DOI: https://doi.org/10.4038/sljda.v8i1.7161

Why Do People Drop Out of the Contributory Pension Programme in Sri Lanka?

Weerasingha, M.N.S.
Meiji University, Graduate School of Governance studies, Tokyo, Japan

Abstract

The sustainability and effectiveness of contributory pension systems in low-and middle-income countries depend not only on sound policy design and adequate financing but also on continuous participation and public trust, especially among informal sector workers. This study examines the reasons behind the persistently high dropout rates from Sri Lanka's contributory pension scheme, administered by the Sri Lanka Social Security Board (SLSSB), which targets informal and self-employed workers who have traditionally been excluded from formal retirement systems. Using a qualitative methodology, the research draws on semi-structured interviews with 15 individuals who had dropped out of the scheme and 10 government officials responsible for its administration. Stratified sampling was employed to ensure diversity across gender, occupation, and geographic location. Thematic analysis of the data revealed four key factors driving dropout: financial constraints, perceived inadequacy of benefits, lack of institutional trust, and limited awareness. The study also critically reflects on the post-COVID-19 context, which exacerbated financial vulnerability in the informal sector and exposed structural deficiencies in voluntary pension systems. Many contributors ceased payments due to competing short-term survival needs, rising living costs, and uncertainty about future payouts. The findings underscore the pressing need for policy reforms that focus on rebuilding public confidence, enhancing transparency, aligning contribution structures with income patterns, and increasing public awareness. These interventions are crucial to ensure greater retention and the long-term viability of contributory pension systems designed to secure old-age income for informal workers in Sri Lanka.

Keywords: contributor dropout, social security, social security system, population ageing

Email: mnsw.uoc@gmail.com

1. Introduction

Social security is commonly regarded as a fundamental human right and a key component of social justice. In its 1944 Declaration of Philadelphia and Income Security Recommendation No. 67, the International Labour Organization (ILO) emphasized the State's responsibility to provide income security and healthcare to its citizens, particularly during times of need such as unemployment, sickness, old age, disability, or the death of a breadwinner. Despite this universal consensus, the global implementation of comprehensive social protection is uneven, particularly in the Global South.

According to the ILO's World Social Protection Report 2021-2022, only 47% of the worldwide population is effectively covered by at least one type of social protection, while 53%, approximately 4.1 billion people, do not have any form of coverage. The disparity is evident across regions: nearly all residents in high-income nations have access to social protection, whereas coverage in low-income countries, including much of South Asia and Sub-Saharan Africa, is less than 20%. In South Asia, less than 10% of the working-age population has any income security in old age. Even within these nations, access to pensions and other social protection benefits is very unequal, with engagement in the formal economy playing a significant role (ILO, 2021).

1.1 The Problem of Old Age Income Security in Developing Countries

The difficulty of maintaining financial stability in old age is not simply humanitarian, but also development-related. As the world population ages, particularly in nations undergoing demographic changes, the likelihood of old-age poverty has increased. According to the United Nations World Population Ageing Report (2020), the number of persons 65 and older is rising faster than any other age group. This demographic transition necessitates urgent and long-term improvements to social protection programmes. Without adequate actions, a considerable part of the older population in emerging nations is likely to experience severe financial difficulties, increasing their reliance on already overburdened family and community networks.

The informal sector, which often does not provide pensions, job security, or social benefits, employs the vast majority of workers in many developing countries. Workers in these industries frequently face economic insecurity and are excluded from contributory pension systems. According to a 2022 study by Robalino and Holzmann, the informality trap reinforces itself: without proper safety nets, informal workers are forced to save less, invest less in health and education, and work longer hours in dangerous conditions. This loop perpetuates poverty and lowers the likelihood of involvement in voluntary pension systems.

The situation is particularly significant in Sri Lanka, where the population is rapidly ageing and informal employment is prevalent. The proportion of the population aged 60 and up is projected to rise from 16.7% in 2020 to 24.8% by 2041 (Population Pyramid, 2021). At the same time, the Department of Census and Statistics' Labor Force Survey 2019 indicates that approximately 57.4% of Sri Lanka's workforce is engaged in informal employment. This suggests that more than half of the working population does not receive formal retirement benefits and will be vulnerable in old age unless comprehensive social security systems are implemented.

1.2 The Sri Lankan Context: A Structural Gap in Pension Coverage

Sri Lanka has historically maintained a higher degree of social development than other South Asian countries. Programmes like the Public Service Pension Scheme, Employees' Provident Fund (EPF), and Employees' Trust Fund (ETF) have helped formal sector workers. However, these initiatives systematically exclude informal and self-employed individuals, who make up the majority of the workforce. As a result, less than 25% of Sri Lankan workers are currently eligible for a formal pension, leaving the vast majority with little or no retirement security (Department of Pensions, 2020).

To close this gap, the government formed the Sri Lanka Social Security Board (SLSSB) under Act No. 17 of 1996, as amended by Act No. 33 of

1999. The Board's mandate was to create and implement voluntary contributory pension systems for self-employed and informal-sector workers. This was a commendable endeavor aimed at improving social protection and achieving universal pension coverage. Despite operating for more than two decades, the scheme has struggled to gain traction. By 2020, only 715,013 persons had enrolled, accounting for a small proportion of the target group. In 2014, around 460,807 people were eligible for retirement programmes; however, 354,595 of them were dropouts (Annual Report, 2014). Even more troubling is the significant dropout rate among individuals who first enrolled, indicating systemic difficulties with the scheme's design, operation, or perception.

