

Update on Social Security/ Retirement reform

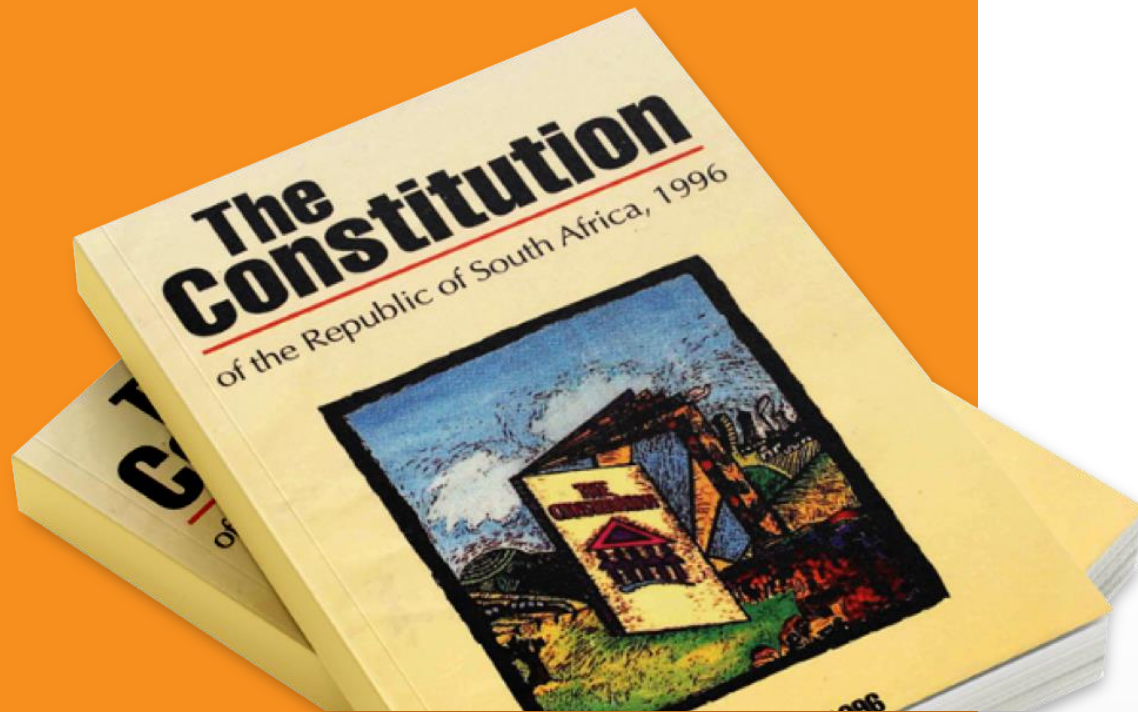
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CONSTITUTIONAL OBLIGATIONS

South Africa's Constitution section 27 establishes legally enforceable obligations on government that encompass every aspect of a system of social protection.



1

All South Africans “have the right ... to social security, including, if they are unable to support themselves and their dependants, appropriate social assistance.” Section 27(2) goes further to state that the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of the right of access to social security and social assistance.

2

The right to “sufficient food and water” is also part of this section.

3

Section 28(1)(c) provides for the right of children to social services. RSA (1996) Constitution, Chapter 2, Section 27 and 28.

CURRENT SOCIAL ASSISTANCE SYSTEM & SOME EFFECTS

The current Social Assistance Grant System provides income support for approximately



17.5
million
people

at an approximate cost of
R 175 billion.

Approximately 12,2
million of this number
receive the CSG.

- A temporary COVID Grant of R350 per person was introduced as a relief measure for those without work, UIF or Social Grants. This intervention is designed to address the crisis of poverty and hunger of the most vulnerable
- All social grants do not remove people from below the LBPL but provide the means to survive.
- Those who are **without paid work and in the age 18 to 59 are among those who live in extreme poverty below the Food Poverty Line (FPL) of R561 pm (2019 PPP) and are excluded from the system.**
- The human costs of not acting to include those who are excluded from the economy and from social protection are continued protests, food riots, violence including GBV, destruction of infrastructure, crime and lawlessness.
- Political, social and economic disruptions and sustained instability Post COVID 19 are likely to prevent economic recovery, development and undermine democracy.

VALUES OF SOCIAL PROTECTION & BASIC INCOME GRANTS



Epidemiological, environmental, financial and economic crises recur (1998, 2008, 2020) and are inherent in an interdependent global system.



Social protection floors with basic income support are a social and economic platform for development with equity in good times.



And a stabiliser and buffer in times of crisis for the most vulnerable and at risk.



National and international evidence shows that economic and social recovery post crises is faster and more sustainable with strong inclusive social protection systems in place.

THE CONTEXT: DEMOGRAPHIC PROFILE OF EMPLOYED AND UNEMPLOYED

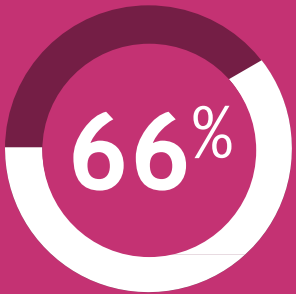


**SOUTH AFRICA'S
TOTAL POPULATION**
AGED OVER 18 TO 59

33 million

Of this age cohort **7.3 million** are not economically active (namely people who have never looked for work and have stayed home & are structurally unemployed)

And **25.7 million** of the total in this age category are economically active.



