ASSESSMENT OF THE RETURN ON CONTRIBUTIONS AND FINANCIAL FEASIBILITY OF THE EMPLOYEES' PROVIDENT FUND – A REVIEW

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ABSTRACT

Ageing is a phenomenon in Sri Lankan context creating many challenges for the policy makers to provide financial and socio-economic security for the retired life of the people. The retirement plans can play a major role in providing such benefits for the well being of the people at their retired life. At present, there are several retirement plans in Sri Lanka managed by the government. The Employees' Provident Fund (EPF) is one of such plans and the EPF is the biggest superannuation scheme in the country which accounts for 78 per cent of the total assets of the superannuation fund sector in Sri Lanka. The main focus of this study was on "does the benefit of EPF adequate to fulfill the requirement of the retired employees during their retired lives?" On this view core objectives of this study was to assess the return on contribution and financial feasibility of the Employees' Provident Fund. Based on secondary data this study revealed that, the average rate of return on member balances for the last 30 years is 11.00 per cent and the average effective real rate of return for the same period is 1.75 per cent. It was observed that rates of return on member balances are declared by the fund management based on investment return. The 91 per cent of the total investment consists of government securities. It further revealed that, though the real rate of return is very low, EPF has a strong financial stability to meet the financial obligations to refund the benefits to its members.

Key words: Retirement, Employees' Provident Fund, Contribution, Benefits, Rate of Return, Financial Feasibility

1. INTRODUCTION

The transformation of the age structure of the population in Sri Lanka shows a steady increase in proportion of the elderly population in the country. This situation indicates the significance of making arrangements by the policy makers for providing social security for the elderly persons in Sri Lanka. The retirement plans can play a major role in providing financial and socio-economic security for the elders for their well being at retirement life. At present there are several retirement and social security benefit plans with government involvement, managed by different state institutions catering to different sectors of the population. These retirement plans include; Public Service Pension Scheme, Employees' Provident Fund, Employees' Trust Fund, Farmers' Pension Scheme, Fishermen Pension Scheme and Self-employees' Pension Scheme. In this study, the role of Employees' Provident Fund (EPF) is taken in to account as a retirement benefit scheme in Sri Lanka.

The Employees' Provident Fund is a mandatory and contributing social security benefit scheme established for the purpose of providing a protective cover for the retired life of employees of the private sector and corporation who worked for the economic development of the country (Hand Book of EPF, 2005). The EPF was established under the provisions of the Employees' Provident Fund Act No. 15 of 1958, for the future benefits of workers who ceased employment after the retirement and lost employment due to illness. The EPF is the currently largest social security scheme in Sri Lanka with a current assets base of Rs. 1,020 billion, with a total of 13.6 million member accounts (active member account 2.3 millions) and with 66,350 contributing employers (Central Bank of Sri Lanka, 2011). The primary objective of the scheme is to set out a financial safety net at the old age and to confer other benefits including withdrawal of the fund for housing construction.

Historical evidences show that, the proportion of the ageing population in Sri Lanka is increasing rapidly than the increase in population as a whole (Siddhisena, 2005). Further, it has been observed that the elderly population in Sri Lanka will increase faster even in the future creating many challenges for the policy makers in the country (Rannan-Eliya, 1999). The superannuation fund sector of the country plays a significant role in providing retirement benefits for the state sector and private sector employees in Sri Lanka. The EPF is the biggest superannuation scheme in the country and, it accounts for 78 per cent of the assets in the superannuation fund sector. However, the problem remains that, "Does the benefits of the Employees' Provident Fund adequate to fulfill the requirement of the retired employees during their retired life?"

The main objective of this study was to assess the return on contributions and financial feasibility of the EPF. The sub objectives of this study were to identify the role of the Department of Labor and the Monetary Board of Central Bank of Sri Lanka in connection with the general administration and management of the EPF and to assess the Social Security provided by the EPF.

This study is mainly based on the secondary data collected from the Acts and Government Gazette notifications published in relation to the EPF, Annual Reports of the Employees' Provident Fund and the Central Bank of Sri Lanka, Hand Book of EPF and other publications of the Central Bank of Sri Lanka in relation to the EPF, The publications of other institutes and authors and the search of Internet. The analyzed data is presented in matrix and, in descriptive forms in text method.

