

EXECUTIVE SUMMARY

I. Background

1. **In slightly more than two decades, Sri Lanka's population will grow to be as old as Europe or Japan's today, but its level of income will be much lower.** It would take a spectacular growth for Sri Lanka to catch up with developed countries' per capita level of income. Therefore, the traditional intergenerational systems in place today will have less time to adapt as the speed of the aging process will have been unprecedented in the industrial world. Without major changes, Sri Lanka will face this massive social challenge at a level of income and pension system coverage that is much below that of countries already at a similar stage in their demographic transitions. This study is about the key issues that will have to be addressed in order to successfully avert serious problems, or even crisis, as Sri Lanka's inevitable population aging unfolds.¹

2. **Sri Lanka faces serious challenges on several fronts in addressing the onset of rapid aging.** In developed countries, challenges of aging are associated primarily with the negative impact of aging on economic growth, and the need to plan for additional public and private outlays for old age income support and healthcare. In Sri Lanka, a developing country, these challenges are compounded by the fact that many old people, now and in the future, lack social security coverage and may therefore face poverty; that the effectiveness of traditional, family support of old people may be reduced; that many old people are deprived of choice, as they are forced to work late in their life and only retire because of health reasons; and that the health system may not be adequately focused to address the healthcare needs of elderly, and may be constrained by lack of resources and their inequitable distribution.

3. **Developing an effective, coherent strategy to address population aging thus needs to concentrate on the following four key, interconnected challenges:**

- How to reinforce traditional family support to old people, the support confronted by formidable foes of demographic change and modernization? How to supplement it with formal systems without damaging the family support?
- How to improve formal old age income support programs? In particular, how to increase their coverage and ensure adequacy and sustainability? How to ensure that such a scheme would not "crowd out" other formal and informal support systems?
- How to improve healthcare and long-term care to support an aging population? How to orient health care towards the needs of old people, and facilitate continued improvements in

¹ Aware of the rapid aging process awaiting Sri Lanka, the National Secretariat for Elders (now part of the Ministry of Social Services and Social Welfare) in 2003-04 conducted a nationally representative survey of 11,663 persons (aged 60 years or more) and produced a rich report *National Survey of Elders* that provides the analysis of the survey (National Secretariat for Elders, 2004). The Sri Lankan government also recently introduced legislation mandating that adult children are responsible for the welfare of their elderly parents.

healthy life expectancy amongst the old people? How to reorganize the system, including management of human resources, to strengthen its emphasis on primary health care, particularly the promotion and surveillance activities? How to improve the provision of long-term, institutional care of the frail, dependent old people?

- How to mitigate the slowdown of GDP growth when one of key production inputs – labor – will start shrinking in the coming years? In particular, how to promote longer working lives and improve employability of old workers, as well as improve labor market choices for those that are forced to continue working late in their lives?

4. **The four main chapters of this report focus on these four critical areas in turn.** Chapter 2 examines living arrangements, intergenerational transfers as well as the respect and authority old people enjoy. One of the biggest problems facing old people is lack of independent financial sources, so chapter 3 provides an analysis of formal income support programs including pensions and relevant safety net programs. Chapter 4 evaluates the health status of old people and how well placed the healthcare system is to cope with an aging population. Finally, Chapter 5 analyzes the implications of an aging labor force. These chapters are preceded by an overview chapter that presents demographic trends that have contributed to population aging and sketches a portrait of the current old people in Sri Lanka.

5. **While the report addresses the above four topics in separate chapters, it emphasizes their links and interrelated nature, confirming the need for an inter-sectoral, holistic approach.** For example, family support through co-residence and income transfers to the old people are both intricately linked to the performance of the pension system. Improvements in health conditions for older workers would allow many to continue earning and postpone retirement, which in turn, could ease the pressure on pension systems and on families with increasingly fewer working age adults having to care for and support each old people member of the household. Better health, income support and the ability to choose when to retire would all contribute to better intergenerational relations and attitudes towards the old people. Therefore, when implemented in conjunction, the proposed policy measures would reinforce each other and would have an effect greater than the sum of their parts.