Pre-COVID19

Of 25.7 million (66%) economically active 17 million had jobs.

And 8.7 million (34%) were considered unemployed. This includes discouraged work-seekers and excludes unemployment post the age of 60.



Post-COVID19

It is anticipated that unemployment will increase to 50% namely 12.8 million in 2020 decreasing to 10.8 million (42%) in 2021 and 9 million (35%) in 2022.

Work seekers over the age of 55 Years are unlikely to get jobs. 56% of Unemployed work seekers over the age of 55 years are female.

SOUTH AFRICAN SOCIAL SECURITY SYSTEM

PILLAR 1



Social Assistance

(Non-contributory - poverty alleviation)

Old Age

Disability

Child Support

Foster Care

Care Dependency

War Veterans

* Basic Income Grant

PILLAR 2



Social Insurance

(Contributory mandatory)

Unemployment Insurance Fund (UIF)

Compensation Funds

Road Assistance Fund (RFA)

* National Health Insurance (NHI)

* National Social Security Fund (NSSF)

PILLAR 3



Voluntary

(Supplementary Arrangements)

Pension and Provident Funds

Retirement Annuities

Group Life Schemes

Collective Investment Funds;
Long-term savings and
endowment funds and other
discretionary savings and
insurance products

BASIC INCOME GRANT



PATHWAYS TO A BASIC INCOME GRANT FOR SOUTH AFRICA: OPTIONS FOR CONSIDERATION

1.

Options of a universal basic income grant

A graduated age & unemployment based approach - progressive realisation for feasibility in current context (shrinking tax base, low to negative economic growth and increasing debt to GDP ratio).

2.

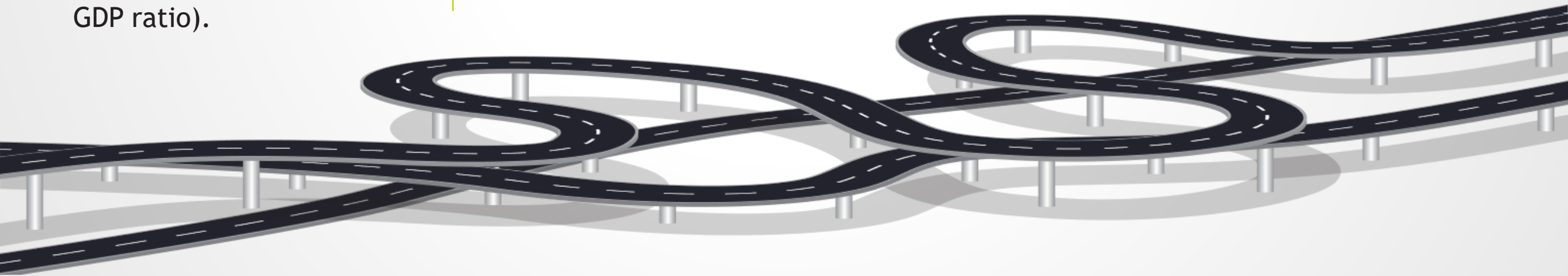
Strengthen existing social wage elements as part of the Social Protection Floor

Improve delivery and distribution of existing social wage benefits and services (education, health care, free basic services - water, electricity, sanitation, subsidised transport) to reach people in informal and rural areas.

3.

Channel unemployed youth and those NEET

into training, work placements, internships and a national youth service programme - the social economy and care work.



PROGRESS ON **BIG**

- First Proposed by Vienne Taylor/Zola Skweyiya
- Now serious ANC policy consideration
- To be sent to Nedlac for debate by social partners
- Grant of R350 pm or Food poverty (R561) to 19 to 59 year olds
- Options modelled range between R100bn to R400bn
- To be funded from Personal Income Tax (top brackets)

The wealth of the
2 richest people
in South Africa

=

the wealth of
50%
of it's population

UIF



UNEMPLOYMENT
INSURANCE FUND

CLOSED
COVID-19

UIF

UNEMPLOYMENT INSURANCE FUND

- At start of Covid, UIF had a significant surplus after full liability reserving
- The Surplus was built up over time due to contributions greater than benefits paid.
- This issue (contributions < benefits) was corrected and now benefits = contributions so no further Surplus build up.
- At the start of Covid, there was a surplus of approximately R40bn with conservative reserving.
- Government announced would use surplus to fund TERS benefit for 3 months. (as part of the R500bn relief package)
- Perspective - The UIF needed to build systems and capabilities to pay benefits it was not designed to pay in a very short period of time.
- Due to the extension of lockdown, this benefit continued to be extended (up to 15 October 2020)
- Realistically, all the excess surplus has now been spent (and a bit more)

UIF

THE PROBLEM

- The thinking is that this is a 1 in 100 year event, and as it is a Social Security fund, could build the funding back up in the next 10 years.
- Debate happening - Fully funded versus PAYG - which is better for social security
- UI pays benefits for unemployment, TERS is a benefit payable to staff in service who cannot be paid by employer. So tight balancing act, the longer TERS paid, the less unemployment and vice versa.
- The current challenge - with the future so uncertain - how do you decide how long to continue paying benefits from a fund that is designed to protect the unemployed.
- If the UI runs out of money, Government will not step in and cover shortfall!
- Main concern - need to somehow support individuals if you are taking away their ability to earn an income.
- Industries with greatest impact - Events, Entertainment, Hospitality, Tourism, Liquor.