1.3 Gaps in Literature and Justification for the Study

The literature on social protection in Sri Lanka has primarily concentrated on official pension schemes and broader poverty reduction measures. Several studies have looked into the effectiveness of the EPF and ETF, as well as the long-term viability of the public sector pension system (Weerakkody & De Silva, 2018; Athukorala & Ekanayake, 2020). However, few empirical studies have focused solely on voluntary contribution systems aimed at informal workers, and even fewer have investigated the reasons for their limited effectiveness. The majority of existing research employs quantitative methodologies, which often fail to capture the intricate social, cultural, and psychological aspects that influence participation and dropout rates.

Furthermore, most previous investigations were conducted prior to the COVID-19 pandemic. The post-pandemic labor market realities, which include job losses, income shocks, and greater informality, have dramatically transformed the socioeconomic environment. According to a World Bank (2021) assessment, the pandemic has pushed an extra 500,000 Sri Lankans into poverty, weakening public trust in contributing systems that need continuous contributions over extended periods.

In this situation, a qualitative, interpretive approach is appropriate and necessary. This study aims to generate insights beyond what numerical data alone can reveal by focusing on the lived experiences, attitudes, and decision-making processes of individuals who have dropped out of the pension programme. It also addresses the broader institutional and policy variables that contribute to low retention and engagement.

1.4 Research Question

This research aims to answer the following central question:

Why do people drop out of the contributory pension scheme introduced by the Sri Lanka Social Security Board?

This question is grounded in a behavioral economic perspective, considering the interplay of financial constraints, institutional trust, social norms, and cognitive biases that influence individuals' long-term saving behavior.

1.5 Importance and Relevance of the Study

This study's findings are relevant on multiple levels. First, they fill a significant gap in Sri Lanka's social protection framework by exposing the failure of a programme intended to protect some of the most vulnerable individuals. Second, the study contributes to the global discourse on designing effective voluntary pension programmes in developing nations, particularly in settings characterized by informality, distrust of government institutions, and economic precarity.

Third, the research is timely. As Sri Lanka faces economic difficulties such as mounting debt, inflation, and civil unrest, there is an urgent need for practical, equitable, and long-term social protection systems. Without a strong safety net, the growing senior population may place further demands on families and government resources, exacerbating intergenerational poverty and inequality.

Furthermore, the study incorporates post-COVID reality, making its conclusions extremely useful for policymakers working to rebuild resilient institutions in an uncertain environment. The behavioral economic insights gained from this research may help to improve communication techniques, incentive structures, and policy interventions aimed at strengthening long-term commitment to pension schemes among informal sector workers.

Finally, the research supports Sri Lanka's obligations under international frameworks. As a signatory to ILO Convention 202, which promotes social protection floors, Sri Lanka is expected to ensure at least a basic level of income security for its entire population. Closing the pension gap is a critical step toward fulfilling that commitment.

2. Literature Review

2.1 Population Ageing and Economic Growth

Population ageing has emerged as a critical demographic trend with far-reaching consequences for economic development, particularly in nations such as Sri Lanka. Ageing, driven by increased life expectancy and declining birth rates, reduces the working-age population and alters the labor market structure and national output. Bloom, Canning, and Fink (2010) suggest that while ageing can boost per capita income by lowering dependency ratios, the long-term consequences of a shrinking labour supply, falling innovation, and rising dependency can stymie economic progress. Börsch-Supan (2013) further notes that, while experience may help compensate for decreases in physical and cognitive capacities among older workers, the net productivity loss in aging societies often outweighs these benefits.

Recent empirical studies support this claim. Maestas et al. (2023) present cross-country research demonstrating that a 10% increase in the proportion of people aged 60 and above results in a 5.5% decrease in per capita GDP growth, due to decreased labor force participation and slower productivity improvements. Furthermore, the aging population influences spending and savings patterns. According to Feyrer (2007) and Bloom et al. (2010), as people age, their saving rates tend to decline, resulting in reduced capital accumulation, a crucial factor in economic development. These changes necessitate immediate policy adjustments, particularly in developing economies that lack substantial budgetary buffers.

In Sri Lanka, rapid population aging, with 25% of the population expected to be over 60 by 2041 (UNFPA, 2021), is exacerbated by persistent youth unemployment and pervasive informality. According to Siddhisena (2005) and, more recently, De Silva and Herath (2022), if labor-market and pension reforms are not implemented, the demographic transition would threaten economic stability and exacerbate old-age poverty.

2.2 Social Security in an Evolving Global Landscape

Social security is widely recognized as a fundamental component of welfare states and a tool for ensuring equity and protection throughout life. It is defined as a set of governmental policies that provide economic security in the face of events such as old age, disability, unemployment, and disease, thereby helping to stabilize both individual livelihoods and national economies. According to the International Labour Organization (2021), social security regimes not only help to stabilize consumption but also foster inclusive growth, labor market resilience, and social cohesion.

Nonetheless, after decades of effort, worldwide social security coverage remains highly uneven. According to the World Social Security Report (ILO, 2021), more than 4 billion individuals worldwide, the majority of whom work in informal settings, continue to lack access to basic income security. The pandemic exacerbated existing imbalances. The World Bank (2022) emphasized that COVID-19 highlighted the fragility of many countries' social protection systems, particularly in those with extensive informal sectors. Lockdowns and mobility limitations exposed gaps in coverage and delivery, leaving informal laborers without backup plans.

Classic issues over financing and sustainability persist. Feldstein (1974) warned of diminished personal savings resulting from reliance on state pensions, while Diamond and Orszag (2004) noted that pay-as-you-go systems confront long-term fiscal imbalances in aging populations. Contemporary approaches, such as the ILO's Social Protection Floor (SPF) effort, push for universal healthcare and basic income assistance. Although many governments have adopted it, implementation gaps persist, particularly in low- and middle-income countries such as Sri Lanka, where fiscal and administrative resources are limited.

