



Lessons for South Africa's proposed social security retirement reforms from the experience of other sub-Saharan African countries

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About The Author...



Africa Is NOT One Country!

Africa →



- Second largest continent both in size and population.
- The African Union has 55 members.
- They have similarities, they have differences.
- What can we learn from one another, specifically in sub-Saharan Africa (SSA)?

Sub-Saharan Africa →



Agenda

1. Developing an analytical framework.
2. Pensions in South Africa.
3. Pensions in the rest of SSA and what can we learn?

Analytical Framework

How to Compare Pension Models?

| ILO | WB | Description |
|--------|----------|---|
| Tier 1 | Pillar 0 | Non-contributory social protection / poverty alleviation, provides minimum level of benefit. |
| Tier 2 | Pillar 1 | Contributory national social security retirement scheme, seeks to replace a portion of income. Usually state run. |
| Tier 3 | Pillar 2 | Mandatory retirement provision, usually through employer-sponsored scheme. Usually private sector. |
| Tier 4 | Pillar 3 | Voluntary additional retirement savings, usually flexible and discretionary in nature. |
| | Pillar 4 | Informal intra-family or inter-generational of both financial and non-financial support to the elderly. |

Competing Assessment Criteria

- World Bank and ILO each assess national pensions models.
- Each has its own analytical framework and assessment criteria.
- There is overlap between their respective frameworks e.g.
 - Adequacy and predictability of benefits.
 - Positive redistribution from rich to poor / social solidarity.
 - Financial sustainability of system.
- There are contrasts between their respective frameworks e.g.
 - ILO has strong focus on role of state as provider and guarantor of benefits.
 - WB has strong focus on affordability of benefit provision.

Four Level Generalised Model

| Level | Description | Distinguishing Characteristics | WB Pillar | ILO Tier |
|-------|---|--|-----------|----------|
| A | Non-contributory poverty alleviation benefit Always DB Could be universal or means tested | Mandatory Non-contributory | 0 | 1 |
| B | Contributory national scheme DB, DC or notional DC Compulsory for at least some employees May have eligibility criteria Public sector employees might be included or not Can be open (to others to join) or closed | National and Compulsory (at least for some employees) | 1 | 2 |
| C1 | Group (occupational) arrangements DB or DC Employee may or may not contribute Can be open or closed | Mandated by state (opt out might be allowed) | 2 | 3 |
| C2 | | Mandated by employer (no opt out) | | |
| D1 | Voluntary contributory Always DC Freedom of choice | Group arrangements May be some redistribution | 3 | 4 |
| D2 | | Retail arrangements | | |

