

Retirement Reform: You were always on my mind ...

2011 2015
2012 2014
2013

'Things take longer to happen than you think they will and then they happen faster than you think they could.'

Anonymous quote used at the World Economic Forum 2013

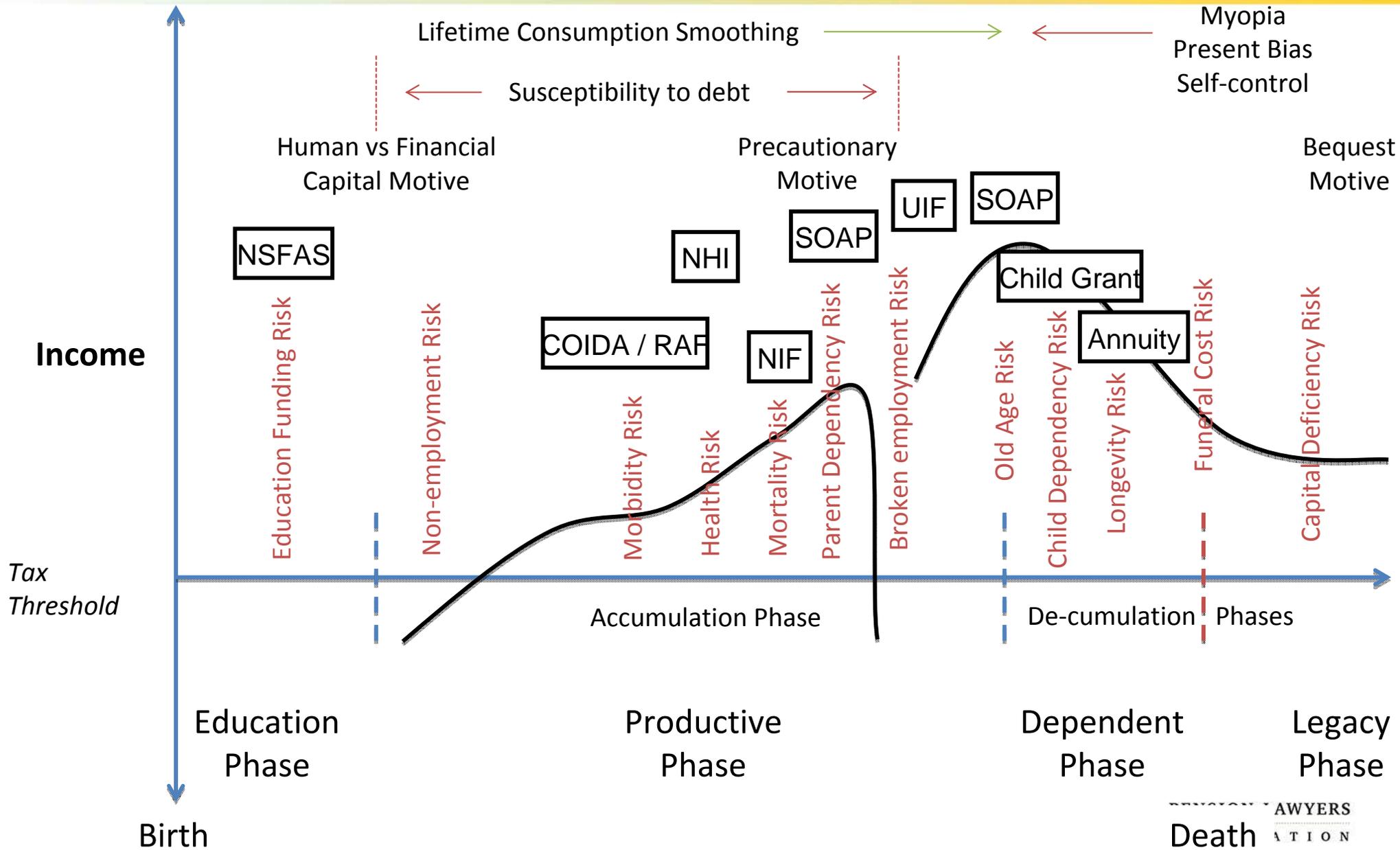
Some reflections ...

