AN INVESTIGATION OF THE PERCEPTION OF HOUSEHOLDS ON BENEFIT OPTIONS OF THE INSURANCE RETIREMENT PLANS IN SRI LANKA- A CASE STUDY OF GAMPAHA DISTRICT

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Abstract— Demographic Ageing is one of the greatest challenges faced by Sri Lankan society due to rapid increase in the proportion of the elderly population aged 60 years and above during last few decades. Demographic ageing creates social and economic implications at individual, family and societal levels. The major risk associated with old age is the insufficient of income during the retirement age.

Insurance retirement plans provide financial support along with the protection of the family and health care during the period of inability to work due to old age. However, it was observed that, purchasing the insurance retirement plans by the households in Sri Lanka is substantially very low. Accordingly the research problem of this study includes; why the households do not purchase retirement plans offered by the insurance companies in Sri Lanka to cover the risk of loss of income during their retirement life. The main objective of this study is to identify the gap between the benefit options of retirement plans offered by the insurance companies in Sri Lanka and the expected benefit options of insurance retirement plans by the households in Sri Lanka. The specific objectives of this study include; to examine the demand for retirement plans offered by the insurance companies in Sri Lanka and to identify the households' expectation from the retirement plans offered by the insurance companies in Sri Lanka.

A survey based descriptive research design was applied and the data was collected from the samples of 200 households from Gampaha District and 25 managers from top five insurance companies in Sri Lanka. Quantitative data collected from the households based on Likert's Scale was analyzed using descriptive statistics and the hypotheses were tested using t-test and chi-square test. Data collected from the managers of 5 insurance companies were analyzed using qualitative technique. Results revealed that, vast majority of the household most prefer to purchase retirement plans offered by the insurance companies in Sri Lanka if they provide annually increasing lifetime pension benefits. However, retirement plans of the insurance companies in Sri Lanka offer monthly pension only for a certain period of time. Accordingly it was revealed that, there is a huge gap between the expected benefit by the households and the benefits offered by the insurance companies in Sri Lanka. Future researches could be based on identifying the problems and prospects of insurance retirement plans in Sri Lanka.

Keywords— Demographic ageing, insurance companies, retirement plans, benefit options.

I. INTRODUCTION

The historical data of the demographic changes in the age structure of the population in Sri Lanka shows a continuous increase in the proportion of the elderly population aged 60 and above during the last few decades. Sri Lanka is one of the fastest ageing countries in the world and its share of population over 60 years old in 2000 was 9.2 per cent which exceeds the average of all the regions in the world except OECD countries and Eastern Europe and former Soviet Union (World Bank, 2008). By 2030, Sri Lanka is expected to have 22 per cent of its population aged over 60 years (Silva, 2007) and it will reach to 28.5 per cent by 2050 (Abeykoon & Elwalagedara 2008). Demographic ageing has significant social and economic implications at individual, family and societal level. Financial security is one of the major concerns as people aged.

Longevity may create problems to the individuals and families if resource cannot provide adequate income on retirement. Longevity risk refers to the possibility that retired people will outlive their financial resources. Emmitt & Therese (2003) assume that living too long is a risk that adversely affect for the ageing population. The retirement risk is influenced by two increased hazards of physical disability as one grows older, and also by societal conventions. The major risk associated with old age is the insufficient income during retirement. The vast majority of workers retire at the age 60 and when they retire, they lose their earned income. Unless they have sufficient financial assets on which to draw, or have access to other sources of retirement income, such as social security or a private pension, they will be exposed to financial insecurity during the retirement. Although, Sri Lanka provides the most comprehensive social security systems in South Asia, the coverage of the current schemes is limited to minority of the working age population, benefits are inadequate and financial feasibility of the schemes are questionable. Civil servants are only the people that have reasonable level of benefits and longevity insurance (World Bank, 2008). Accordingly, vast majority of the old people are not having pensions or superannuation during their retirement.

Insurance retirement plans can play an important role in providing financial benefits to the individual and families because it is a hedge against the loss of income during retirement life. Average longevity of

an individual is improving and at the same time the capacity to earn a living is limited beyond a certain age called superannuation age. However, income is necessary to pursue a normal life and at the same time to provide for additional medical expenses at old age (Bodla et at 2003). Many people choose the purchase of life insurance, annuities and pension plans as the most efficient means of making provisions for uncertain future (Garman & Forgue 2006). Life insurance policy with a cash value can be used to save for retirement as well as to protect against the financial consequences of premature death (Trieschmann et al 2001). Majority of workers experience a substantial reduction in their money income when they retire and it can result in a reduced standard of living (Regda 2008). One of the alternative tools for this problem is an insurance retirement (pension) plan, under which a capital sum is converted to a stream of income over the individual's retirement life. Insurance cannot eliminate or reduce the uncertainty of premature death or longevity, however insurance retirement plans reduce the probability of financial loss connected with the longevity.

