washington, DC: World Bank. Retrieved from http://siteresources.worldbank.org/INTHSD/Resources/topics/Health- Financing/HFRFull.pdf

▶ Hu, Y. and Stewart, F. (2009). Pension Coverage and Informal Sector Workers: International Experiences. OECD Working Papers on Insurance and Private Pensions, No. 31. OECD publishing.

▶ International Labour Organization (ILO). (2008). Social Security in Sri Lanka: A review of the social security system for the Ministry of Labour Relations and Manpower. Geneva:

▶ Park, C., & Mercado, R. V. (2015). Poverty and income inequality in developing Asia. Asian Development Bank Economics Working Paper Series, 426

▶ Rannan-Eliya, R., De Mel, N., Ramachandran, E., Senegama D. (1998). Ageing and Pensions, IPSHPP Occasional Paper No.05, Institute of Policy Studies, Sri Lanka.

▶ Samarakoon, S.M, Arunatilake, N. & Gunasekara, N. (2015). Income Security for Older Persons in Asian and the Pacific; Economic and Social Commission for Asia and the Pacific, Social Development Division, United Nation.

▶ Takayama, N. (2004). An Evaluation of the Korean National Pension Scheme with a special reference to the Japanese Experience, mimeo. Retrieved from http://takayamaonline.net/English/pdf/Korea.pdf