Ahmad et al. (2020) underline that sustainable social protection systems must strike a balance between universality and cost. In the post-COVID era, there is a renewed global drive to expand both contributory and non-contributory programmes, while increasing delivery efficiency through digitalization and public-private partnerships.

2.3 Informal Sector Workers and the Social Protection Gap

Informal sector employment is a distinguishing feature of labor markets in most developing nations, including Sri Lanka. Informal work, characterized by non-standard employment, the absence of formal contracts, and limited regulatory oversight, accounts for more than 60% of Sri Lanka's workforce (Department of Census and Statistics, 2021). Informal laborers often have insecure salaries, poor working conditions, and limited access to social security systems, including pensions and health insurance.

Chen (2012) provides a fundamental classification of informal employment, distinguishing between informal paid employment and self-employment. Structured unemployment, complex regulatory environments, and weak labor law enforcement are all factors that contribute to informality (Loayza, 1997; ILO, 2018). In Sri Lanka, formalization initiatives have been delayed and disjointed, hampered by bureaucratic red tape and poor institutional coordination (Gooneratne et al., 2023).

Gender disparities further intensify the vulnerability of informal laborers. Women are overrepresented in low-wage, insecure jobs, particularly in domestic service, agriculture, and garment manufacturing. According to Chant and Pedwell (2008), gender norms and care responsibilities limit women's ability to work in formal settings or contribute to pension plans. According to UN Women's (2021) data on the post-pandemic period, informal women workers lost more jobs. They recovered more slowly due to their concentration in high-contact sectors and the burden of unpaid caregiving responsibilities.

Policy solutions increasingly point toward extending contributory and non-contributory pension systems tailored to the income volatility of informal workers. OECD (2022) recommends reducing administrative barriers, offering co-contributions, and ensuring portability of benefits across occupations and geographies.

2.4 Contributory Pension Schemes and Financial Literacy

Contributory pension plans, particularly those established for informal workers, have attracted global interest due to their long-term viability. Unlike state-funded programmes, they move the cost of retirement security onto private individuals, reducing fiscal strain. Blake (2006) and Barr & Diamond (2009) believe that well-designed contributory schemes can increase coverage and improve financial discipline among employees. However, successful implementation in the informal sector confronts two significant challenges: irregular income and insufficient financial knowledge.

Financial literacy is crucial for understanding the long-term benefits of pension contributions, managing investment risks, and planning for a secure retirement. Lusardi and Mitchell (2014) found a strong association between financial literacy and retirement preparation in several OECD countries. Those who are more financially literate are more likely to engage in pension plans, increase payments, and diversify their investments. In contrast, low financial literacy leads to insufficient savings, early fund withdrawals, and an underestimation of retirement needs.

Post-COVID economic shocks have exacerbated these difficulties. Households reduced savings to cover income losses, resulting in decreased pension payments and fund degradation (World Bank, 2021). Informal workers, particularly those without digital skills or access to banking, faced significant barriers in obtaining assistance or rejoining pension plans. To boost uptake and retention, Benartzi and Thaler (2007) recommend simplifying pension systems and implementing behavioral nudges such as default enrollment or matching contributions.

Sri Lanka's informal workers' pension system remains weak. Programmes such as the Farmers' and Fishermen's Pension Schemes have low acceptance due to administrative inefficiencies, inadequate outreach, and a lack of confidence (De Silva, 2020). Financial literacy efforts, when combined with these programmes, could increase participation and adherence, particularly in rural and underprivileged populations.

2.5 Social Protection in Sri Lanka: Historical Roots and Emerging Gaps

Sri Lanka's social protection system has expanded significantly since its inception during the colonial era, when benefits were initially limited to public sector employees. The establishment of the Employees' Provident Fund (EPF) in 1958 and the Employees' Trust Fund (ETF) in 1980 was watershed moments in extending coverage to formal private sector employees. Programmes such as Samurdhi and Elder Assistance Schemes aimed to alleviate poverty and provide welfare assistance. However, these projects are nonetheless scattered, poorly managed, and largely ineffective in delivering comprehensive retirement security, particularly for informal workers (World Bank, 2020).

Menike (2015) and Gaminiratne (2004) describe how traditional family arrangements once provided informal social protection for the elderly. However, growing urbanization, declining fertility rates, and migration have all impacted these networks. As a result, an increasing number of older persons rely on continuous employment or charity. This is especially concerning in light of decreased physical capacity and rising healthcare needs among older persons.

Recent policy analyses (Siddhisena & Rathnayake, 2022) highlight the importance of integrated, lifecycle-based social protection systems. Sri Lanka's fragmented pension system, which includes overlapping schemes and poor governance, requires unification, portability, and improved targeting mechanisms. Following the COVID-19 pandemic, the need for reform has intensified. The pandemic's economic impact led to a decline in

EPF/ETF balances, job losses among informal workers, and an increase in reliance on state handouts among the elderly (ADB, 2022).

2.6 Informal Sector Pension Programmes in Sri Lanka: Challenges and Lessons

The Sri Lanka Social Security Board (SLSSB) was founded under Act No. 17 of 1996 to provide voluntary contribution pensions to workers outside of the formal system. Despite its policy importance, the programme has had numerous challenges, including low enrollment, high dropout rates, poor service delivery, and insufficient reward levels. As of 2020, only 715,013 members had enrolled, representing a small proportion of the 6.5 million informal workers (SLSSB). In 2014, around 460,807 people were eligible for retirement programmes; however, 354,595 of them were dropouts (Annual report, 2014).

