Pension Lawyers' Association

Social Security and Retirement Reform

February 2012

social development

Department:
Social Development
REPUBLIC OF SOUTH AFRICA

Background

1. Social security was introduced to the world by Bismarck, and grew as intervention measures over the decades

2. In 1919 the ILO agreed on a set of standards for social security,

3. In 1942 the Beveridge plan of social security was spread throughout the Anglo-American world

4. In 1948 the nations of the world adopted the Charter of Human Rights

5. The SA Parliament in the 40's deliberated on a system of Social security but as a result of racism decided against a comprehensive system of social security

Constitutional Framework

1. The Constitution provides for a human rights-based approach to social security

2. The SA Constitution provides every person with the right of access to social security, including if they are unable to support themselves and their dependants. Section 27(1)

3. The Constitution imposes an obligation on the State to take reasonable legislative and other measures, within its available resources, to achieve progressive realistion of this right S 27(2)

4. The State has a duty to respect, protect, promote and fulfil the right of access to social security (S7(2)

Problem Statement

1. 50% of South Africans live in poverty and the level of inequality is very high;
2. Our social security system is fragmented and underdeveloped;
3. Tax arrangements are not equitable;
4. Governance of institutions is compromised, and there are many organisational and delivery challenges; and
5. Regulation of social security arrangements are generally weak

Policy Objectives

1. Social security measures must be aimed at *alleviating and reducing poverty and inequality* no matter the causes;
2. *Expand coverage* to all, including foreign residents and the informal sector;
3. Link social security with *employment activation* initiatives;
4. *Expansion of health insurance* is necessary, while the public health system is radically improved;
5. *Tax expenditure subsidies* must be equitable and transparent;
6. *Improve governance and delivery of all* social security institutions; and
7. Enhance *regulation* of government and private sectors.

