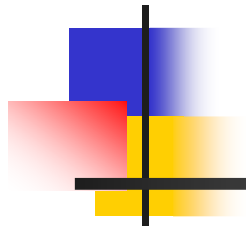


A Universal Pension for Sri Lanka



Larry Willmore

Workshop: Tackling Poverty in Old Age

HelpAge Sri Lanka, HelpAge International

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Two ways to provide basic pensions to older people

1. As **universal benefits** given to everyone regardless of employment status, assets, personal income, the income of relatives, or the income of other members of the household. **Health care and basic education** are examples of universal benefits.
2. As **targeted benefits** given only to those deemed 'needy' or 'deserving'. The **Samurdhi** poverty relief scheme is an example of targeted benefits.



Universal pensions

- Simple and easy to administer
- Automatic, 100% coverage
- Reach women and rural areas
- Do not stigmatize recipients
- Broad political support
- Avoid disincentive to save for old age
- Avoid disincentive to work in old age



Means-tested pensions

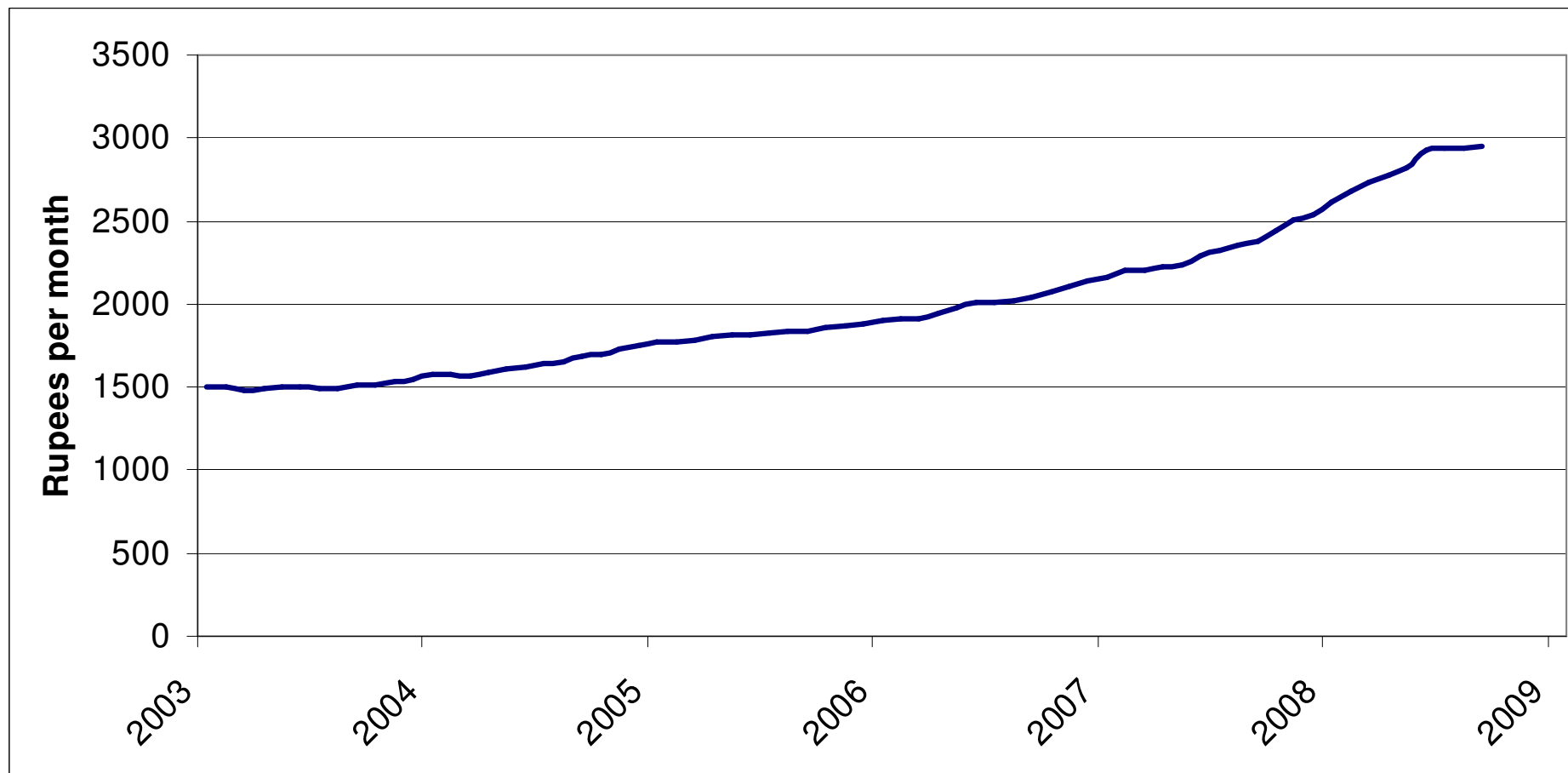
- Complex - difficult to administer
- Facilitate cheating and corruption, penalise honesty
- Weaken political support
- Discourage saving for old age
- Discourage continued work in old age
- Exclude poorest, but leak benefits to the non-poor