According to Fernando (2017) and Goonatilaka et al. (2023), design faults such as inflexible contribution schedules, poor replacement ratios, and ineffective grievance resolution systems have discouraged participants. Furthermore, public trust in pension organizations remains low due to previous instances of mismanagement and a lack of transparency.

The COVID-19 crisis emphasized the vulnerability of informal workers and the limitations of voluntary schemes. The lack of a universal pension floor, along with the rigidity of present contribution-based structures, left millions without income support during lockdowns. Policymakers have since called for hybrid models that incorporate both contributory and tax-financed components to enhance resilience and inclusion (ILO, 2022; ESCAP, 2023).

3. Methodology

This study employed a qualitative research approach grounded in economic behavioral theory to investigate the underlying cognitive, environmental, and affective processes that contribute to dropout from the Sri Lanka Social Security Board's (SLSSB) contributory pension system. Rather than viewing dropout as a purely rational decision driven by income constraints, this study examines participant behavior through a behavioral economics lens, emphasizing how bounded rationality, present bias, and loss aversion can influence long-term savings decisions.

3.1 Theoretical Foundation: Economic Behavioral Theory

Traditional economic theory assumes that people make the best decisions to maximize long-term benefits. However, empirical research conducted across development contexts has revealed that real-world decision-making frequently deviates from this premise. Behavioral economics offers a more realistic framework by considering cognitive biases and heuristics that influence decision-making in the face of uncertainty and limited information.

Key constructs from this theory guided the research:

- Bounded Rationality: People make decisions with limited cognitive resources and poor information. Many informal workers may have a limited understanding of pension system elements, resulting in poor decisions about whether to withdraw or not contribute.
- Present Bias: Overvaluing immediate demands and undervaluing future advantages can hinder long-term savings, especially during economic stress.
- Loss Aversion: Contributors may prioritize present income above future pension benefits, especially if institutional trust is low.

This methodology enables the study to examine psychological and behavioral factors that contribute to dropout, beyond income-based reasons.

3.2 Research Design and Rationale

A qualitative, exploratory approach was adopted to uncover how these behavioral economic mechanisms manifest in real decision-making contexts. The study focused on understanding participants' lived experiences, financial priorities, and perception of institutional trust, using in-depth interviews as the primary data collection method.

This design was chosen for several reasons:

- Behavioral theory emphasizes decision-making processes, which are best captured through qualitative narratives rather than structured surveys.
- Pension dropout involves subjective interpretation of risk, trust, and value—factors that resist quantification.
- The qualitative format enables a more critical examination of policy assumptions and scheme design through the voices of actual stakeholders.

3.3 Sampling Strategy

The study adopted stratified purposive sampling to capture heterogeneity among contributors. Two key strata were identified:

Former Participants (n = 15): This group consisted of those who had voluntarily left the SLSSB pension plan within the previous one to five years, allowing them to recall their decisions. A stratified purposive sampling technique was used to ensure that age, income, employment status, and geography were diverse. Participants were chosen from the Kegalle District because it has a large informal-sector population, a large number of SLSSB contributors, and is easily accessible for fieldwork. Furthermore, Kegalle is a socioeconomically varied district, making it an ideal case study for investigating disparities in pension plan participation. A concise demographic analysis highlights the sample's strength and diversity:

- Age range: 30–60.
- Income per month: LKR 25,000-85,000
- One to five years after dropping out.
- The occupations include five vendors, four farmers, three-wheel drivers, two craftspeople, and one laborer.

Government Officials (n = 10): SLSSB staff and divisional-level officers responsible for scheme promotion, registration, and follow-up.

Participants were identified with assistance from local Social Security Board offices and Divisional Secretariats. Selection continued until thematic saturation was reached. This composition ensured a broad representation of dropout experiences within the district.

3.4 Data Collection

Data were collected through semi-structured interviews conducted in Sinhala, lasting approximately 45–60 minutes each. An interview guide was developed based on behavioral theory constructs, with open-ended questions probing:

- Understanding of the pension scheme
- Perceptions of risk and future security
- Decision-making under financial stress
- Experiences of dealing with institutional representatives
- Emotional reactions to contribution demands

Interviews were conducted in private settings (homes or local offices), recorded with the participants' consent, and subsequently transcribed and translated into English for analysis.

3.5 Data Analysis

Thematic analysis was applied to the interview transcripts, guided by Braun and Clarke's six-phase model of analysis. Themes were both deductively informed by economic behavioral theory and inductively identified from the data. This dual approach ensured that key theoretical dimensions (e.g., present bias) were explored while allowing unexpected insights to emerge.

Coding focused on how participants framed their reasoning, weighing immediate financial hardship against long-term benefits. Specific attention was paid to language indicative of loss aversion (e.g., "wasting money"), bounded rationality ("didn't know the rules"), and discounting future rewards ("I need money now, not when I'm old").

3.6 Ethical Considerations

The academic review board at the researcher's university provided ethical clearance. All participants were informed about the study's objectives and gave written or verbal consent. Confidentiality and anonymity were tightly enforced. Interviewees were promised that they might withdraw at any time without consequence.

3.7 Critical Reflection

The application of behavioral theory in this setting allowed the study to explore the psychological and institutional factors contributing to dropout further. However, it also had limits. The idea presupposes some level of human agency, which may obscure institutional constraints such as fluctuating income, governmental interference, or gendered financial control. Thus, while behavioral economics provides critical lenses for understanding dropout, they must be supplemented by a critical understanding of context-specific social and institutional factors.