- ❖ Time has probably been a good teacher, but can we afford anymore?
- ❖ We fully support a review of hygiene factors, but ...
- ❖ We each hold a piece of the puzzle on design.
- ❖ Where are our blind spots?

Performance Paradigms

- ❖ **Adequacy:** policy and the ‘god factor’
- ❖ **Sustainability:** modeling for inter-generational solidarity
- ❖ **Infrastructure:** looking to pension funds
- ❖ **Coverage:** the blinding success of SOAP

State coverage – life cycle risks



Informal sector - undefined ?

Acti
Disc
Abl

Pen
UIF
Mec



611

205

685

076

13 577

501

078

257

335

5 597 (27,5%)

7 059 (34,7%)

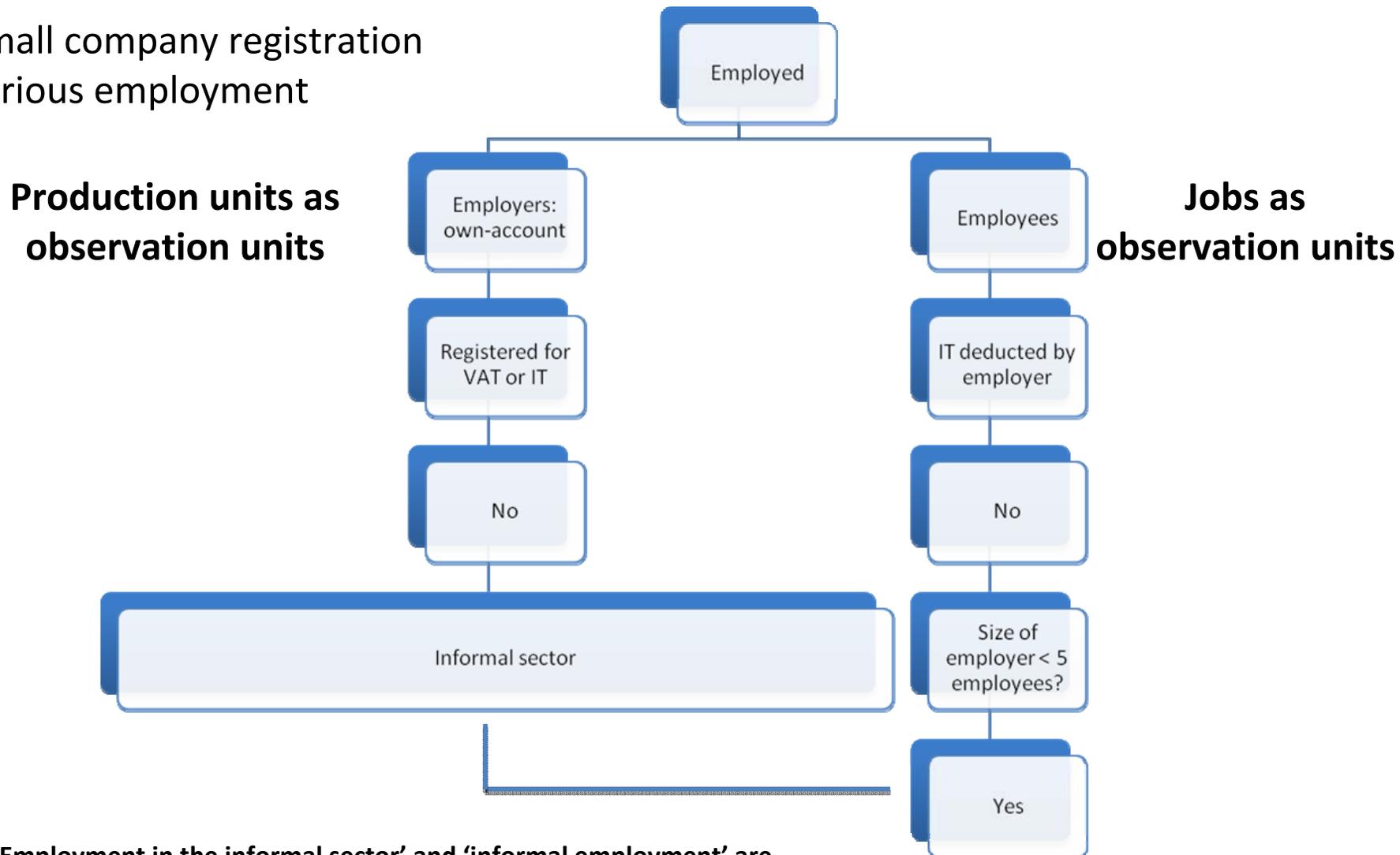
3 686 (18,1%)

