


Sri Lanka

Sri Lanka: pension system in 2008

Employees in the formal private sector are covered by defined contribution plans: employee private fund, which is used in the model, employee trust fund or approved private sector provident fund. Civil servants were formally covered by public sector pension scheme, but since 2003 they contribute to defined benefit type social security scheme called contributory pension scheme.

Key indicators

		Sri Lanka	OECD
Average earnings	LKR	228 600	4 664 600
	USD	2 000	40 600
Public pension spending	% of GDP		7.0
Life expectancy	At birth	74.0	78.9
	At age 65	81.6	83.1
Population over age 65	% of working-age population	11.4	23.6

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Qualifying conditions

Age 55 for men or 50 for women and retire from covered employment. At any age if the company is closed by the government or the employed women who get married.

Normal pension age for public sector workers is 60.

Benefit calculation

Defined contribution

Employee provident fund is a fully-funded defined-contribution plan and employees contribute 8% of wage and employers pay 12%. The entire lump sum is paid at the time of exit. For comparison with other economies, for replacement rate purposes the pension is shown as a price-indexed annuity based on sex-specific mortality rates. It is possible to withdraw funds from the account every five years.

Variant careers

Early retirement

At any age if the government closes the place of employment, if emigrating permanently, or for employed women who marry.

Late retirement

It is not possible to start claiming pension after the normal pension age.

Personal income tax and social security contributions

Taxation of workers

There is no income tax relief and the deduction of work-related expenses.

Taxation of worker's income

Following taxation rules are applied in 2008.

Annual income band	Tax rate (%)
Up to LKR 300 000	0
LKR 300 001-LKR 500 000	10
LKR 500 001-LKR 700 000	15
LKR 700 001-LKR 900 000	20
LKR 900 001-LKR 1 100 000	25
LKR 1 100 001-LKR 1 600 000	30
Over LKR 1 600 000	35

Social security contributions payable by workers

Employees' contributions are deductible up to a limit of LKR 25 000 per annum.

Taxation of pensioners

All purchased annuities of retirees are exempt.

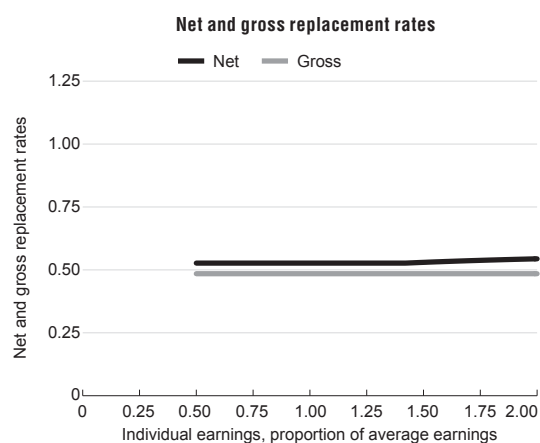
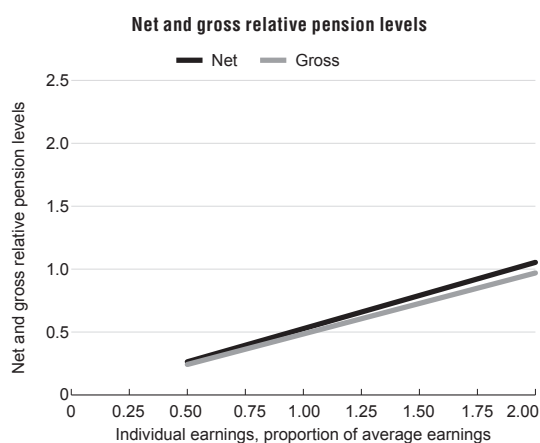
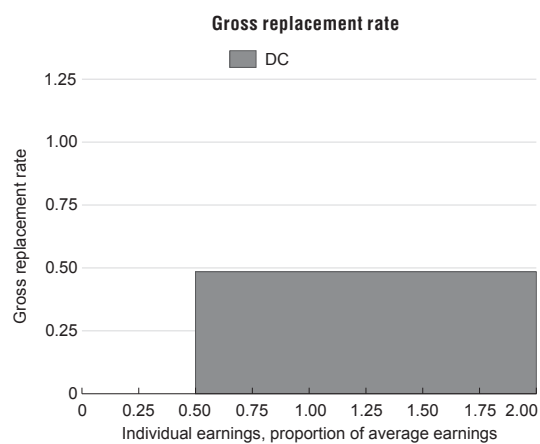
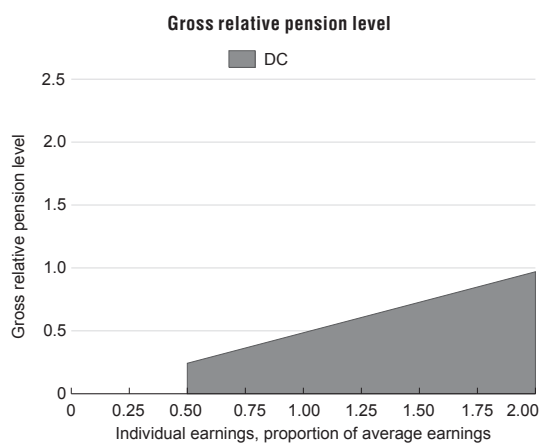
Taxation of pension income

Annual income band	Tax rate (%)
Up to LKR 2 000 000	0
LKR 2 000 001-LKR 2 500 000	5
LKR 2 500 001-LKR 3 000 000	10
Over LKR 3 000 000	15


Social security contributions payable by pensioners

Pensioners do not pay any social security contribution.

