The Public Sector Pension Scheme and Population Ageing in Sri Lanka

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Public Sector Pension Scheme (PSPS)

- The PSPS is a non contributory pension system financed by the government budget.
- It provides a replacement rate of 85% of last drawn salary corresponding to maximum of 30 years of service.
- This is in contrast to other countries of using the average of 5-7 years prior to retirement.
- The pension is reduced by 2% for each year of service short of 30 years.

- It is also somewhat less than the international norm of at least 3% and possibly as high as 6-8%.

- In 2011, the PSPS covered 494,000 pensioners which is about 38% of government employees and 5.8% of the labour force.

- The pension expenditure in 2011 comprised 1.5% of GDP, 9.9% of current government expenditure and 22.2% of budget deficit.

- The PSPS is complemented by mandatory contributory (4-7% of their salaries) survival and disability plan - the Widows and Orphans' Pension Scheme.

- It is believed that the Widows and Orphans' plan is over funded relative to the benefits it provides and therefore, PSPS may not be entirely non-contributory.

- The full pension of a deceased pensioner is passed on to the widow and orphans if the widow remains unmarried.

- The PSPS benefit formula has been shown to be generous relative to other countries in South Asia.
- For instance, the Indian replacement rates are much lower , but the ratio of civil service wages to average incomes is much higher.
- Although the target replacement rates are relatively high, the lack of automatic indexation has resulted in lowering the real pension value.
- Thus it may suggest that public service pension payments are a kind of deferred compensation for compressed wages.

- There has also been a significant growth in pension payments during 2004-2006 due to the salary increase of public servants and who retired during that period.

- The number of pensioners being added annually to the PSPS has been increasing on an average of 2.6 percent during 2001 to 2011, with the number of new retirees averaging about 11,000 per year.

- A pensioner at the time of retirement is entitled to a commuted gratuity equivalent to 24 times the unreduced monthly pension which is recoverd in equal installments over a period of ten years.

- The pension bill, which was Rs. 26.5 million in 2001 has risen by nearly four fold to Rs. 100 million in 2011.

- The expenditure on pensions has increased on an average of about 15 percent per annum, with an annual increase of approximately Rs.7.4 million.

- The long term financial viability of the PSPS has not been undertaken for some time.

- Financial projections undertaken in 1998 showed that the pension burden would increase from 2.5% of GDP to 4% in 2020 or 20% of government budget to support less than 3% of the population.

Number of Pensioners under the Public Service Pension Scheme, 2001-2011

Year	Total Pensioners	Annual Increase	Percent Incerase
2001	383,838	-	-
2002	394,625	10,787	2.8
2003	400,583	5,958	1.5
2004	411,427	10,844	2.7
2005	418,923	7,496	1.8
2006	430,153	11,230	2.7
2007	438,190	8,037	1.9
2008	445,120	6,930	1.6
2009	456,113	10,993	2.5
2010	473,762	17,649	3.9
2011	493,549	19,787	4.2

Pension Expenditure, 2001-2011

Year	Total Expenditure (Rs. mil.)	Annual Change (Rs. Mil.)	Percent Change (%)
2001	26.5	-	-
2002	31.1	4.6	17.7
2003	31.2	0.1	0.3
2004	36.4	5.2	16.7
2005	46.8	10.4	28.6
2006	58.0	11.2	23.9
2007	68.8	10.8	18.6
2008	74.9	6.1	8.9
2009	85.1	10.2	13.6
2010	91.0	5.9	6.9
2011	100.0	9.0	9.9

Fiscal Burden of the Public Servants Pension Scheme, 2001-2011

Category	2001	2003	2005	2007	2009	2011
Pension Expenditure (Rs. Mil.)	26.5	31.2	46.8	68.8	85.1	100
As % of GDP	1.9	1.8	2.0	1.9	1.8	1.5
As % of Current Expenditure	8.7	7.5	10.6	11	9.7	9.9
As % of Salaries and Wages	33.9	34	33.8	32.1	31.4	31.3
As % of Budget Deficit	17.4	22.1	22.8	24.9	17.9	22.2

Pensions and Demographic Ageing

- The phenomenon of population ageing is the increase in the demographic old age dependency ratio.

- Thus an increase in the percentage of elderly leads to an increase in old age dependency ratio and the number of pensioners and a decrease in the percentage of those in the formal sector of the labour force.

- Thus in Sri Lanka where pensions are funded by general revenues, as the old age dependency increases, the tax revenue has to be increased or pension payments have to be reduced in order to sustain the pension system.

- Between 1946 and 2001 the life expectancy at age 60 has been rising with widening gap between males and females.
- The old age dependency ratio is expected to double during the next 30 years.
- Thus the ratio of pensioners to working age population will double by 2040.
- The PSPS not being indexed to inflation and wages but subject to add hoc revisions, ageing of the population would further erode with population ageing.
- With morbidity compression not currently occurring in Sri Lanka, ageing of the population will continue to increase the costs of health care of the elderly.

Life Expectancy at Age 60, 1946-2001

Period	Male	Female	Gap
1945-47	14.3	14.5	0.2
1962-64	16.6	17.0	0.4
1970-72	16.6	17.8	1.2
1980-82	18.0	20.0	2.0
2000-02	17.7	21.6	3.9

Projections of Old Age Dependency, 2010-2040

Year	% Pop. 15-59 yrs.	% of Pop. 60+ yrs.	Old Age Dependency Ratio
2010	62.8	12.3	19.6
2015	61.3	14.0	22.8
2020	60.4	16.2	26.8
2025	60.3	18.4	30.5
2030	59.8	20.5	34.4
2035	58.9	22.2	37.7
2040	57.3	24.2	42.2

Pensioners to Population Aged 15-59 years, 2010-2040

Year	Pensioners	Population 15-59 yrs. (000')	Pensioners to Pop.15-59 (%)
2010	474,000	13,106	3.62
2015	529,000	13,302	3.98
2020	584,000	13,486	4.33
2025	674,000	13,729	4.91
2030	764,000	13,799	5.54
2035	864,000	13,740	6.29
2040	964,000	13,423	7.18

Adjustments of Pension Expenditures to an Ageing Population

- Fiscal adjustments should be made to increase savings by government and investment in economic growth.
- If the rate of GDP growth is increased and sustained at 7-8%, it would be an effective way of making the PSPS sustainable.
- The increase in the age of retirement and reduction of the commutation rights would a have positive impact on the cost of PSPS.
- Increase the labour force by increasing the participation of females and older workers.
- Make a transition from pay-as-you-go system to a funded system.

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