ICLS Guidelines on informal measurement

- ❖ (5) Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). *The Seventeenth International Conference of Labour Statisticians (ICLS)*

Informality: Two track QLFS Stats SA approach

→ Uses small company registration and precarious employment



Note: 'Employment in the informal sector' and 'informal employment' are concepts which refer to different aspects of the 'informalization' of employment and to different targets for policy-making.

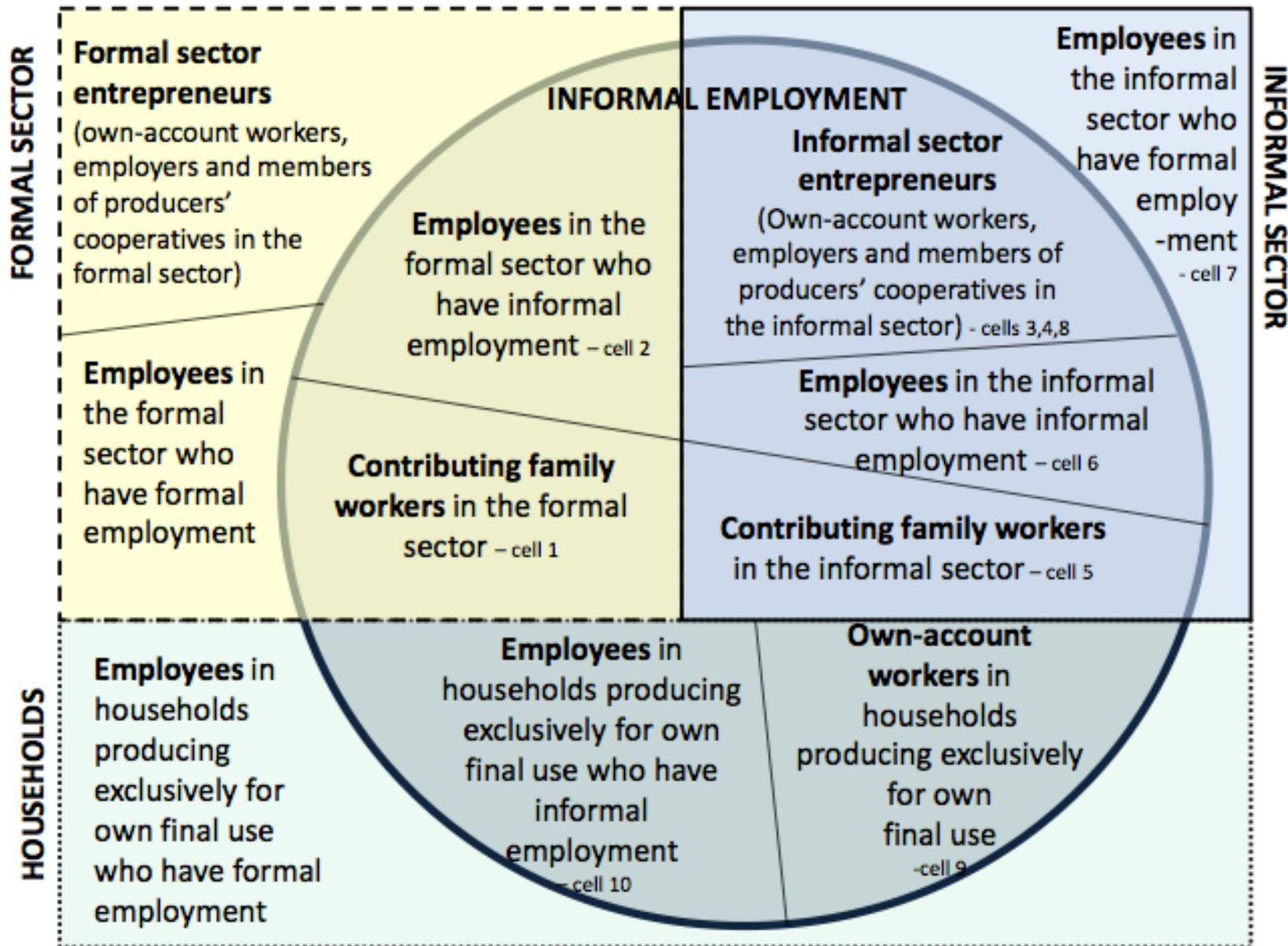
Faltering theory of formalisation (ILO)