6. **The report uses a variety of data sources, including a 2006 survey of old people in Sri Lanka.** International evidence has also been included where considered relevant. In some cases, as in Chapter 3 dealing with old age income support systems, the analysis also draws heavily from other studies, often produced by Sri Lankan researchers. In other cases, the report relies on original, unpublished data from a special aging survey conducted specifically for this report and available upon request (World Bank 2006 Sri Lanka Aging Survey – SLAS, the survey based on a representative sample of Sri Lankan old people). The report defines old people as individuals over 60 years of age.

II. Key Findings

7. **The demographic transition faced by Sri Lanka will be particularly dramatic.** Population aging is a universal phenomenon, but it looms particularly large for Sri Lanka: not only is its population among the oldest in the non-developed world, but Sri Lanka is also one of the fastest aging countries in the world. Sri Lanka's share of population over 60 years old in 2000 was 9.2 percent, which exceeded the average of all regions in the world except OECD countries, Eastern Europe and the former Soviet Union. Driven by low and declining fertility and increasing life expectancy, population projections show a record fast aging process, with the proportion of

those aged 60 years or more reaching almost 30 percent by 2050, with especially rapid increasing of the share of the very old.

8. **Present socio-economic conditions of old people are not alarming, but some groups need special attention.** Most elderly—about 80 percent—live with their children, and rely on them for financial and in-kind support. This support is not all one way. The elderly also support their children, through child care and other support. As the population ages, an increasing share of the elderly, particularly the very aged elderly, will be women. While poverty among elderly is much lower than for the population as a whole, the incidence of poverty among the very old women (widows) is higher, and will require focused attention. Workers in the formal sector withdraw from the labor market early because of mandatory retirement ages (and because they have access to pensions), while workers in the informal sector work longer and withdraw mostly because of ill health. The prevalence of non-communicable disease among the elderly is high, a result of risk factors (obesity, diet, etc.) and a legacy of malnutrition; and disability rates appear to have increased in the country.

9. **The family is the main support of old people, but there are signs of emerging strains in the traditional support system.** As in other countries, elderly who receive pensions (or have other assets) receive less informal support, relieving the burden on poor families, but are more important in household decision making. The elderly are by and large satisfied with current arrangements and expect these to continue in the future (as do their children). Will these arrangements, including co-residence rates, decline, as they did in Korea, Japan and the US? Predictions are difficult, and expectations of family based support may not materialize (e.g., Japan). However, the report finds some signs that the traditional system is under strain. Primary caregivers, mainly women, who both work and care for both children and parents, including providing support for assisted living, report considerable stress in their lives. Despite being the last resort, institutionalization of elderly has reportedly increased. Many institutionalized elderly note that demanding working lives of their children and preference for living independently were responsible for their institutionalization. There is also some evidence that, as in higher income countries, those elderly who can afford to do so prefer to live alone with their spouse. As the dependency ratio increases with aging, the burden of care on primary care givers may increase significantly. Long-term care by the family for the elderly may decline as a result, putting pressure on the health care system. Alternatively, if families continue to provide care, this may well impose opportunity costs for care givers in terms of forgone labor market participation. Support to families taking care of an increasing number of elderly over a longer period of time through cost effective community based social care services and income support (pensions, safety nets) for the elderly, may be required. This option is largely non-existent in Sri Lanka today. Particular attention will be needed to ensure adequate safety nets and social care services are targeted to aged and widowed women who appear the most vulnerable population group among the elderly.