2. ADMINISTRATION AND MANAGEMENT OF THE FUND

The administration aspect of the EPF is handled by the Labor Department of Sri Lanka and the management of the funds is handled by the Monetary Board of the Central Bank of Sri Lanka. The Department of Labor is exclusively vested with the power to perform following functions;

- Registration of employers
- Registration of individual members

- Action against non-payment of contributions to the provident fund
- Recovery of surcharges on late contributions
- Acceptance of applications for refund of benefits and issuing of letters of determination
- Amalgamation of member accounts
- Approval of housing loans
- Monitor all administrative functions of the fund

According to the provisions of the EPF Act, the Commissioner of Labor is the in charge of the general administration of the fund. The Commissioner of Labor may either generally or specially authorize any officer appointed under the Act to exercise, perform or discharge any power, duty or functions of the Commissioner.
In management of the fiduciary responsibility, the Monetary Board is entrusted to perform the following powers and duties.

- Receipt of all sums paid under this Act, as contributions, surcharges and fees, income from the investment of money of the fund,
- Payments of the entitled benefits to the persons certified by the Commissioner of Labor
- Investment of money of the Fund in securities determined by the Board
- Maintenance of general accounts in respect of the Fund and individual accounts in respect of each member and the employer of the Fund
- Preparation of the annual accounts of the Fund
- Issuing certificate of member account balance for each year
- Establish such reserves out of the income of the Fund as the Monitory Board may determine to meet any contingencies
- Amalgamation of accounts on the instruction of the Commissioner of Labor
- Such other powers and duties in connection with the Fund as may be conferred or imposed on Board by law (Hand Book of EPF, 2005).

At present, Monetary Board of the Central Bank is maintaining about total of 13.6 million individual member accounts. Out of these 13.6 million accounts, contributions are received only in respect of about 2.3 millions of active member accounts. One of the reasons for existing a large number of non-contributory accounts is due to relevant members not showing sufficient interest to amalgamate their earlier account to the current accounts when they leaving one employment and joining with another employer. The other reason for existing non-contributory accounts is due to leaving the employment by the members and waiting till they reach to the retirement age to obtain refund of benefits. The maintenance of large number of non-contributory accounts creates problems for the Monetary Board and the members of the Fund. This could lead to delay and many other problems at the time of obtaining refund of benefits. The problems faced by the Board and the members could be minimized when amalgamating the multiple member accounts to a single account. The amalgamation of accounts could be done forwarding the completed 'G' form and the 'B' certificate of the previous employer to the Commissioner of Labor through the present employer.

3. ELIGIBILITY AND ENROLMENT IN EPF

The main objective of establishment of the Employees' Provident Fund is to provide financial benefit for the retirement life of the persons employed in private sector and state corporations. The eligible category of the employment for the EPF enrolment is termed in the Act as 'covered employment'. According to the Act, the covered employment is any employment including any employment in the service of an establishment or an institution in the private sector, state sponsored corporations, statutory boards, whose capital or part of whose is provided by the government (Eriyagama, Ranna-Eliya, 2003).

It is the responsibility of the owner of the establishment to enroll any employee under him as a member of the EPF. Any person who obtains employment in any one of the under mentioned job categories is entitled to receive membership in the EPF;

i. Employees who are permanent, non-permanent, apprentice, temporary, casual worker working few hours with intermittent breaks, working short of a full time,
ii. Employee who work on piece rate, on contract basis, on commission basis, or payment on unit basis,
iii. Employees who receive monthly salaries, weekly salaries or daily paid,
iv. Those employees from labor grades to managerial grade and in any of the above category.

According to the Employees' Provident Fund (Special Provision) Act No. 6 of 1975, no person after become an employee in any covered employment, liable to pay contributions to any provident fund, pension fund or any other superannuation fund or scheme other than the Employees' Provident Fund established under the EPF Act No. 15 of 1958. In the same way no employer is liable to pay contributions in respect of his/her employees to any other provident fund, pension or any other superannuation fund or scheme other than the Employees, Provident Fund.

