

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