10. **Formal old age income support systems have limited coverage, inadequate benefits and are financially unsustainable. Formal income support systems help workers smooth income over their lifetime.** Although Sri Lanka provides the most comprehensive social security system in South Asia, the coverage of current schemes is limited to minority of the working age population, the benefits are inadequate, and the financial sustainability of schemes questionable. First, pensions are received by less than one-fifth of the old people and only one-third of the labor force participates in pension scheme, with the vast majority of informal sector workers lacking coverage and considerable evasion among those in the formal sector. Second, civil servants are the only group that has reasonable levels of benefits and longevity insurance but costs may be unsustainable in the long run. The Employees' Provident Fund provides insufficient benefits due

to low investment returns, a low pensionable age, and the lump sum payout that does not offer longevity insurance (for outliving one's savings). Fourth, population aging renders both formal and informal sector schemes fiscally unsustainable, or sustainable only if they pay inadequate pensions. Third, without means of transferring income from their working years in the informal sector to retirement, the elderly must rely on family support or very low benefits from the social assistance programs. The report indicates that elderly without income in old age have limited bargaining power in the household and very little influence over decisions that affect their lives. The aging of the population means that options to provide financially sustainable formal income support to complement family support will require considerably more attention.

11. **Health systems are not ready to address the needs of an aging population.** The coverage of Sri Lanka's health system is extensive. The country also has a strategy to address non-communicable disease-based on prevention, including the promotion of healthy lifestyles. However, risk factors noted above remain important (some are comparable or higher than in developed countries). The treatment of non-communicable disease is outdated and relies on under-financing and under-treatment of cases. It has not taken advantage of the emergence of less costly medication. Population aging may increase current outlays to meet future needs (in complement with improved efficiencies in the system). This report estimates that, given current trends and expenditure patterns, population aging itself may add up to 1 percent of GDP by 2050, not including health awareness and demand likely having as large an impact, increasing costs by additional 0.5-1.5 percent of GDP. Separately from measures trying to control the costs of services, public delivery systems are not suited to address the needs old people. Health systems do not provide continuous or integrated care for the elderly that allow systematic screening for illness or disability, and many elderly patients who require secondary prevention do not receive it. Evidence from developed countries shows that increase in elderly population, if accompanied by prevention and active care of non-communicable diseases (NCDs), need not increase the burden of disease. While there are some pilots in progress to address active aging, resources are scarce, and an overall strategy for health in the context of aging has not been developed.

12. **The number of working age population will decline and—all else equal—may reduce growth.** A vast majority of old workers are self-employed or casual workers engaged in the informal sector and work full-time: skilled workers in agriculture, manufacturing, and wholesale and retail trade. Few are unemployed. Older workers generally fall into two categories—those that work until very old age (or death—even in the family, caring for grandchildren) due to poverty and the lack of pension income, and those that stop working earlier than they would like due to poor health (especially casual workers and the self-employed) or rigidities in the labor market including early retirement ages (especially civil servants and regular workers in the formal private sector). Are there constraints to the employment of older workers? Wages for older workers are lower than for younger ones, indicating that wages are not a constraint to hiring older workers. While there is some evidence—consistent with findings in developed countries—that strict employment legislation may reduce hiring of old workers, it is not conclusive. In OECD countries, work stress (related to poor working conditions) and lack of training/skills are factors that may well reduce employment of older workers, and these may be important for Sri Lanka as well. Better understanding of these issues will be important for designing policies to foster employment of older workers as one measure to counter the decline in the labor force.

III. Key Policy Recommendations

13. **The aging of the population does not have to imply slow down in growth as long as measures are enacted to boost labor productivity, increase labor force participation, or**

both. Aging also need not have a large impact on public spending of health and pension systems, or impose a huge burden on families if appropriate policy measures are taken in advance.² The report suggests the following key policy actions that could help mitigate the potential adverse impact of aging in the country (see summary of policy recommendations in a table below). Given the interlinkage between these measures, the report recommends an integrated action plan focusing on these four areas for addressing aging in Sri Lanka.