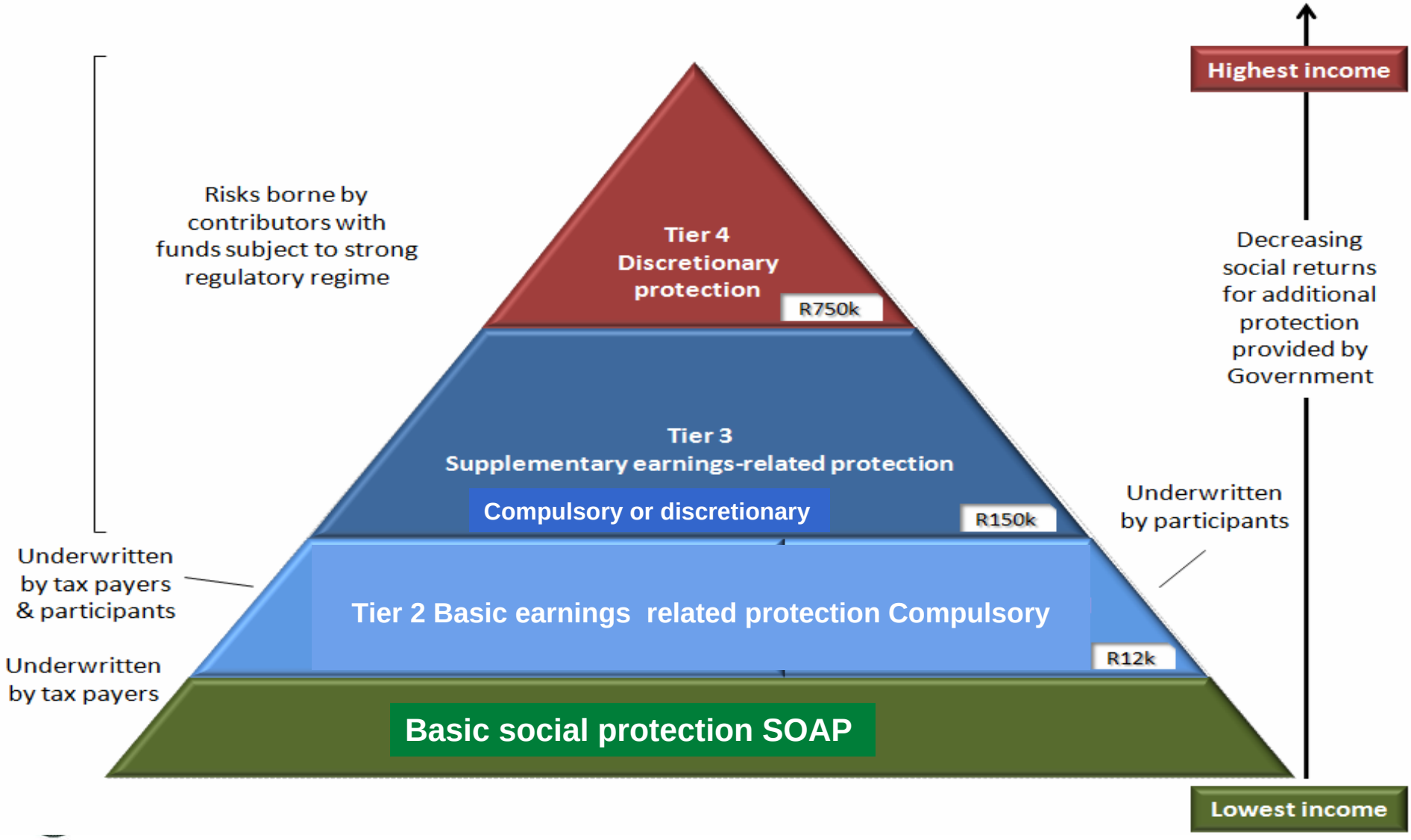
Reform Proposals

- Social assistance: Pillar 1
  - Expansion of the social grants system
  - Main will move from just the poor
- Social insurance: Pillar 2 (two tiers)
  - Mandatory Contributory
  - Focused on income earners
- Voluntary Insurance: Pillar 3