Chosen assessment criteria

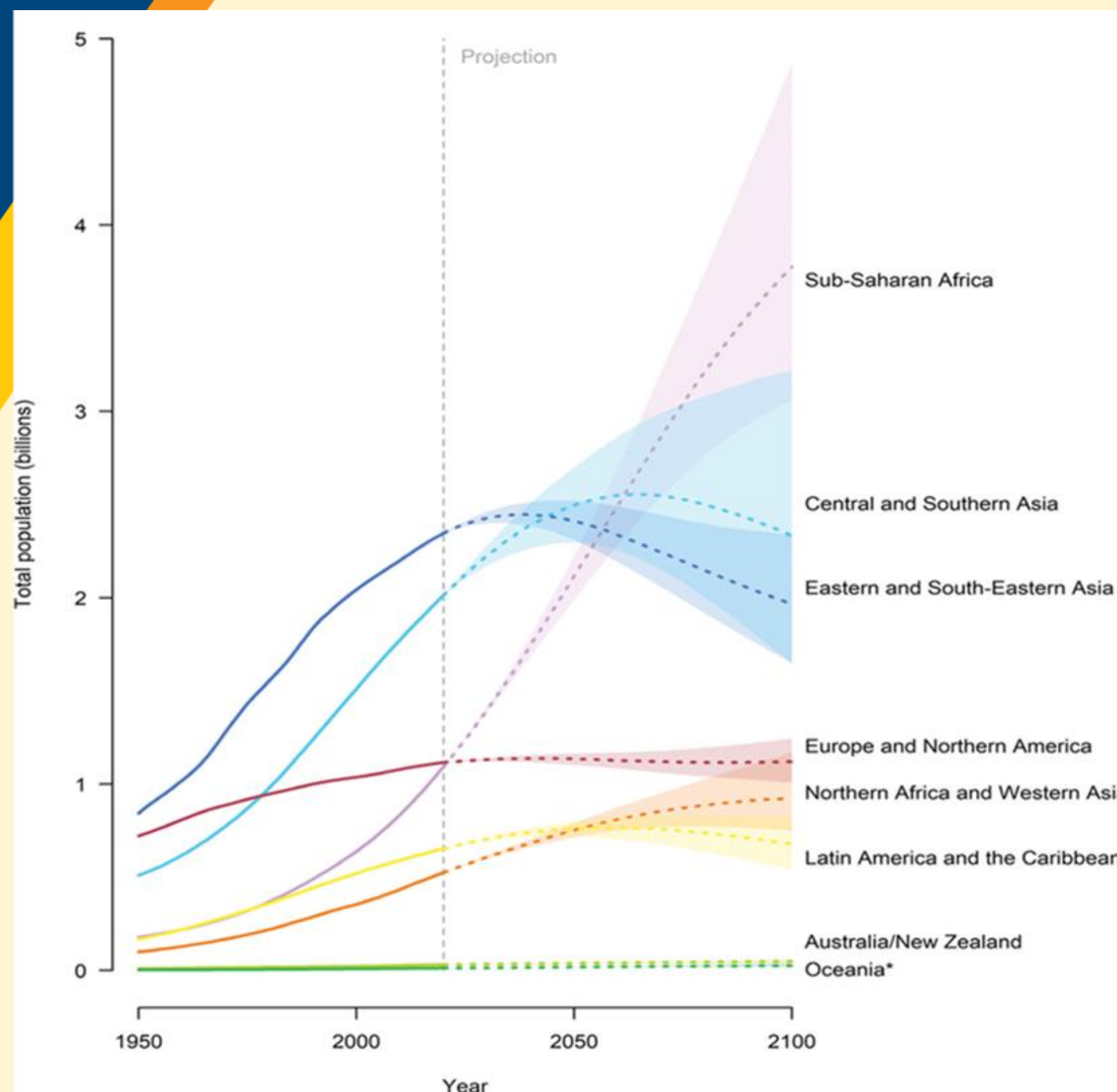
Benefits

Contributions

Coverage

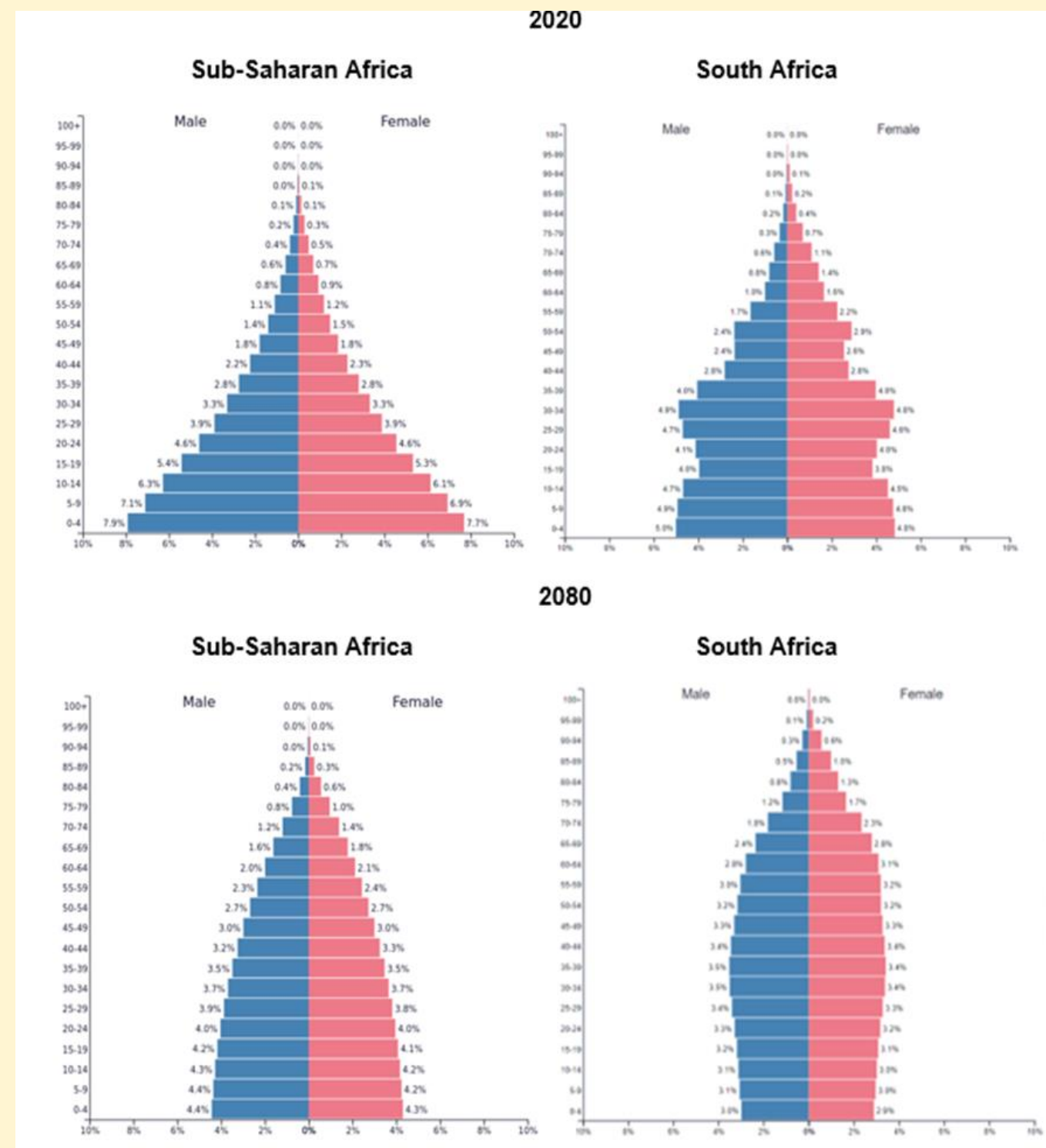
Financial sustainability

