Report on the Workshop on Financing and Governance of Social Security Schemes

Held on the 13th. & 14th. December at Golden Sun Resort Hotel, Wadduwa

**Inaugural Session**

Mr. Woodall in his opening speech said that in recent years the ILO had arranged a number of discussions on Social Security in Sri Lanka and went on to say that this workshop is part of the programme of Technical Cooperation Research Scheme. He said that the South Asian social security schemes are linked to the non traditional formal sector and that many workers are outside such schemes. He said that this was true of Sri Lanka and said that the objective of the workshop was to extend the coverage and find ways and means of finding the finances to strengthen the social security coverage and extending the benefits. He said that the workshop will take up issues like extension of social security to the informal sector, the involvement of the Trade Unions in such social security coverage, and in the governance of such schemes. Mr. Woodall said that the experience from the region on these issues would be useful to the unions to organize themselves and finding answers to technical questions like funding etc.. He said that the object of the workshop was to take up such issues relating to social security and make the voices of the trade unions effective in the solution of those issues.

Mr. Pong Ahn from ILO SATT speaking next said that one of the objectives of labour reform is the development of social security.

Ms. Gamage from the Nurses Union referred to the Employees Provident Fund and to the Government Pension scheme and to the limited benefits from the two schemes and the need to develop them.

Mr. Rasadeen from the Ceylon Trade Union Federation said that the term social security has a broad meaning and we in Sri Lanka have various social security measures like free medical care, free education from the Kindergarten to the University, and minimum wages but he added that with Globalization and the structural adjustment programme there is a gradual erosion of these benefits. He referred to the 1952 “hartal” when the then government tried to do away with the rice subsidy on the advice of the World Bank, to the introduction of the EPF in 1958, to the extension of the coverage in 1971, and to the introduction of the ETF in 1990. Mr. Rasadeen also spoke of the shrinking State sector, and the need for vigilance by the workers and their trade unions to ensure that their hard earned benefits are not taken away.

Speaking next on Financing Social Security Schemes Mr. Woodall gave the classical definition of social security and spoke on the various social contingencies like medical care, sickness benefit, unemployment benefit, old age benefit, employment injury benefit, family benefit, maternity benefit, invalidity benefit and survivor benefit. He thereafter went to group these benefits as short term and long term benefits. Under the short term benefits he grouped medical care, sickness, maternity and family benefits while under the long term benefits he grouped old age, survivor’s, invalidity and employment injury benefits. He said that long term benefits like the government servants pension focused on retirement schemes. Speaking of financing
Mr. Woodall spoke of direct management and indirect management methods. He spoke of “Pay as you go” schemes, of “fully funded schemes” and of the “partially funded” schemes. He then referred to the social insurance scheme as an indirect management system and said that it was an indirect way of organizing social security. Mr. Woodall then spoke of the contributory schemes and said that under some schemes contributions are made by both employers and employees, while in some by employers only and in some by the Government only. He said the trade Unions should be vigilant about the investment of social security funds and be involved in obtaining optimum returns from such investments. He then spoke of direct investment and of indirect investment methods and about monitoring the management of the funds. He referred to the social insurance system and said that the participants must believe that the scheme is fair and equitable and the basis of equity is either mutuality or where there is individual risk rating there is solidarity based on social insurance.

Speaking of Investment principles Mr. Woodall said the risks now are greater than some years back and said that in investing the funds one should ensure that he obtains the maximum returns with minimum risk, ensuring at the same time that the social objectives are fulfilled and there is a regular cash flow. He spoke of fixed term investments such as Treasury Bonds, of investment in the share market, in mortgages, of property, in bonds of private Companies, in cash deposits and in commodities. He said that there should be a prudent allocation of the investment funds in the different sectors, ensuring the safety of the funds. Mr. Woodall also spoke on investment monitoring, of proper accounting and auditing of the funds, about maintaining transparency, of correct analysis and about measuring the performance. He referred to the risks involved in investing in shares and the necessity to keep political consideration out of investment. He also spoke of the effects of inflation on employers’ costs and its impact on the employees’ benefits.