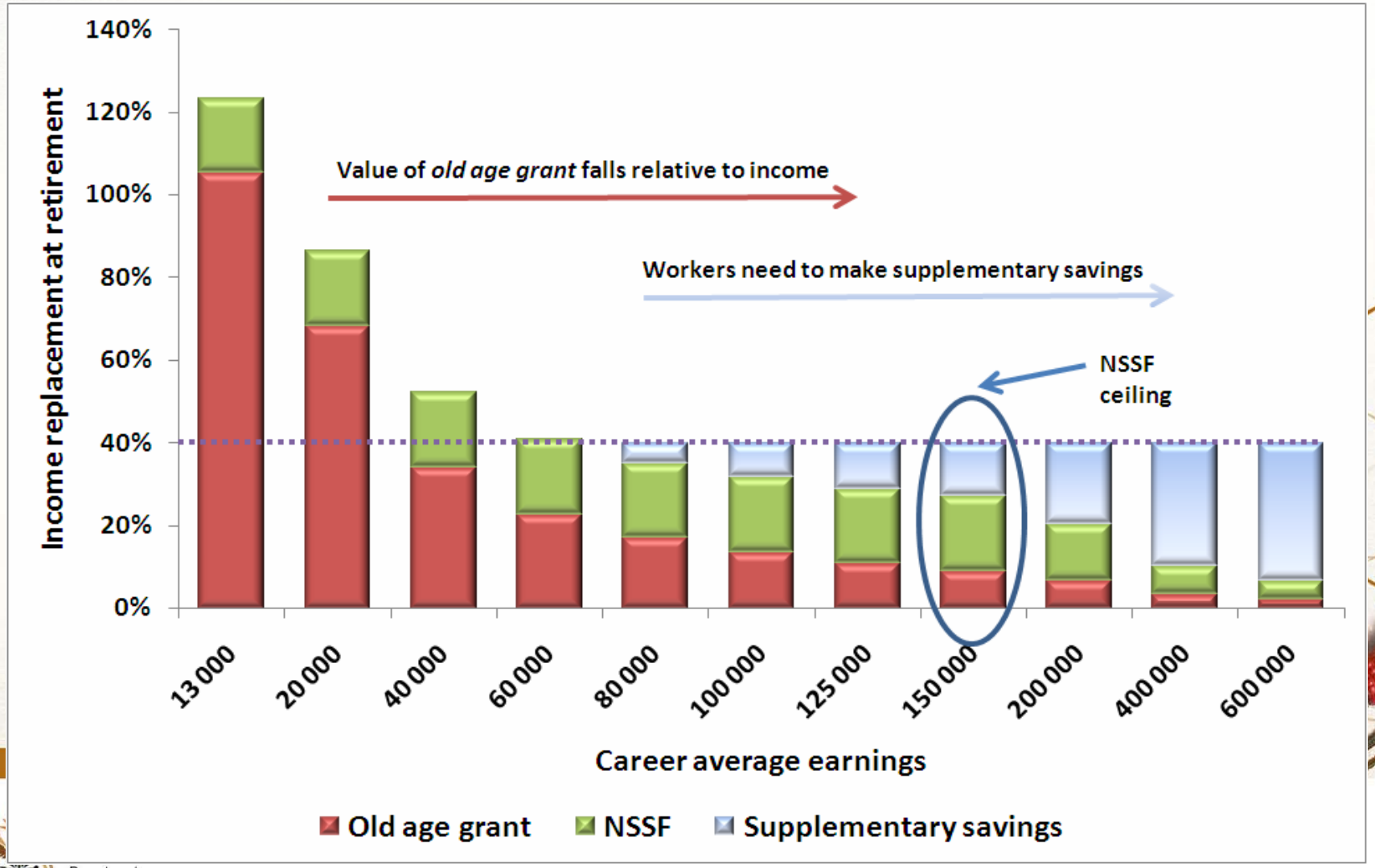
Retirement Provisions

- Gradually universalise social grants, including the old age pension,
- Introduce a mandatory pension fund that defines the benefit upfront
- Establish a state sponsored fund – NSSF with no Opt out
- Add DC component for income above artisan level income
- DC arrangements must be based on an approved funds framework – accredit private funds
- Include risk benefits: disability and survivors
- Contribution subsidy to reduce the cost of labour for low income employees