Demographic Change in SSA

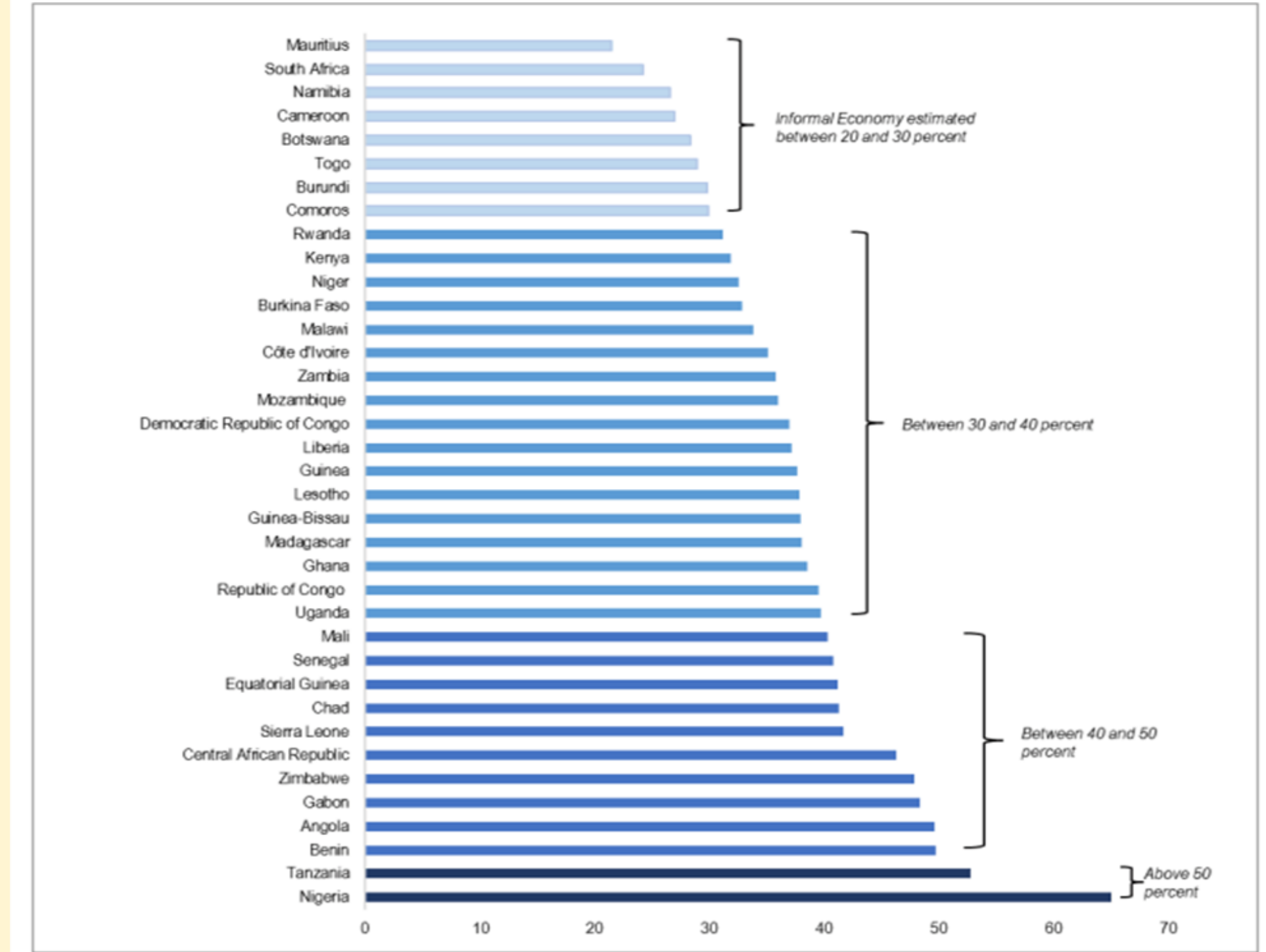
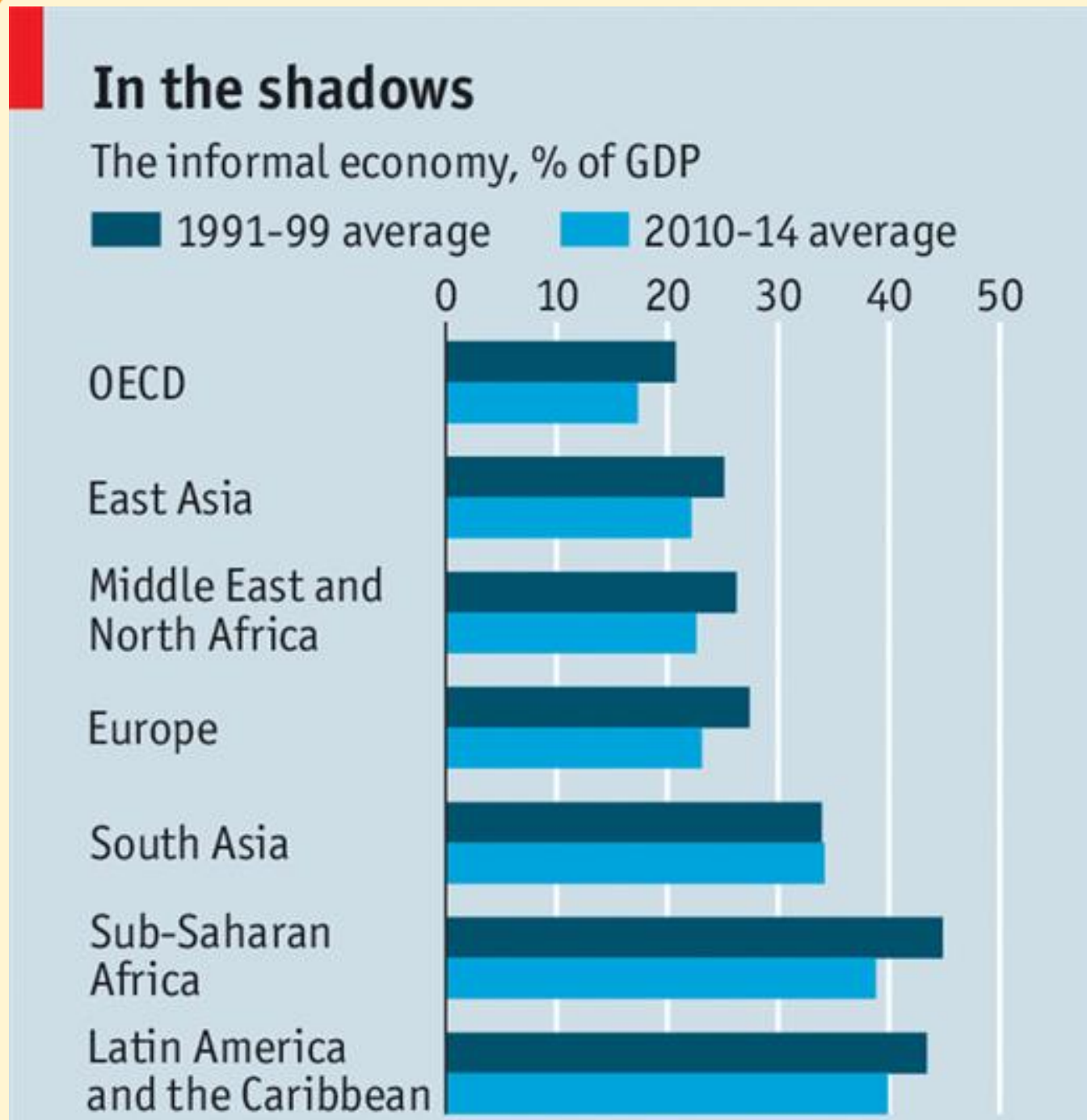


- Globally trends are:
 - Reduced infant mortality
 - Reduced fertility
 - Increased longevity
- Same trends are found in sub-Saharan Africa, but delayed relative to the rest of the world.
- Therefore, this region will have the largest population in the world by 2100.

