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SRI LANKA ADMINISTRATIVE SERVICE ASSOCIATION

Recommendations on the Budget Proposal to Increase the Age of Retirement of the Public Service up to 65 years

Honorable Minister of Finance presented the 76th Budget to the Parliament on 12 November 2021 with expenditure proposals and investment plans to further strengthen expenditure heads of the appropriation bill 2022. The proposal to increase the compulsory retirement age of the public service from 60 years to 65 years gave rise to a discourse in the public service and the society. Both positive and negative impacts of the said budget proposal are being discussed at different strata of society.

The Sri Lanka Administrative Service Association (SASA) called proposals from other Trade Unions/Individuals with respect to the extension of the retirement age of the public service and appointed a committee comprising five members to analyze the impacts of this budget proposal.

SASA will prepare a comprehensive report based on collected data and proposals by other interested parties on this matter. The SASA prepared an interim report based on comments received for smooth implementation of the government policy. Majority of representations from trade unions demands that the compulsory retirement age be kept at 60 years.

Observations:

1. At present, the compulsory retirement age is 60, while the alternative retirement age is 55 in the public sector.
2. Population ageing is a global phenomenon. Every country in the world is experiencing growth in the size and proportion of older persons in their population, and ageing will put increased financial pressure on old-age support systems.

Region, development group country or area	Population aged 65 years or over (thousands)		Percentage aged 65 years or over		Old-age dependency ratio (65+ /20-64) ^a		Prospective old-age dependency ratio ^b		Economic old-age dependency ratio ^c	
	2019	2030	2019	2030	2019	2030	2019	2030	2019	2030
Timor-Leste	55	78	4.3	5.0	9.2	9.8	11.0	10.8	12.5	13.0
Viet Nam	7 286	12 446	7.6	11.9	12.1	20.0	7.4	10.6	11.3	19.4
Southern Asia	115 255	172 124	6.0	8.0	10.6	13.5	10.9	12.6	13.2	16.5
Afghanistan	995	1 508	2.6	3.1	6.1	6.3	8.2	7.9	5.9	6.0
Bangladesh	8 446	13 332	5.2	7.4	8.9	12.1	8.1	8.5	9.3	12.6
Bhutan	47	66	6.1	7.8	10.3	12.3	7.3	7.5	11.6	13.5
India	87 149	128 877	6.4	8.6	11.0	14.1	11.5	13.5	14.1	17.8
Iran (Islamic Republic of)	5 272	8 849	6.4	9.6	10.2	15.8	9.3	12.0	14.1	20.8
Maldives	19	35	3.6	6.7	5.1	9.9	4.1	5.2	7.9	14.4
Nepal	1 654	2 362	5.8	7.1	10.8	11.6	12.4	11.7	12.8	13.1
Pakistan	9 361	13 697	4.3	5.2	8.5	9.8	9.6	10.6	9.2	10.4
Sri Lanka	2 311	3 397	10.8	15.4	18.9	27.4	13.7	18.0	19.9	29.2

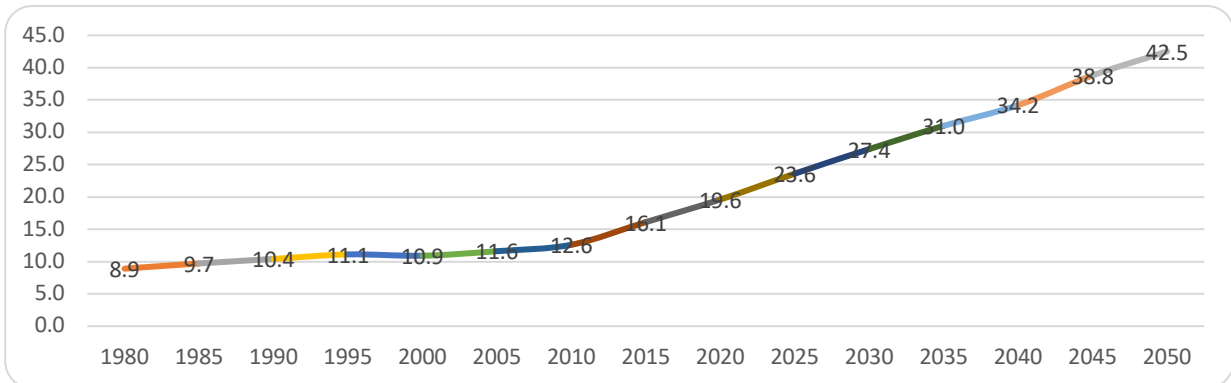
World Population Prospects, United Nations

- Sri Lanka is also experiencing this phenomenon. It is forecasted that the elderly population over age 60 will reach 25% of the total population in 2045, leading to increased expenditure on the economic old-age dependency ratio.

On the other hand, the labour force has reached its highest level at this stage. Although the number of pensioners increases annually, new recruitments are not made at the same ratio. Therefore, the labour force is declining, while the dependent rate is rising.