Retirement Benefit Design



Replacement objective



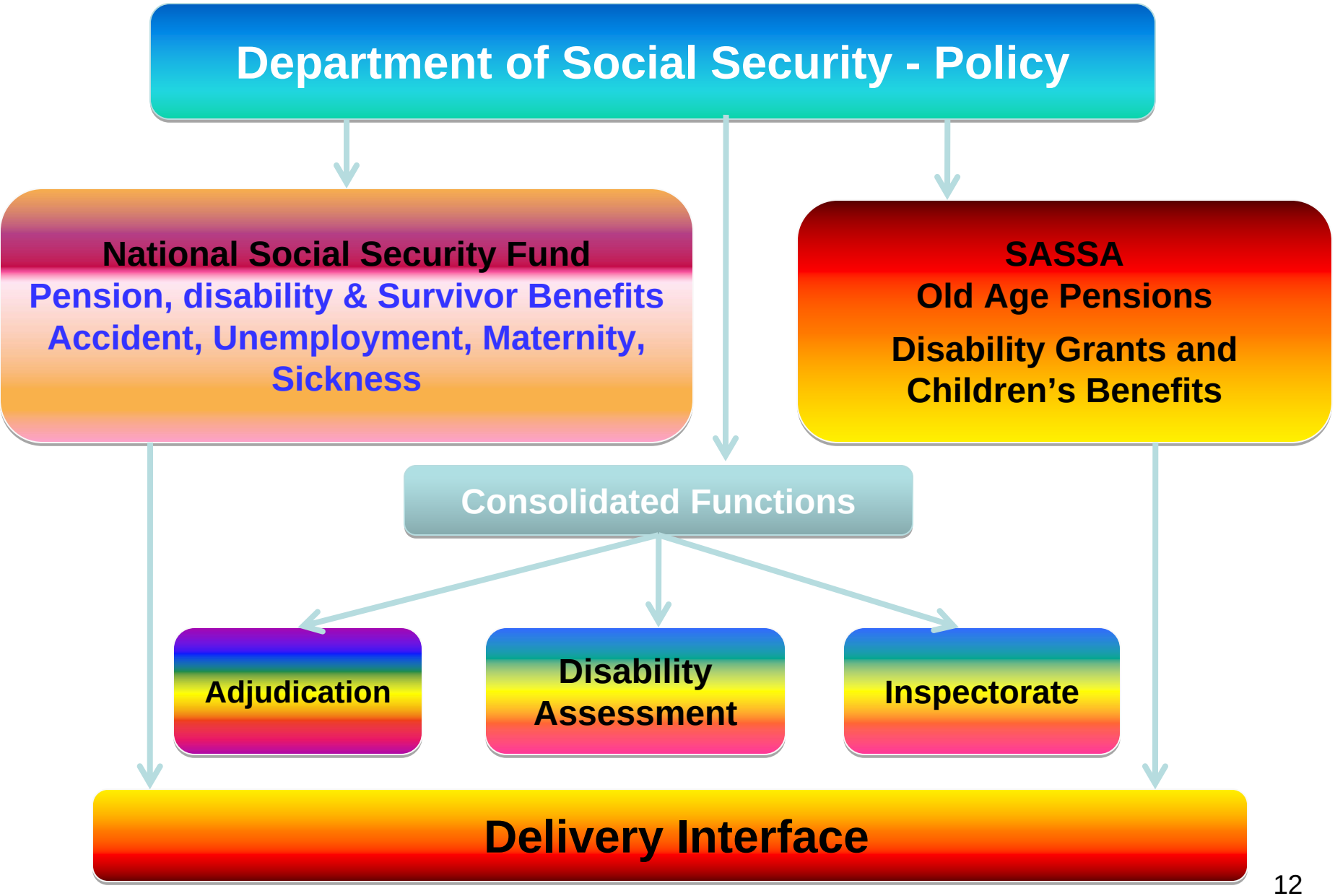
Specific design issues

1. Auto enrolment where choice of fund is not made
2. Tax expenditure subsidies will be more equitable
3. Unemployment continuation benefits to ensure preservation of contributions
4. Provide for those in informal employment
5. Governance and Strong supervisory control will guide decision: Principles of Efficiency,. PIC will compete like others

Approved Funds Framework

- Government will encourage contributions to approved retirement funds through the tax system.
- Approved funds will need to meet stringent standards of care, prudence, governance, fiduciary responsibility, transparency and control of costs.
- This framework will establish standards relating to disclosure, investment strategy, risk management, administration and governance.
- For the voluntary market substantial improvements to the regulation of the retirement and life insurance industries are also proposed, but not the same as for the approved funds.