Mr. Pong Sue Ahn who spoke next emphasized the important role of Trade Unions in the governance and in the investment of social security Funds.

The next session was on “Perspectives on local schemes by Messers S.K.S. Ranaweera and Arthur Silva retd. Deputy Commissioner of Labour. Mr. Ranaweera in his presentation said that the EPF is the biggest superannuation fund with over 255 billion rupees in deposits. He said that although there are 8.1 million account holders there are only 1.9 million active contributors. He said that in 1994 there were 1.3 million active accounts, in 1996 there was 1.54 million active accounts, in 1997-1.69 million active accounts, in 1998 it was 1.79 million, 1999 it was 1.78 and in the year 2000 it was 1.91 million active accounts. He emphasized the need to find out the cause for such a large number of inactive accounts. Mr. Ranaweera also said that according to the Central Bank figures 38.7% of the account holders (334,000) had a total less than Rs. 2500/ in their accounts, 74,320 or 2.2% members had less than Rs. 50,000/= each in their accounts, and the percentage of members who had over Rs.400,000/= in their accounts each, was .7% or 52,000 members. Mr. Ranaweera also spoke of the several mistakes made by members in their applications for refunds and said the rejection rate was over 50%. Speaking of collections to the Fund Mr. Ranaweera said in 1993 it was Rs.13,799 million, in the year 2000 it was Rs.16,800 million and in the year 2001 it was Rs.18,000 million. Speaking of employers contributing to the Fund Mr. Ranaweera said that though about 198,000 employers are registered with the Fund as employers, only 47,000 are regularly contributing to the Fund. Mr. Ranaweera then spoke of the
housing loans granted based on the EPF deposits of the members and said that as much as 40% of those who burrow giving their EPF deposits as security do not settle their loans. Mr. Arthur Silva speaking next referred to the several contingencies of social security mentioned by Mr. Woodall and said that there are several laws in Sri Lanka to give social security but he said that there are no laws to give social protection when the employee is out of work and is unable to earn his living. He referred to the employer liability social security schemes like the Maternity Benefits Ordinance, Workmen's Compensation Ordinance, and to the law on Gratuity. Mr. Silva went on to say that under the EPF monies are released to the beneficiary under certain contingency like marriage, retirement, invalidity etc. and said that these monies released are spent on wasteful expenditure by the majority of the beneficiaries and in their old age they have no means of maintaining themselves. Mr. Silva also referred to the ETF where the member can withdraw the monies which are there to his credit every five years and to the Fishermen and Farmers Pension schemes where certain sums are paid in certain contingencies. In conclusion Mr. Silva referred to the attempt made in 1991 to introduce a pension scheme to cover the private sector employees and the tabling of Bill in the Parliament. He said the Bill never saw the light of the day and was abandoned because of the opposition of certain Trade Unions.