Since the EPF is a mandatory retirement plan, any person join with the covered employment becomes a member of the EPF. According the provisions of the EPF Act, the employer is liable to forward the forms 'A', 'B' and 'H' to the relevant District Labor Office within 14 days of recruitment of an employee. The employee has the right to remind the employer to forward the required forms to the District Labor Office if the employer has not done so. After scrutinizing the forms by the district labor office or by the sub labor office, the form 'B' countersigned by the commissioner of Labor will return to the employer concerned. It is the duty of the employer to handover the form 'B' sent by the commissioner of Labor to the employee. This form 'B' is then treated as member certificate. If an employee changes his/her occupation and joined with another employee, he/she is not required to fill the form 'B' again. Instead he could submit his/her exiting form 'B' with completion of form 'G' to the new employer. The new employer is liable to forward these forms to the nearest district labor office and as the same in above, the labor office may return the certificate 'B' to the new employer and the new employer is liable to hand over his B certificate to the employee. Form 'B' indicates the employee's member number of the EPF. In case of loss of certificate 'B' the employee should furnish the required documents to the district labor through the employer for obtaining a copy of a certificate 'B'.

4. CONTRIBUTIONS TO THE EPF

As the EPF is a mandatory and contributory social security scheme, all the employees and employers in covered employment are jointly liable to pay the contribution to the EPF. According to the Ceylon Government Gazette No. 11559 published on 21st November 1958, the employees and his/her employer had to pay contribution to EPF at a rate of 4% and 6% respectively from the total earning of the employee, immediately after the date fixed in relation to such employment. The rate of contribution was increased by the EPF (Amendment) Act No.8 of 1971. Accordingly, the employee and the employer ware liable to pay contribution to the fund at the rate of 6% and 9% respectively from the total earning of the employee. According to the provisions of the EPF (Amendment) Act No.26 of 1981, the rates of contribution have been further increased to 8% by the employee and 12% by the employer. At present the rate of contribution of the employee and the employer remain at 8% and 12% respectively.

If the employee and the employer wish to pay more contributions to the fund, the original EPF Act has stipulated such provisions. According to the Section 11(1) of the Original EPF Act, an employee may elect, by notice sent to the Commissioner in the prescribed form and manner to pay after the date specified in the notice as the date on which the election shall effect contributions calculated at such percentages higher than those specified in the Act. Where an employee and his employer make an election by notice to pay higher contribution, such election shall be irrevocable after the date on which election takes effect, and they shall after that date, be liable to pay as their contributions under this Act amounts calculated at the percentage specified in the notice.

Any establishment irrespective of the type of or the category of employment becomes legally liable for payment of contributions to the Employees' Provident Fund. However, if such an organization is a social service organization providing technical training for minor offenders, destitute, deaf and blind or a charity organization with less than ten (10) employees, such institutions are exempted from paying the contributions to the EPF. In case of Government and Local Government Institutions, contributions should be made on behalf of the non-permanent employees. An establishment utilizing the services of the family members need not contribute to the EPF. However, even if one single outside employee is engaged in the family business, contributions to the EPF should be made on account of the single outside employee together with contributions in respect of other family members employed by the establishment. Further, establishments in which the Directors and Partners work, they are liable to make contributions to the EPF if they are in receipt of salaries or allowances.

Irrespective of the nature or the category of the employment, employers have to make contributions to the provident fund in respect of employees who are

permanent, non-permanent, temporary, apprentice, casual, working few hours with intermittent breaks and working less than a day. Contributions to the Provident Fund should be made for those who are employed on piece rate basis, commission basis or unit (output) basis although the payment made by cash or a by any other form. The payable contribution to the Fund has to be calculated up to the extent of the value of the payment to the member.
Contributions should be calculated in respect of total earnings of the employee which include;

- Salary, earnings or charges
- Cost of living allowance, special living allowance or any other similar allowance
- Holiday pay
- Monetary value of cooked or uncooked food
- Food allowance
- Any other remuneration that may be prescribed

On registration in the EPF, total monthly contribution together with the registration number and the 'C' form should be sent by the employer in favor of Superintendent, Employees' Provident Fund, Central Bank of Sri Lanka.