II. RESEARCH PROBLEM

Insurance retirement plan is considered as one of the unique and most important financial instrument which can be used to cover the risk of loss of income during the retirement life of the people. Almost all the insurance companies in Sri Lanka have introduced retirement plans with different benefit options for the people. However, insurance retirement plans in Sri Lanka are still not used widely. This is the research gap that is primarily addressed in this research. Accordingly, the research problem in this study includes; why the households do not purchase retirement plans offered by the insurance companies in Sri Lanka to cover the risk of loss of income during their retirement life. The research questions in this study include;

1. Is there a demand for retirement plans offered by the insurance companies in Sri Lanka?
2. What retirement benefit options are offered by the Insurance Companies in Sri Lanka
3. What benefit options of the insurance retirement plans are mostly preferred by the households in Sri Lanka?

III. RESEARCH OBJECTIVES

The main objective of this study is to identify the gap between the benefit options of retirement plans offered by the insurance companies in Sri Lanka and the expected benefit options of insurance retirement plans by the households in Sri Lanka. The specific objectives of this study include;

1. To examine the demand for retirement plans offered by the insurance companies in Sri Lanka.
2. To identify the households' expectation from the retirement plans offered by the insurance companies in Sri Lanka.

IV. LITERATURE REVIEW

Rejda (2008) has identified risk of premature death, risk of poor health, risk of unemployment and risk of insufficient income during retirement as major personal risks. Emmitt & Therese (2003) examine that people are living longer however, they are retiring earlier. Some people have financial strength in retirement. But majority of retired people are not having such financial strength at their retirement life. Irina Kerr (2001) examine that, retirement and financial security are very important national issues and the nation's response to today's social, demographic and economic pressure will profoundly affect the quality of everyone's retirement. Rejda (2008) points out that the majority of workers experience a substantial reduction in their money income when they retire, which can result in a reduced standard of living. The main objective in managing personal risk is to avoid the deprivation of the individual and those dependants on him or her in the event of loss that causes the termination of income. Insurance is a common approach to replace such loss of income (Emmitt & Therese (2003). Insurance retirement plans offered by the insurance companies are the most important tools to replace the loss of income during retirement (Dican & Cater, 1992).

V. RESEARCH HYPOTHESIS

In this research, following hypotheses were developed to examine the relationship between the variables.

Hypothesis 1; If insurance retirement plans are purchased by households, they expect monthly pension until their death than for a certain period of time.

Hypothesis 2; There is a direct relationship between the age and the demand for insurance retirement plans.

Hypothesis 3; There is a direct relationship between the income level of the households and the demand for retirement plans.

VI. RESEARCH METHODOLOGY

Since this is a social research, positivism research philosophy was applied and deductive approach was used in this study as the researcher has developed hypothesis and designed the research strategy to test the hypothesis. In this study, mainly primary data was used to conduct the research and a sample of 200

households between 30-60 years of age group from Gampaha District in the Western Province was selected using stratifies random sampling technique. 25 managers from 5 insurance companies was selected using judgment sampling technique to collect primary data. According to the Department of Census and Statistics, Gampaga District consists of 85 per cent rural and 15 per cent urban population. Accordingly, the sample of 200 households was selected to represent 85 per cent rural and 15 per cent urban population. Top 5 insurance companies were selected based on the market share in life insurance.

Using a structured interviewer administered questionnaire, face-to-face interview method was applied to collect primary data from households and focused group interview method was applied to collect primary data regarding the benefit options of insurance retirement plans offered by insurance companies in Sri Lanka. In this study, descriptive statistical technique used to analyze quantitative data for interpreting information and findings. Frequency tables, graphs and charts were used for analyzing and interpreting data. Frequency distribution related techniques such as mean and standard deviation used to analyze the demand for insurance retirement plans and to analyze the households' perception regarding different benefit options of retirement plans offered by insurance companies in Sri Lanka. Further, chi-square test and t-test were applied in this research to test the hypothesis. Quantitative data was analyzed using SPSS software package in order to minimize errors in data analysis. Since, in-depth and open ended questions were asked from the managers, their answers were audio recorded. Therefore, it was difficult to convert these data into quantifiable measures. Accordingly, the data collected from the 25 managers from top 5 insurance companies were analyzed using qualitative technique to interpret the benefit options of insurance retirement plans offered by the insurance companies in Sri Lanka.

VII. RESULTS AND DISCUSSION

7.1 Benefit Options of Insurance Retirement Plans

In this research, Sri Lanka Insurance Corporation Limited, Ceylinco Insurance PLC, AIA Insurance PLC, Union Assurance PLC and Janashakthi Insurance PLC were selected based on market share in life insurance to investigate the benefit options of retirement plans. These five companies enjoyed 85 per cent of total market share in 2012 (IBSL 2014). Minimum age limit for the enrolment of the retirement plans of all the insurance companies was 18 years of age and the maximum limit age varied among the companies. Out of these 5 companies, Union Assurance PLC does not offer retirement plans in order to provide monthly pension for their customers.