4. Results and Findings

The thematic analysis of qualitative interviews revealed four key and interrelated drivers behind dropout from the contributory pension scheme administered by the Sri Lanka Social Security Board (SLSSB). These drivers, namely financial constraints, perceived inadequacy of benefits, lack of institutional trust, and limited awareness, were consistently evident across participant narratives.

The themes were not mutually exclusive but often overlapped, reflecting the complex interplay between structural economic challenges, design limitations of the scheme, and behavioral tendencies.

4.1 Financial Constraints and Present Bias

The most common trend that emerged from the data was contributors' inability to make regular payments due to unpredictable or insufficient income. This financial limitation was most acute for those in the informal sector, where wages are volatile and highly susceptible to seasonal, health-related, or occupational shocks. Most previous contributors had to make difficult decisions between meeting urgent household necessities (such as food, health care, education, and debt repayment) and saving for the future.

The behavioral concept of present bias was visible. Contributors prioritized short-term consumption over long-term financial security. While initial registration may have indicated a forward-thinking purpose, financial difficulties frequently caused people to re-prioritize more pressing problems. The pension payment, while not huge in absolute terms, was commonly construed as an unmanageable burden during economic downturns.

The voluntary nature of the system accentuated this prejudice. Because contributions were not automatically deducted, contributors readily discontinued payments during difficult periods. Once disengaged, few people returned to the system. The absence of behavioral nudges, reminders, or punishments reinforced dropout behavior. Without structural measures to encourage commitment such as default enrollment, auto-escalation, or flexible pauses, contributors resorted to short-term decision-making habits.

Overall, financial instability, along with a cognitive tendency toward immediate demands, was the most prominent and commonly reported cause of scheme abandonment.

4.2 Perceived Inadequacy of Benefits and Loss Aversion

The second most common theme was intense unhappiness with the scheme's perceived value. Many contributors reassessed the long-term return on investment and determined that the predicted pension benefits were insufficient to warrant continued contributions. The lack of interim incentives, low projected monthly payments, and the absence of inflation adjustment procedures made the programme less appealing over time.

From a behavioural perspective, this illustrates the influence of loss aversion, in which people are more sensitive to the perceived loss of present income than the uncertain gains of a future pension. When the apparent rewards are minimal or unreliable, the psychological cost of contributing regularly appears disproportionately great. This results in a reevaluation of the scheme's value and, ultimately, dropout.

Furthermore, the scheme struggled to compete with alternative informal saving mechanisms, such as investment in property, jewellery, or rotating savings groups. Contributors saw alternative ways as providing more liquidity, flexibility, and control, even if they were less formal and riskier in economic terms. Without tangible profits or milestone incentives, the SLSSB pension system lost the trust of many contributors.

Design problems in benefit computation, as well as a failure to communicate long-term value in tangible terms, contributed to the notion that the programme was unsustainable, particularly in light of economic instability.

4.3 Lack of Institutional Trust and Administrative Weaknesses

Closely linked to financial concerns was a widespread lack of trust in the institution administering the pension scheme. Many respondents expressed grave concern about the government's capacity to manage long-term finances. This was influenced by previous experiences with government programmes that were perceived as inconsistent, politicized, or poorly implemented.

Administrative concerns within the SLSSB, such as delayed responses, inadequate communication, insufficient follow-up, and limited accessibility, further eroded trust. Contributors frequently felt estranged from the plan after enrolling. The lack of clear statements, status updates, and open records raised concerns about whether their contributions were being appropriately recorded or managed.

Long-term commitment decisions require trust heuristics, according to behavioral economics. Individuals often use institutional trust as a substitute for rational evaluation in situations characterized by high uncertainty and limited transparency. When confidence is low, even the best-designed processes fail to ensure compliance and participation. The apparent risk of investing in a scheme run by a weak institution pushed many people to opt out, especially when combined with insufficient control or remedies.

Officials acknowledged institutional flaws, citing capacity limitations, outdated recording systems, and inadequate outreach channels. These gaps not only hampered service delivery but also perpetuated negative attitudes among contributors. In summary, administrative inefficiencies exacerbated preexisting behavioral biases, hastening dropout decisions.

4.4 Limited Awareness, Bounded Rationality, and Cognitive Overload

Although less commonly identified than the other themes, poor awareness and cognitive impairments remained significant impediments to prolonged engagement. Many contributors joined the plan with a vague or inadequate grasp of its terms, structure, and long-term consequences. In other situations, contributors were ignorant of the ramifications of missed payments, eligibility conditions, or the mechanism used to determine final payouts.

This theme exemplifies the concept of bounded rationality, in which decision-making is hampered by insufficient knowledge, a lack of financial literacy, and cognitive limitations. When confronted with complexity, humans may resort to mental shortcuts or simpler assumptions. When real-world outcomes differ from these assumptions, such as receiving no interim updates or discovering that benefits rely on continuous payments, disengagement is probable.

The structure of the SLSSB plan was more sophisticated than the financial literacy levels of the contributors. Contributors struggled to perceive the scheme's worth or understand how it worked, as there were no simplified instructional resources, individualized coaching, or visual examples of future benefits. When confronted with misunderstanding or uncertainty, many people choose to quit participating rather than seeking clarity.

Compounding this was the cognitive fatigue caused by the various and competing daily decisions that contributors had to make, particularly under financial pressure. In such circumstances, detailed financial planning frequently falls to the wayside. The scheme's inaccessibility, both in terms of communication style and follow-up processes, made dropout a simple and nearly unavoidable choice for many.

