

INSIGHT

Strengthening the Financial Security of Older Persons in Sri Lanka



The participation of older adults in the labor force can help ensure old-age income security while lessening the care burden of the working-age population. Photo credit: Nazly Ahmed.

Promoting the employment of seniors and improving pension schemes can reduce the economic impact of population aging.

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Introduction

The rapid aging of populations has been of concern among economists and policymakers. This is especially true in Sri Lanka, which has the fastest aging population in South Asia. Around 14% of its population in 2015 is 60 years and above. This is expected to rise to 21.2% by 2030 and 25.6% by 2040.

An aging population increases the care burden on the working-age population. In the case of Sri Lanka where there is universal access to free health care, the government's health care burden is also likely to escalate because of the growth in the population of older adults.

Reforms must be put in place to increase the financial security of seniors without putting the government and the economy at risk. Factors influencing the participation of older men and women in the labor force must be considered when designing related policies.

This article is adapted from a study, *Working Beyond the Age of Retirement: Patterns and Determinants of Elderly Labor Force Participation in Sri Lanka*, published by the Institute of Policy Studies of Sri Lanka.

Analysis

Older adults are a growing demographic group in Sri Lanka, which is primarily an effect of the country's rising life expectancy, declining fertility rates, and out-migration over the past decades. This can have several implications on the country's labor markets, social protection system, and health care expenditure.

This issue is further compounded by two major labor market challenges: high informal employment and low female labor force participation. These suggest that a considerable share of the country's population is without access to social security benefits and have inadequate savings for old age.

The participation of older adults in the labor force can help ensure old-age income security while lessening the care burden of the working-age population.

Based on a 2012–2013 Household Income Expenditure survey, over 55% of seniors in Sri Lanka are female. About 84% of older male adults are household heads while the figure was only 30.5% for females. In terms of education, 43% of seniors have received education up to the primary level or below with some gender disparities. Overall, about 27% of older adults participate in the labor force, but the gender disparities are stark. Only 13.2% of females are engaged in the labor force compared to 45.8% of the males. Majority of older people who are still employed are own-account workers (58%), followed by private sector employees.

Probability of Labor Force Participation of Older Adults in Sri Lanka



Being a Male (+)



Being a head of household(+)



Age – (Older the elderly) (-)



Being disabled/ Chronically ill (-)



Level of education (not significant)



Receipt of social assistance (not significant)



Being a pension recipient (-)



Being a remittance recipient (-)



Presence of children (>6 years) (-)



Income status (only for females) (-)

Source: Institute of Policy Studies of Sri Lanka.

Individual characteristics, such as being male, married, and a household head, contribute to the likelihood of their participation in the labor force.

There is an inverse relationship between the number of children (below the age of 6) in the household and the likelihood of older adults' employment. The grandparents, regardless of gender, usually stay at home to take care of their grandchildren.

Moreover, as older adults advance in age, the probability of their joining the labor force declines. Being disabled or chronically ill also significantly reduces this probability.

The presence of other economically active people in the household lowers the likelihood of labor force participation of older male adults, but this has no significant impact on the labor force decisions of female seniors.

There is also a negative association between expenditure or income level and employment of older female adults, and no significant effect was also found on the decision of senior males to work.

Pensioners are less likely to work beyond the statutory age of retirement. This could be attributed to the generosity of the Public Servants Pension Scheme (PSPS), which is fully funded by the government. In 2020, Sri Lanka spent around LKR 257.8 billion on pensions or 1.7% of the gross domestic product (GDP) and 10% of the government's recurrent expenditure. Recipients of remittances are also less likely to join the workforce.

Social assistance programs, such as Samurdhi, and seniors' and disability assistance have no significant effect on the decision to work. This could be attributed to the low coverage and inadequacy of benefits received under these programs.

Meanwhile, the level of education does not appear to have a considerable impact either. This could be attributed to the overall low level of education among older persons in Sri Lanka.

Regarding ethnicity, regression results show that senior Sri Lankan Moor and Malay females are less likely to work compared to Sinhalese females. Meanwhile, ethnicity is not a significant factor in determining labor force participation among the men.

Recommendations

The noncontributory nature of the Public Servants Pension Scheme (PSPS) can be a substantial fiscal burden on the government. Reforms are crucial to ensure the sustainability of this pension scheme given the rapidly aging population and the rising cost of pensions. Additional funds are needed to cover a larger share of older adults. Currently, only 40% to 50% of them are covered under some form of social protection or old-age benefit scheme like pensions, provident funds, or cash transfers.

Along with pension reforms, there is also a need to consider parametric reforms such as increasing the mandatory age of retirement. Aside from reducing the number of retirees thereby lessening the fiscal burden of the old-age social security system, this can also increase the country's labor force and help maintain economic growth amid a greying workforce. Sri Lanka's demographic patterns show that the labor force will start to shrink after 2030. This decline along with the projected increase in the old-age dependency ratio is likely to affect the country's GDP.

Increasing the female labor force participation is also an important strategy to counter the effects of a shrinking working-age population. Sri Lanka's female labor force participation rate has remained stagnant at around 30%–36%, which is low considering the low fertility rate and high education attainment of the female population. This denotes that a large share of females in the country are without access to old-age social security benefits like pensions and have limited capacity to save for their old age. Majority of seniors, particularly in the 70 years and above category, are female. Policy reforms must consider the provision of affordable childcare facilities and addressing gender wage gaps.

Policymakers must also take into consideration that the factors influencing labor force participation decisions of older men and women can vary.

Lastly, the coverage, targets, and adequacy of benefits of social assistance programs must be improved to ensure income security and welfare of older adults.

Resource

G. Tilakaratna et. al. 2019. *Working Beyond the Age of Retirement: Patterns and Determinants of Elderly Labor Force Participation in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.



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Institute of Policy Studies of Sri Lanka

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