

COMPREHENSIVE SOCIAL SECURITY IN SOUTH AFRICA

Department of Social Development

November 2016



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PURPOSE

- Briefing the NEDLAC Executive Council on Comprehensive social security and Retirement Reform proposals
 - Process update
 - Context and Background
 - Key challenges and reform proposals
- Obtain inputs and comments.
- Commitment to the NEDLAC process.



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STRATEGIC FOCUS: COMPREHENSIVE SOCIAL SECURITY AND THE NDP

- The establishment of a comprehensive social security system is a key policy strategy of Government to create an inclusive social protection system that addresses all areas of vulnerability and is responsive to the needs, realities, conditions and livelihoods of everyone.
- Prioritised in the National Development Plan (NDP)
 - Overarching goal: to eradicate poverty and reduce inequality.
 - Vulnerable groups and citizens are **protected** from the worst effects of poverty.
 - Elements of social protection **complimentary**; should not be seen in isolation.
 - Social protection services should provide protection against short-term shocks, sudden risks and chronic vulnerabilities.
- Chapter 11 of the NDP positions social protection as a critical part of public policy which provides support that reduces vulnerability, alleviates and ultimately prevents poverty, and empowers individuals, families and communities.
- The 2014 – 2019 MTSF: Outcome 13: “An inclusive and responsive social protection system”.



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SOCIAL SECURITY AS A HUMAN RIGHT

- The United Nations' Article 22 of the Universal Declaration of Human Rights states that:
 - “Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality”.
- Section 27 of the Constitution (Republic of South Africa)
 - (1) Everyone has the right to have access to
 - a. health care services, including reproductive health care;
 - b. sufficient food and water; and
 - c. **social security, including, if they are unable to support themselves and their dependants, appropriate social assistance.**
 - (2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights.

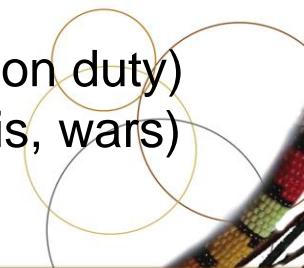


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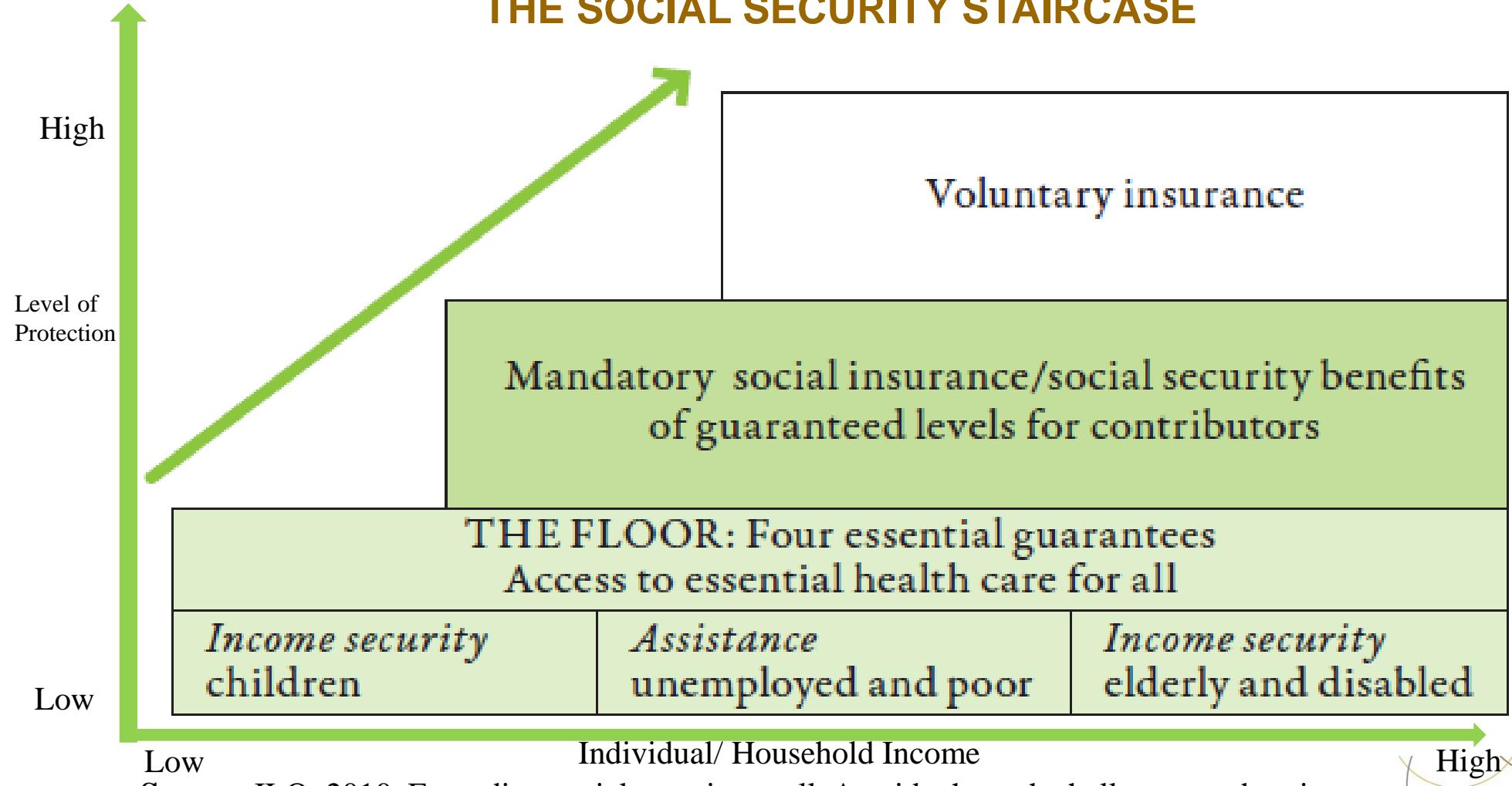
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WHAT IS SOCIAL SECURITY?

- The International Labour Organisation (ILO) defines social security as the **protection** that society provides for its members, through a series of public measures, against the economic and social distress that otherwise will be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age, and death; the provision of medical care; and the provision of subsidies for families and children. (*ILO Social Security (Minimum Standards) Convention 102 of 1952*)
- **SOCIAL**
 - A collective agreement (not a private market), possibly extended to all current and future generations, guaranteed and implemented by public institutions..
- **SECURITY**
 - A system designed to cover **risks**
- **WHAT RISKS?**
 - Personal/ micro (unemployment, disability, longevity, injuries, diseases on duty)
 - Aggregate/ macro (population ageing, inflation, recession, financial crisis, wars)



THE SOCIAL SECURITY STAIRCASE



Source: ILO, 2010. Extending social security to all. A guide through challenges and options

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SOUTH AFRICA'S SOCIAL SECURITY SYSTEM

Pillar 1

Social Assistance
(Non-contributory -
poverty alleviation)

Old Age

Disability

Child Support

Foster Care

Care Dependency

War Veterans

Social Relief of
Distress

Pillar 2

Social Insurance
(Contributory - Mandatory)

Unemployment
Insurance Fund
(UIF)

Compensation
Funds

Road Accident Fund
(RAF)

*National Health
Insurance (NHI)

*National Social
Security Fund
(NSSF)

Pillar 3

Voluntary
(Supplementary)
Arrangements

Pension and
Provident Funds

Retirement Annuities

Group Life Schemes

Collective Investment
Funds; Long-term
savings and
endowment funds and
other discretionary
savings and insurance
products

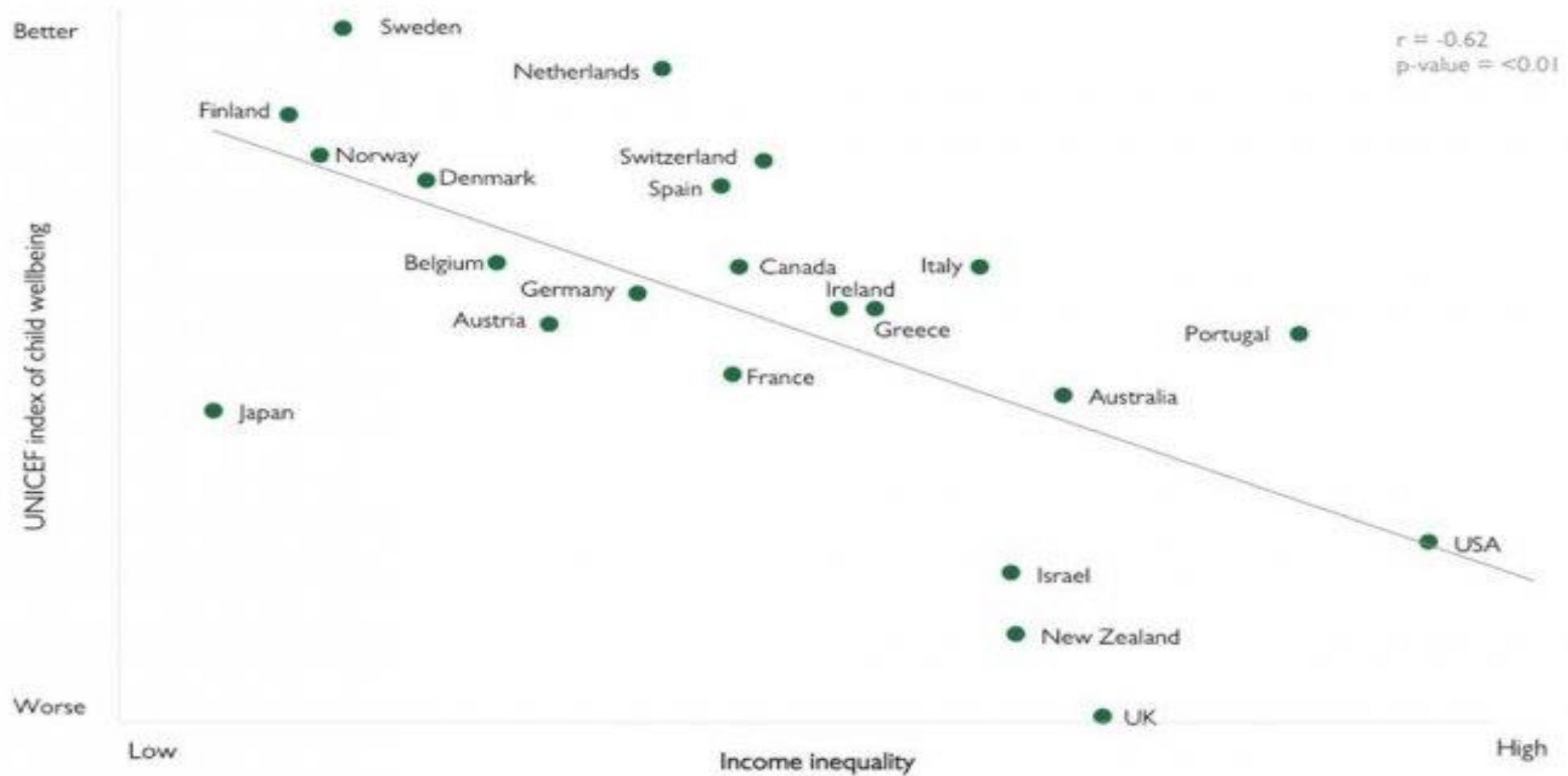
SOCIAL SECURITY, POVERTY AND INEQUALITY



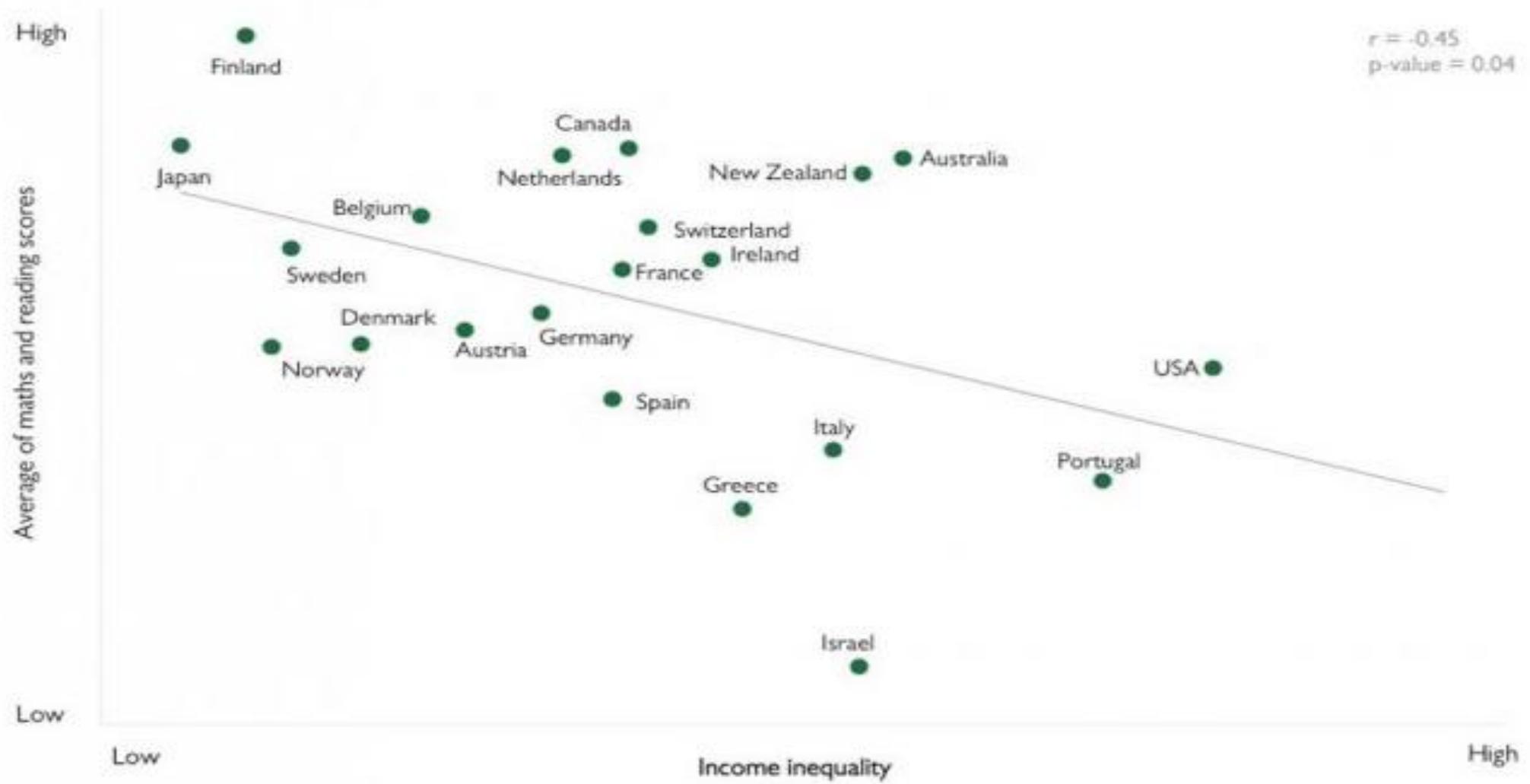
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Child wellbeing is better in more equal rich countries