Fiscal cost of a universal pension depends on

1. Age of eligibility:
60, 65, 70, 75 years
2. Size of the benefit:
National Poverty Line
(1,423 rupees a month in 2002 prices)
(2,948 rupees as of September 2008)

National Poverty Line 2003-2008





Additional costs

- Funeral benefit (3 months pension)
- Administrative expenses
(5% of benefits)



Fiscal cost - 2007

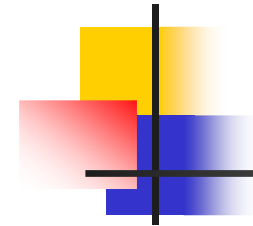
	Universal pension from age			
Total fiscal cost	60	65	70	75
- million Sri Lankan rupees	64308	42459	26961	15311
- million US dollars	581	384	244	138
- % of GDP	1.8%	1.2%	0.8%	0.4%
- % of current government expenditure	10.1%	6.8%	4.3%	2.5%



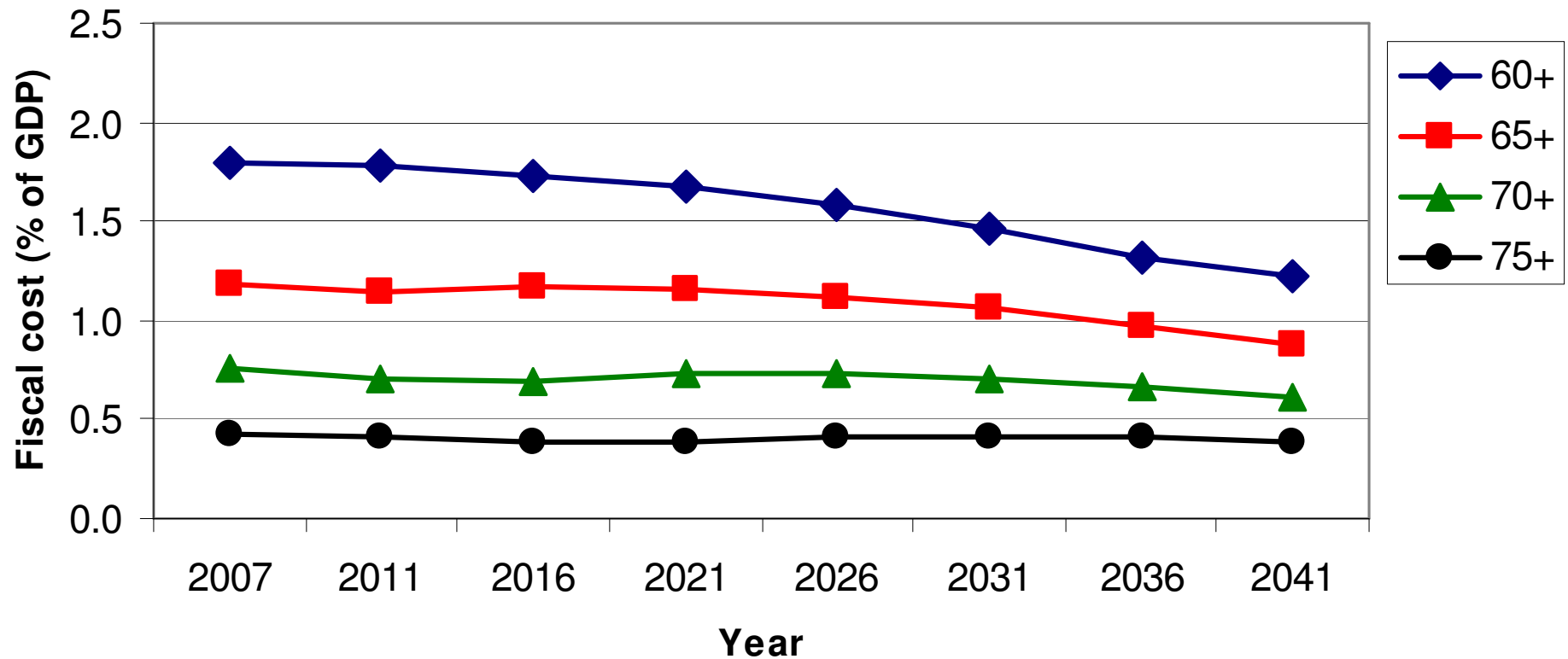
Sri Lanka: annual growth rates

	GDP per capita	GDP
• 1980-2007	3.6%	4.8%
• 2007-2041 (past trend)	3.6%	3.7%
• 2007-2041 (slow growth)	1.8%	1.9%

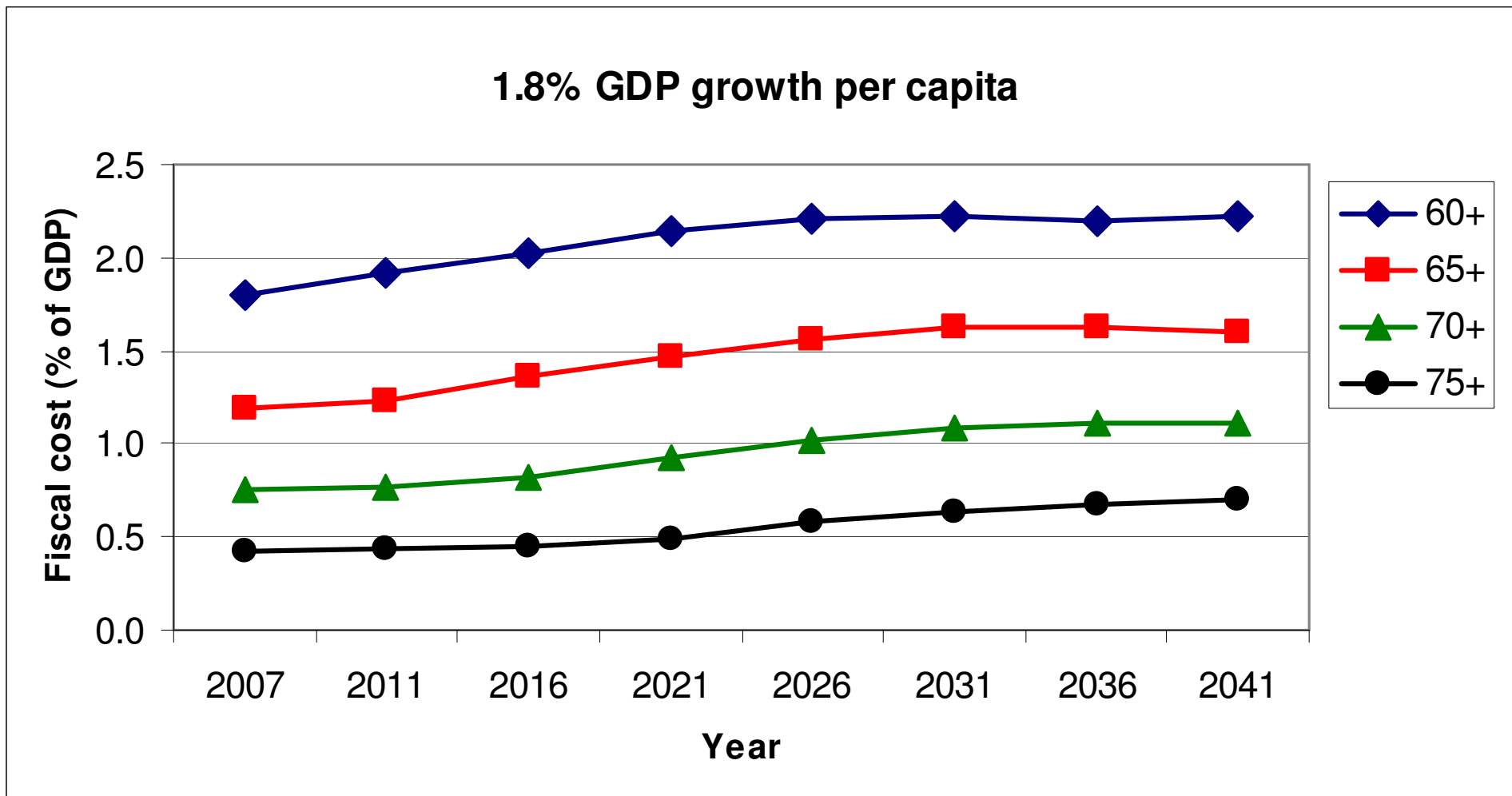
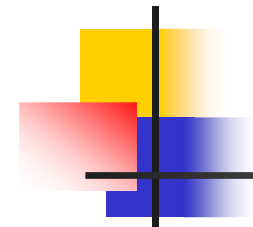
Fiscal cost of universal pension with trend growth