Comparing South Africa to SSA



South Africa relatively further in process of demographic change



- Informal sector employment high across sub-Saharan Africa, relatively lower in South Africa.
- South Africa has highest official unemployment rate in the world.

SA Pensions

South African Pensions



- Level A:
 - System is well developed, took many years to develop.
 - Covers two thirds of SA population over 60.
 - Funded from tax.
 - Benefit roughly equal to 1.33X upper bound poverty line & 50% of minimum wage.
- Level B:
 - SA has never had a national social security scheme for retirement purposes.
 - Closest is the Unemployment Insurance Fund (UIF).
 - Debate within government as to whether SA needs such a scheme.



- Levels C and D:
 - Generally voluntary at employer level, compulsory at employee level.(C2)
 - Voluntary group and retail products. (D1 and D2)
 - Coverage is relatively high in formal sector, very low in informal sector.
- System going through extensive system of reforms – alignment of retirement fund types, alignment of tax incentives, phasing in of compulsory annuitisation, introduction of compulsory preservation coupled with increased access.

Government departments may have different focuses, but generally the vision includes:

- Provision of universal benefits. (A)
- Introduction of a national pension scheme. (B?)
- Wider cost-effective coverage. (C2→C1?; D2→D1?)

How does South Africa compare to the rest of the region and what can we learn?

Level A: Universal Benefits in SSA



- Such pensions are generally new to the region.
- Still only found in 14 out of 48 countries in the region.
- Where benefits are universal, coverage of close to 100% is achievable.
- Benefits are mostly significantly lower than in South Africa.
- Exceptions are Mauritius and Seychelles, where pensions have been paid for 45+ years and benefits are higher than in SA.

Level A: Lessons for SA?



- SA benefit system better established than rest of region.
- Removing means test would significantly increase coverage, but would be costly.
- Demographic change will increase costs. Increasing pension age not politically acceptable
 - Proposed that means test be phased out through alignment of social assistance with structure of income tax.
 - Could keep means test from age 60, but move to universal approach at later age. That age could be increased to keep costs under control.

Level B: National Schemes in SSA



- Such schemes well established elsewhere in the region.
- Of 48 countries, 39 have national schemes providing retirement benefits. 35 of these are partially funded DB pension schemes.
- Schemes vary drastically by contribution rates and benefit design.
- Trend of compulsory annuitisation shows that passing longevity risk to workers is viewed as unacceptable.
- Growing trend of increased contributions/reduced benefits to ensure long term solvency.
- Coverage is often relatively low due to the large size of informal sector.

Level B: Lessons for SA?



- Schemes widespread but experiencing sustainability issues due to DB designs and longevity risk.
- Number of levers to control costs e.g. changing accrual rates, increasing retirement ages or changing minimum/maximum pensions payable.
 - Effectively passes risk back to members
- Leverage off existing structures
 - SA formal sector Level C2 coverage is high, higher than some B schemes elsewhere.
 - Consider expanding UIF contributions & benefits to cover retirement?
- No other country in region has been able to cover informal sector workers with Level B scheme.
- If implementing Level B scheme, consider benefit design carefully and consider phasing in over time.
- Implications for Level C?

Levels C&D in rest of SSA



- Level C coverage generally lower than SA.
- Trend of moving from C2 to C1 e.g. Ghana, Nigeria and Kenya, but compliance challenges.
- Strong trend to moving from DB to DC within Level C, even with public sector e.g. Nigeria, Kenya, Botswana, Malawi and Lesotho.
- Informal sector a challenge.
 - Several countries have tried innovative D1 designs.
 - Govt and NGO support.
 - Very limited success.

Levels C&D: Lessons for SA



- Interconnectedness of benefits – Levels A & B are felt on C&D.
- Informal sector.
 - Meaningful coverage challenging (<10%).
 - May struggle to get scale for dedicated fund.
 - Set up national pension fund with two membership categories, for formal sector (Level C1) vs informal sector workers (Level D1).
- Uncovered formal sector.
 - National scheme (C1).
 - Consider Level B, currently uncovered formal sector workers could be forced to join.
- Importance of social solidarity?
 - Minimum benefits, carer credits, cross subsidies.
 - Integration of benefits.
 - Design of benefits.

Thank you! Obrigado!

Questions?

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