- ❖ For many years (130) governments and economists assumed that, with the right mix of economic policies and resources, poor, traditional economies would be transformed into dynamic modern economies. In the process the traditional or informal sector was expected to disappear as the modern or formal sector grew and absorbed more labour...
- ❖ ... for many the conditions under which they work serve to perpetuate their disadvantaged position and the poverty in which they live...
- ❖ ... it comprises more than half of non- agricultural employment in most developing countries: 82 per cent in South Asia, 66 per cent in sub-Saharan Africa, 65 per cent in East and Southeast Asia (excluding China) and 51 per cent in Latin America.

Some observations from the ILO 2012 Manual

- ❖ People's motives for participating in the informal sector range from a pure survival strategy to a desire for flexible work arrangements.
- ❖ Information about informal sector activities is vital to planners and policy-makers in devising programmes for sustainable development and devising social security measures for the welfare of informal sector workers. It is also needed to ensure complete coverage of the economy in GDP estimates, as well as to help balance balancing the supply-use table of goods and services produced and used in the economy during a given accounting period.
- ❖ ... GDP remains either unaccounted for or else estimated on the basis of certain norms and value judgements.

ICLS guidelines (visual for non-lawyers)



Coverage: some international reflections

- ❖ ... it could be very difficult (if not impossible) for governments to undertake any meaningful actions to bring these individuals into the formal pension systems (Hu and Stewart 2009, OECD)
- ❖ For middle and high income countries, there were strong expectations that systemic pension reforms would contribute to a major increase in coverage/reduced informality as the contribution-benefit link tightened... (Holzman 2012, World Bank)
- ❖ Informality is a major obstacle to achieving high coverage, even in countries with mandatory ..systems ... public or private (Antolin, Payet and Yermo, 2012, OECD)
- ❖ Can traditional policy levers reach this sector?

(Some) attributes of the informal sector

- ❖ Not possible to enforce a mandate to contribute
- ❖ High discount rate / liquidity preference
- ❖ High degree of self-insurance
- ❖ High mortality rates
- ❖ Few opportunities for formal employment (evasion a minor issue)
- ❖ Traditional points of collection may not be available
- ❖ Transactional costs would have to be minimal
- ❖ Incentives are necessary for significant take-up

Source: Palacios and Robalino (2009 and 2011)

Limitations of existing framework?

- ❖ Centrality of the employer relationship
- ❖ Section 13A PFA on contributions
- ❖ Section 37 C on benefits
- ❖ Applicability of incentives (ITA)
- ❖ Lack of valuation visibility
- ❖ Even optimum EOS would be challenged by cost of compliance ?