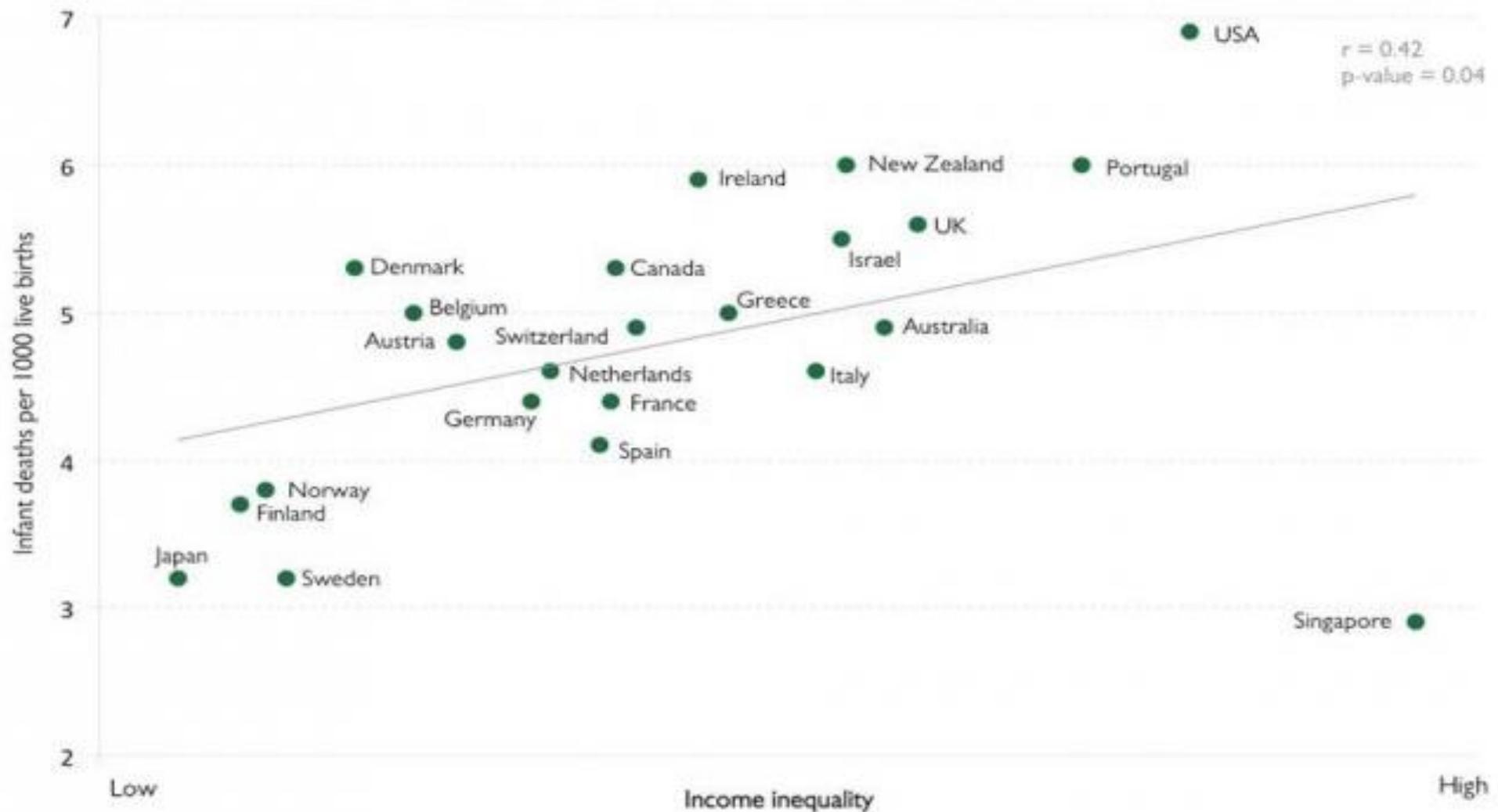
Educational scores are higher in more equal rich countries



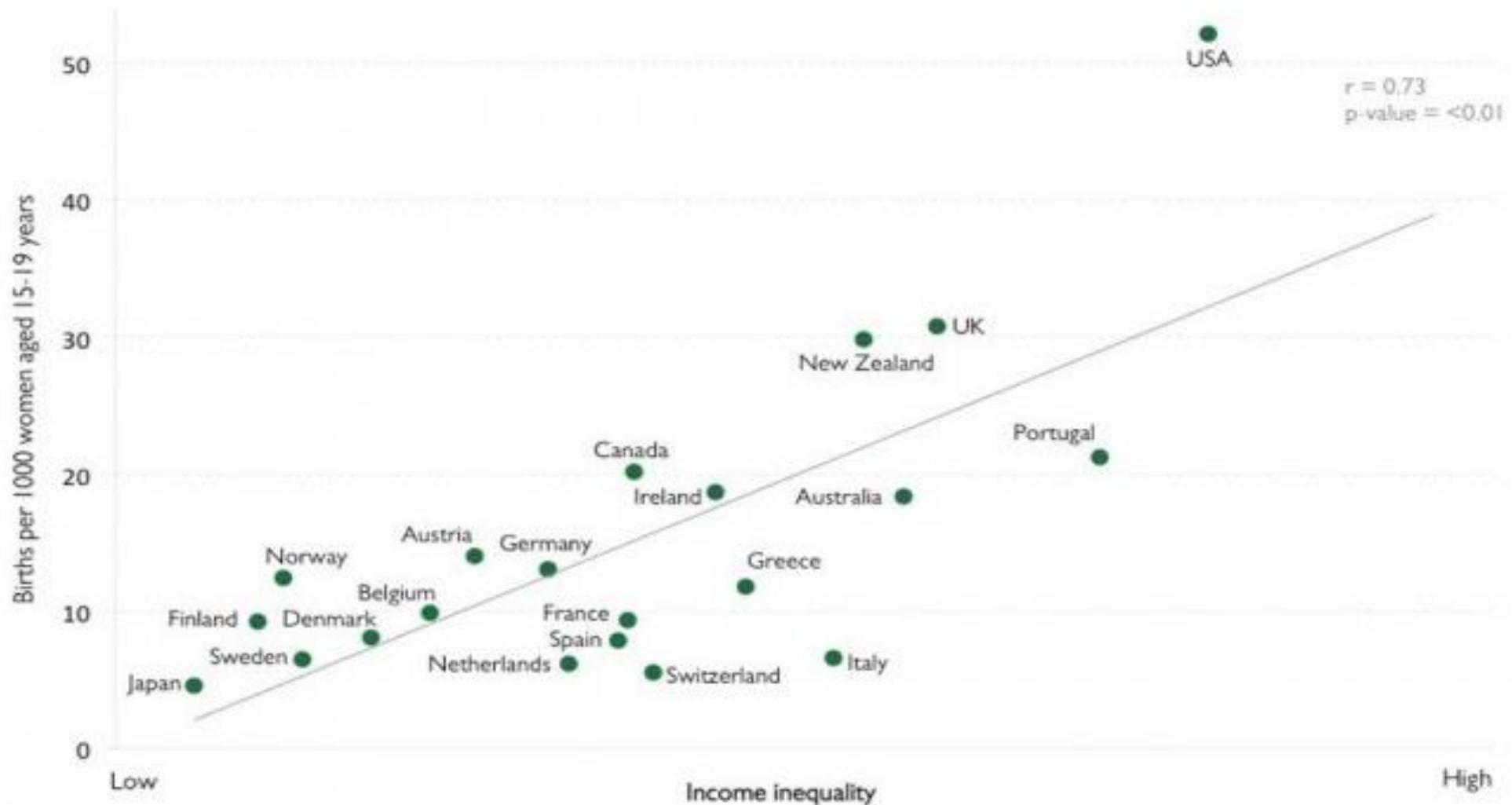
Health and social problems are worse in more unequal countries



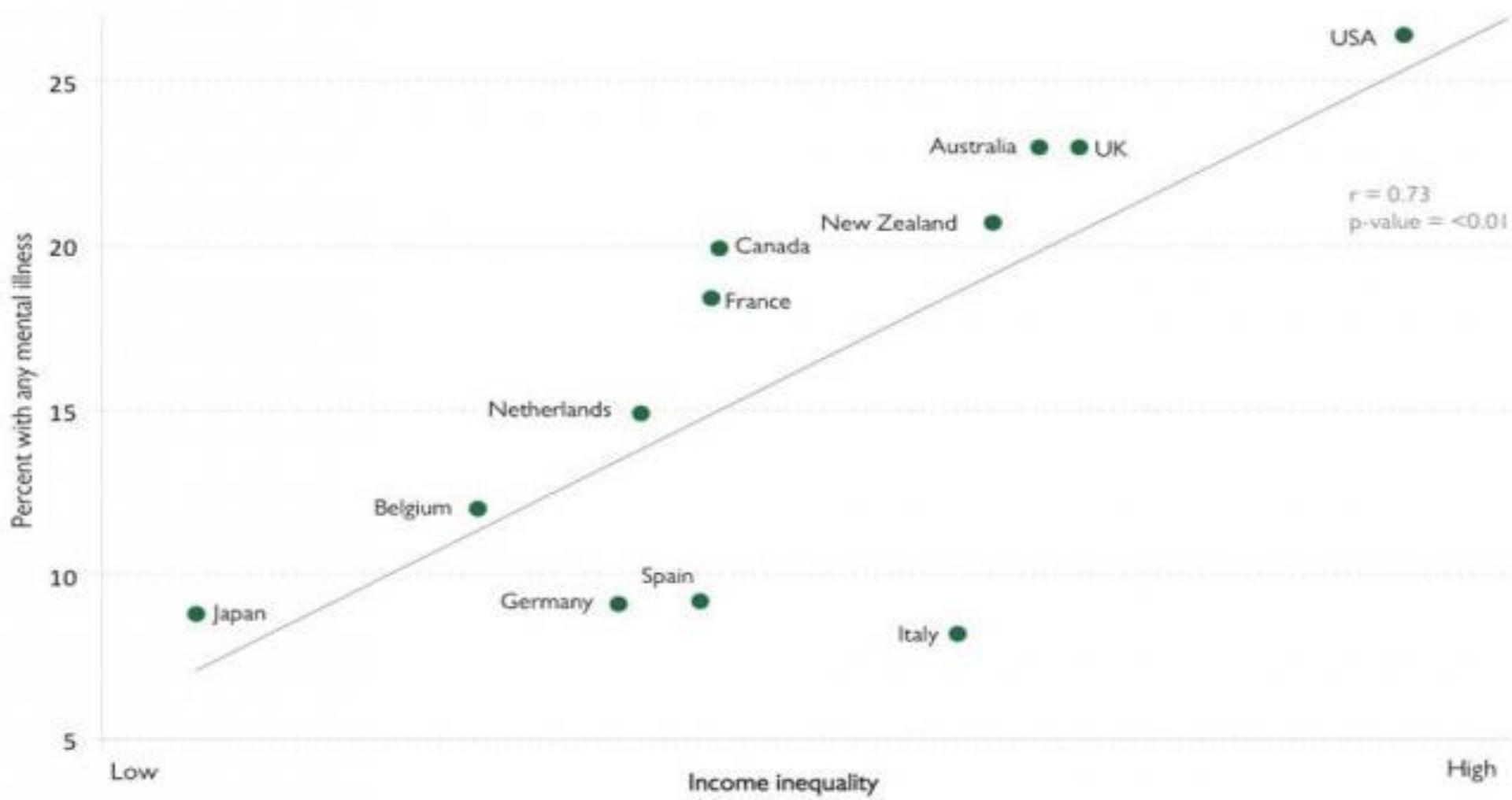
Infant mortality rates are higher in more unequal countries