The speeches of Messrs Ranaweera and Silva were followed by a panel discussion with Mr. Ranaweera, Mr. Nirosh Silva & Mr. Murtaza Jafferjee from the Association of Investment Professionals, Mr. Leslie Devendra from the Sri Lanka Nidahas Ha Vurithiya Samithiya and Mr. Rosario from the Employers’ Federation in the panel. Mr. Silva speaking first referred to the ageing society and wondered whether the EPF system as it is could cater to the needs of the members in their retirement. He said the working people depended on the EPF lump sum they receive, to exist during their period of retirement and wondered whether it would be sufficient to maintain them. He also raised doubts about the proper management of the investment of the EPF funds to get the best returns. Mr. Silva said that the manner in which the Fund is managed is not ideal and said in the face of the gradual dismantling of the welfare State the security and the returns from Provident Fund are crucial to the well being of the members. He said that there is a demand by some people that the management of the Fund be given to the private sector for management in order to get better returns. Mr. Jafferjee speaking next said that the Government servants Pension scheme (PSPS) is a good superannuation scheme as it bestows 90% of the last earned salary on the on the employee. He said that in the PSPS the cost is borne by the government and the replacement rate is 75.9%. In the EPF which is a contributory scheme the replacement rate is only 20%. He compared the EPF to the contributory superannuation scheme in Chile, where the contributions are only 9% and said the replacement rate in the Chile scheme is 70%. He said the ILO and the World Bank staff gets a replacement rate of 40% in their pension. Mr. Jafferjee said the question often asked is whether the contribution rate to the EPF – the 20% is sufficient. He said that the 20% contributions now made are high in the global context and a further increase would only increase the cost of goods to the customers as the employers would pass the additional costs to the customers. Mr. Rosario from the EFC said that when you speak of employers you speak of the public sector employers, private sector employers and of the self employed people. He distinguished PSPS from PSPF and said PSPF is a provident fund maintained by the Government for the benefit of temporary employees of the government. He said that PSPS is non contributory and that there is a qualifying period. He said that in the case of the persons covered by PSPF if the employee resigns he will get only the contributions made by him only and in the case of employees covered by the PSPS the employee will not be entitled to
a pension. Speaking of the EPF he said that a strict monitoring of the management of the Fund is necessary. He further said that as the most powerful trade unions are dominated by politicians, political interference may be unavoidable. Mr. Rosario said that monitoring by trade unions may not be a satisfactory answer. As to the demand for extension of the benefits from the Fund Mr. Rosario said the option may be to increase the taxes. Mr. Ranaweera speaking next said that the Employees Provident Fund is managed by the Monetary Board and neither the department of Labour nor the trade unions have a say in the management of the Fund. He said the collections to the Fund in the year 2001 amounted to Rs. 17,738 billion and the total balance in the Fund as at December 2001 was 229,819 billion rupees. He said that the statutory interest payable is 2% but the Fund had paid over 10% interest yearly during the last two decades. Intervening Mr. Silva said that unlike any other burrower or Bank the monetary Board never tells the lender- the Fund what interest it is going to pay and it is only at the end of the financial year the Board reveals the interest it is going to pay the members.

The post lunch sessions saw Mr. Noriyuki Suzuki, general secretary ICFTU–APRO, speaking on the rising poverty and the need for a social safety net. He said that increasing poverty is the scourge of the day. He said that wealth is unequally distributed with 20% of the world population or 1.2 billion enjoying 84% of the global wealth while the bottom 1.2 billion or 20% get only 1.1% of the global wealth. He said that approximately 43% of the world population lives on less than a dollar a day. Globalization he said identified by free markets, deregulation and fiscal austerity had led to unequal distribution of wealth. He said that a fair distribution of wealth entails (a) freedom of association, (b)collective bargaining, (c)social safety nets, (d) and taxation. He said that the bitter experience of the Asian financial crisis of 1997/1998 emphasizes the importance of social safety nets. He then went on to define social safety net as an instrument aimed at providing extended social protection, a guarantee of social security to the most needing sections of society, particularly to the working class and to the social poor. He referred to the ILO Convention 102, which sets the minimum standard for social protection and said that the ICFTU–APRO had been campaigning for social safety nets for sometime. He then spoke of the difficulties of bringing about national consensus as to who should fund. He said that the State should at least provide for the basic necessities such as a basic pension for all including the workers in the informal sector. He said that there had been various obstacles towards the formulation of national safety nets and the recent actions of the IMF and the World Bank persuading the governments to cut down on social spending is bound to widen the gap between the “haves” and the “have-nots” further. He said that contributions to the social security funds are based on the wages of the employees and where wages are low contributions to the fund would be also low and would be inadequate to sustain the member in his old age. Mr. Suzuki then spoke of the need for solidarity between the trade unions and the need to speak with one voice in mattes concerning social policy and on institutional matters. He said the workers are the main stakeholders in social security funds and their participation would help the formulation of social safety nets better. He stressed the importance of social dialogue not only between the social partners but also with the International monetary institutions. He also said the necessity for transparency in information sharing and provision for workers to participate in meetings with time off. He said that Union representatives should have access to relevant information without any obstacles being placed. He said the presence of workers representatives in Boards or Committees set up to administer social safety nets is vital for its smooth functioning. He also emphasized the need for the representatives be provided with the required training and adequate
knowledge of the issues in hand. In concluding his speech Mr. Suzuki said that there should be a happy link between democracy, peace and development in order for the country to forge ahead and for the workers to benefit.