14. **Supporting informal care arrangements.** To help sustain informal support, as well as to complement it with necessary additional components, the report suggests the following: First, introduce or expand social welfare and care services targeted to the most vulnerable, and provide community- and home-based support services for the sick and frail old people. Through such approaches, the country can reduce the demand for expensive institutional care, reduce burden on caregivers and enable the old people to continue to live in their home/community. Second, increase the capacity of nursing homes to care for old people. Although institutionalization is regarded as a last resort by old people, the demand for such facilities will rise in line with the reduced probability of the provision of support by children, increasing demands of formal sector employment, and, possibly, future changes in value systems. Finally, improve income support programs and health services (see below) to the old people so that they can continue to contribute to the household welfare. Such policies could ease the increased strain on multigenerational households arising from the decline in the ratio of working age members to the old people in the household, as well as the strain on the informal mechanisms created by modernization (see below).

15. **Strengthening formal income support for elderly.** A coherent policy for income support for the old people would begin with a predetermined set of objectives for the two functions of the pension system – providing a minimum income and smoothing consumption. Other guiding principles include: (i) differentiation of benefit eligibility and benefit levels for old people under broader social assistance program, and improving targeting of the Samurdhi program to allow for higher average benefits; (ii) integrating the consumption smoothing schemes for private and public sector workers for full portability, and equalizing retirement ages and replacement rate targets. This includes the introduction of contributions for civil servants; (iii) integrating schemes for informal sector workers to ensure full portability while allowing for more flexible contribution levels and periodic payments under a unified recordkeeping platform; (iv) encouraging the expansion of coverage by fiscal incentives in the form of targeted matching contributions; (v) facilitating or mandating a shift from lump-sum payouts to income streams either through annuitization or scheduled withdrawals; and (vi) establishing an overarching investment policy framework that would shift funded schemes away from government bonds and towards more diversified portfolios (and therefore, higher risk-adjusted rates of return).

16. **Re-orienting the health system to respond to an aging population** will require developing a health system that enables Sri Lankans at all ages to achieve healthy aging, minimizing the costs of the health system to the economy, and reducing out-of-pocket catastrophic health expenditure. To achieve these goals, the report provides detailed recommendations, including: (i) strengthening health promotion and prevention to reduce the potential years of life lost in premature mortality as well as to ensure better quality of remaining

² While outside the scope of the study, the impact of population aging on education spending has two potentially offsetting effects. The declining size of school-age population is likely to reduce public spending on education. On the other hand, efforts to improve the quality of the system, the increased outreach efforts towards those who drop out early from the system, and the promotion of life-long learning, may raise public spending on education.

life in the old people; (ii) integrating management of primary prevention and primary care for the old people using the maternal and child health network of the Ministry of Health for geriatric assessment, prevention, and rehabilitation. If services are appropriately staffed and proper equipment is provided, management of chronic diseases at primary care level is more cost-effective than outpatient hospital care or inpatient care; (iii) expanding the health information system to deliver the information and evidence required to support and monitor the responses to aging; and (iv) promoting productivity change in public sector health service delivery, to contain the expenditure of the healthcare system, but increase public healthcare expenditures in line with current commitments to reduce the shift in patients demand to the more expensive private sector.

17. Countering labor force declines by improving employment, productivity, and choice. In the light of the prospects of shrinking labor force, policy recommendations thus include actions to increase labor market supply, labor productivity, and the choices of old people:

- First, *increasing participation rates*, particularly of women but also of old workers – those that are currently forced to retire early. To increase labor force participation of old workers, labor market rigidities should be reduced, including inflexible retirement ages that force healthy older workers out of the formal labor markets before they would otherwise choose. These policies could effectively counter the effects of population aging on labor supply – for example, simulations show that the increase of women’s participation rate by 20 percent could delay the reduction of labor force by 15 years. The introduction of family-friendly employment policies (including increasing part-time/flexible working opportunities) would also be helpful, as would complementary policies aimed at reducing their burden as primary care givers to old persons (see above). More work is needed to examine obstacles for employment of old workers (inflexible labor laws, etc.) and to determine whether have employers’ negative perceptions about the adaptability and productivity of older workers create work disincentives for old workers, and how important an obstacle is weak employability of old workers – and if so, what should be done about it.
- Second, *improving the productivity of the labor force* would help in boosting economic growth, another factor countering the taxation effect of population aging on growth. While improving productivity requires action on several fronts, three suggested by this report include (i) improving skills of older workers to help them improve their employability, through investment in life long learning; (ii) promoting formalization of the economy – for example, upon making the labor market more flexible and less restrictive, so that workers could shift towards better, more productive jobs, and, at the same time, jobs that offer improved social security; and (iii) improving health outcomes for informal sector workers is a complementary policy would help them to increase their earning capacity, thus reinforcing the above recommendations in the area of health.
- Finally, *improving the choices of old workers*. Formal sector workers withdraw from the labor market early because of early retirement ages (and because they have access to pensions), while the lack of resources forces many informal sector workers to work much longer and withdraw from the labor market mostly because of ill health. Providing old people with an independent source of income would therefore significantly improve old peoples’ choices, the fact underscoring the need to extend the coverage of old age income support systems.