INFORMAL WORKERS AND THE

UIF

- The TERS Benefit has highlighted a big gap in protection for informal workers
- As self employed and informal workers are not on the UIF and do not qualify for UIF benefits
- UIF very focused on providing benefits which avoid anti-selection, eg. retrenchment, retirement etc.
- Benefits are based on length of service, employer/employee relationship, a definition of salary
- Current discussion underway - how to cater for this market in the long term

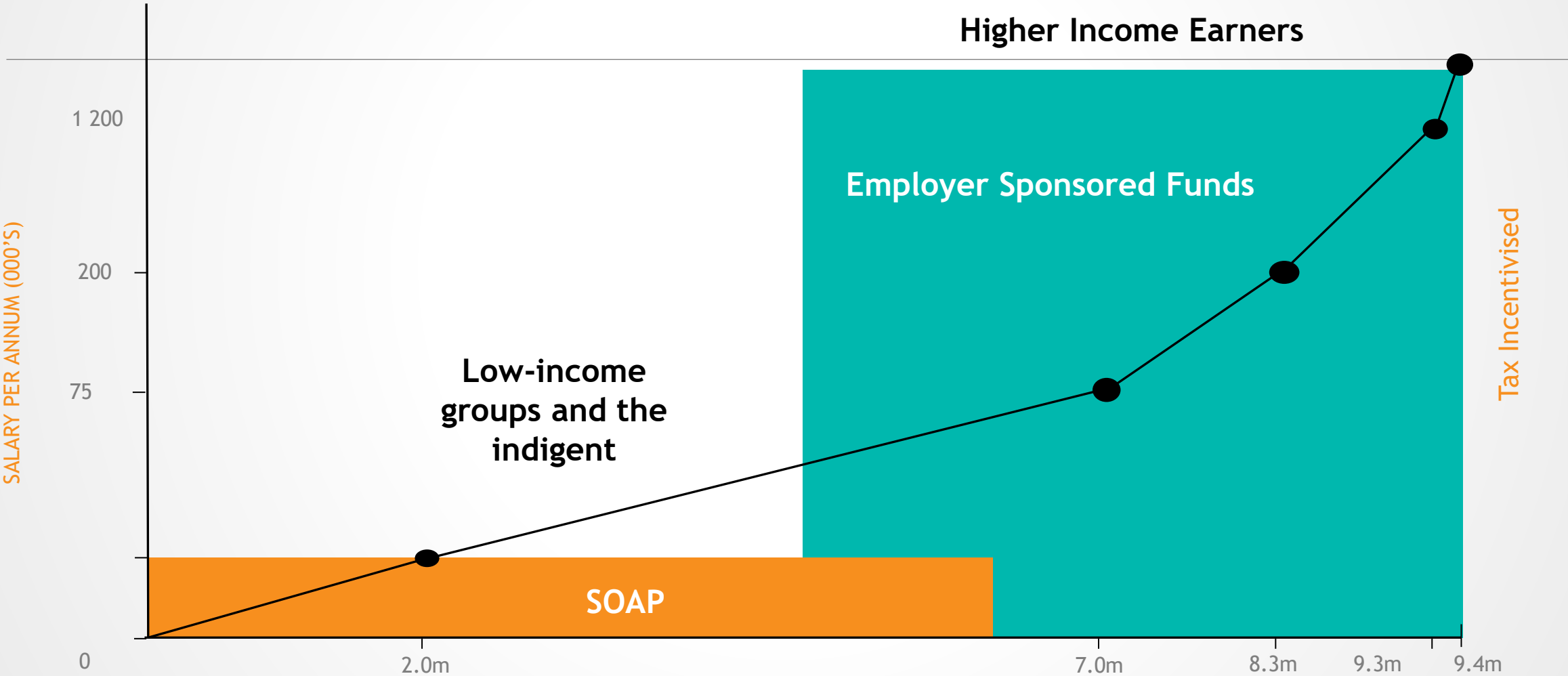
NATIONAL SOCIAL SECURITY FUND



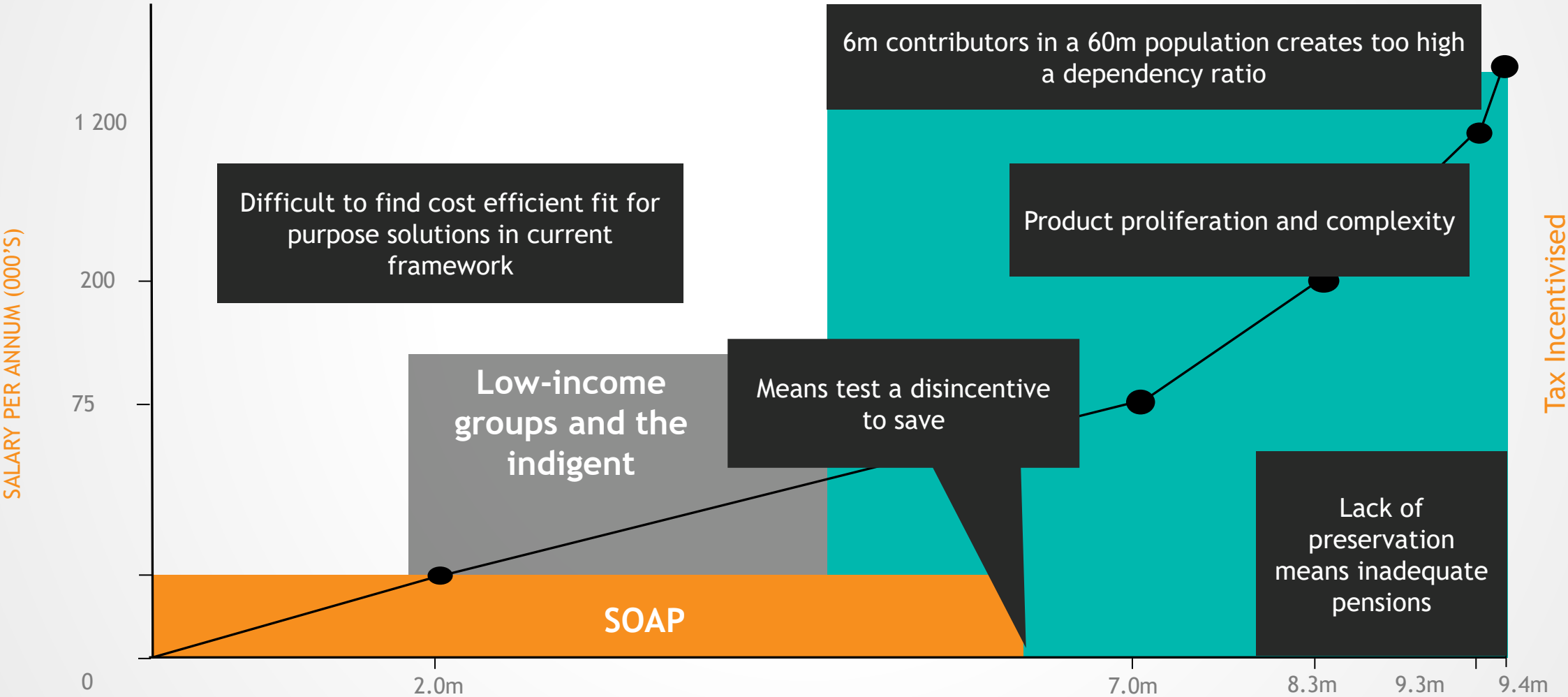
WHAT ARE WE SOLVING FOR?

- **Coverage**
 - Only approx. 6m South Africans participate in a retirement fund
 - No solutions available for informal workers
 - Need to address our youth unemployment problem
- **Efficiency**
 - Social Security funds are fragmented (UIF, COID, RAF, Grants)
- **Adequacy**
 - Retirement Funds don't deliver adequate retirement benefits
- **Solidarity**
 - Constitutional imperative to provide a social security net
- **Sustainability**
 - Should not have a negative effect on employment
 - Funding should protect existing capital and not increase debt for future generations