Ms. Claudia Coenjaerts - ILO resident Director who presided thanked Mr. Suzuki for his presence and for his presentation.

The next speaker was Mr. Murtaza Jafferjee from the Association of Investment Professionals. Mr. Jafferjee explained the drawbacks in the present investment policies of the EPF funds. He said that two important criteria in investments are adequacy and safety. He said that the EPF investments provide only 25% replacement rate due to poor investment policies. He said the PSPS in relative terms provide a “generous” replacement rate but as it is not indexed to the cost of living, it loses its real value as time passes. Mr. Jafferjee wondered as to how long the Government can afford the payment of pension to state employees, as pension payments constitute a big slice of the budget. He said the future of the EPF is also bleak as the inflow of funds is slowing down, as there is a decrease in the number of new members and also because the interest rates are falling and the outflow is increasing. He referred to the changing demographic situation and said that this would affect the State’s coffers and soon the government would be hard put to find the finances to sustain the PSPS. He said that the real rate of interest the members of the EPF receive is low due to the inflation and is inadequate to sustain the Fund for long or to provide any additional benefits. He said the interest earned last year, on the Rs.266 billion in the Fund was only 36 billion, the inflow annually was approximately 18 billion and the outflow was approximately 12 billion. He said that this is unsatisfactory. Speaking of the public servants pension Mr. Jafferjee said the annual liability of the State on pension payments is Rs. 585 million which is 10% of the budget. He said that with the on going changes in the demographic patterns and the emergence of an ageing society the costs of the State are bound to increase. Mr. Jafferjee also said that because of the pensions paid to a section of the employees there is a “job lock” and there is hardly any mobility in employment from the public to the private sector.

Mr. Jafferjee went on to say that at present only about 50% of the working population is covered by some kind of social security system and there is a need to cover all the working population both in the formal and the informal sectors. Mr. Jafferjee said that

- demographic changes are a certainty, the ageing of the population cannot be avoided, and the problem would not fade away.

Mr. Jafferjee said that if the problem is not addressed early and adequately it will become harder to rectify it later. He said that the current system places too much of responsibility in the hands of politicians to further their political agenda, to the detriment of future generations and retirees. He further said that there are no ideological conflicts in developing a better retirement scheme. He further said that in the governance of the Fund the workers should have a say and nobody should dare to deny that right. Mr. Jafferjee further said that all individuals do not have the same risk profile and therefore it is only but democratic to permit those who want to take a higher risk and obtain higher returns, to exercise that option. Mr. Jafferjee also said that members should take greater responsibility for themselves, and act on their own, should be sufficiently informed, have adequate knowledge and have adequate choice. He said that the key issues are the types of systems, the defined benefit system like the government pension, vs. the defined contributory system- the EPF. He said one of the key issues is about investment choice – whether it is to be
with the Treasury, or private-in the share market, or in some other form. Mr. Jafferjee said that
the retirement schemes could be sponsored by the government, by individual companies, or by a
group of companies. Another key issue Mr. Jafferjee said is about the management of the funds
and the need for a regulatory framework and monitoring system Mr. Jafferjee went on to say
that the stakeholders in any social security system for workers are the workers themselves, who
are also the beneficiaries and they contribute a part of the contributions to the Fund. He said the
question of mobility of labour is a matter to be considered at another forum. Mr. Jafferjee also
said the employers are also stakeholders as they contribute to the Fund. He said the employers
are concerned about the impact of the system on the costs and labour mobility He said that the
other stake holder is the State. He said the State today is the biggest debtor to the EPF but as the
guarantor has a responsibility to the members of the Fund. Mr. Jafferjee envisaging the future
said that there should be an office for pension reform which would be of a transitory nature and
would fold up once it’s work is completed. He said the organization be manned with a full time
staff, chosen for their ability and hard work. Mr. Jafferjee said that this pension reform committee
be assisted by a tripartite committee and the Reform committee should have adequate funds to
carry on it’s work. It should be an independent body he said and should not compromise on it’s
objectivity. In conclusion Mr. Jafferjee said that a greater awareness on the need for social
security is created among the public and the knowledge and skills of the stakeholders be
developed so that they will be equipped to take decisions on their own.