Policy and Delivery Consolidation



Contributions

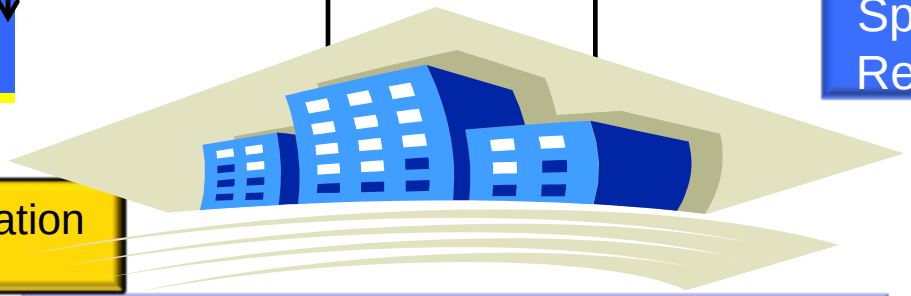
SARS

Responsible Department

Treasury

Social Security/ Advisory Board

Specialist Regulator



Adjudication

SASSA - UIF - COID- NHI RAF - NSSF -

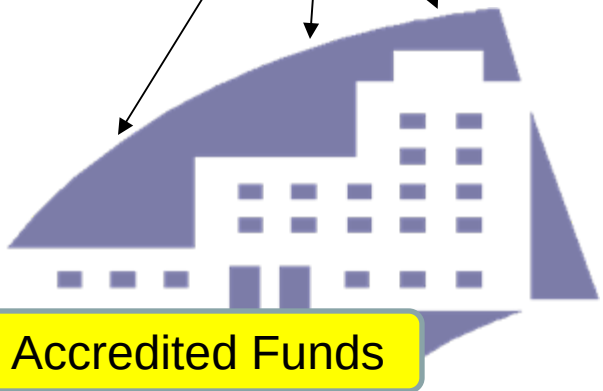
Clearing house

FSB

Master Social Security Registry

Public Interface –

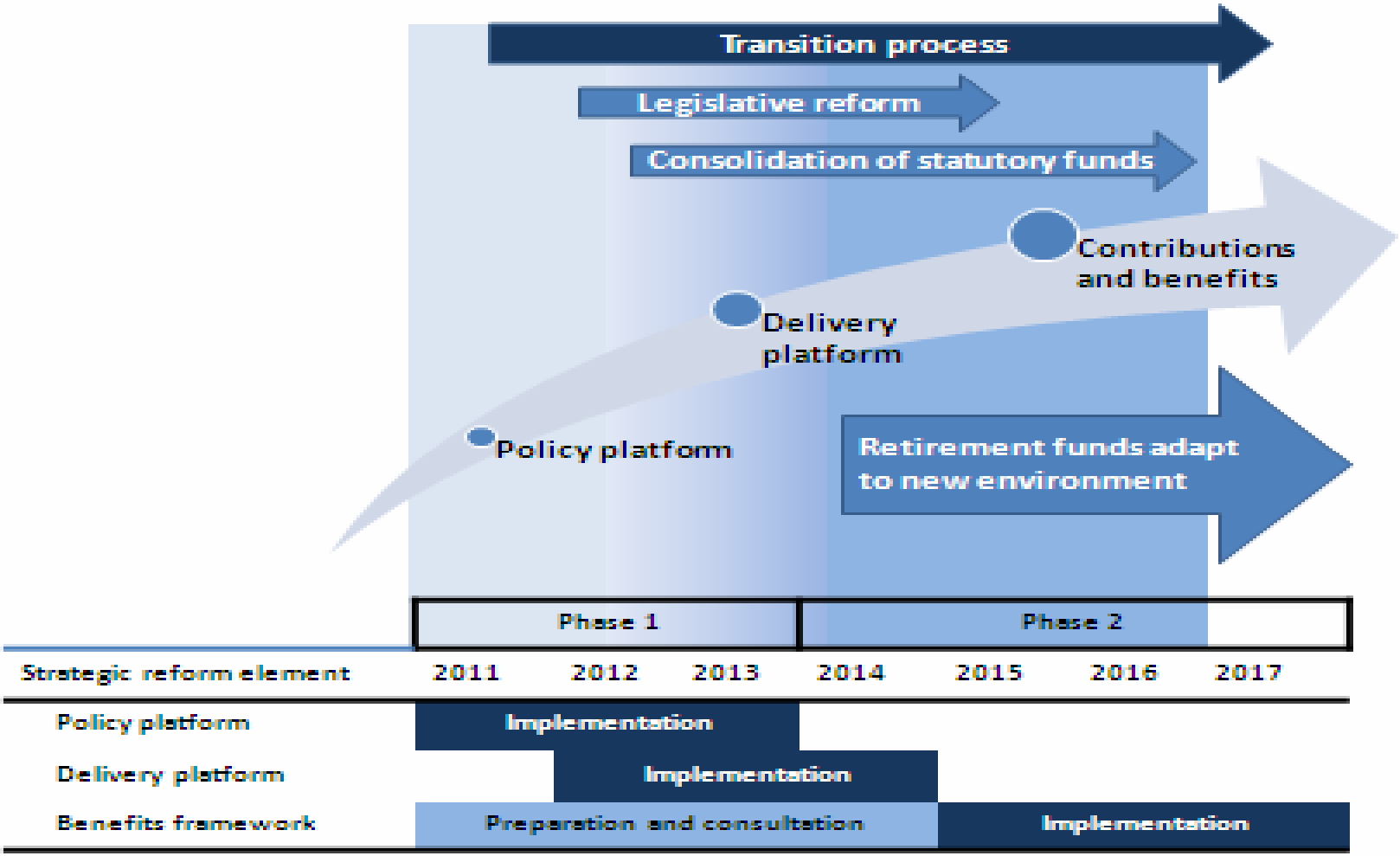
Disability Assessment Services



Accredited Funds

Voluntary Private pensions

The Road Map


Transition process
Legislative reform
Consolidation of statutory funds
Contributions and benefits
Delivery platform
Policy platform
Retirement funds adapt to new environment
Phase 1
Phase 2
Strategic reform element
2011
2012
2013
2014
2015
2016
2017
Policy platform
Implementation
Delivery platform
Implementation
Benefits framework
Preparation and consultation
Implementation

Thank you