5. PENALTIES FOR OFFENCES

It is the responsibility of the employer to send the monthly contribution to the EPF with the registration in the Employees' Provident Fund. The due date for the monthly contribution is the last working day of the subsequent month. If any employer fails to send total monthly contribution to the EPF, the penalties will be imposed on such employer for late submission of contributions or under payments. The list of defaulters prepared by the Central Bank of Sri Lanka along with the surcharge progressively increasing from 5% to 50 % on the overdue amount will be sent to the Labor Department. The Labor Department will send the surcharge levies to the relevant employers. When the amount paid is less than the calculated contribution, a penalty will be imposed according to the number of day from the underpayment to the full amount. The rates indicated in the table 1 bellow apply as surcharge for overdue payments and underpayments.

Table 1 Rates of Surcharge for Overdue Payments

Delay	Surcharge (%)
1 day and up to 10 days	05
10 days and up to one months	15
1 month and up to 3 months	20
3 month and up to 6 months	30
6 month and up to 12 months	40
Over 12 months	50

Source: www.epf.lk (2013)

In the event of underpayments or non-payments of contributions, the employees have the right to make a written complaint to the Commissioner of Labor. On receipt of such complaint, the commissioner will conduct the investigation in this regards and subsequently the employer will be informed and warned to pay the due amounts. If the employer fails to do so, the Labor Department may take legal actions against the employer to recover the dues to safeguard the employees.

6. BENEFITS AND BENEFICIARIES OF EPF

The core benefit of the EPF is the lump sum payment made by the EPF Department of the Central Bank of Sri Lanka for the members on attainment of the retirement 55 for the male members and 50 for female members. The lump sum benefit at retirement consist with the total contributions of 20% of the member's total earnings (8% contribution by the employee and 12% contribution by the employer) made during the employment to the EPF and the interest declared and credited to the member's account by the EPF Fund management less early withdrawals by the member. However, there are some circumstances where, the lump sum benefit of the EPF could be released prior to attainment of the retirement age of the member.

According to the Employees' Provident Fund Act No. 15 of 1958 a member of the fund shall be paid the total amount lying to the credit of such member's individual account as soon as may be practicable under the following circumstances;

- After such member, being a male, attains the age of 55 years, or being a female, attains the age of 50 years, or
- After such member, being a female ceases to be employed in consequences of marriage, or
- After such member ceases to be employed by reason of a permanent ant total incapacity for work and is certified by a registered medical practitioner to be unfit for work any longer for that reason, or
- Before such member's departure from Sri Lanka if such ember declares in writing that such departure is with the intention of not returning to Sri Lanka, or
- After such member ceases to be employed in a covered employment and takes up pensionable employment in the public service or in the Local Government Service.

The Act provided that, where a member of the Fund being a male, continues to work in a covered employment after he has attained the age of 55 years, or, being a female member continues to work in a covered employment after she has attained the age 50 years, such member shall not be entitled to the payment of contributions to the Fund until such member ceases to be in such employment. However, this upper age limit has been removed by the EPF Amendment Act No. 1 of 1985.

A beneficiary can be nominated by the member at any moment of registering with the EPF. An unmarried person may nominate any one and the married person may nominate family members including spouse, children, parents, brothers and sisters etc. It is possible to cancel an existing nomination and re-nominate at any time in the registry. A nomination effected before marriage is automatically cancelled upon the marriage of the member. When a minor is nominated a guardian may be appointed and will be paid benefits. When the minor attains maturity the guardian's nomination is automatically cancelled. When a member dies without nominating an heir the benefits will be paid according to the court order under the Inheritance of Property Act.

7. INVESTMENT AND REVIEW OF THE PERFORMANCE THE FUND

The investment policy of the fund is focused on providing a long positive real rate of return to the members while safeguarding the value of the Fund and maintaining sufficient liquidity (www.epf.lk, 2003). In 2010, 94.1 per cent of the Fund was invested in government sector investment sources. The balance is invested in fundamentally sound listed and unlisted equities and high credit worthy corporate debt instruments. As evidenced from EPF report (2010) in order to maintain an optimal liquidity position, a smaller percentage of funds are invested in high liquid securities such as Reverse Repurchase Agreements.