4.5 Summary of Key Findings

Table 1
Summary of Key Findings

Theme	Key Drivers	Behavioral Mechanism	Theoretical Link
Financial Constraints	Income irregularity, competing household priorities	Short-termism and re-prioritization	Present bias
Perceived Inadequate Benefits	Low expected returns, poor scheme flexibility	Overweighting current loss over future gain	Loss aversion
Lack of Institutional Trust	Poor administration, lack of follow-up, government credibility concerns	Distrust under uncertainty	Trust heuristics and risk perception
Limited Awareness	Low financial literacy, unclear terms, scheme complexity	Simplified reasoning and avoidance	Bounded rationality and cognitive overload

Source: *Author Generated*

5. Discussion

This study examined the behavioral and structural factors that contribute to dropout from Sri Lanka's contributory pension programme, administered by the Sri Lanka Social Security Board (SLSSB), with a focus on informal sector contributors. It employs economic behavioral theory and qualitative research to illuminate how individuals make pension-related decisions in the context of financial precarity, inadequate institutional support, and cognitive limitations. The inclusion of perspectives from both previous contributors and government officials provides depth to the research and enables a more nuanced understanding of both participant experiences and administrative realities.

5.1 Navigating the Tension Between Short-Term Survival and Long-Term Security

A key conclusion of this study was that participants struggled to align their everyday financial needs with long-term retirement planning. Many participants expressed a strong desire for retirement security but were unable to contribute due to economic circumstances. This supports the behavioral concept of present bias, in which people prioritize immediate needs over future benefits (Laibson, 1997).

One respondent asked,

"When I do not have money even for my daughter's medicine, how can I think about a pension I will get in twenty years?" (Participant 08: female, 42, vegetable merchant).

Such narratives mirror the realities of informal sector livelihoods, where income volatility and household demands make regular payments to a future-oriented programme appear impractical.

Similar outcomes have been observed in Kenya and India, where informal workers terminated payments due to financial constraints (Chetty et al., 2014; Rathi et al., 2020). The SLSSB scheme exacerbates this problem by limiting flexibility: contributors cannot suspend payments without losing continuity, and no tools such as contribution holidays, income-based levels, or emergency payouts exist. In contrast, pension systems that incorporate commitment mechanisms, such as automatic deductions, matching savings, or withdrawal penalties, have been proven to help mitigate short-term bias (Thaler & Benartzi, 2004).

Another participant stated,

"Even though I wanted to continue, there were months when I had to choose between food and paying my pension. After a few missed payments, I just gave up" (Participant 02, male, 39, carpenter).

This demonstrates how the rigidity of the SLSSB model fails to account for the economic realities experienced by its target group. Without built-in flexibility and behavioral supports, dropout becomes a reasonable, albeit tragic, response.

5.2 Weighing Uncertain Gains Against Real Sacrifices

Another significant finding was the perceived poor value of the pension in comparison to the cost of contributing. Contributors frequently viewed their monthly payments as a loss, citing minor and distant advantages as the cause for disengagement. This concept mirrors the principle of loss aversion, which refers to the tendency to fear losing something tangible (present income) more than valuing an unknown benefit (future pension) (Kahneman & Tversky, 1979).

One participant expressed the sentiment:

"I paid for nearly three years, and there was no sign of anything. I felt like I was wasting my money" (Participant 03, male, 51, mason).

The scheme's absence of progress reports, inflation-linked returns, or identifiable intermediate milestones reinforced these impressions.

These findings are consistent with Rahman and Islam's (2019) research on Bangladeshi pension systems, which found that dropout rates increased when contributors perceived their funds as static and benefits as unattainable. Contributors to this study regularly compared the SLSSB to alternative retirement plans.

"The government's pension is different. Those persons receive their full wage after retirement. "Ours is just a small amount after decades of waiting," stated one respondent (Participant 13, male, 46, tuk-tuk driver).

This comparative disadvantage reflects not only adequacy demands but also concerns about fairness and prestige.

According to Barrientos (2004), the promise of dignity and adequacy in retirement, rather than actuarial balance, influences contributors' motivations. The SLSSB scheme's inability to provide this psychological reassurance undermined its credibility in the eyes of many contributors. Reform efforts should also consider the emotional and symbolic aspects of pension value, in addition to its financial rationale.

5.3 Trust as a Prerequisite for Long-Term Engagement

Aside from financial considerations, participants raised serious worries about the credibility of the firm that manages their retirement assets. Many questioned if the SLSSB, or the government as a whole, would keep its long-term pledges. One tailor inquired,

"Even if I keep paying, who can guarantee I would receive anything? Governments change. Policies change" (Participant 10: female, 38).

Trust is a crucial heuristic that people use to navigate ambiguity in long-term decision-making (Levin, 1998). In this study, contributors' poor experiences, including trouble receiving receipts, unresolved inquiries, and a lack of follow-up, contributed significantly to their distrust. These administrative flaws undermined institutional trust and heightened risk perceptions.

Administrative officials acknowledged these flaws. One Divisional Secretariat officer remarked, "We do not have enough officers to go around checking on members. "Once they join, they are forgotten" (official 04).

This divergence between registration and long-term engagement produced a communication gap that encouraged mistrust.

Similar dynamics were observed in Nigeria and Indonesia, where bureaucratic inefficiencies and a lack of user-focused communication inhibited ongoing involvement in voluntary schemes (Adams & Bazuaye, 2019; Goudswaard et al., 2020). In Sri Lanka, skepticism extended to broader official institutions, indicating a shaky social contract between the informal sector and the state. Contributors questioned not only the SLSSB but also the political system's ability to guarantee continuity over decades.