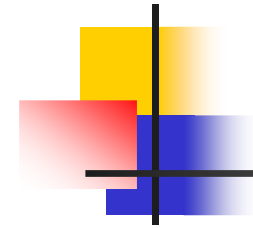
3.6% GDP growth per capita



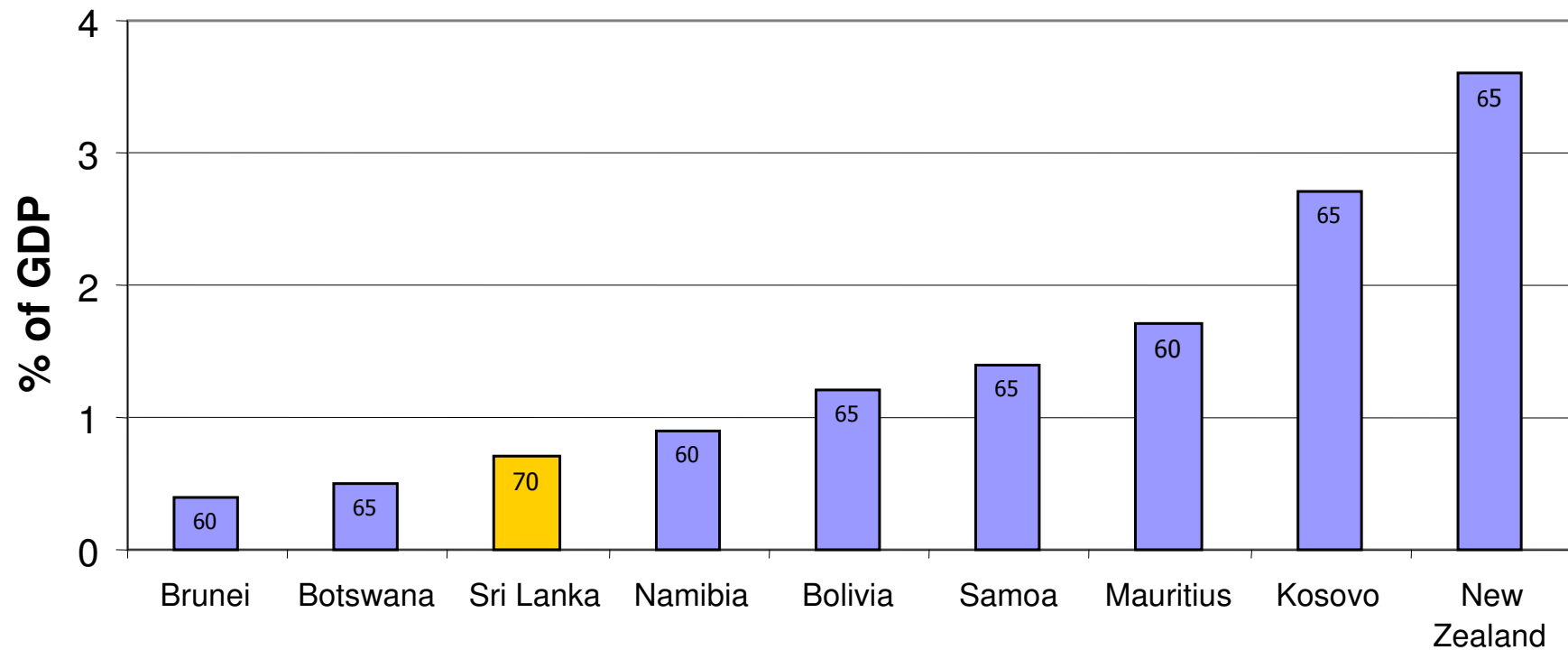
Fiscal cost of universal pension with slow growth