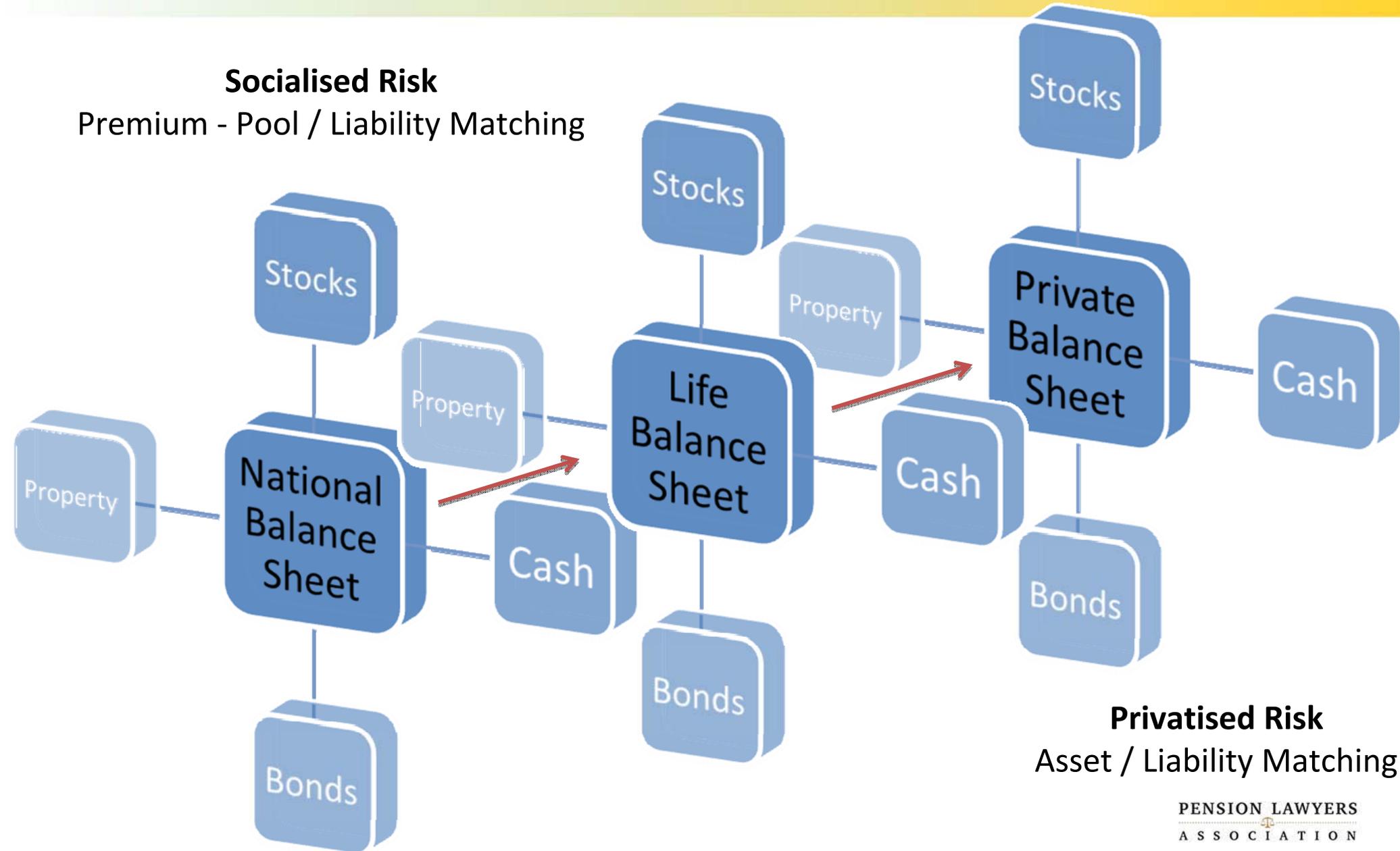
Micro-pension fund legislation?

- ❖ Low income earners do save and are willing to do so
- ❖ Voluntary (long-term) savings for old age (pay-as-you-earn)
- ❖ Flexibility at de-cumulation stage
- ❖ Bespoke national design – no single standard
- ❖ Contributions from USD 2.2 pm (India) to USD 16.6 pm (Mongolia for herders)
- ❖ 100 000 members or more
- ❖ Mobile banking reduces costs and increases access
- ❖ Trust and governance essential
- ❖ No surprises on the downside for investment risk
- ❖ Shifting to a long-term view (Kenya)
- ❖ Incentivise behaviour (align with consumption motive)
- ❖ Seen as third tier voluntary savings per World Bank model