The next speaker was Mr. Pong S. Ahn from the ILO-SATT. Mr. Ahn spoke on the Korean
experience on social security. Mr. Ahn said that the pension scheme for the private sector
employees was introduced in Korea by the National Pension Act of 1986. He said a Corporation
was formed and the National Pension scheme was implemented from 1.1.88. to cover
establishments with ten or more full time workers. He said the scheme was extended in January
1992 to cover establishments with five and more workers, and from 1.1.95 all workers including
fishermen, farmers and all workers resident in the provinces were covered. The scheme was
extended to cover foreign workers in August 95 and in April 99, workplaces with less than five
workers were also covered. He said resources for the operation of the scheme came from the
contributions (71.7%), and from the profits on investment (28.3%). He said the scheme functions
under the Ministry of Health and Welfare and the Pensions Insurance Bureau. Speaking of
financing Mr. Ahn said the health insurance and the pension schemes are funded by
contributions equal to 2.8% of the employee’s monthly salary, by the employer and the worker.
He said that public servants other than teachers and servicemen pay 3.4% of their monthly
salary to the fund while for the national pension the contributions are 4.5% of the monthly salary
by the employer and the employee. For employment insurance the employers pay .3%and for
vocational ability development he said the contribution is .1 to .7%. For unemployment benefits
Mr. Ahn said contributions are made by both the employer and the worker at .5% each making a
total of 1%. Mr. Ahn said that the principles involved in social safety net are (a) social justice,
(b) dignity of labour, (c) redistribution of income, (d) tripartism, (e) worker participation
in decision making, and (f) absence of discrimination. He said that some social safety schemes
are the result of collective bargaining, tripartite or bipartite - by social dialogue. Mr. Ahn said that
social security schemes included pensions, provident funds, retrenchment benefits, placement,
medical care, maternity benefits, a guaranteed minimum wage and workmen compensation. He
said that social development includes, in addition to health and education, elimination of child
labour, vocational skills development, retraining, community development, housing and social assistance to specific groups.

Mr. Ahn’s presentation was followed by the presentation of the veteran trade union leader Mr. Leslie Devendra. Mr. Devendra speaking on “strengthening of worker representatives for financing and management of social security schemes” said that most of the Sri Lankans are averse to any change. He said that the workers are happy with the laws they have and look with suspicion any attempt to introduce any changes even if they are for their betterment. When the World Bank makes any recommendations the workers are suspicious and look at them with disfavour because of their past experience. Mr. Devendra said that about six or seven months back when the Hon. Prime Minister raised the question of liquidity of the EPF and its viability, as the government had borrowed large sums from the Fund, workers got worried and started thinking about the government guarantee. He said the situation had arisen because if the government’s unlimited borrowing from the Fund. Mr. Devendra said the Fund is managed by the Monetary Board and the members of the Board includes the Governor of the Bank who is the lender and the Secretary to the Treasury who is the burrower. He said that the lender and the burrower sit ion the same Board and wondered as to whether the decisions taken by these two gentlemen are in the interests of the members of the Fund. Mr. Devendra then spoke of the PSPS and about the changing demographic patterns, the emergence of an ageing society, and wondered as to how the Government is going to find the finances to sustain the pension system. Speaking of the W&O.P he said that there is a school of thought that the contributions made by public servants to the W&OP would be sufficient to not only pay the W&OP commitments but also the public servants pensions. He said that this has to be studied. Mr. Devendra then referred to the figures given by Mr. Ranawera about the deposits and said that according to Mr. Ranaweera 38% of the members have less than Rs. 2500/ in their accounts and only .7% have more than Rs.400,000/ and said that with inflation eating into the interest rate the members would not gain as the deposits would lose their real value. Speaking of investment of the EPF & ETF funds Mr. Devendra said the workers nor their representatives have any say in the investments. He then referred to the suggestions made in certain quarters about investing the funds in the private sector- in the share market etc. stating that there would be better returns. He dismissed this suggestion and said that this is a risky but he said it may be studied. He said the workers views on these issues be considered but wondered how effective it would be as trade unions are not united and do not speak with one voice. Trade unions he said are often used by the politicians to propagate their political agenda and it is difficult to get them agree on a set policy. Mr. Devendra said that as it is workers do not adequately benefit from the investment of the two Funds. Referring to the private provident funds Mr. Devendra said that he does not agree that they make good investments decisions and referred to the CTB private Fund as an example of bad decision making. On the ETF Mr. Devendra said that the ETF was never meant for granting super annuation benefits to workers. He said that the investment decisions taken by the ETF Board are often influenced by the politicians at the helm, and the worker representatives in the Board do not have any say in most of the important policy matters and their recommendations when made, are often overruled by the Minister. In conclusion Mr. Devendra also referred to the gratuity and said that because of the difficulties of recovery the workers have to wait for long periods to get their gratuity. The day’s proceedings ended with Mr. Devendra’s presentation.