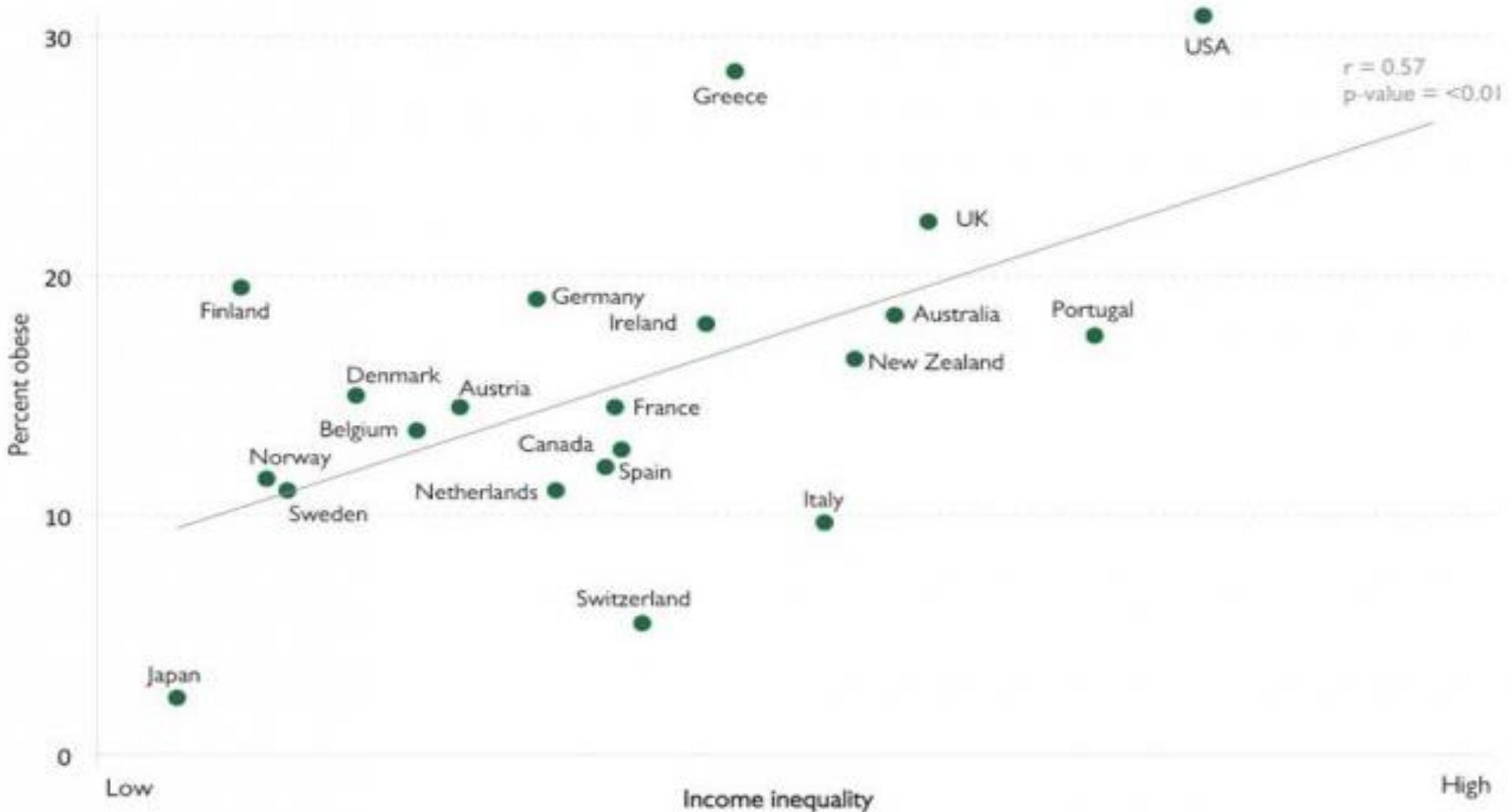
Teenage birth rates are higher in more unequal rich countries



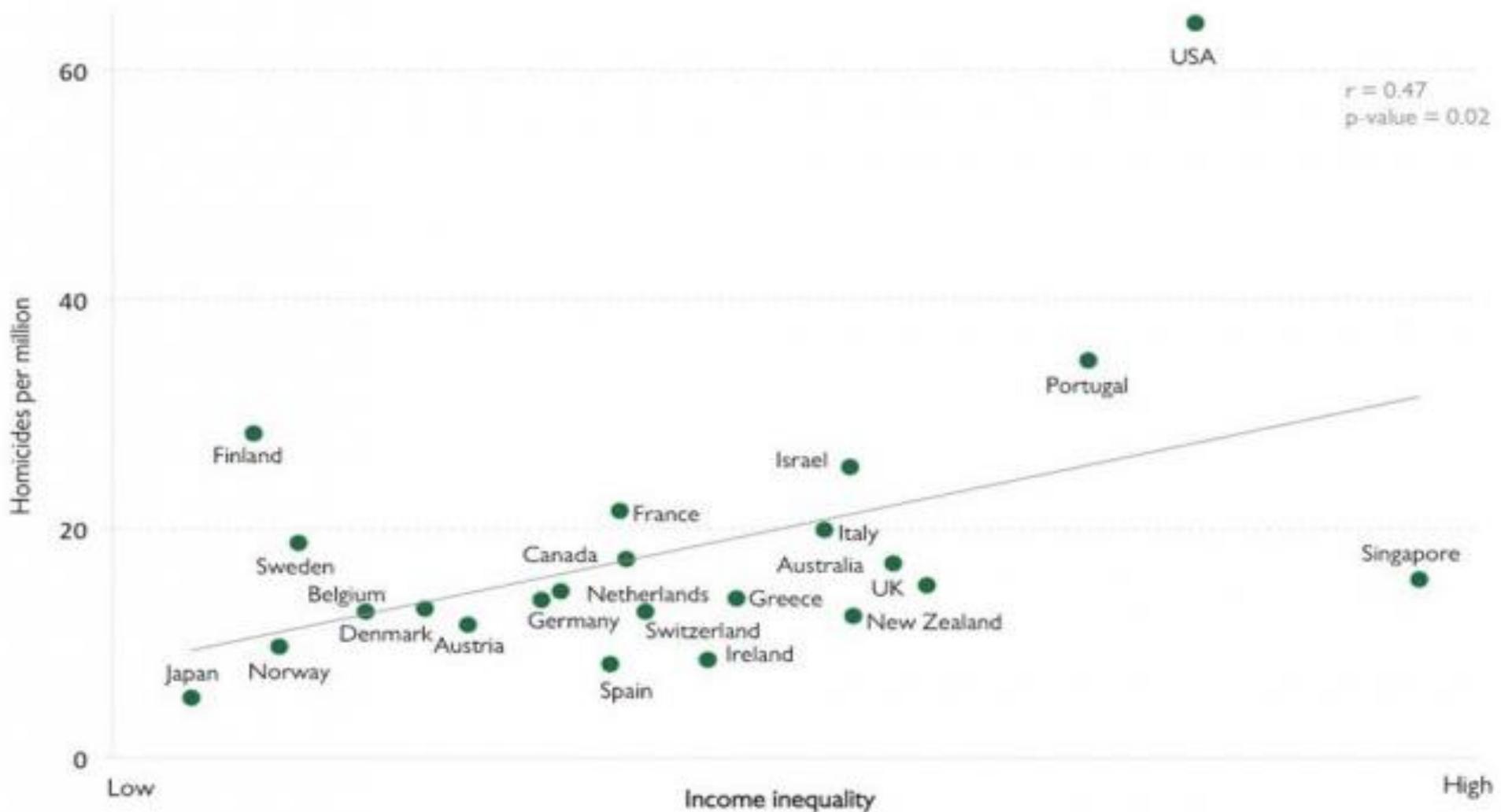
The prevalence of mental illness is higher in more unequal rich countries



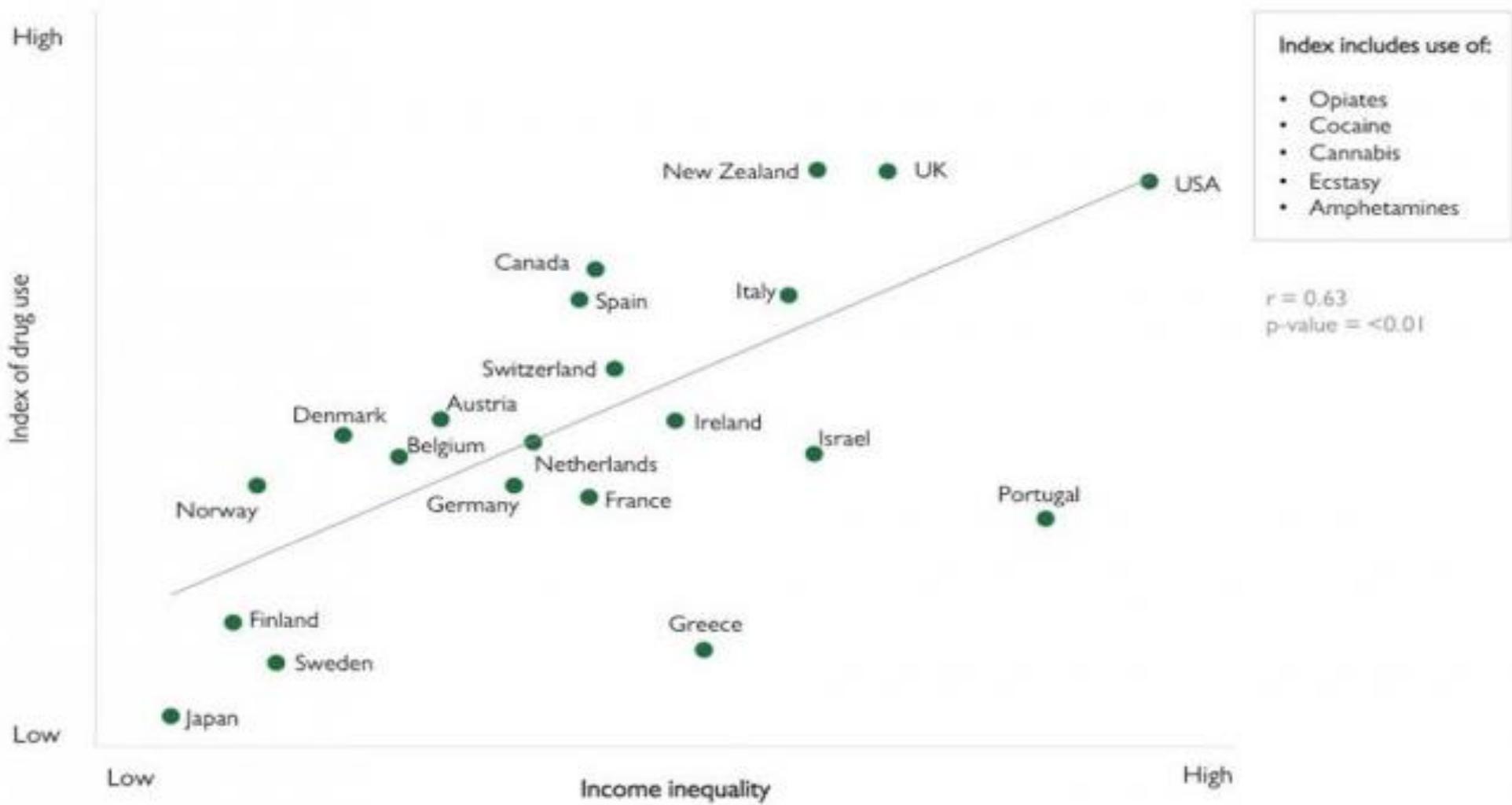
More adults are obese in more unequal rich countries



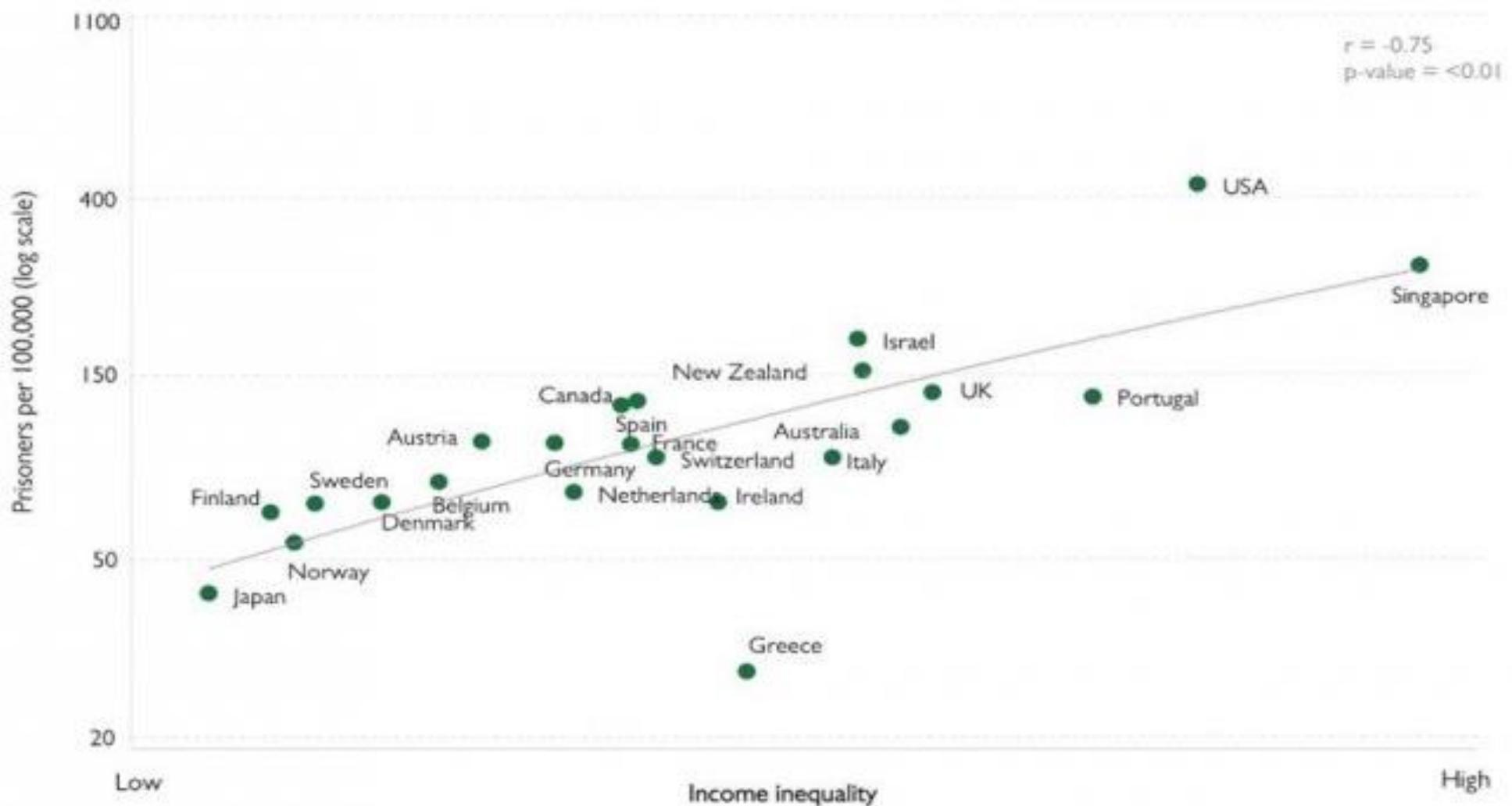
Homicide rates are higher in more unequal rich countries