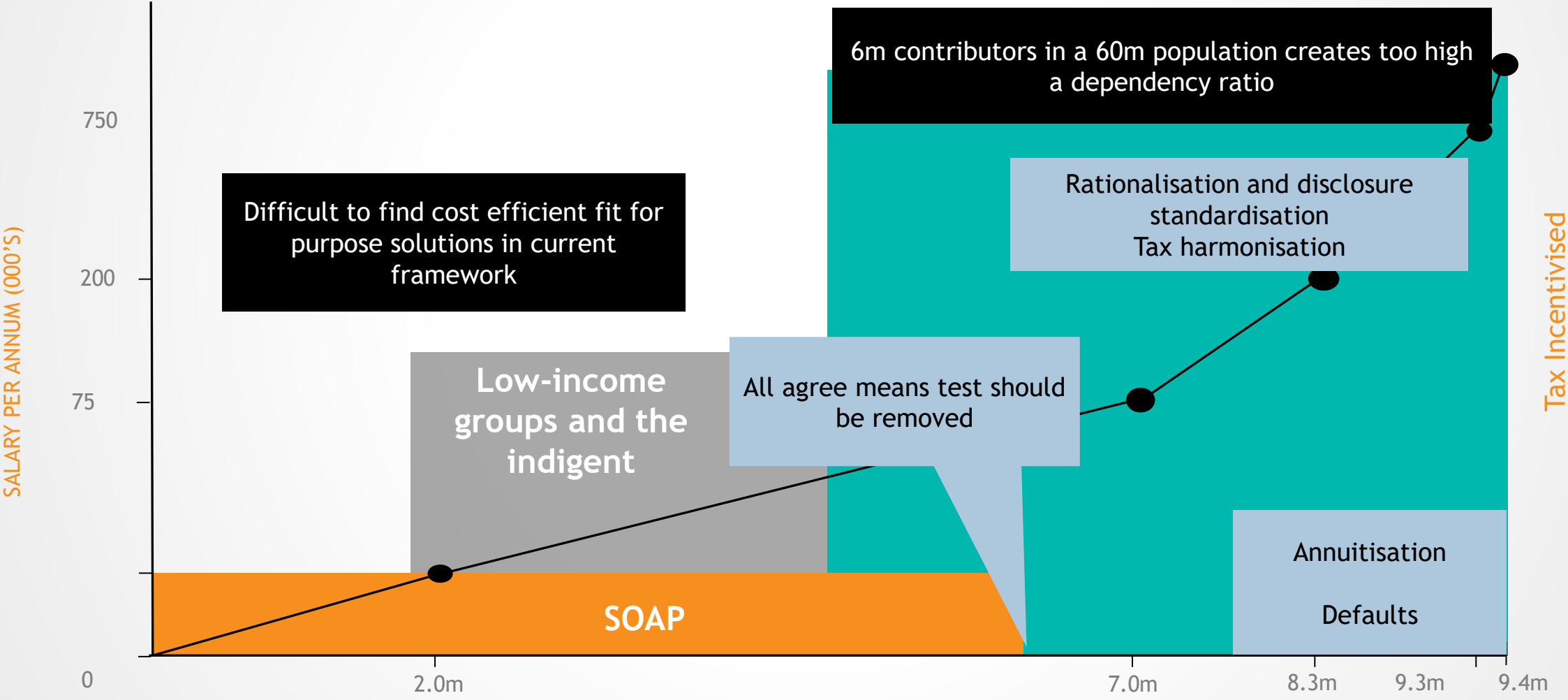
Existing Systems



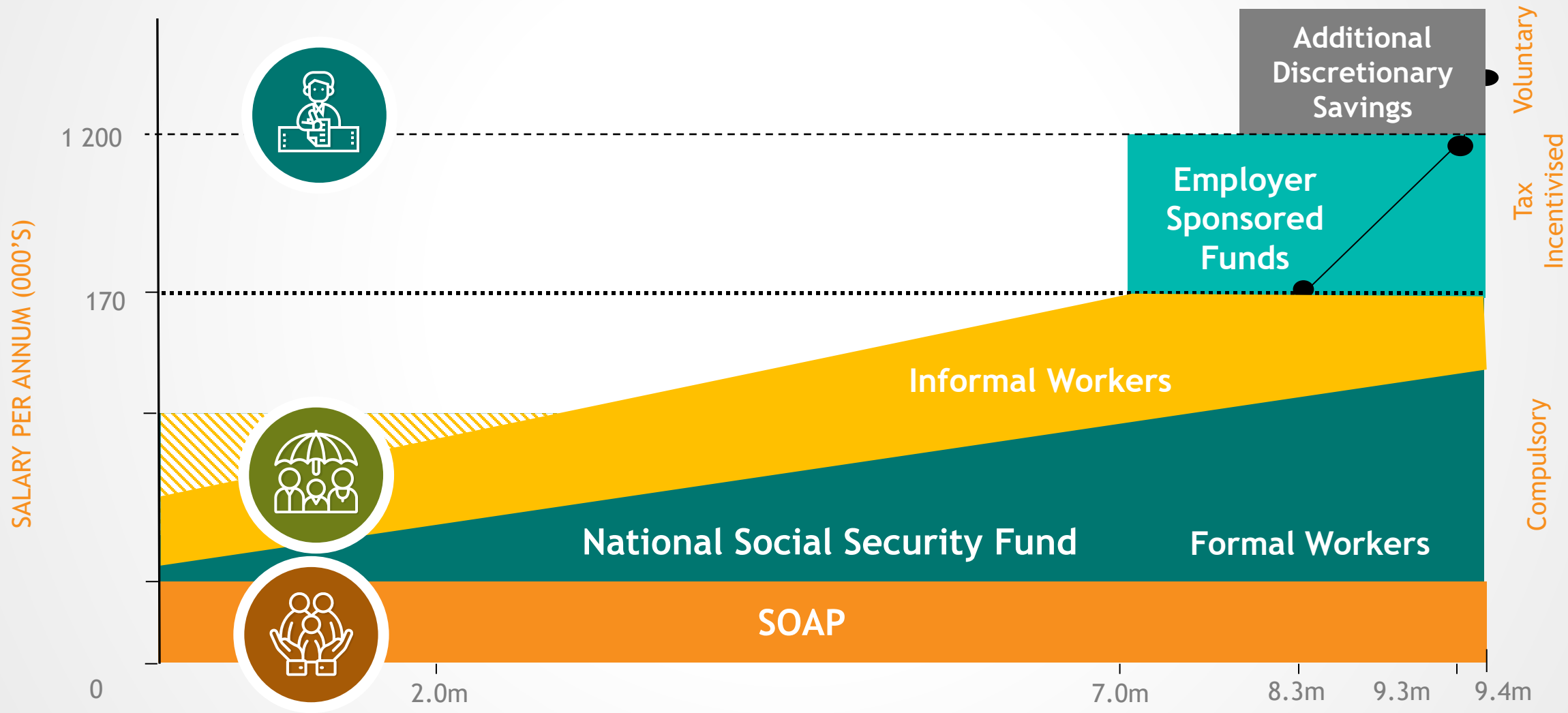
HAS A NUMBER OF POLICY GAPS:



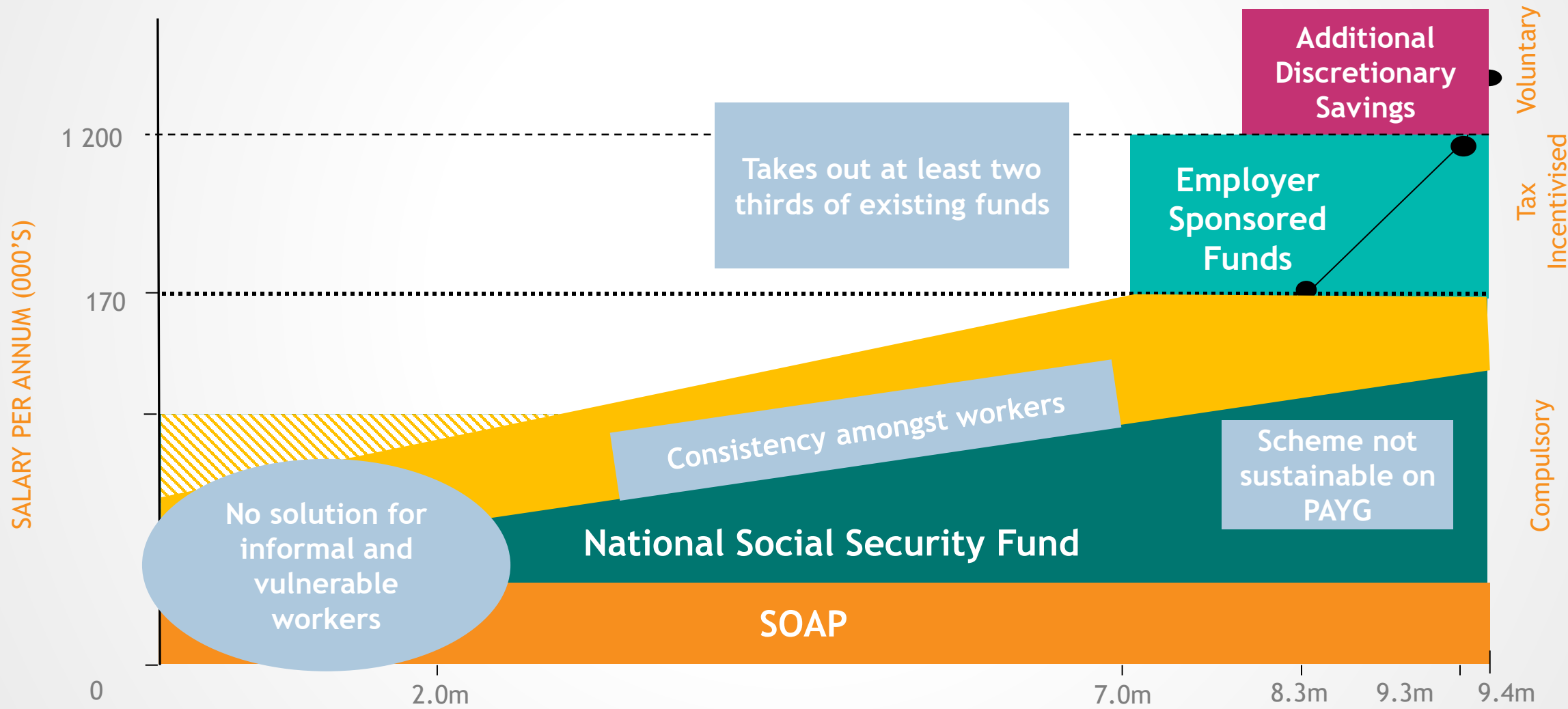
HAS A NUMBER OF POLICY GAPS:



GOVERNMENT IS PROPOSING A RADICAL OVERHAUL

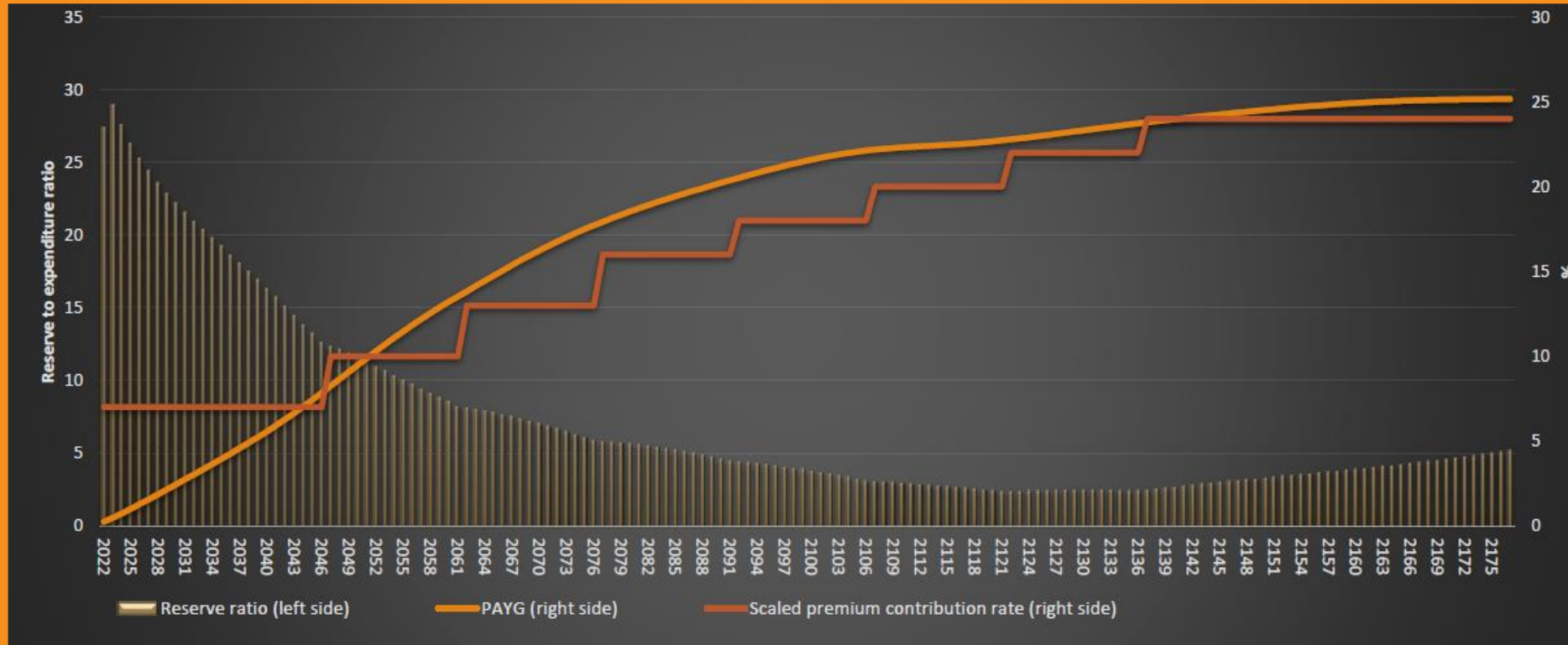


SIGNIFICANT DIFFERENCE IN OPINION



Contribution proposal becomes unsustainable

NSSF Funding and contribution levels



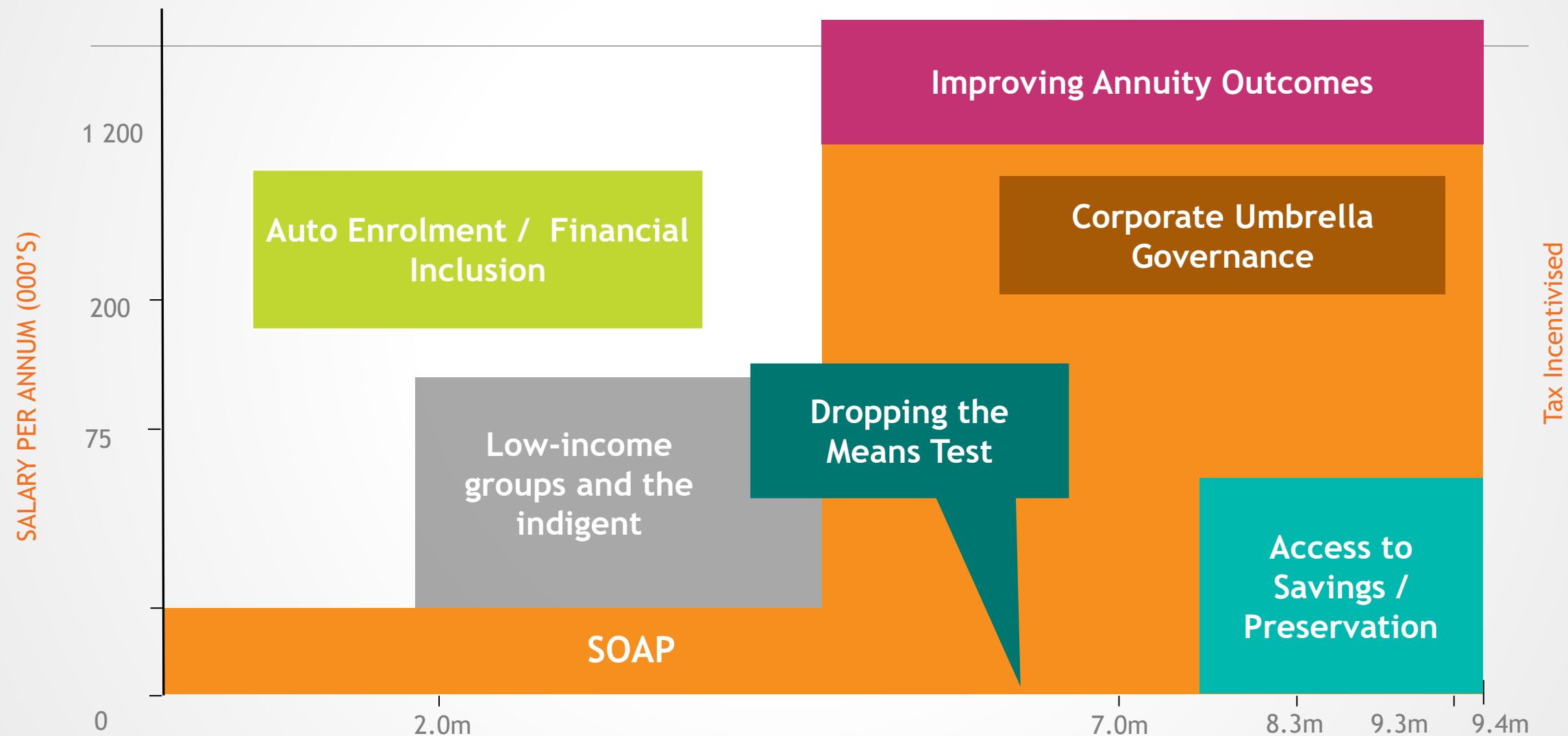
The graph represents the optimistic scenario for the funding of the NSSF by the ILO actuaries contracted by DSD. Initial contributions are sufficient to meet benefit outflows initially (as there are no pensioners). This deficit plus a shrinking demographic lead to the required contributions reaching 25% for future generations. Very little protection is evident for funding shocks with only a 5% reserve.