Policy Building Blocks

Socialised Risk

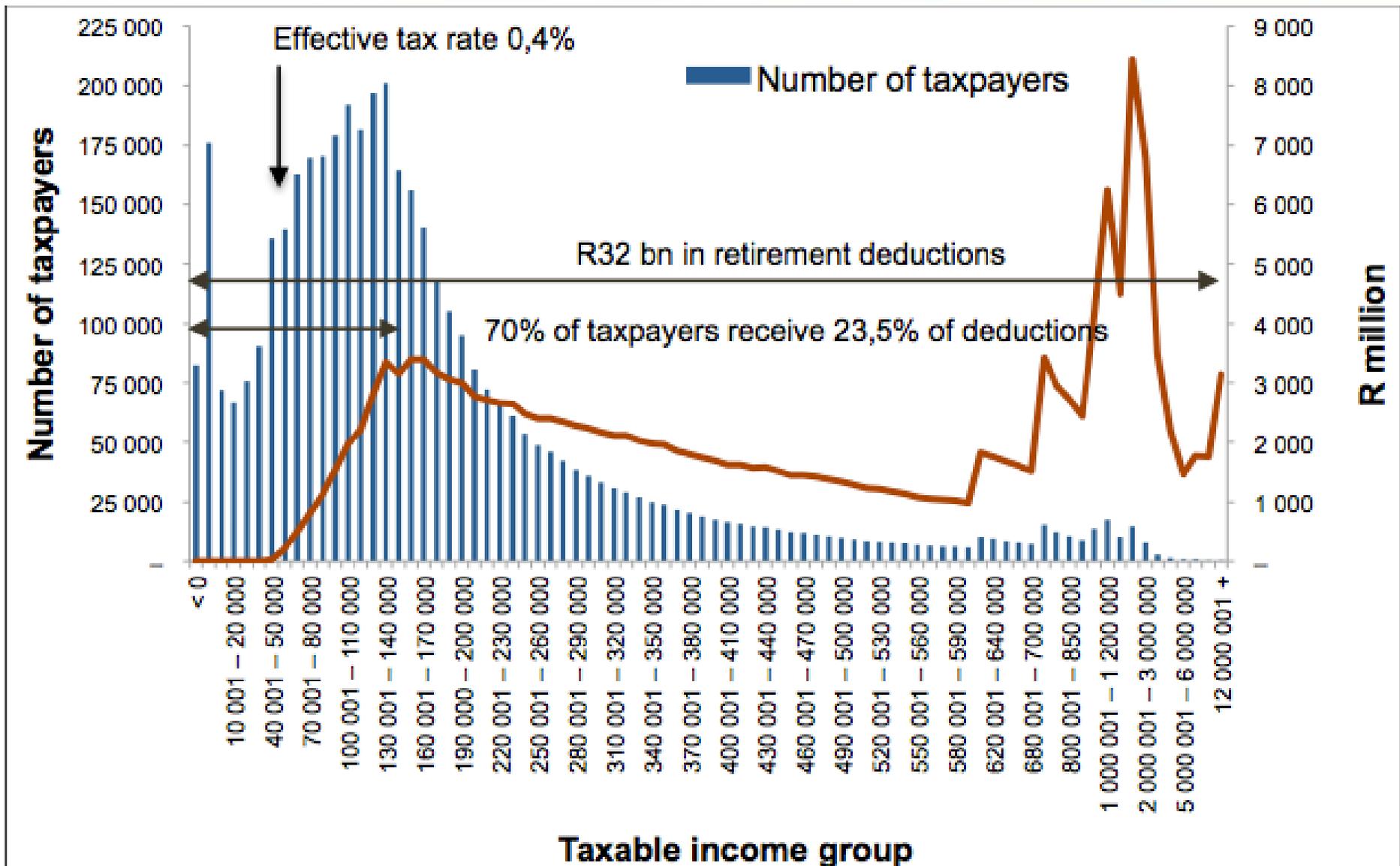
Premium - Pool / Liability Matching



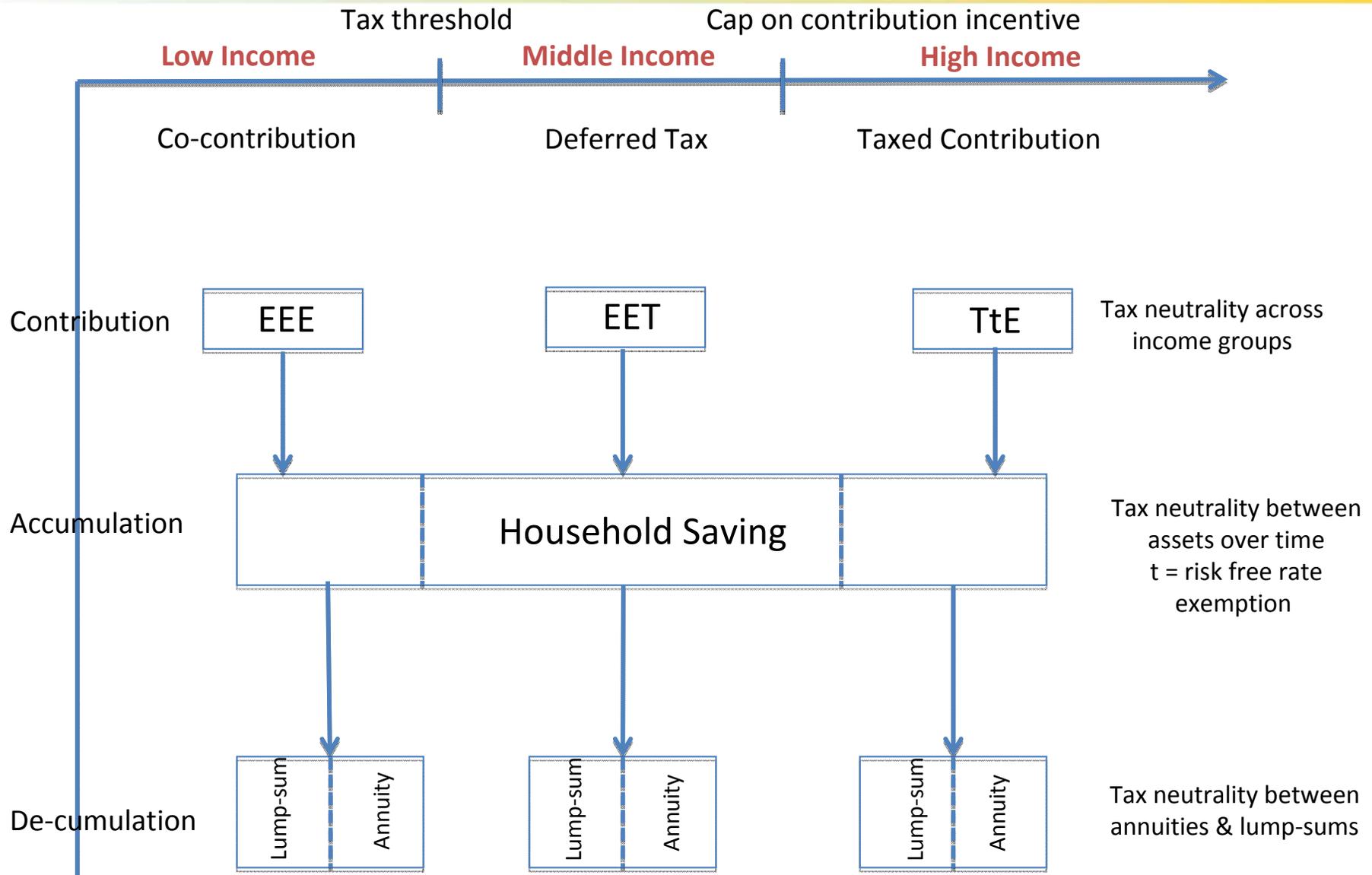
Privatised Risk

Asset / Liability Matching

Balancing priorities



Framing an incentive doctrine



Conceptual Architecture for Long-Term Household Savings

Conclusion

Do we need to talk?