Chapter 9
Retirement and Insurance

9.1 Introduction

The main social policy objective relating to the provision of retirement and insurance benefits is to ensure that people have adequate provision for their old age and other risks and contingencies that may befall them during their financial life cycle. The institutional policy objective is an integrated benefit system that ensures that people are able to survive hardship and risk irrespective of their circumstances or life chances.

South Africa's private pension and insurance sectors are estimated to be the largest in the world relative to gross national product (GNP). Major achievements have been noted:

- The State Old Age Pension (SOAP) has reached racial parity.
- The Government Employee Pension Fund (GEPF) is fully funded and managed in accordance with sound accounting and actuarial practice.
- Trustee legislation has been passed to ensure democratic and effective management.

Given the size of the sector, it is not surprising that there is significant diversity within it. The diversity in itself is to be welcomed, but questions arise as to the effectiveness of legislation (both supervisory and tax related), the interface between private and public institutions and between the benefits they pay.

9.1.1 Coverage

Pension funds account for R600 billion of institutional investor assets, being the major provider of capital for the equity listed on the Johannesburg Stock Exchange. The Financial Services Board (FSB) 1998 annual report shows that formal group retirement funds for which they were able to provide statistics, have almost 11 million members (but 1,7 million are retired and there are a number of duplications).

Pension fund contributions are recorded as amounting to R54,3 billion a year – 14 per cent of total personal remuneration in South Africa. Another R8 billion in contributions to retirement annuity funds, administered by insurers can be added. A large proportion of the R27 billion of regular premium life assurance is written as endowment policies that are also intended to mature at retirement.

The total accounts for almost 20 per cent of personal remuneration. This is considerably higher than necessary if no withdrawals were ever made. The figures do, however, tend to corroborate the Smith Committee estimates that some 80 per cent of formally employed workers are covered by retirement funds.

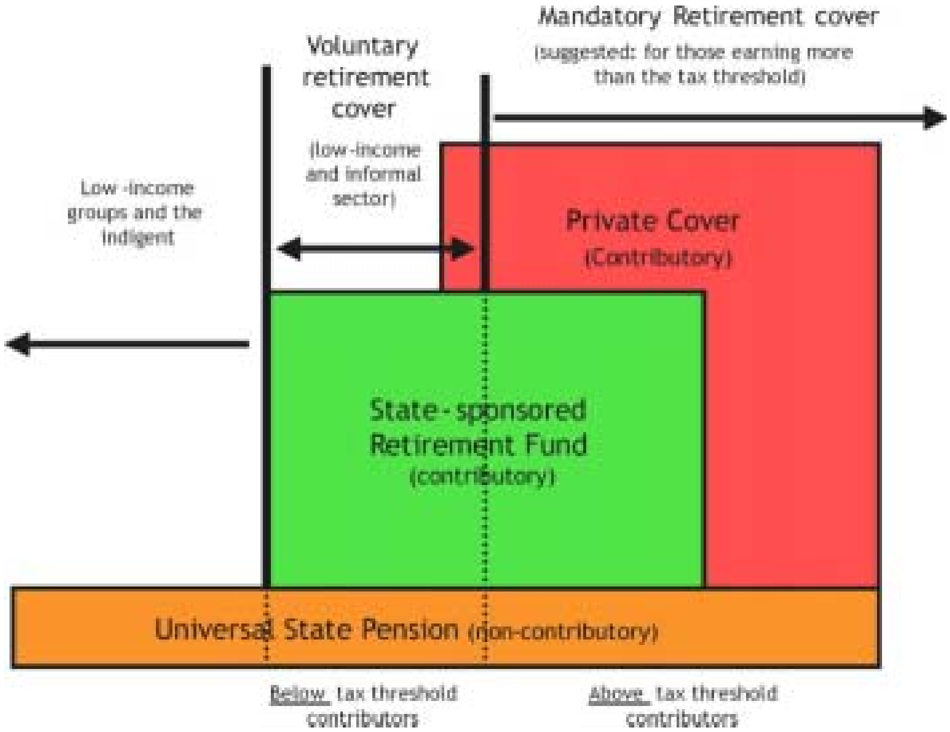
9.1.2 Proposed strategic framework

Reforming retirement provision within South Africa requires consideration of a holistic approach that integrates social assistance, social insurance options and private cover (figure 16).

9.2 Findings and recommendations

The Committee is of the view that the current distinction, in the Income Tax Act, between pension, provident, and retirement annuity

Figure 16
Proposed strategic framework for retirement provision in South Africa.



funds should be eliminated. All retirement funds should have the characteristics set out below.

9.2.1 Compulsion and preservation

9.2.1.1 Minimum mandatory contributions

In line with the discussion in section 3.6, the Committee recommends that all people employed in the formal sector (including all casual and part-time workers) be required to contribute a prescribed minimum percentage of their income for retirement saving. (In line with life cycle needs, this could be redirected to repay a housing bond if they are under the age of 40.) An exemption could also be given where the monthly contributions are so low that administrative costs exceed say 25 per cent of the contributions.

The Committee believes that the South African Revenue Service (SARS) should be able to identify non-contributors, and recommends that an appropriate enforcement mechanism be instituted to ensure that all employers contribute to an approved retirement fund. Provision should be made to take action against employers who fail to comply.

9.2.1.2 Compulsory preservation and unemployment

Compulsory contributions will not have the desired effect if members continue to withdraw their benefits when changing jobs. There is however, a need to make the funds available if the member becomes unemployed.

The Committee recommends that retirement funds' rules be amended so that benefits may be transferred on a member's withdrawal to their new employer's fund, or a retirement fund of the member's choice, if the member remains in employment in the formal sector. If no longer employed in the formal sector monthly payments a monthly amount, no greater than 60 per cent of income before becoming unemployed, should be payable – once the member is no longer entitled to further UIF benefits.

9.2.1.3 Annuitisation and inflation

The Committee recommends that all approved retirement funds be required, in their rules, to provide pensions that are intended to compensate for future inflation, and able to adapt to future changes in the rate. The rules must provide a specific mechanism for deciding on pension increases: either a formula or the use of a disinterested arbitrator. Up to one third of the value of the pension could be commuted for a lump sum.

9.2.1.4 Compulsory survivors' and disability cover

The Committee recommends that survivor's and