Location	Age	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045
Sri Lanka	60+	8.9	9.3	10.4	11.9	14.0	16.4	18.8	21.1	23.0	25.3	27.1

Population percentage change by age group in Sri Lanka (Source: World Population prospects)



Old age dependency ratio Sri Lanka (65+) (Source: World Population Prospects)

The Healthy Life Expectancy Ratio (HALE) for Sri Lanka has also increased during the past decade. According to the World Health Organization's data, the Healthy Life Expectancy at birth is 67 in Sri Lanka while Healthy Life Expectancy at 60 is 15.3 in 2019.

Year	Healthy Life Expectancy at Birth	Healthy Life Expectancy at the age 60
2019	67	15.3
2015	64	15.25
2010	64	14.88
2000	63	14.65

Healthy Life Expectancy of Sri Lanka (Source: World Health Organization international Data)

4. As the economically active labour force is low, the government seeks to utilize the elderly population productively with their experience and skillset for the country's development.
5. The number of pensioners has increased annually during the past five years. Simultaneously, the cost of pensions has also increased. The government annually allocate provisions from the national budget to pay pensions. Not having an established pension fund to manage the public sector pension, the cost has amplified the pressure on the government budget.

Year	Number of Pensioners	Annual Pension Cost (Rs)
2015	560,462	146,944,713,072.73
2016	579,508	163,836,243,102.93
2017	600,867	172,684,230,945.69
2018	621,905	181,833,118,566.26
2019	639,984	202,739,235,470.00

Total number of Pensioners by year (Source: Department of Pensions)

6. Around 25,000 to 30,000 employees retire annually (including tri forces retirements) in the public sector, while about 15,000 employees retire by reaching the compulsory age of 60 years. Whilst, only 4,000 to 5,000 people retire early before reaching the mandatory retirement age.

Year	Number of new pensions
2017	24,058
2018	27,637
2019	27,381
2020	28,235

New Retirements by Year (Source: Department of Pensions)

Year	Tri Forces Retirements	Retirement before compulsory retirement age	Retirements reaching compulsory retirement age
2017	6,703	4,703	12,652
2018	10,606	4,618	12,413
2019	10,171	3,844	13,366
2020	8,676	6,221	13,338

Retirements from the public sector by year, Source: Department of Pensions

Designation	Number	Average first pension	Average gratuity (Forecasted using 2020 values) (Rs.)	Expected gratuity cost (Rs.)
Teachers	6,131	46,163.40	1,251,481.76	7,672,834,670.56
Management Services Officers	727	32,320.73	857,181.82	623,171,183.14
Executive Grade Officers	606	67,383.17.	1,854,320.02	1,123,717,932.12
Primary Grade Officers	3,692	23,796.62	631,985.79	2,333,291,536.68
Other	4,667	49,466.88	1,165,458.87	5,439,196,546.29
Total	15,823			17,192,211,868.79

Expected retirements from the public service reaching 60 years in 2022 if the retirement age is not increased. Source: Department of Pensions

7. It is also noted that this budget proposal would ease the pressure on the government budget by postponing the gratuity and new pension costs for five years. The annual budget cut from the pension will be around 15 billion rupees per year. However, with the increase of retirement age up to 65, early retirements will be increased significantly. So that it will not reach the expected savings of Rs. 15 billion as projected done by the Department of Pensions.

Service Category	Number	Expected gratuity cost (Rupees)
Forecasted civil service retirements for 2022	15,823	17,192,211,868.79
Forces	6,954	8,653,558,295.40
Early retirements	5000	5,760,428,260.00
Total (if reforms are not made)	27,777	31,606,198,424.19
Total (if reforms are made)	11,954	14,413,986,555.4

Expected Gratuity Costs for the year 2022. (Source: Department of Pensions)

8. On the other hand, increasing the retirement age would affect the general operations of the public services. The impact on the field operations due to the increased retirement age is yet unknown and unclear.
9. Moreover, the promotions of the All-Island services (Executive grades) will be delayed for five years. Further, promotions of staff grade posts of other departmental services will stagnate for five years. This will create an unrest among the officers of the public sector while reducing the efficiency of the public service delivery.

Ex: i. Excise Department of Sri Lanka;

There is a limited space to have promotions to the Excise Inspector and other staff grades of the Excise Department, and officers stagnate in the same position for more than 20 years. With the decision to increase the retirement age, this will extend the period of stagnation, and respective Trade Unions will force the government to create new cadre positions without a proper service requirement.

ii. Sri Lanka Police;

Sri Lanka Police has done promotions on a supernumerary basis since there are no cadre positions to the immediate high position. It was a considerable burden to the National Budget. With the implementation of this budget proposal, it will happen again, and the cost may be more than Rs. 2 billion since almost 72,000 officers of Sri Lanka Police are in the ranks of Inspector or below.

iii. Department of Post;

Department of Posts employ persons on a substitute basis, and they will be recruited to the permanent positions based on vacancies. With the implementation of the increased retirement age, the whole system of the Postal Department will collapse.