The investment portfolio of the Fund is shown in the table 2 as following,

Table 2 Investment Portfolio of EPF (2006 – 2010)

Year / Investment Source	2006	2007	2008	2009	2010
Rupee Loans (Rs. mn)	56,068	68,921	68,534	56,583	40,921
Treasury Bonds (Rs. mn)	396,398	448,449	539,621	658,508	768,387
Treasury Bills (Rs. mn)	4,687	4,971	1	403	5,936
Re-purchase Agreements (Rs. mn)	4,012	3,474	3,548	3,462	1,357
Corporate Debentures (Rs. mn)	6,962	8,702	8,749	8,301	6,286
Shares (Rs. mn)	3,632	6,662	6,867	9,853	43,614
Other (Rs. mn)	-	-	-	-	-
Total Investment (Rs. mn)	**471,759**	**541,479**	**627,325**	**737,111**	**866,502**
Investment in Government sources as % of total investment	96.9	96.5	96.9	97.1	94.1

Source: Employees' Provident Fund, Annual Report (2010), re-arranged by the author

The total investment portfolio of the Fund in 2009 was Rs. 737,310.6 million and it has been increased up to Rs. 866,502 million in 2010 showing a 17.5 per cent growth. The main reasons for the growth in investment portfolio are due to increase in return on investment and increase in contribution by the member to the Fund. In 2010, 94.1 per cent of the Funds were invested in Government securities while 5 per cent invested in listed and unlisted equities. Government securities consist with Rupee Loan, Treasury Bonds and Treasury Bills. Out of the balance 0.9 per cent, 0.7 has invested in corporate debentures and 0.2 per cent in Reverse Repos on Government securities to maintain the liquidity of the Fund. During 2010, the Fund has earned Rs. 118 billion from Government securities, which represents 97 per cent of the total gross income of the Fund. It was observed that, the investment in shares has been increased from Rs. 9,853 million in 2009 to Rs. 45,614 million in 2010. This is due to a view of diversifying the investment portfolio and capitalizing the opportunity of increasing economic activities. The ultimate objective of this diversification of investment portfolio is to earn above average return on investment and enhancing the wealth of the members of the Fund (EPF, 2010).

The table 3 shows the profile of the EPF for the period of 2002-2011.

Table 3 Profile of the Employees' Provident Fund -2002-2011

Year	Total Member Accounts (Mn.)	Active Member Accounts (Mn.)	No. of Employers	Contributions (Rs. Mn)	Refunds (Rs. Mn)	Total Member Balances (Rs. Mn
2002	9,378	1,860	47,660	18,927	12,553	294,634
2003	9,814	1,872	50,880	20,188	17,032	333,582
2004	10,307	1,974	53,567	23,330	16,617	372,833
2005	10,799	2,003	55,924	27,720	16,990	418,084
2006	11,326	2,073	57,996	33,073	17,717	477,625
2007	11,888	2,181	61,116	40,574	21,752	549,402
2008	12,463	2,296	64,000	45,951	25,931	644,955
2009	12,838	2,052	61,396	48,712	31,901	752,219
2010	13,400	2,100	62,295	54,796	34,896	869,199
2011	13,600	2,300	66,350	61,879	47,311	986,046

Source: Central Bank of Sri Lanka – Annual Report, 2011

The above table 3 shows that, the Central Bank of Sri Lanka is maintaining about 13.6 million individual member accounts. Out of these 13.6 million individual member accounts, 2.3 million accounts are active member accounts. The existing of a large number of non-contributory accounts is due to not making necessary arrangements by most of members to amalgamate their accounts when the members leaving from one employment and joining with anther employment with a new member account. Above table show that, total number of employers, total contribution, refunds and total member balances each year during the period of 2002-2011. Accordingly, total contribution in 2002 is Rs. 18,927 million and it has been increased up to Rs. 61,879 million in 2011. Total refund in 2002 is Rs. 12,553 million and in 2011 total refund is Rs. 47,311 million. At the end of 2011 total account balances is Rs. 986,046 million. According to the Central Bank Report in 2011, The Employees' Provident Fund accounts for 78% of the assets in the superannuation fund sector in Sri Lanka (CBSL, 2011).