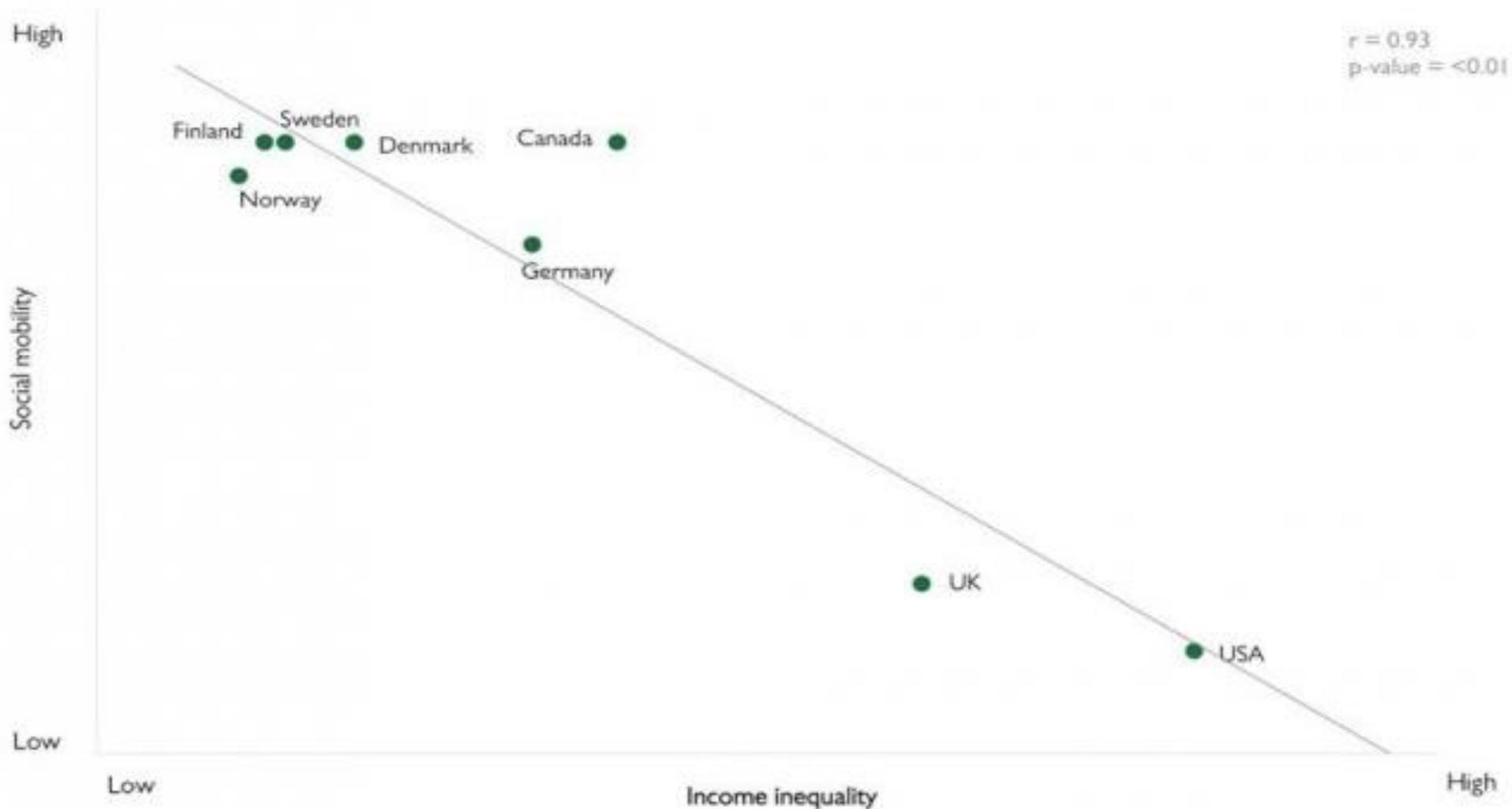
Drug use is more common in more unequal countries



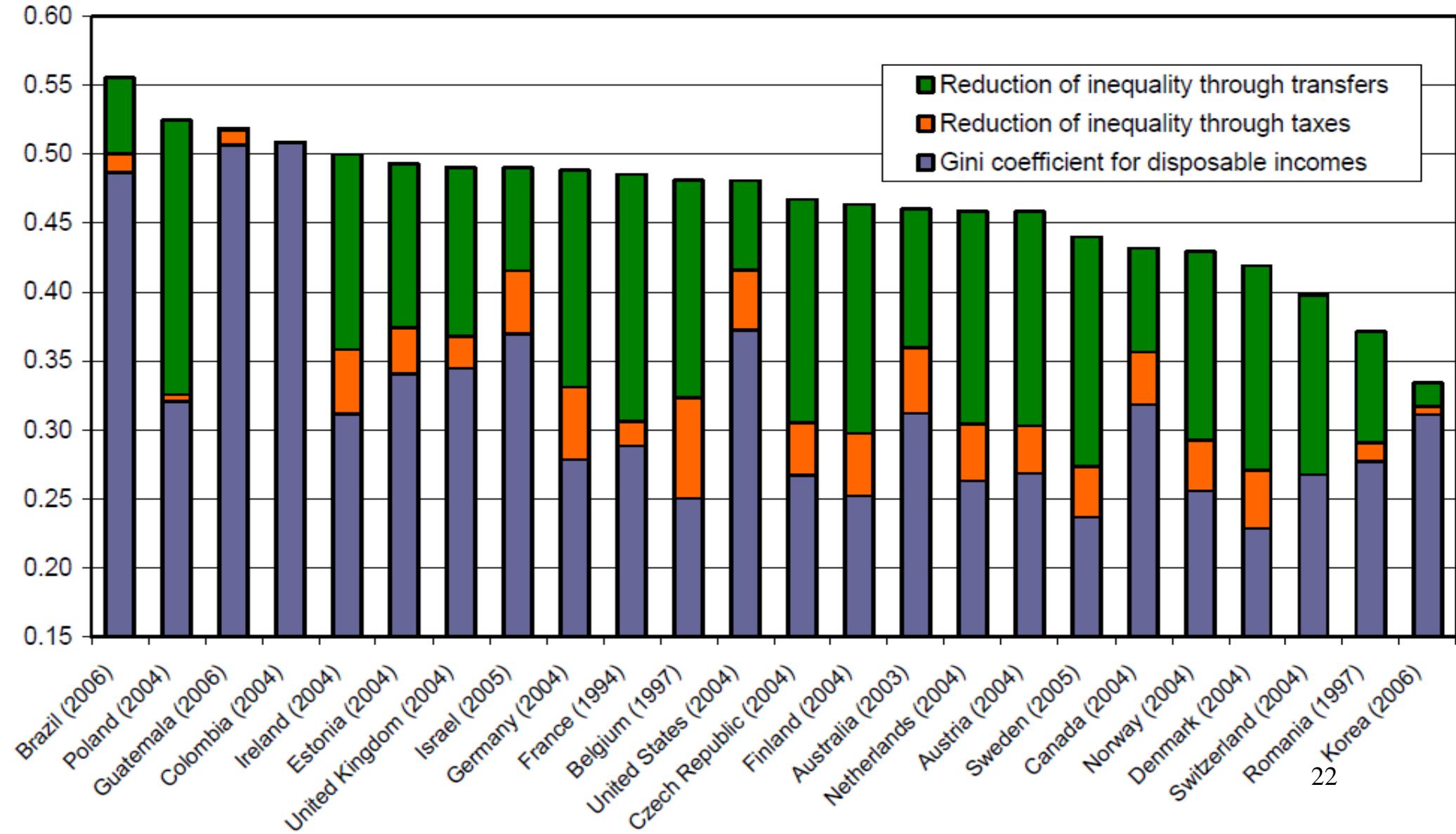
Rates of imprisonment are higher in more unequal countries



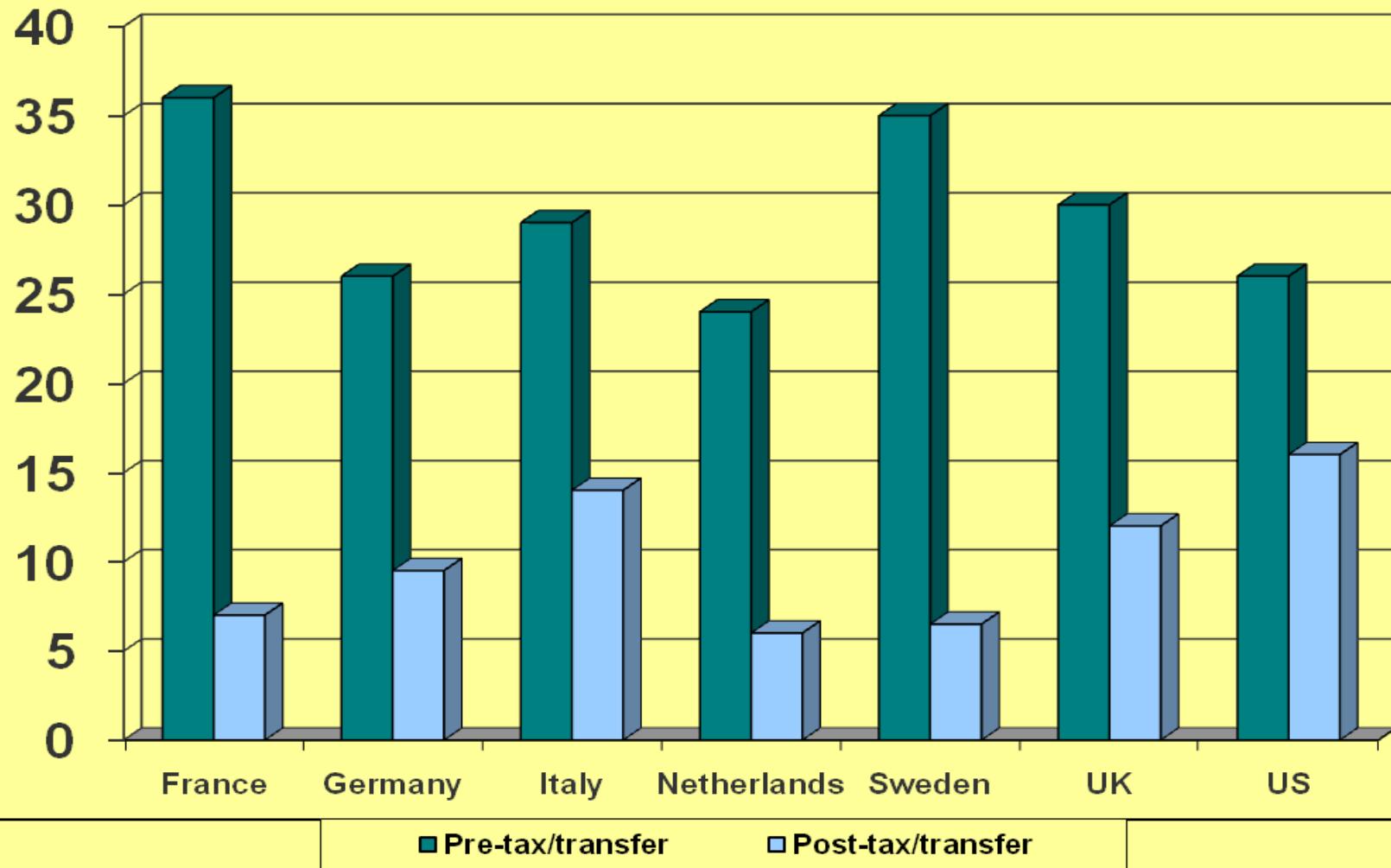
Social mobility is lower in more unequal countries



