Commentary

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A Social Security System for South Africa

South Africa is currently experiencing the challenge of addressing the provision of income support in old-age for all South Africans. The country is undertaking a major project to reform its system of basic Social Assistance and its well-established arrangements for retirement income in the formal sector of the economy. At present, South Africa does not have a universal mandatory contributory Social Security system. Proposals for introducing a Social Security system are under consideration by an Inter-Ministerial Committee. These proposals include separate recommendations from National Treasury and the Department of Social Development. Reports originating from these two government departments indicate the influence of the World Bank and the International Labour Organisation (ILO) respectively.

The World Bank typically advocates a flexible and discretionary approach to providing old-age income support based on a multi-pillar system comprising: a non-contributory social pension that provides a minimal level of protection; a contributory system linked to earnings to replace some portion of income; a mandatory system of individual accounts; a voluntary system, flexible and discretionary, that may take many potential forms, defined benefit or defined contribution, employer-sponsored or individual; and informal financial and non-financial support from intra-family or inter-generational sources including access to housing and health care. It is the policy of the World Bank to include the needs of formal sector workers, informal sector workers and the lifetime poor in its proposals for Social Security development and reform.

The ILO has a well-documented set of principles and standards that address five key objectives for Social Security provision: the extension of coverage to all members of the population; protection against poverty in old-age, during disability, or on death of the wage earner, for all members of the population; provision of an income, in replacement for earnings lost as a result of voluntary or involuntary retirement for all those who have contributed; adjustment of this income to take account of inflation, and at least to some extent, of the general rise in living standards; and creation of an environment for the development of additional voluntary provisions for retirement income.

The key elements of the proposals for South Africa comprise: basic Social Assistance grants funded from general government revenue; a mandatory national Social Security system up to a specific earnings threshold limit providing retirement, unemployment, death and disability benefits, and additional mandatory participation in private occupational or individual retirement funds for individuals above the earnings threshold of the Social Security system. In addition, there would be opportunities for supplementary voluntary savings.

In its report on the situation in South Africa, the National Treasury Department noted that; "Most of the world's poor have no access to Social Security and current reform efforts in many developing countries are focused on basic Social Assistance to alleviate survival-threatening poverty and vulnerability. While international experience carries important lessons, South Africa's Social Security reform challenge is unusual in several respects; a redistributive Social Assistance program is in place and there are well-established occupational and individual retirement funding arrangements, but South Africa lacks a basic pooled, mandatory contributory system."

The key recommendations contained in the report of the Department of Social Development are: the State Old Age Pension to be changed from a means-tested Social Assistance program to a universal non-contributory benefit available to all citizens and qualifying residents; a mandatory contributory system to be introduced with contributions mandated from age 25 for all income earners and with contributions to be set at 15 percent of pre-tax income; accredited retirement funds would need to meet specified standards; a government sponsored retirement fund to be introduced as the default retirement provider; two tiers of mandatory contributions to apply with the first tier to apply 50 percent of the contributions to a pay-as-you-go defined benefit system offered via the government sponsored retirement fund; this pay-as-you-go tier would be formula based with automatic adjustments in benefits if the ratio of contributions to beneficiaries changes; death and disability also to be covered; the second tier of mandatory contribution would apply to a defined contribution benefit fully funded through the government sponsored retirement fund or an accredited fund; in combination the two components of the full mandatory tier are to target a replacement rate of 40 percent of earnings, including the State Old Age Pension; and funding for post-retirement medical plan contributions to be incorporated into the pay-as-you-go portion of the mandatory contribution.

The requirement for 15 percent mandatory contributions raises many important economic policy questions and considerations that will be discussed, debated, researched and analyzed, in the process of achieving a convergence of views on the path to acceptance and implementation. One proposal with important ramifications is to introduce a wage subsidy system to provide a degree of relief on a graduated scale to offset the impact of the mandatory contributions.

Buffin Partners Inc.
P.O. Box 1255
Sparta, NJ 07871
Phone: (973) 579-6371
Fax: (973) 579-7067
Email: commentary@buffinpartners.com