Universal pensions – international experience (Sri Lanka age 70+)



Benefits transferred to pensioners





Universal Pension Fund

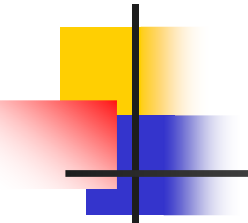
Surcharge required on VAT and excise taxes:

Age 60: 22.6%

Age 65: 14.9%

Age 70: 9.5%

Age 75: 5.4%



Effect of a 9.5% surcharge on the Value-Added Tax (VAT)

- 20% VAT becomes 21.9%
- 10% VAT becomes 10.9%
- 5% VAT becomes 5.5%
- 0% VAT remains 0% (exempt)



Two ways to target (deny pensions to older persons)

- Means-tests (audits of income and assets) – often of entire families and households, not just the applicant
- Application of simple rules, such as denying a pension to anyone who receives a government pension or has contributed to a provident fund



'Rule-based' targeting is better than audits of income and assets

- Avoids many defects of means-tests, especially:
 - Complex and difficult administration
 - Exclusion of the poorest from benefits
- But problems remain, especially
 - Weakened political support
 - Unfair distribution of benefits



All targeting is a form of taxation

- To deny benefits to targeted individuals is equivalent to giving them benefits, then 'clawing' the benefits back with a tax
- In the case of pensions, it is a tax on the aged



Hypothetical targeting of 70+ basic pensions in Sri Lanka

- Assume a rule that anyone who receives a pension or has contributed to a provident fund is ineligible
- Suppose – for purposes of illustration – that 25% of the 70+ are disqualified in this way
- The fiscal cost of the basic pension falls from 0.8% to 0.6% of GDP
 - But the true social cost remains 0.8% of GDP
 - The difference is paid by potential 70+ pensioners
- In effect, $\frac{3}{4}$ of the cost is paid by all Sri Lankan taxpayers, and $\frac{1}{4}$ by a small number of older people who are denied pensions



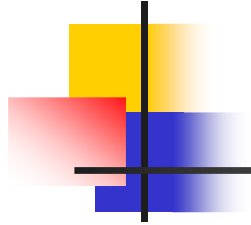
Distribution of costs in 2007 of 70+ basic pensions in Sri Lanka

- Without targeting:
 - 26,960 million rupees (US\$244 million)
 - **2,465 rupees** (US\$22) per taxpayer (20+)
- With targeting:
 - **1,850 rupees** (US\$17) per taxpayer (20+)
 - **28,445 rupees** (US\$257) per excluded 70+ person
 - Net cost savings of 29 rupees for each taxpayer from lower administrative expenses



Actual targeting of 70+ pensions in Lesotho (November 2004)

- 74,000 persons 70+
- 5,000 are disqualified because they receive a public service pension larger than the new basic pension
- An unknown number received a smaller net pension because they had to choose between the old pension and the new
- Policy is equivalent to a 100% tax on pensions smaller than the basic pension, and a flat tax on larger pensions
- This is a tax that falls on retired public servants, and disproportionately on public servants with low pay



Thank you for your attention!