8. FINANCIAL FEASIBILITY OF THE FUND

The superannuation fund sector in Sri Lanka consist with Employees' Provident Fund, Employees' Trust Fund, Public sector Pension Scheme, Public Sector Provident Fund and 170 approved provident and pension funds managed by the private sector. At the end of 2010, the total assets of the superannuation fund sector in Sri Lanka was Rs. 1,179.8 billion and out of which 76.4 percent represented by the EPF (EPF Annual Report, 2010). The total assets of the Fund at the end of 2011 is Rs. 1020 billion and the total liabilities to its members is Rs. 986 billion and the total investment portfolio of the EPF is Rs. 988 billion and the share of the government securities of investment is 91 per cent at the end of 2011 (CBSL, 2011). The total contribution received in 2009, 2010 and 2011 are respectively Rs. 48.7, 54.8 and 61.9 billion and the total refunds for the same period are respectively Rs. 31.9, 34.9 and 47.3 billion. Accordingly, it is observed that the total refund can be made using cash inflows from the contribution while remaining the total fund of the EPF in investment sources.

Accordingly, the EPF has strong financial stability to meet its financial obligation to refund the benefits to members of the Fund. The liquidity risk of the Fund is also very low due to net cash inflows. During the past years and at present, total contributions receipts and total refund are being increased. However, the total contribution receipts exceed the total payment of refund. Hence, the huge protective balance is remaining with the EPF as investments in government securities and other investment source.

9. RETURN ON MEMBER ACCOUNT BALANCES

Since, the Employees' Provident Fund is a mandatory and contributory retirement benefit scheme, the value of the lump sum payment received by the employee after the retirement, mainly depends on rate of return on member balances and annual rate of inflation. The following table 4 shows the return on member balances of the EPF for the period of 2000-2008.

As a long run retirement benefit scheme, the investment policy of the fund focused on providing a long term positive real rate of return to the members while safeguarding the Fund (EPF Annual Report, 2010). The rate of return on member balances is declared by the Monetary Board of the Central Bank of Sri Lanka and credited to the member accounts annually. The rate of return on member balances mainly depends on the return on investment of the Fund. In addition, the administrative expenses and the government taxes on investment income and other expenses and allowances are also taken in to account when declaring the rate of return on member balances of the EPF.

Historical data indicates that, the rate of return declared was in the range of 8.5 per cent and 13.75 per cent during the period of 1980 – 2010. The lowest rate 8.5 per cent has been declared in 1980 and the highest rate 13.75 has been declared in 2009 during the last 30 years. The average rate of return for the same period is 11 per cent.

The real rate of return is important for the members as it removes the effect on inflation on the declared rate of return. The aim of Monetary Board is to provide a long term positive real rate of return to the member balances. During the last 30 years the real rate of return has been fluctuated within the range of -17.07 per cent (negative value) and 11.75per cent (positive value). The highest negative real rate of return on member balances recorded in 1980 as -17.07 per cent. This is due to high inflation rate of 26.12 per cent compared with 9.05 per cent effective rate of return in 1980. The two digit real rate of return is recorded only in 1985 and 2009. The real rates of return in these two years are 11.75 per cent and 10.52 per cent respectively.

Table 4 Rate of Return on Member Balances (2000-2008)

Year	Rate of Return Declared (%)	Effective Rate of Return on Member Balances (%)	Annual Average Inflation	Real Effective Rate of Return on Member Balances (%)
1980	8.50	9.05	26.12	-17.07
1981	9.50	10.03	17.98	-7.95
1982	10.00	10.55	10.84	-0.29
1983	12.00	12.62	13.96	-1.34
1984	12.50	13.17	16.64	-3.47
1985	12.50	13.21	1.46	11.75
1986	12.50	13.17	7.98	5.19
1987	12.50	13.02	7.72	5.30
1988	13.00	13.60	13.99	-0.39
1989	11.00	11.45	11.57	-0.12
1990	11.50	11.93	21.49	-9.56
1991	11.50	11.97	12.19	-0.22
1992	11.50	11.87	11.39	0.48
1993	13.50	13.99	11.74	2.25
1994	12.75	13.17	8.45	4.72
1995	12.75	13.15	7.67	5.48
1996	12.75	13.12	15.94	-2.82
1997	12.75	13.03	9.60	3.43
1998	12.25	12.46	9.40	3.06
1999	11.50	11.72	4.70	3.23
2000	11.50	11.69	6.20	5.49
2001	11.50	11.69	14.20	-2.51
2002	12.10	12.26	9.60	2.66
2003	12.00	12.07	6.30	5.77
2004	9.50	9.59	7.60	1.99
2005	9.00	9.13	11.60	-2.47
2006	10.10	10.30	13.70	-3.40
2007	11.20	11.40	17.30	-5.90
2008	13.20	13.44	21.60	-8.16
2009	13.75	13.92	3.40	10.52
2010	12.50	12.66	5.90	7.06