Restoring confidence requires more than administrative fixes. Contributors need consistent, transparent updates; precise grievance redress mechanisms; and visible markers of institutional accountability. Without trust, no long-term contributory scheme can retain its membership base, regardless of financial logic.

5.4 Information Gaps and Cognitive Strain as Barriers to Retention

The survey also found that contributors' low comprehension of the pension system, along with complex rules and poor communication, led to confusion and dropout. Many people enlisted without fully understanding the implications of contribution conditions, benefit schedules, and default consequences. One participant reflected,

"I was not sure how it worked. I believed it was similar to a retirement savings account. When I did not see any improvements, I stopped paying (Participant 06, 44-year-old man, cellphone vendor).

This behavior exemplifies constrained rationality (Simon, 1997), in which individuals make suboptimal decisions due to inadequate knowledge and limited cognitive capacity. The SLSSB plan was frequently described in quick exchanges, and most contributors did not receive written updates or visual breakdowns of their account status.

These findings are consistent with Mitchell and Lusardi (2015), who underlined that pension system complexity, is a disincentive, particularly for low-literate groups. Participants were expected to make sophisticated financial decisions with minimal assistance, no digital access, and limited follow-up support. When expected outcomes did not materialize or concerns arose, contributors defaulted to withdrawal rather than seeking clarity.

Officials agreed that scheme advertising was frequently transactional and underfunded. One field officer stated,

"We give them the form and explain quickly, but most people do not ask questions. They fill and leave (Official 07).

This communication strategy does not foster the educated, reflective decision-making necessary for effective pension engagement.

Globally, successful informal sector pension systems have utilized individualized digital communication, annual statements, and mobile app interfaces to mitigate uncertainty and enhance commitment (Duflo et al., 2012). Incorporating such behavioral design into the SLSSB framework may lower dropout rates by making progress and involvement more apparent and understandable.

6. Conclusion

The purpose of this study was to investigate the causes of the high dropout rate from Sri Lanka's contributory pension programme, which is administered by the Sri Lanka Social Security Board (SLSSB), with a focus on informal and self-employed workers. Based on economic behavioral theory and qualitative data from former contributors and government officials, the study provides a nuanced understanding of how psychological, institutional, and structural factors interact to influence participant behavior in voluntary social protection schemes.

The findings reveal that dropout decisions cannot be attributed solely to income limitations or a lack of awareness, although both factors are essential. Instead, they emerge from a convergence of present bias, loss aversion, bounded rationality, and institutional distrust. These behavioral mechanisms operate within a socio-economic environment marked by uncertainty, volatility, and weak public accountability. Contributors weigh the cost of continued payments against the uncertain promise of distant and modest benefits, often concluding that the scheme does not offer a rational or emotionally secure return on investment.

While the contributing model assumes individual accountability and rational foresight, our study reveals that these assumptions often conflict with the lived realities of informal workers. Scarcity shapes their financial decisions, but so do cognitive overload, emotional stress, and institutional histories of neglect. Dropout should not be seen as a contributor's failure, but rather as a sensible response to an unsupportive and untrustworthy environment.

From a theoretical aspect, this study supports the use of economic behavioral theory to explain pension system attrition. The combination of current bias and constrained rationality provided a powerful lens for understanding the gap between enrolment intentions and long-term participation. However, the theory's individualistic focus needs to be balanced with a structural analysis. Behavioral determinants are not independent of institutional design or political circumstances. Even the most behaviorally informed solutions are unlikely to succeed in the absence of enabling conditions such as streamlined contribution mechanisms, good communication, and transparent accountability.

Methodologically, the qualitative approach enabled a thorough investigation of decision-making processes, capturing emotional, cultural, and cognitive components that are often overlooked in quantitative policy evaluations. Semi-structured interviews allowed participants to express their reasoning in their own words, yielding context-rich data that can inform more grounded and responsive pension reforms. However, the study is restricted by its regional emphasis and small sample size. Future studies could benefit from broadening their geographical and occupational coverage, as well as triangulating qualitative findings with quantitative enrolment and dropout rates.

The study highlights significant issues regarding the design and implementation of voluntary pension programmes in low- and middle-income countries. Suppose the goal is to assure economic security in old age for informal workers. In that case, a group historically excluded from formal welfare systems—contributory schemes must be redesigned to account for behavioral realities, institutional constraints, and the larger political economy of trust. Relying on human rationality without developing enabling mechanisms not only perpetuates exclusion but also undermines the credibility of social protection as a public benefit.

To summarize, resolving pension dropout in Sri Lanka involves more than just policy changes; it necessitates a paradigm shift in how we conceptualize and implement social protection. Policymakers must shift away from schemes built for idealized savers and toward systems that recognize the economic insecurity, cognitive constraints, and institutional skepticism that define the lives of the informal majority. Only then can social protection systems be inclusive, sustainable, and equitable.

6.1 Suggestions for Future Research

To better understand when and why contributors drop out, future studies should examine long-term participation trends using administrative or longitudinal data. It is possible to determine whether the factors discovered in Kegalle are regionally or nationally consistent by conducting comparative research in other districts. Larger surveys and quantitative modeling may yield stronger statistical evidence on key reasons for dropout. It is also possible to investigate behavioral factors that influence long-term engagement, such as trust, financial literacy, and risk perceptions. Finally, examining the effects of awareness campaigns, policy changes, and digital payment choices would be valuable in reducing dropout rates and improving scheme performance.

References

Ahmad, E., Dreze, J., Hills, J., & Sen, A. (1991). *Social security in developing countries*. Oxford University Press.

Asian Development Bank (ADB). (2022). *Sri Lanka: Economic update 2022 – Post-COVID recovery and structural vulnerabilities*. ADB Publications.