ROLE OF SOCIAL TRANSFERS AND TAXES IN ADDRESSING REDUCING INEQUALITY

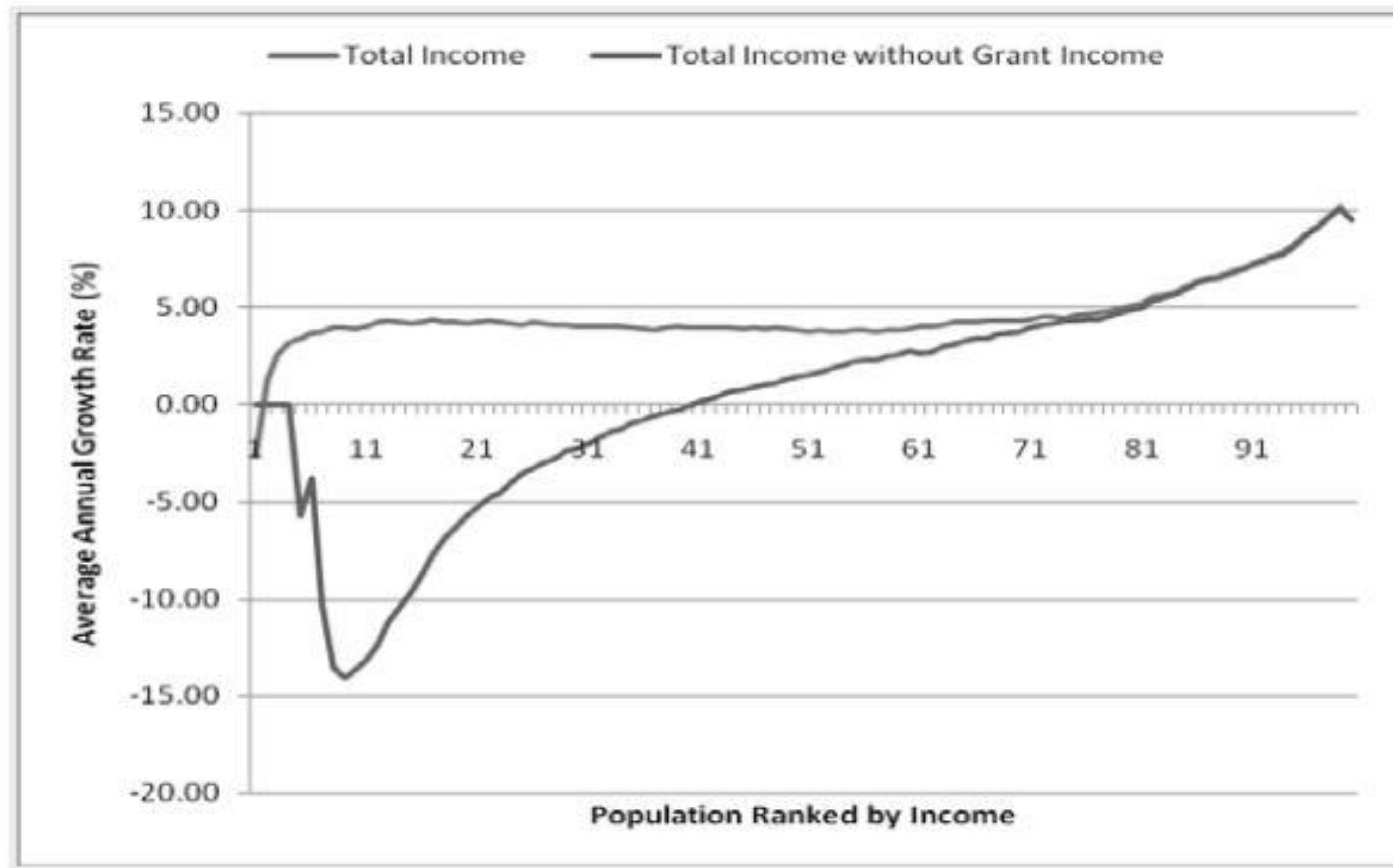


SOCIAL TRANSFERS, TAXES AND POVERTY



IMPACT OF ECONOMIC GROWTH AND SOCIAL GRANTS – 1995 - 2005

Figure 18: Growth Incidence Curve Total per capita income excluding Grants South Africa, 1995-2005



UPDATE AND PROGRESS MADE TO DATE ON SOCIAL SECURITY PAPER



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PROCESSES IN GOVERNMENT

- The Taylor Committee of Inquiry into a Comprehensive System of Social Security, 2002
- The Inter-Ministerial Committee on social security (and the Inter-departmental Task Team on Social Security & Retirement Reform, IDTT), 2007
 - Reform agenda included: *extension of the social assistance net; introduction of a compulsory pension system; improved unemployment insurance and better linkage to labour market policies; reform of the Road Accident Fund; National Health Insurance; alignment of social insurance benefits provided by the Road Accident Fund, Compensation for Occupational Injuries and Diseases, and the UIF; social security governance and institutional restructuring; and fiscal and financial aspects.*
 - IMC approved paper tabled at Cabinet in 2012
- Post Cabinet 2012 Meeting
 - The MTSF for Outcome 13 was approved by Cabinet, 2014.
 - Revision (*Dusting-off*) of the original IMC approved paper, 2015.
 - Re-establishment of a co-chaired IMC on social security.
- 2016 Cabinet approval of recommendations by the Ministerial Committee on the Review of the Implementation of the White Paper for Social Welfare (1997).



PROCESSES IN GOVERNMENT – CABINET DECISION: 08 JUNE 2016

- The Ministerial Committee on the Review of the Implementation of the White Paper for Social Welfare (1997) led by Prof Vivienne Taylor dedicated a chapter on social security in the Report and recommended that Cabinet should:
 - a. Adopt and implement the proposals on comprehensive social security.
 - b. Adopt the options with strongest alignment to the proposals in the 2012 paper, for establishment of a single National Social Security Fund.
 - c. Adopt the proposals within the next six months as a comprehensive package to reduce possibilities of resistance as happened when the measures related to withdrawal of provident fund contributions was introduced without the full reform package having been adopted.
- On 08 June 2016, Cabinet approved these recommendations.
- The Comprehensive Report was launched by the Minister of Social Development on 04 October 2016.
- Based on this Cabinet decision, there is need to accelerate consultations with stakeholders, including NEDLAC.



PROCESSES IN GOVERNMENT: The National Minimum Wage Panel Report, 2016

- The Panel suggested other measures with respect to wage policy and social protection that could be implemented alongside the NMW to address excessive wage inequality and working poverty.
- Areas for further consideration include, social wage policy including the Comprehensive Social Security policy.
- ILO Convention 131 outlines a number of related criteria for setting, monitoring, reviewing and adjusting minimum wages including – the needs of workers and their families, the cost of living and social security benefits.
- Beyond the “economic” or “workplace” wage provided through employment, the “social wage” provided by the Government is a crucial cog in the policy interventions aimed at improving the living conditions of poor households.
- Social wage policies enable and support labour market participation by narrowing the gap between wages and the cost of living of those engaged in low-waged work and their households.



KEY CHALLENGES AND REFORM PROPOSALS

PILLAR 1



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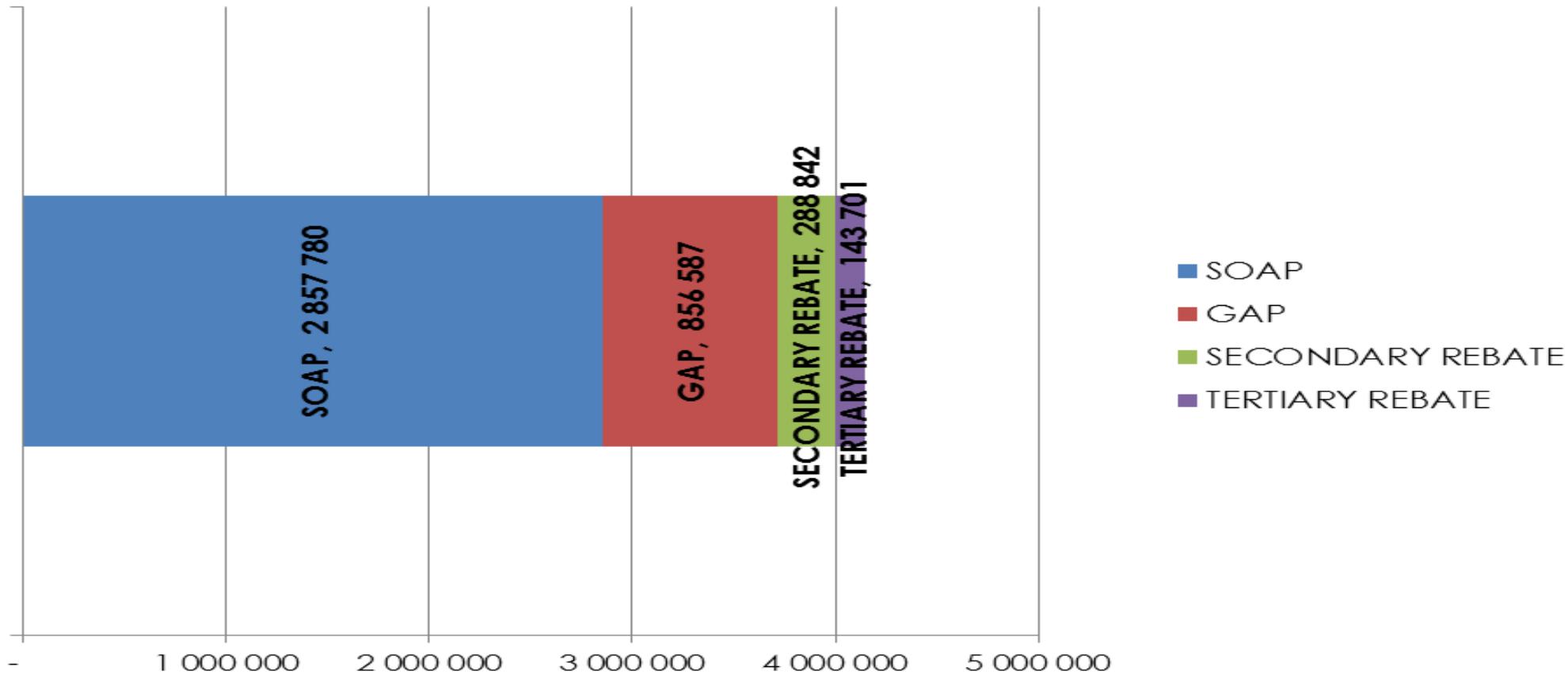
CHALLENGES: PILLAR 1 - OLDER PERSONS' BENEFITS

Gaps and Inconsistencies

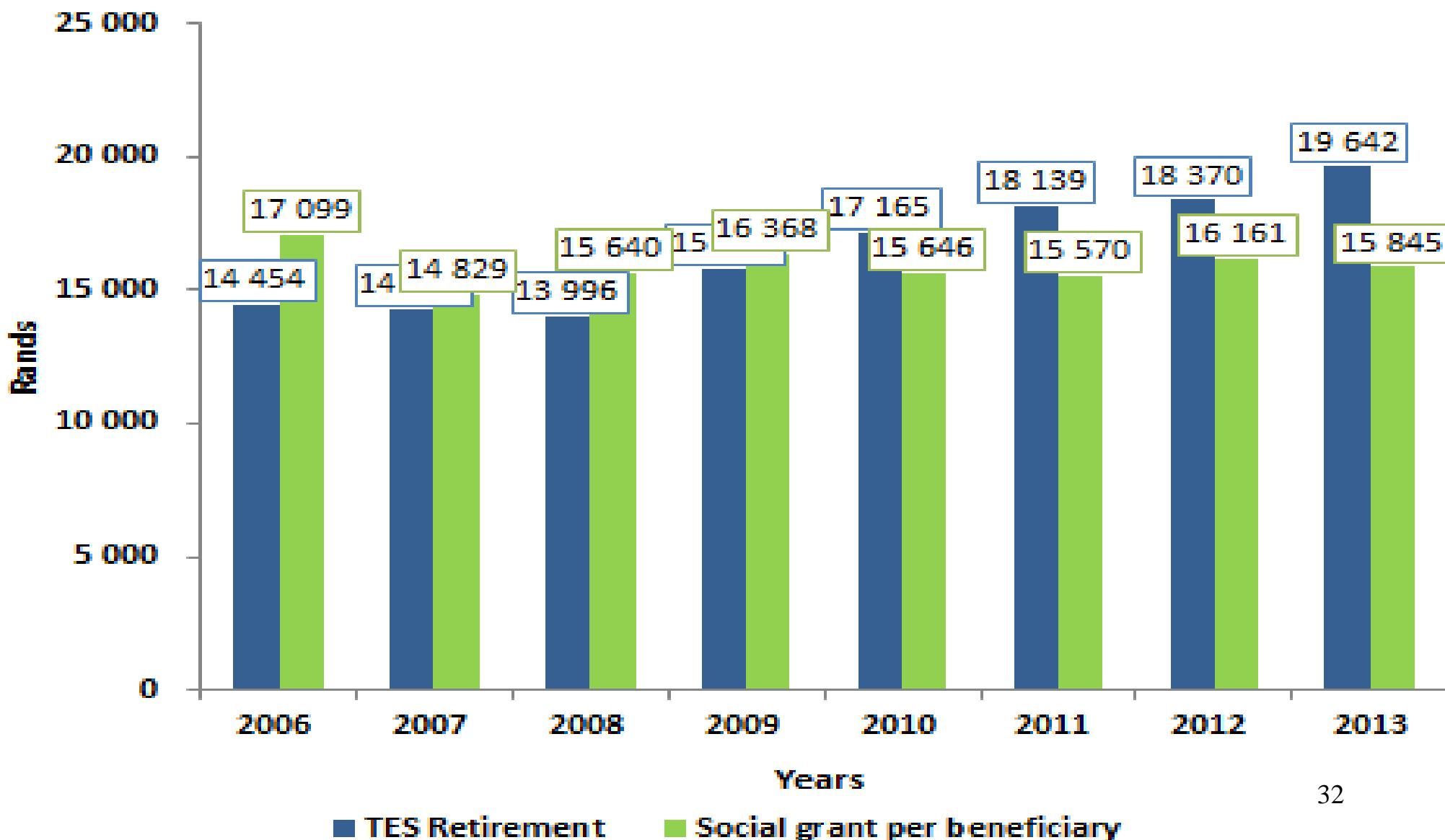
- State benefits for older persons are fragmented - different systems and criteria, resulting in exclusion errors both at the level of application and coverage
 - Income support is provided to older persons' in the form of an Older Person's Grant (OPG) for low income individuals (poor) and tax rebates for higher income individuals (rich)
 - Different benefits lead to equity problem between rich and poor
 - **Older persons aged 75 years receive R240 OPG vs. R2 466 on rebates per annum**
 - Approximately 850,000 older persons' between the means test threshold and the tax threshold do not receive any income support
- Means tests have complex **social** and **financial** consequences, including:
 - *the reliance on applicants to declare their income; administratively expensive and difficult for the public to understand; stigmatises people & undermines their constitutional right to dignity; invasive, people loose individual privacy and autonomy due to extensive disclosure of personal circumstances; and assumes parity in financial matters and takes away independence between spouses.*