Source: Annual Report of Employees' Provident Fund (2010)

The average real rate of return for the last 25 years is 1.75 percent (EPF Annual Report, 2010). Within the last decade, the highest inflation rate was recorded as 21.60 per cent in 2008. This situation resulted in increasing the negative value of real rate of return up to 8.16 per cent. However, the lowest inflation rate for the last 25 years recorded as 3.40 per cent in 2009 resulting in increase of the real rate of return op to 10.52 per cent. This is the highest positive real rate of return recorded for the last 30 years.

10. SUMMARY AND CONCLUSIONS

Employees Providence Fund was established in 1958 as a contributory social security system with the purpose of providing a protective cover for the retired employees of Private Sector and State Sector corporations who are not entitled for government pension benefits. The administration aspect of the EPF is handled by the Labor Department while the management of the Fund is handled by the Monetary Board of Central Bank of Sri Lanka. Employees who are permanent, non-permanent, apprentice, temporary casual workers who work on piece rate, on contract basis, on commission basis or payment of unit basis and employees who receive monthly salary, weekly salary, daily paid and employees from labor grades to managerial grades of the covered employments are eligible for the membership of the EPF.

Any establishment irrespective of the type of or category of the employment becomes liable to pay the contributions to the EPF. However, the social organizations providing technical training for minor offenders, destitute, deaf and blind or charity organizations with less than 10 employees and the establishments utilizing service of the family members need not to contribute for the EPF. Other establishments covered by EPF Act are liable to pay contributions equal to 20% of the total earning of the employee, which consists of 8% contribution by the employee and 12% contribution by the employer.

The core benefit of the EPF is the lump sum payment made by the EPF for the members on their retirement. The lump sum benefits include the contributions made by the employees and the employer, and the interest declared by the Board on member account less early withdrawal by the member.

The superannuation fund sector is dominated by the EPF which accounts for 78% of the assets in the sector. At the end of 2011, active members of the fund if 2.3 million and the total assets of the Fund is Rs. 1,020 billion. The total investment of the Fund at the end of 2011 was Rs. 986 billion and the share of the government securities in the investment portfolio of the Fund is 91 per cent while equities accounts for 8 per cent. During 2011, the EPF has received Rs. 61.9 billion as contribution and has refunded Rs. 47.3 billion to the members of the Fund.

Historical data indicates that, the rate of return declared by the Monetary Board on member balances of the EPF was in the range of 8.5 per cent and 13.75 per cent during the period of 1980 – 2010. The lowest rate 8.5 per cent has been declared in 1980 and the highest rate 13.75 has been declared in 2009 during the last 30 years. The average rate of return for the same period is 11 per cent. However, the real rate of return is more significant for the members as it provides the real value of the interest rate declared for their balances. The real rate of return is always lower than the declared rate of return. This is due to effect of inflation of declared rate of return. For the last 25 years, real effective rate of return is 1.75 per cent. Accordingly, it shows a low level of real value of the return in long run. Kumara and Pfau (2010) also examine that, the EPF has suffered from low rate of return over the last few decades in spite of the reforms implemented by the fund management time to time. ILO (2004) also suggests that, the real value of retired benefits tends to drop due to inflation. Gaminiratne, Eriyagama, Kalyanaratne, Rannan-Eliya (2004), also examine that, most of the schemes that do exist are inadequate and suffer major deficiencies. Most will not provide sufficient benefits to keep their members out of poverty in their old age, and the provident fund scheme that has been established cannot provide regular incomes to their retirees

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