18. Investing in a healthy and productive aging is essential for reducing the burden of aging in Sri Lanka. The policies noted above will need to be finalized carefully, with

involvement of several line ministries, given their inter-sectoral linkages, In most cases, these policy changes would have to be phased in gradually, and they would take several years or even decades to implement in any case. The fiscal costs of these policies will also need to be carefully analyzed to ensure their overall sustainability. Given the speed of the population aging over the next two decades, delays in action are likely to prove costly. In order to avert an aging crisis in Sri Lanka, preparations to address aging will have to begin sooner rather than later: **inaction is not a viable alternative.**

Summary of Policy Recommendations: Investing in Healthy and Productive Aging is Essential for Reducing the Burden of Population Aging in Sri Lanka

<p>Supporting and Complementing Informal Care Arrangements</p> <ul style="list-style-type: none"> • Introduce/expand social welfare and care services targeted to the most vulnerable. • Provide community- and home-based support services for the sick and frail old people. • Improve income support programs as well as health services to the old people so that they can continue to contribute to the household welfare. • Increase the capacity of nursing homes to care for old people.
<p>Strengthening Formal Old Age Income Support</p> <ul style="list-style-type: none"> • Determine key parameters of the system: the minimum income and the targeted replacement rate. • Improve social assistance programs (including Samurdhi) delivery to old people by increasing benefit levels and tightening eligibility rules. • Harmonize and integrate retirement schemes for private and public sector workers (above all, equalize retirement ages and replacement rate targets). • Integrate schemes for informal sector workers to ensure full portability while allowing for more flexible contribution levels and periodic payments under a unified recordkeeping platform. • Encourage the expansion of coverage by fiscal incentives such as targeted matching contributions. • Facilitate or mandating a shift from lump-sum payouts to income streams either through annuitization or scheduled withdrawals. • Establish an overarching investment policy framework that would shift funded schemes away from government bonds and towards more diversified portfolios.
<p>Re-orienting the health system to respond to an aging population</p> <ul style="list-style-type: none"> • Strengthen health promotion and prevention to reduce the potential years of life lost in premature mortality and to ensure better quality of remaining life of old people. • Integrate management of primary prevention and primary care for the old people using the maternal and child health network of the Ministry of Health for geriatric assessment, prevention, and rehabilitation. • Expand the health information system to deliver the information and evidence required to support and monitor the responses to aging. • Promote productivity change in public sector health service delivery, to contain the expenditure of the healthcare system, but increase public healthcare expenditures in line with current commitments to reduce the shift in patients demand to the more expensive private sector.
<p>Countering labor force declines by improving employment, productivity, and choice</p> <ul style="list-style-type: none"> • Increase participation rates of old workers (as well as women and young workers) by adjusting inflexible retirement age rules and by stimulating part-time/flexible employment arrangements. • Improve the productivity of the labor force by improving skills of older workers (life long learning); by promoting formalization of the economy (for example, less restrictive employment protection legislation would help workers to shift to better and more productive jobs that, at the same time, offer improved social security); and by improving health of workers. • Enhance choice of old workers by making retirement rules more flexible; by providing old people – particularly those who are forced to work in their later years – with independent source of income; and by improving the health of workers so that they could stay employed if they wished.