Pension modelling results: Sri Lanka



Men	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	39.3	24.2	36.4	48.5	72.7	97.0
(% average gross earnings)	25.0	15.4	23.1	30.8	46.2	61.6
Net relative pension level	42.7	26.3	39.5	52.7	79.0	105.4
(% net average earnings)	27.1	16.7	25.1	33.5	50.2	67.0
Gross replacement rate	48.5	48.5	48.5	48.5	48.5	48.5
(% individual gross earnings)	30.8	30.8	30.8	30.8	30.8	30.8
Net replacement rate	52.7	52.7	52.7	52.7	53.0	54.4
(% individual net earnings)	33.5	33.5	33.5	33.5	33.7	34.6
Gross pension wealth	9.2	9.2	9.2	9.2	9.2	9.2
(multiple of individual gross earnings)	7.6	7.6	7.6	7.6	7.6	7.6
Net pension wealth	9.2	9.2	9.2	9.2	9.2	9.2
(multiple of individual gross earnings)	7.6	7.6	7.6	7.6	7.6	7.6

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Alternative economic and career length assumptions

40 year career under OECD economic assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	46.8	28.9	43.3	57.7	86.6	115.4
<i>(% average gross earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net relative pension level	50.8	31.4	47.1	62.7	94.1	125.5
<i>(% net average earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gross replacement rate	57.7	57.7	57.7	57.7	57.7	57.7
<i>(% individual gross earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net replacement rate	62.7	62.7	62.7	62.7	63.1	64.8
<i>(% individual net earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gross pension wealth	11.0	11.0	11.0	11.0	11.0	11.0
<i>(multiple of individual gross earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net pension wealth	11.0	11.0	11.0	11.0	11.0	11.0
<i>(multiple of individual gross earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

30 year career under OECD economic assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	32.3	20.0	29.9	39.9	59.9	79.8
<i>(% average gross earnings)</i>	25.0	15.4	23.1	30.8	46.2	61.6
Net relative pension level	35.1	21.7	32.5	43.4	65.1	86.7
<i>(% net average earnings)</i>	27.1	16.7	25.1	33.5	50.2	67.0
Gross replacement rate	39.9	39.9	39.9	39.9	39.9	39.9
<i>(% individual gross earnings)</i>	30.8	30.8	30.8	30.8	30.8	30.8
Net replacement rate	43.4	43.4	43.4	43.4	43.6	44.8
<i>(% individual net earnings)</i>	33.5	33.5	33.5	33.5	33.7	34.6
Gross pension wealth	7.6	7.6	7.6	7.6	7.6	7.6
<i>(multiple of individual gross earnings)</i>	7.6	7.6	7.6	7.6	7.6	7.6
Net pension wealth	7.6	7.6	7.6	7.6	7.6	7.6
<i>(multiple of individual gross earnings)</i>	7.6	7.6	7.6	7.6	7.6	7.6

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Economy specific assumptions

40 year career under economy specific assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	46.8	28.9	43.3	57.7	86.6	115.4
<i>(% average gross earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net relative pension level	50.8	31.4	47.1	62.7	94.1	125.5
<i>(% net average earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gross replacement rate	57.7	57.7	57.7	57.7	57.7	57.7
<i>(% individual gross earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net replacement rate	62.7	62.7	62.7	62.7	63.1	64.8
<i>(% individual net earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gross pension wealth	11.0	11.0	11.0	11.0	11.0	11.0
<i>(multiple of individual gross earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net pension wealth	11.0	11.0	11.0	11.0	11.0	11.0
<i>(multiple of individual gross earnings)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

30 year career under economy specific assumptions


Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	32.3	20.0	29.9	39.9	59.9	79.8
<i>(% average gross earnings)</i>	25.0	15.4	23.1	30.8	46.2	61.6
Net relative pension level	35.1	21.7	32.5	43.4	65.1	86.7
<i>(% net average earnings)</i>	27.1	16.7	25.1	33.5	50.2	67.0
Gross replacement rate	39.9	39.9	39.9	39.9	39.9	39.9
<i>(% individual gross earnings)</i>	30.8	30.8	30.8	30.8	30.8	30.8
Net replacement rate	43.4	43.4	43.4	43.4	43.6	44.8
<i>(% individual net earnings)</i>	33.5	33.5	33.5	33.5	33.7	34.6
Gross pension wealth	7.6	7.6	7.6	7.6	7.6	7.6
<i>(multiple of individual gross earnings)</i>	7.6	7.6	7.6	7.6	7.6	7.6
Net pension wealth	7.6	7.6	7.6	7.6	7.6	7.6
<i>(multiple of individual gross earnings)</i>	7.6	7.6	7.6	7.6	7.6	7.6

Real earnings: 6% per year converging steadily to 2%, giving an average of 4%.

Price inflation: 5% per year converging steadily to 2.5%, giving an average of 3.75%.

Real rate of return: 7.5% per year converging steadily to 3.5%, giving an average of 5.5%.

Discount rate (for actuarial calculations): 2% per year.

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