2nd Day
The next day’s proceedings commenced with Mr. Woodall summing up the previous day’s discussions. He said that we should secure the best inputs from the professionals and develop the social security schemes in a progressive manner. Mr. Ahn speaking next on the Korean Pension scheme said that the population of Korea is also ageing fast and that every five years there is an increase of one year added to the longevity of the population. He said the pension payments are reviewed every five years and adjusted according to the inflation. Speaking of investment of social security funds. Mr. Ahn said that before the year 2000 all investments were with the government and said that was one reason the funds did not suffer during the Asian financial crisis of 1997 /98. Since the year 2000 new he said that investments are diversified and also made in the private sector ventures too in order to obtain better returns.

Mr. Ahn’s review of the Korean Pension system was followed by group work. Participants were divided into three groups and three separate questions were posed to them:

Group I
Increase in the standard retirement age?

Negative side:
  a. Adverse effect on youth employment,
  b. affects productivity especially of manual labour,
  c. social unrest.
  d. affects labour market flexibility.

Positive side:
  a. longer stay in employment better income to the family,
  b. More inflow of funds to the Fund,
  c. Sustainability of the Fund prolonged for a few more years He,
  d. Better superannuation benefits on retirement.

Group II
Public Sector:
  a. The entire workforce to be divided into three sectors - public, private and informal sectors.
  b. Amalgamate the government pension scheme with the W & OP Fund, Now
  c. Government to contribute 7 to 20 % of the employees’ salary,
  d. Form a Fund,
  e. Supervision by a bipartite committee,
  f. Maintain a medical insurance scheme “agraha” to be extended to all retired persons.
  g. Social security Schemes available to the employees of Central Bank, Telecom., Port Authority, - pension, EPF, and gratuity to be extended to all public servants who retire.

Private Sector:
  a. Not advisable to increase the percentage of contributions,
  b. The scheme to be managed by a statutory body,

Informal Sector:
  Farmers, Fishermen's pension schemes to be consolidated and a single authority to be appointed.

Group III:
  a. The group recommended the involvement the workers and trade unions in the governance of social security scheme. It recommended the creation of a Trustee ship nominated by Trade Unions which would act in consultation on major policy matters with the trade unions. The group
said the question of the workers excluded cannot be addressed to at this stage and said the Trade unions should play an active role in the organization of such workers and till such time they are organized the trade union representatives in the committee to represent them.

The Group agrees that the problem of involvement of trade unions in the governance of the country’s social and the trade union movement. The Unions should start internal consultations on matters concerning social security through such bodies as the Nature on governance of the social security schemes. The group also recommended a new framework of trusteeship for the governance of the country’s social security schemes.

Rapporteur.