Barr, N., & Diamond, P. (2009). *Reforming pensions: Principles and policy choices*. Oxford University Press.

Benartzi, S., & Thaler, R. H. (2007). Heuristics and retirement savings. *Issues in the Economics of Aging*, 37(1), 70–87.

Blake, D. (2006). *Pension economics*. John Wiley & Sons.

Bloom, D. E., Canning, D., & Fink, G. (2010). Implications of population aging for economic growth. *Oxford Review of Economic Policy*, 26(4), 583–612.

Börsch-Supan, A. (2013). Myths, scientific evidence and economic policy in an aging world. *The Journal of the Economics of Ageing*, 1–2, 3–15.

Chant, S., & Pedwell, C. (2008). *Women, gender and the informal economy: An assessment of ILO research and suggested ways forward*. International Labour Organization.

Chen, M. (2007). Rethinking the informal economy: Linkages with the formal economy and the formal regulatory environment. *DESA Working Paper No. 46*. United Nations.

Chen, M. (2012). The informal economy: Definitions, theories and policies. *WIEGO Working Paper No. 1*.

De Silva, I. (2020). Social protection for the informal sector in Sri Lanka: Challenges and opportunities. *Journal of Social Policy and Social Work*, 9(2), 45–58.

De Silva, I., & Herath, H. M. (2022). Economic impacts of population ageing in Sri Lanka. *Sri Lanka Journal of Development Administration*, 12(1), 24–36.

Department of Census and Statistics (DCS). (2021). *Labour Force Survey Annual Report 2021*. Colombo: DCS.

Department of Pensions. (2020). *Annual statistical report*. Ministry of Public Administration.

Diamond, P., & Orszag, P. R. (2004). *Saving Social Security: A balanced approach*. Brookings Institution Press.

ESCAP. (2023). *The future of social protection in Asia and the Pacific: Building inclusive systems for all*. United Nations Economic and Social Commission for Asia and the Pacific.

Feldstein, M. (1974). Social security, induced retirement, and aggregate capital accumulation. *Journal of Political Economy*, 82(5), 905–926.

Fernando, R. (2017). Designing pension systems for informal sector workers: A Sri Lankan perspective. *South Asia Economic Journal*, 18(1), 34–50.

Feyrer, J. (2007). Demographics and productivity. *Review of Economics and Statistics*, 89(1), 100–109.

Fields, G. S. (2005). A guide to multisector labor market models. *Social Protection Discussion Paper Series No. 0505*. World Bank.

Gaminiratne, L. (2004). Aging and social protection in Sri Lanka. *World Bank Social Protection Discussion Paper No. 0409*.

Goonatilaka, S., Herath, H. M., & Gunasekara, T. (2023). Informal sector workers and social security in Sri Lanka: A policy gap analysis. *Colombo Economic Journal*, 8(1), 50–72.

International Labour Organization (ILO). (2016). *World social protection report 2014/15: Building economic recovery, inclusive development and social justice*. ILO.

International Labour Organization (ILO). (2018). *Women and men in the informal economy: A statistical picture (3rd ed.)*. Geneva: ILO.

International Labour Organization (ILO). (2021). *World social protection report 2020–22: Social protection at the crossroads – In pursuit of a better future*. Geneva: ILO.

Loayza, N. V. (1997). The economics of the informal sector: A simple model and some empirical evidence from Latin America. *World Bank Policy Research Working Paper No. 1727*.

Lusardi, A., & Mitchell, O. S. (2011). Financial literacy and retirement planning in the United States. *Journal of Pension Economics and Finance*, 10(4), 509–525.

Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5–44.

Lusardi, A., & Tufano, P. (2015). Debt literacy, financial experiences, and overindebtedness. *Journal of Pension Economics and Finance*, 14(4), 332–368.

Maestas, N., Mullen, K. J., & Powell, D. (2023). The effect of population aging on economic growth, the labor force and productivity. *American Economic Journal: Macroeconomics*, 15(1), 1–36.

Menike, M. (2015). Social security and ageing population in Sri Lanka. *Sri Lanka Journal of Social Sciences*, 38(2), 25–34.

Mihirani, W., Bandara, H. M. N., & Perera, K. (2023). Retirement benefits and old-age security: Issues in developing economies. *Asian Social Science Review*, 15(1), 71–85.

Munnell, A. H. (2004). *Social Security and the future of retirement income*. Brookings Institution Press.

Organisation for Economic Co-operation and Development (OECD). (2018). *Social protection systems in emerging economies*. Paris: OECD Publishing.

Organisation for Economic Co-operation and Development (OECD). (2022). *Informality and social protection: Understanding policy gaps and options*. Paris: OECD Publishing.

Siddhisena, K. A. P. (2005). Demographic transition in Sri Lanka: Issues and prospects. *Sri Lanka Journal of Population Studies*, 8, 1–19.

Siddhisena, K., & Rathnayake, I. (2022). Rethinking ageing and social security in Sri Lanka. *Journal of South Asian Public Policy*, 4(1), 43–59.

United Nations Population Fund (UNFPA). (2021). *The ageing population in Sri Lanka: Emerging challenges and policy directions*. UNFPA Sri Lanka.

UN Women. (2021). *The impact of COVID-19 on women in the informal economy in Asia*. UN Women Asia-Pacific.

World Bank. (2019). *Sri Lanka social protection system review: Building a better safety net*. World Bank Publications.

World Bank. (2021). *World development report 2021: Data, institutions, and social protection in a post-COVID world*. Washington, DC: World Bank.

World Bank. (2022). *Building back better: Social protection systems in the COVID-19 era*. Washington, DC: World Bank.