OLDER PERSONS: CURRENT BENEFITS AND EXCLUSIONS

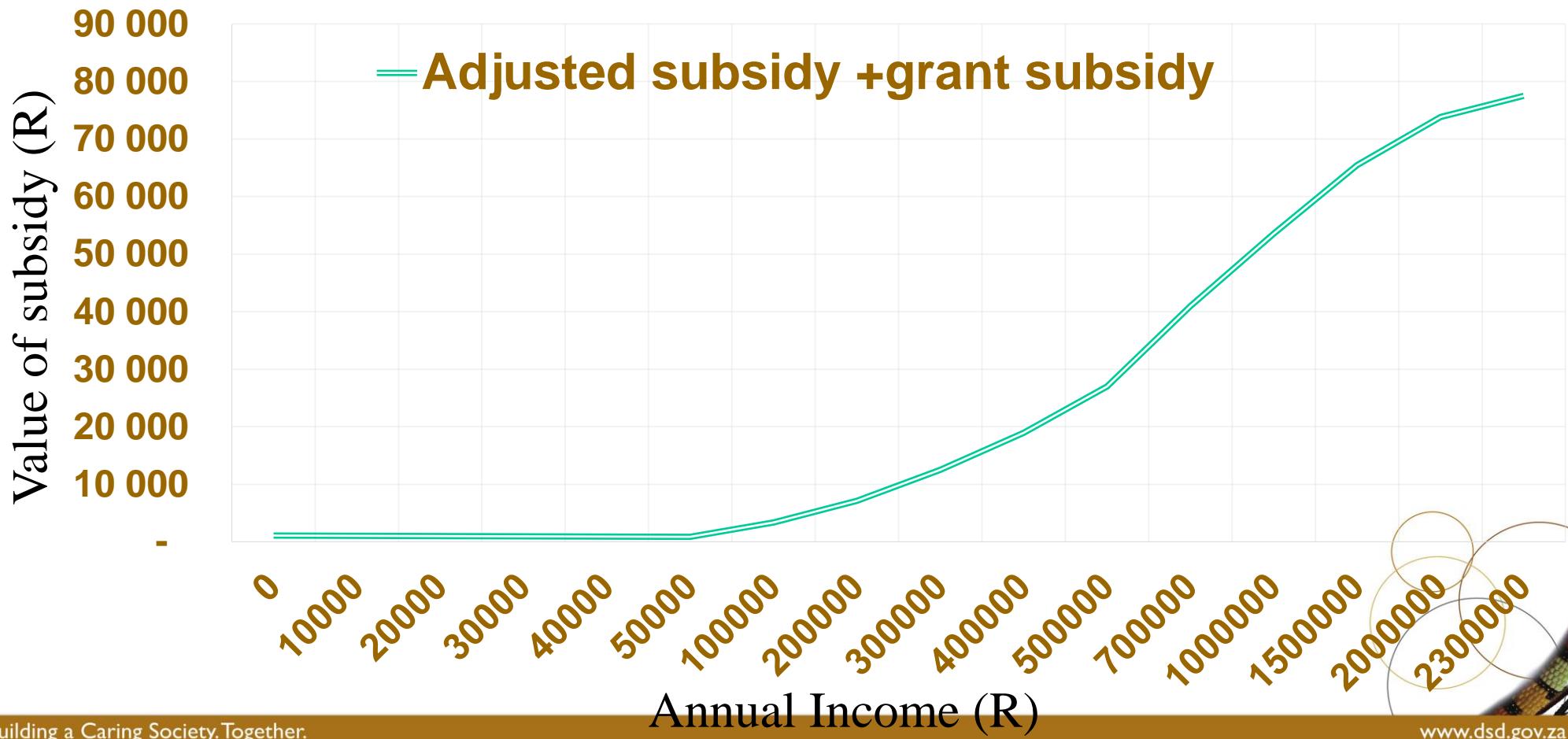
NUMBER OF OLDER PERSONS



PENSION TAX EXPENDITURE SUBSIDIES COMPARED TO THE STATE OLD AGE PENSION PER BENEFICIARY (2013 PRICES)



INCOME SUBSIDIES FOR THE ELDERLY (Modelled value to the OAG and TES)



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REFORM PROPOSAL: UNIVERSALISATION OF OLD AGE GRANT

Option 1: Universal at 60 and over	Option 2: Universal at age 65 and over	Option 3: Universal at age 75 and over
<ul style="list-style-type: none"> Benefit will be given to all older persons aged 60 and over. Means test will be abolished Secondary and tertiary rebates will also be abolished. Benefit will be considered as taxable income. Option addresses exclusion errors, but is very expensive. Financial implication is R18 billion 	<ul style="list-style-type: none"> Benefit will be given to all older persons aged 65 and over. Secondary and tertiary rebates will be abolished. Benefit will be considered as taxable income. Means tested benefit will be retained for under 65. Spousal income and asset tests for means tested benefit will be abolished. Option addresses exclusion errors and is financial affordable. Financial implication is R10 billion 	<ul style="list-style-type: none"> Benefit will be given to all older persons aged 75 and over. Tertiary rebates will be abolished. Benefit will be considered as taxable income. Means tested benefit will be retained for under 75. Spousal income and asset tests for means tested benefit will be abolished. Option does not address exclusion errors – majority already receive OPG and tertiary rebates. Financial implication is R2 billion

CHALLENGES: PILLAR 1 - UNEMPLOYED ADULTS

- Unemployed adults aged 18-59 remain excluded
 - The disability grant targets individuals aged 18-59 years of age who are unable to support themselves through work on account of disability.
 - Worker compensation schemes target those who are injured or suffer from diseases arising from their work, as well as dependents of those who have died from work-related accidents or diseases.
 - The unemployment rate has remained stubborn around 26-40% (narrow to expanded definition).
 - Social assistance does not currently address the needs of those aged between 18 - 59 who are unemployed and without means of support.
 - This leaves many adults to eke out a living in the informal sector, or depend on low-paid workers for irregular support.
 - Those unemployed who live in households without a grant beneficiary are even worse off.



REFORM PROPOSAL: INTERVENTIONS FOR THE 18-59 UNEMPLOYED

- Consideration should be given to some form of social assistance
- A mix of measures must be explored to consider what is feasible in the short, medium and long term, including:
 - Phased-in income support based on available resources;
 - Active labour market interventions such as allowances linked to skills development and the expanded public works programme;
 - Further education and training; and
 - Youth employment programmes.
- The NDP also proposes that the “unemployed working age population should have income support through various active labour market initiatives such as public works programmes, training and skills development, and other labour market related incentives”.



CHALLENGES: PILLAR 1 - CHILD GRANTS (CSG)

- The **CSG** is available to the primary caregiver of eligible children under the age of 18 who qualify in terms of an income-based means test.
- However, the system does not currently provide specifically targeted social assistance for orphans in the care of related family members and children in child-headed households.
- The Foster Child Grant has become a means by default, a way of accessing social assistance for some of these children.

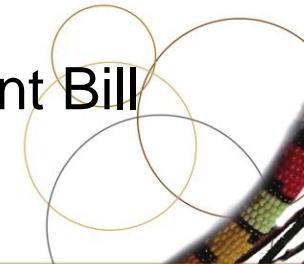


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REFORM PROPOSAL: CSG - SUPPORT TO VULNERABLE CHILDREN

- Increase the value of the CSG for orphans and children in child-headed households.
- Reduce under-coverage by eliminating the means test and enabling all children to access the grant.
- Promote horizontal tax progressivity
- Solidarity - providing all children with the opportunity to develop their full capabilities.
- Universal provision will enable the many poor children currently excluded from the programme to realise the important developmental impacts that the CSG currently delivers to millions of others.
- The proposal is now included in the Social Assistance Amendment Bill



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KEY CHALLENGES AND REFORM PROPOSALS

PILLAR 2



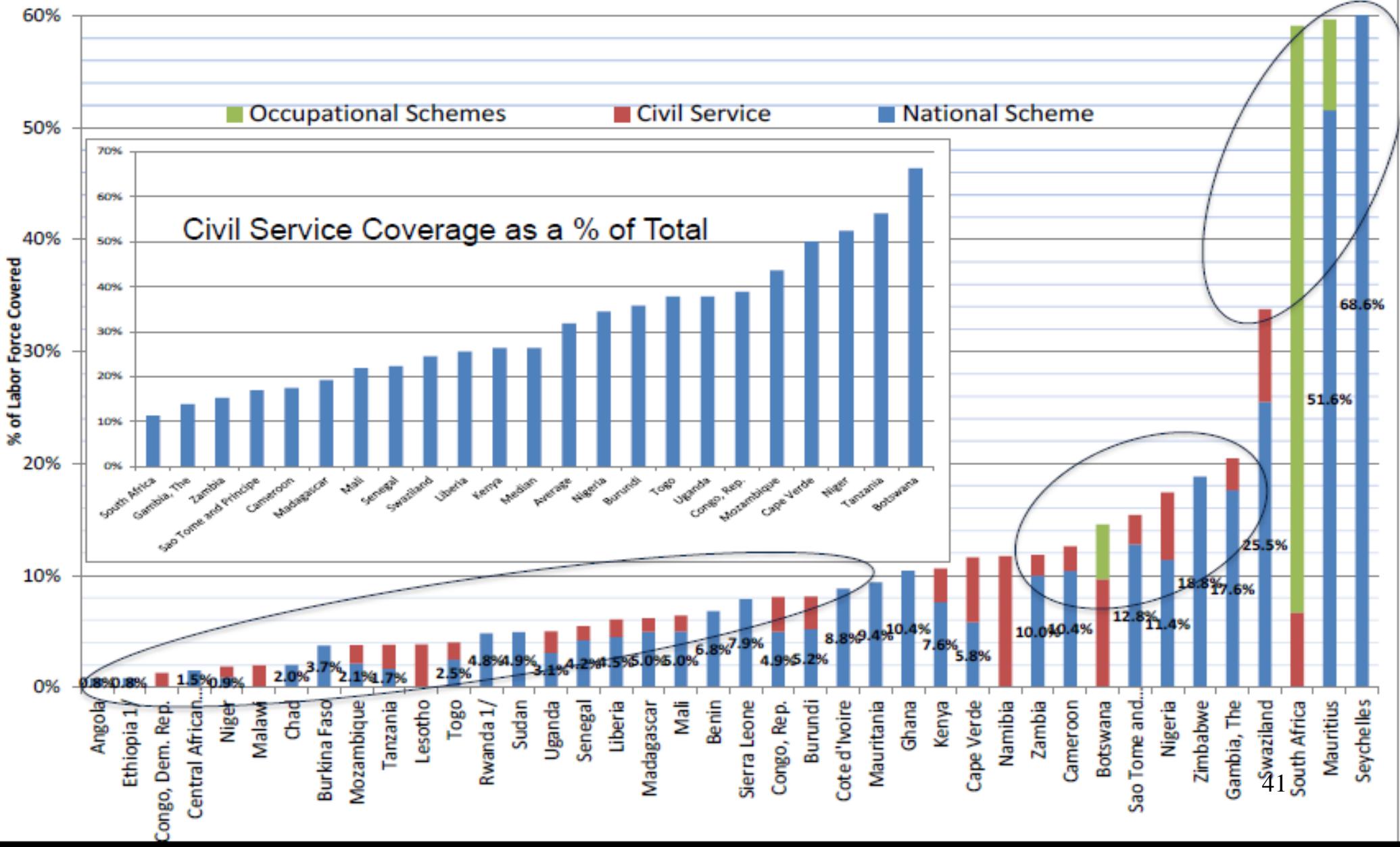
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CHALLENGES: PILLAR 2 – LACK OF MANDATORY COVER

- Key gap in Pillar 2 of South Africa's social security system.
- Absence of mandatory social insurance cover that provides pension, death and disability benefits to the workforce as a whole.
- A large number of private occupational and voluntary schemes exist, but challenges include:
 - Limited risk pooling based on employer or industry schemes.
 - Retirement product complexity, different pricing structures, weak disclosure
 - Different benefit and contribution levels result in different levels of cover.
 - High administration costs and charges –weak competition results in high charges
 - Poor governance by trustees due to lack of adequate training and skilling of trustees who have to manage the retirement funds.
- Those who are self-employed or excluded from group schemes have to fend for themselves in individual risk-rated products.
- It is estimated that more than 4 million workers are not covered in any form of pension, death and disability cover.