Sri Lanka Insurance Corporation Limited provides 5 per cent guaranteed monthly pension for a minimum of 5 years and maximum of 20 years based on customer preference. There are two options namely with health care and without health care benefits and annual health care benefit is increased by 5%. A bonus is provided at the end of the pension payment period based on the earnings of the Corporation. Critical Illness Cover, Hospitalization Cover, Family Protection Cover and Extended Permanent Disability Cover are provided on extra payments of premium.

Retirement plan offered by Ceylinco Insurance PLC has two option i.e lump sum payment and monthly pension. Individuals can invest any amount over Rs. 1000 at any time after enrolment to the plan and top up premiums are allowed. Payments will be paid to the assured or his / her beneficiaries in equal annual, semi-annual, quarterly or monthly basis for a number of years varying from 1 to 30 years until the retirement fund of the insured is exhausted. Company does not provide additional benefit on extra premium.

Retirement plan offered by AIA Insurance PLC provides monthly pensions minimum for a period of 10 years and maximum of 30 years. Minimum retirement age is 33 years and maximum retirement age is 65 years. Customer has the option to select his /her retirement age. Minimum inflation guard of the plan is annually 5% and maximum is annually 15%. Company offers 25% loyalty reward for the customers, if the customer has continuously paid the premium for 10 years. Income protection benefits, Accidental Benefits, Hospital Income Benefit, Adult Surgery Benefit, Critical Illness Cover, Spouse Cover and Child Health Care Benefit are provided for extra premium.

Retirement plan offered by the Janashakthi Insurance PLC provides pension for a fixed period selected by the policy holder or a life time pension for the insured and the spouse. Customer has the option to withdraw the entire pension fund as a lump sum at the maturity date of the pension policy. Minimum retirement age is 55 years and the pension is paid for a minimum of 10 years and maximum of 20 in case of pension for a fixed term. 5% loyalty bonus is paid after payment of premium continuously 5 years. The company does not offer additional covers for extra premium.

Above data reveals that, almost all the insurance companies in Sri Lanka provides pension for a fixed period of time and the benefit schemes varies company to company.

7.2 Demand for insurance retirement plans

The result reveals that, 31 percent of the households have purchased some forms of life insurance policies and out of which only 6 per cent of the respondents have purchased retirement plans. Further 49 per cent of the households are willing to purchase any type of life insurance policy. The most important thing is that, 75 per cent of the respondents are willing to purchase retirement plans to receive monthly pension during retirement age. Accordingly it can be concluded that, there is a very good demand for

retirement plans than other types of life insurance policies.

This research further reveals that, if the households purchase retirement plan, they expect monthly pension until their death. The mean value 4.40 and the standard deviation value 0.717 indicate that, majority of the households are most prefer to obtain monthly pension until their death. As a percentage, 93 per cent of the households are expecting insurance pension until their death if they purchase retirement plan from insurance companies. Further 89 percent of the households most prefer to purchase this product if it provides annually increasing pension benefit and 93 per cent of the respondents most prefer to cover the spouse paying additional premium.

7.3 Results of testing hypothesis

The t-test was applied to test the hypothesis 1 and the pared mean value 2.555 of the t-test indicates that, there is a huge different between the preference for the monthly pension until death and pension only for a certain period of time. Because of t-test is significant, rating given by the households for receiving monthly pension until death is significantly higher than the rating given for receiving pension only for a certain period of time. Therefore hypothesis 1 cannot be rejected.

The Chi-square test was applied to test the hypothesis 2 to examine the relationship between age of the households and their demand for retirement plans. Because the chi-square value 0.134 is not significant at 5% error level, there is no association between age and the demand for insurance retirement plans. Therefore hypothesis 2 can be rejected.

The chi-square test was performed to test the relationship between monthly income levels of the respondents and their willingness to purchase retirement plans. Because of chi-square value 0.367 is not significant at 5% error level, there is no association between monthly income levels and the demand for retirement plans. Therefore hypothesis 3 can be rejected.

CONCLUSION

In this research it was revealed 31 percent of the household in the selected sample have purchased some forms of life insurance policies and out of which only 6 per cent have purchased retirement plans. However, there is a very good demand for retirement plans offered by insurance companies in Sri Lanka than for other types of life insurance products. As a percentage 49 per cent of household are willing to purchase any type of life insurance policies. However 75 per cent of the household are willing to purchase insurance retirement plans. If the households purchase retirement plans, they expect annually increasing monthly pension until their death and they do not prefer to receive monthly pension only for a certain period of time. However, retirement plans introduced by the insurance companies in Sri Lanka offer monthly pension only for a certain period of time. Accordingly it was revealed that, there is a huge gap between the expected benefit by the households and the benefits offered by the insurance companies in Sri Lanka. Further it was revealed that, there is no association between age and the demand for retirement plans and the monthly income levels of the household and the demand for retirement plans. Accordingly it can be concluded that, there is a demand for retirement plans by all the age groups between 30-60 years of age irrespective of the monthly income levels of the households. Accordingly, retirement plans should be designed by the insurance companies to match with customers' requirement.

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