Retirement Reform

Review of the system



GOING BACK TO WHERE THE SYSTEM NEEDS FIXING:



AUTO-ENROLMENT

Auto Enrolment / Default Fund

MTBPS spoke about Auto Enrolment

Proposals that are currently on the table include:

- Auto enrollment of all employers into a retirement fund
- Income earner can actively opt out.
- Government set up **low cost** default DC NSSF fund
- Employers can then select the default NSSF fund or other fund
- Default NSSF Fund would also be available to self employed and informal workers
- Default NSSF fund would have default annuity at retirement with gender neutral rates

WHAT AUTO-ENROLMENT WOULD MEAN?

- Auto-Enrolment would mean that over time it would be compulsory for All Employers to have retirement benefits for staff (All employer sizes)
- Industry currently too expensive for smaller employers - that is why Government proposing DC NSSF
- Costs would be lower, as “pull” versus “push” factor
- Membership numbers overall would considerably increase (as we know currently only about 50% of employees on a fund)
- A solution would need to be found at smaller employer level where definition of salary more difficult
- Informal workers - no salary definition, how would it work?
- Seasonal workers - how would it work?

Auto Enrolment /
Default Fund

Current pension
system not designed
for new way of work,
very inflexible, how
does this change?

ACCESS TO RETIREMENT SAVINGS

Access to Savings / Preservation

Concerns raised around lock in currently for Retirement Annuity Funds, as well as lock in of Pension and Provident Fund monies while working.

This has been an issue prior to Covid, but Covid is making the problem “louder”.

National Treasury also would like to reduce access to funds at withdrawal

National Treasury looking at options to:

- Allow access to a portion of benefits in return for future compulsory preservation of a portion of future contributions
- Applicable for pension, provident, preservation and RA funds

Practical Considerations:

- Actual current retirement fund savings very low 80% < 6 months salary
- Practical Administration considerations
- Proposed increase in RA minimum value from R7000

Arguments for this proposal:

- Supports long term preservation of future contributions (as currently cash out option in withdrawal)
- Creates greater alignment between RA, Pension and Provident Funds
- Provides some financial relief to individuals

ANNUITISATION OF PROVIDENT FUNDS 2021

Improving Annuity
Outcomes

Only impacts contributions paid into a provident fund after 1 March 2021.

Pre-1 March 2021 Vested rights apply (over 55 years, full vested rights apply in same fund)

Only applies to **Retirement Benefits**, not withdrawal benefits or death benefits

Does impact Lump Sum Disability Benefits

If over 55, and retire from same fund, NO IMPACT. If under 55, then only contributions after 1 March 2021 impacted (if greater than R247 500)

Big benefit in the short term - **Portability** - Members can now move between, Pension, Provident and Retirement Annuities (provident fund bucket allowed in all 3)

Because all funds will have a “pension bucket” and a “provident bucket”, there is no need for separate funds.

Section 14's can now happen both ways (just watch for the over 55 at this stage)

Criticism of private sector from NT - we do not have simple, suitable annuities for the low end of the market. NT questioning if they need to get involved.

Options being considered for the Means-Test

AN INCLUSIVE FINANCIAL SECTOR FOR ALL

Financial Inclusion - The delivery of financial services at an affordable cost to vast sections of the population that are historically excluded or under-served by the formal sector.

- Digitisation
- Financial Literacy
- Individuals
- Micro companies
- Informal Companies
- Financing
- Costs
- Right product for the right problem (eg funeral policies, bank accounts, payment systems)

Proposals published for open banking and open finance

Financial inclusion

Still at very early stages but could fundamentally disrupt our industry for the better!

TIMELINES

NEXT 3 YEARS

- Annuitisation
- Access/Preservation
- NSSF proposals
- Umbrella fund governance
- UIF solution for atypical workers

NEXT 5 YEARS

- Auto Enrolment
- NSSF DC Default Fund
- Basic Income Grant?

FURTHER OUT

- Introduction of Tier 2 NSSF

Thank
you