SOUTH AFRICA'S ANOMALY - COVERAGE



REFORM PROPOSAL: PILLAR 2 – THE NSSF/ MANDATORY COVER

- Introduction of mandatory social insurance contributions for pension, death and disability benefits (cover).
- Establish of a Government-run National Social Security Fund (NSSF) to provide these benefits.
 - Workers should make regular social security contributions during their salary-earning years to avoid falling into poverty in the event of retirement, death or disability.
 - Those who live long beyond their salary-earning years need an adequate income in retirement, while those who die young require assurance that their dependants will be provided for and those who suffer injuries and lose their capacity to work need a replacement income.
- Contribution subsidy paid by Government to ensure inclusion of low-income earners
- The design of system should complement non-contributory social assistance as well as existing contributory arrangements, both statutory and voluntary.



REFORM PROPOSAL: PILLAR 2 – THE NSSF/ MANDATORY COVER

• Rationale for NSSF

- A single centralised fund will promote broader risk pooling across the whole workforce.
- It will allow for standardized benefits for all contributors, thus reducing complexity
- It will address issues of portability of benefits
- Economies of scale will reduce administration costs
- Inclusivity (especially for low income groups)
- It will ensure a minimum level of protection for all participants
- It will foster social solidarity among low and high income earners



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CHALLENGES: PILLAR 2 - GAPS AND INCONSISTENCIES IN EXISTING SCHEMES

- The UIF currently excludes civil servants, learners and contract workers.
- The benefits last only 8 months, while many people remain unemployed beyond this period.
- RAF is fault-based, resulting in protracted delays in claim settlement
- The system is expensive and unfair
- Health insurance (+/-17% covered in voluntary medical schemes)
- NHI aims to address this gap, and is currently in the pilot stages



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REFORM PROPOSALS: PILLAR 2 – OTHER SOCIAL INSURANCE ARRANGEMENTS

- **Improved unemployment benefits** to reduce the need for workers to access retirement accumulations;
 - Credits accrue faster
 - Extension of benefits for longer-term unemployed, from 8 to 12 months
 - Cover to include government employees, learners and contract workers
- **Alignment of social security with the National Health Insurance, once implemented.**
- **Implementation of the Road Accident Benefit Scheme (RABS)**



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KEY CHALLENGES AND REFORM PROPOSALS

PILLAR 3



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CHALLENGES IN PILLAR 3

- A large number of private occupational and voluntary schemes exist (over 2000) with different benefits, contribution rates and rules
- Challenges include:
 - **High administration costs and charges** – retirement product complexity, different pricing structures, weak disclosure and weak competition results in high charges compared to international benchmarks
 - **Low income replacement rates** – estimated at 24-27%
 - **Early withdrawals and non-preservation** – Many contributors usually withdraw and spend their retirement savings when they change jobs. This leaves them vulnerable in retirement as they would not have accumulated much to savings to retire comfortably
 - **Governance** - Some funds experience poor governance due to lack of adequately skilled trustees and conflicts of interest.

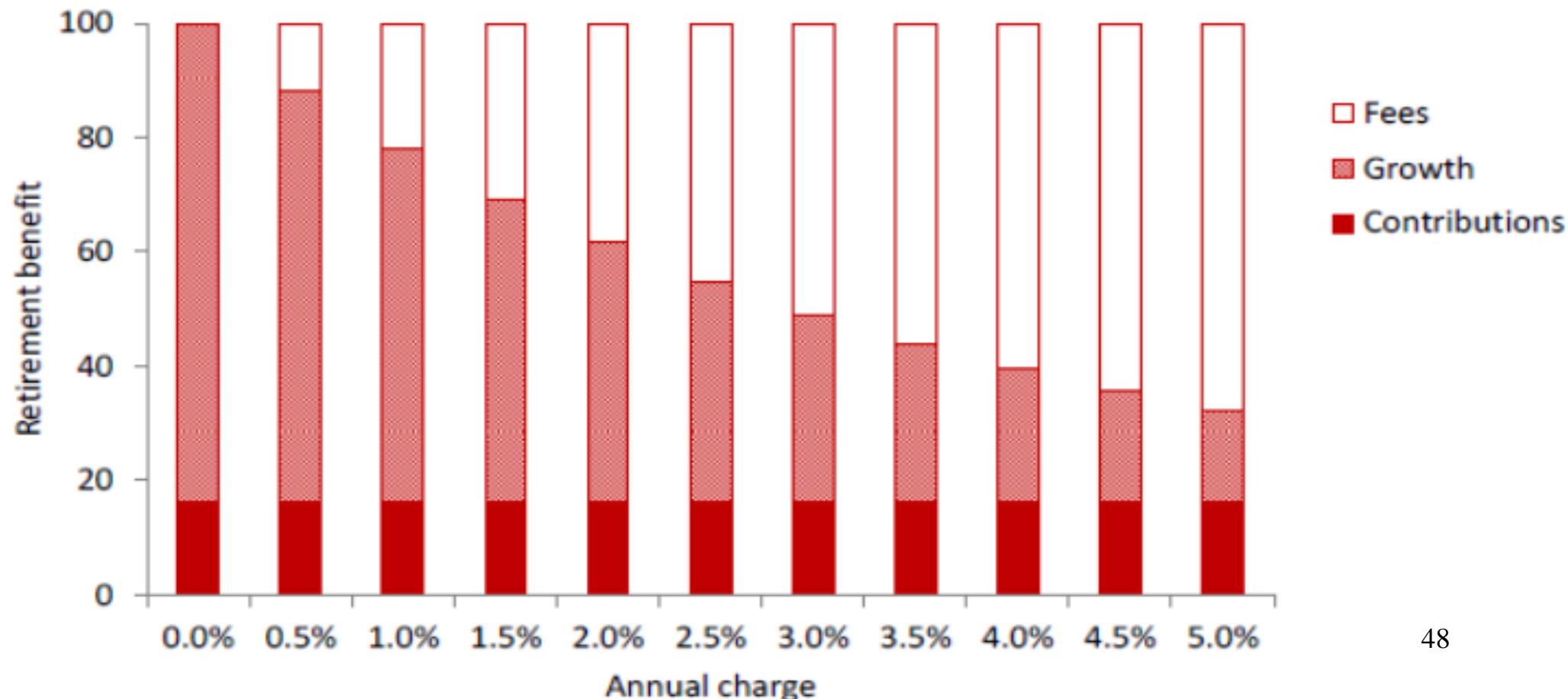


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EFFECT OF HIGH CHARGES ON RETIREMENT INCOME

- High costs charged in the industry often result in substantial depletion of the final value of retirement benefits.
- A contributor making regular contributions would realise a benefit that is 60% higher after 40 years if their charges are reduced from 2.5% to 0.5, if all else remain the same.



REFORM PROPOSAL: PILLAR 3 INTERVENTIONS FOR CONSIDERATION

• Regulatory reform of pensions and life insurance industry

- Auto-enrolment in supplementary funds.
- Approved funds framework promoted by tax-incentivised supplementary savings.
- Set standards relating to disclosure (transparency), investment strategy, risk management, administration and governance.
- More pro-active and comprehensive supervision to ensure that appropriate measures are put in place to safeguard member's contributions and benefits.
- Stricter regulation of scheme governance to remove conflicts of interest.
- The regulation of the mandatory system will be influenced by the Twin Peaks Model (Prudential Regulation - SARB and Market conduct regulation - FSB).
- The regulatory framework would need to take into account the special requirements of a social security fund.

KEY CHALLENGES AND REFORM PROPOSALS

INSTITUTIONAL FRAMEWORK



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EXISTING INSTITUTIONAL FRAMEWORK

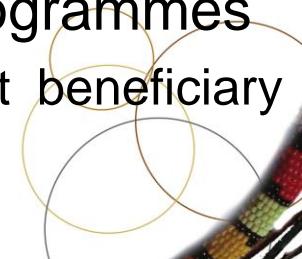
Social Security Benefits	Policy Development	Implementing Institutions
Social Assistance (Grants)	Department of Social Development	South African Social Security Agency (SASSA)
Unemployment insurance Short-term illness Maternity benefits	Department of Labour	Unemployment Insurance Fund
Occupational injuries and diseases	Department of Labour Department of Mineral Resources Department of Health	Compensation Fund (COIDA) The Compensation Commission for Occupational Diseases (CCOD) (miners and former miners who have contracted lung-related diseases).
Retirement (old age)	Department of Social Development/ The National Treasury	SASSA Private industry Financial Services Board
Health Care	Department of Health	Public health system Private industry Council for Medical Schemes
Road accidents insurance	Department of Transport	Road Accident Fund

SUMMARY OF SOCIAL SECURITY BENEFITS OFFERED BY EXISTING ENTITIES

Social Security Benefit Type	UIF	CF	CCOD	RAF	SASSA
Pension					✓
Unemployment	✓				✓(Discretionary)
Family benefits, Adoption and child benefits	✓				
Disability		✓	✓	✓	✓
Funeral		✓		✓	
Health Care/ Medical		✓	✓	✓	
Maternity	✓				
Sickness/ illness	✓	✓ (Implicit)		✓ (Implicit)	
Survivor	✓	✓	✓	✓	
General Damages				✓	

INSTITUTIONAL CHALLENGES IN EXISTING SYSTEM

- Fragmented social security policymaking and delivery
 - Social security policymaking is spread across several government departments
 - Lack of coordination in the design and administration of benefits
 - Different floors, ceilings, thresholds, benefit levels, etc
 - Can result in high costs and increase the scope for “double dipping” and fraudulent claims
- Lack of coherence among social security arrangements
 - The different social security entities have separate access points and infrastructure are not sufficiently coordinated to promote a coherent link to retraining and rehabilitation
- Lack of coherence between social security and labour market programmes
 - Public Employment Services are not easily available to social grant beneficiary households, or individuals who have not participated in UIF



REFORM PROPOSALS: INSTITUTIONAL REFORMS FOR CONSIDERATION

- **Enhancing social insurance funds through**
 - Improved policy coordination;
 - Alignment of benefits and assessments where there are overlaps;
 - Standardised disability assessments; and
 - Common client interface.
- **Strengthen links between social security and labour**
 - All social security entities (including labour centres) should share facilities and infrastructure, to expand their footprints and expand access to social security services and employment services.
- **Transform the RAF to the Road Accident Benefit Scheme**



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FINANCIAL IMPLICATIONS (i)

- Once the proposals in this Discussion Paper have been engaged through public consultations, options in the final policy proposals will be costed in detail to assist Cabinet in decision making for approval.
- A phased approach is proposed for the implementation of the approved policies in order to progressively realise the Constitutional provision of social security as a basic right.
- Tax and transfer systems need to be harmonised and many adjustments can be made in a manner that is revenue neutral.
- Institutional rearrangements may require initial set up costs, however these should deliver savings in the longer term due to efficiency gains and economies of scale.



FINANCIAL IMPLICATIONS (ii)

- The following should be noted:
 - **Mandatory social security contributions**
 - Contributions by members – employees and employers
 - Will run a growing surplus for many years (during early life of fund)
 - Government-run fund will require initial funding for set-up
 - **Contribution Subsidy**
 - Flat or proportional rate
 - Credit based approach – expenditure triggered at retirement (notional)
 - **Universalisation**
 - Do away with the means test
 - Equitable treatment of all older persons



CONCLUSION

- The social security reform proposals under consideration are quite far reaching and complex, with multiple stakeholder interests to be negotiated.
- This requires intensive stakeholder consultations to ensure that everyone engages and present their views.
- The Department of Social Development is committed to the working all social partners.



