

World Bank-Hitotsubashi-MOF Workshop on
Closing the Coverage Gap: The Role of Social Pensions
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**Comments on Sri Lanka's Experience with Informal
Sector Contributory Pension Schemes
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A simple suggestion

1. One can join the scheme at any age and can make any amount of contribution.
2. The scheme will provide a guaranteed annual return of 10%,
3. The person can opt for allocated pension at any age with minimum of 55 years.
4. Assume life expectancy of 75 years. Suppose the person decides to draw pension at the age of 60, then the yearly pension is calculated by annualizing it over the period 15 years with rate of return of 10%.
5. On death, the money remaining in the scheme will be transferred to a nominated beneficiary.
6. The person if in the formal sector job later should be able to put provident fund in the scheme.

Social Pension Impact Index (SPII)

$$I = \frac{b \beta}{\mu}$$

Where

b = Percentage of elderly beneficiaries: coverage

β = Average benefits per beneficiary

μ = Average per capita income of all households

SPII is the share of total society's income going to pension beneficiaries

Social Pension Impact Index for households (SPIIH)

1. In elderly households if an elderly receives pension then all household members will be the beneficiaries. In this case we define:
b=% of population living in the elderly households receiving pension.
2. The pension is pooled and distributed equally to all household members.

β = Average per capita benefits received by the households

3. μ = Average per capita income of all households

Then SPIIH is given by

$$I_H = \frac{b \beta}{\mu}$$

Social Pension Impact Index for poor and non-poor

$$I_{Poor} = \frac{b_P \beta_P}{\mu}$$

$$I_{Nonpoor} = \frac{b_N \beta_N}{\mu}$$

b_P = % of beneficiaries in the poor households

β_P = average benefits received by beneficiaries in the poor households

b_N = % of beneficiaries in the non-poor households

β_N = Average benefits received by beneficiaries in the non-poor households

Targeting Efficiency

$$I = \frac{b\beta}{\mu} = \frac{Hb_P\beta_P}{\mu} + \frac{(1-H)b_N\beta_N}{\mu}$$

= Share of the total income going to the poor + share of the total income going to the non-poor.

Where

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H=the percentage of poor.

Targeting efficiency= Share going to the poor/share going to the total population.

$$TE = \frac{HI_{poor}}{I}$$

Targeting Efficiency 1

The pension scheme is pro-poor (anti-poor) if TE is greater (less) than one.