Hence the system of Departmental services will be affected by the decision to increase the retirement age while creating service unrest.

10. Sri Lanka Administrative Service Officers will be one of the most affected officers by this decision, where all promotions to Special Grade and Grade (I) will stagnate. It will discourage/demotivate the officers who are expecting promotions.

11. And also, the recruitments of the government sector will be restricted. However, it is a crucial requirement to fill the vacancies of essential services. There are around 2,000 vacancies in the Grama Niladhari Service and 4,000 vacancies in the Management Service Officer Service. Further, substantial vacancies in the health sector, especially Nursing Officers, Medical Laboratory Technologists (MLT) and Pharmacists, should be continuously filled.
12. The decision would amplify the frustration of the general public on the public sector performance. The overall public sector performance has been reduced due to mass recruitment programs. The recent graduate scheme recruitments and the multi-purpose development assistant recruitments have increased the government salary costs by 48 billion rupees per year. Funding unnecessary cadre has limited the access to funds for the government institutions to revamp the government services.

The cost incurred the recruitment of Development Officers						
Appointed Year	# of New Appointees	Remuneration per head (Rs.)				Total Remuneration per Annum(Rs.)
		Basic Salary	Int. Allo.	COLA	Total	
No of Permanent Appointments in 2021	2,545	32,380	2,500	7,800	42,680	1,303,447,200
No of Permanent Appointments in 2021	14,000	31,935	2,500	7,800	42,235	7,095,480,000
No of Permanent Appointment in 2022	51,500	31,490	2,500	7,800	41,790	25,826,220,000
Total Salary bill for the recruitment of Graduates						34,225,147,200
The cost incurred the recruitment of Multipurpose Development Assistant						
Designation	# of New Appointees	Remuneration per head (Rs.)				Total Remuneration (Rs.)
		Basic Salary	Int. Allo.	COLA	Total	
Multipurpose Development Assistant	35,000	22,250	2,500	7,800	34,550	14,511,000,000
Total Salary bill for the recruitment of Graduates and MDAs						48,736,147,200

13. The decision may result in the Government and Department of Management Services being forced to create more posts not for the service requirement but for the mere purpose of having promotions. This will create a more burden to the National Budget.

SASA further observes that new recruitments will be limited for a particular period to the public sector with this decision.

14. SASA called proposals from other Unions/Individuals concerning the extension of the retirement age for the public service. Majority of the trade Unions/Individuals disagree with the decision to extend the retirement age up to 65 years and majority of representations from trade unions demands that the compulsory retirement age be kept at 60 years.

Recommendations:

1. **No change should be made to the alternative retirement age of 55.**
2. The public service pension cost was 10.1 % of the total annual expenditure of the government in 2020. Funding the public service pension scheme through the government's consolidated fund is not viable in the long run. Increasing the retirement age has created an opportunity for the government to develop a National Pension Fund. Accordingly, the SASA proposes to **direct the W&OP contributions to establish a National Pension Fund in order to ensure the maximum benefit to the pensioners while reducing the burden to the National Budget.**
3. Increasing the compulsory retirement age is important from a macro-economic perspective. However, increasing the retirement age by five years is not a good decision considering the current context. The decision to increase the retirement age to 65 would not get the correct public acceptance due to various other social and economic reasons. Many executive officers pursue their Master's qualifications abroad for two years and during the said time period the government loses their service for two years. Considering the all facts furnished in the observations, SASA propose to **increase the retirement age up to 62 for Senior Level of Public Service and it is further proposed to phase out the implementation of the decision as follows;**

Birth year of the Officer	Proposed year of Retirement	Age of Retirement
1962	2023	61
	2024	62
1963	2025	62

However, the proposed increase of retirement age (62) can be applied to some specific services to which it is difficult to fill vacancies, such as MLT, Pharmacists, and Railway Drivers etc. based on an analysis.

4. Increasing the retirement age affects the structure of the public sector resulting in delays in promotions and recruitments. Therefore, it is **proposed to conduct a public sector restructuring program to rationalize the public sector in parallel with increasing the retirement age and grant alternative solutions for the officers who are immediately affected by the decision.** Further, SASA proposes to **revisit the approved cadre of SLAS** to identify the areas for creating new posts and suppressing existing posts without having an additional burden on the National Budget.
5. SASA proposes to **discontinue the existing service extension practices for all services with the implementation of an increase in retirement age.** This should not be applied to the services that have already increased the retirement age by more than 62 (Ex; University Academic Staff, Judges and Medical Officers etc.)

6. Create opportunities for the public sector officers to move out from the service to private sector or to engage in entrepreneurial tasks for a certain period of time aiming to share the experiences of public sector and introduce appropriate mechanisms to consider such service period for the calculation of pension.