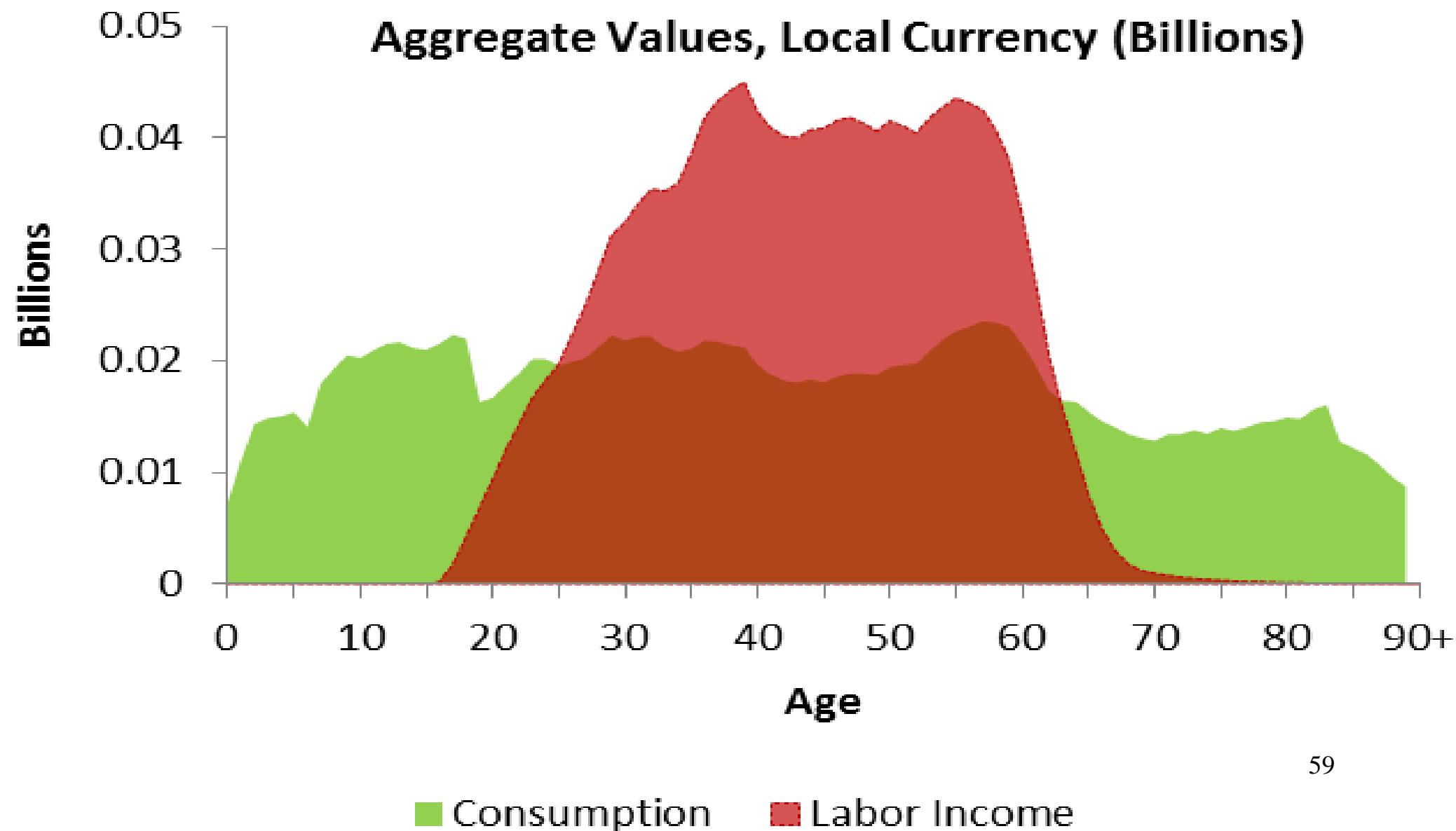
SUPPORTING SLIDES



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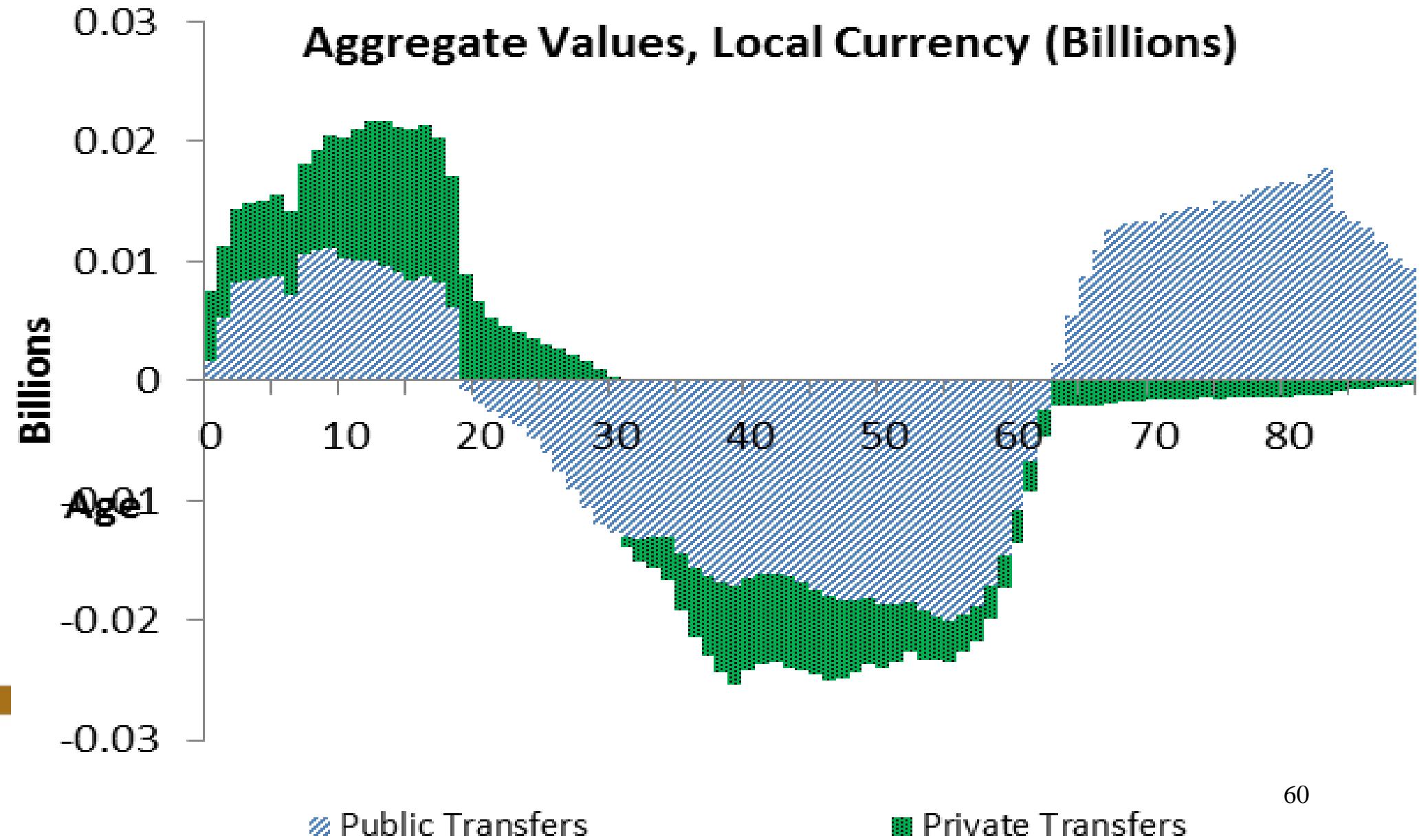
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LIFECYCLE CONSUMPTION PATTERN



PUBLIC VS. PRIVATE: SWEDEN

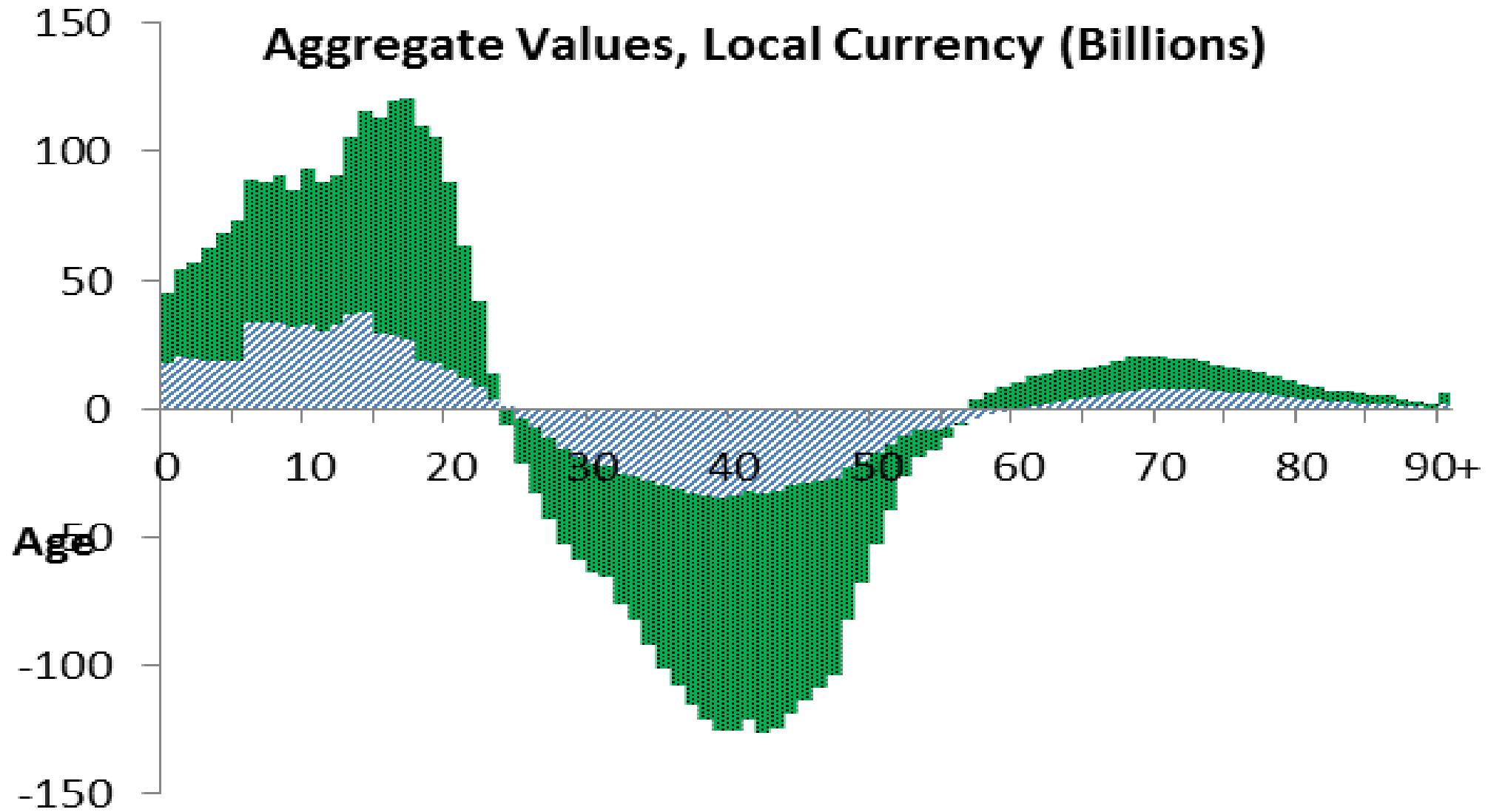
Aggregate Values, Local Currency (Billions)



PUBLIC VS. PRIVATE: TAIWAN

Aggregate Values, Local Currency (Billions)

Billions



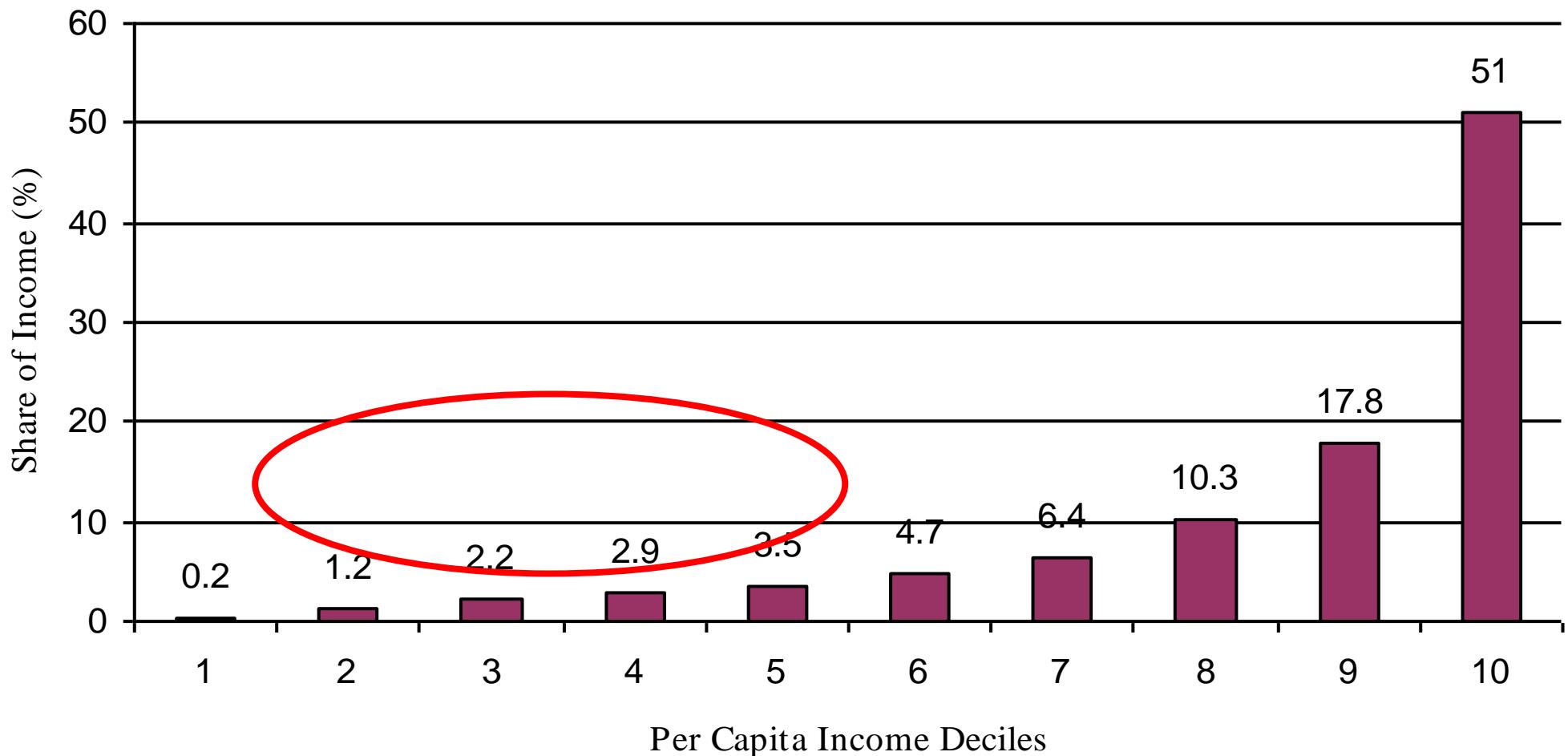
Public Transfers

Private Transfers

61

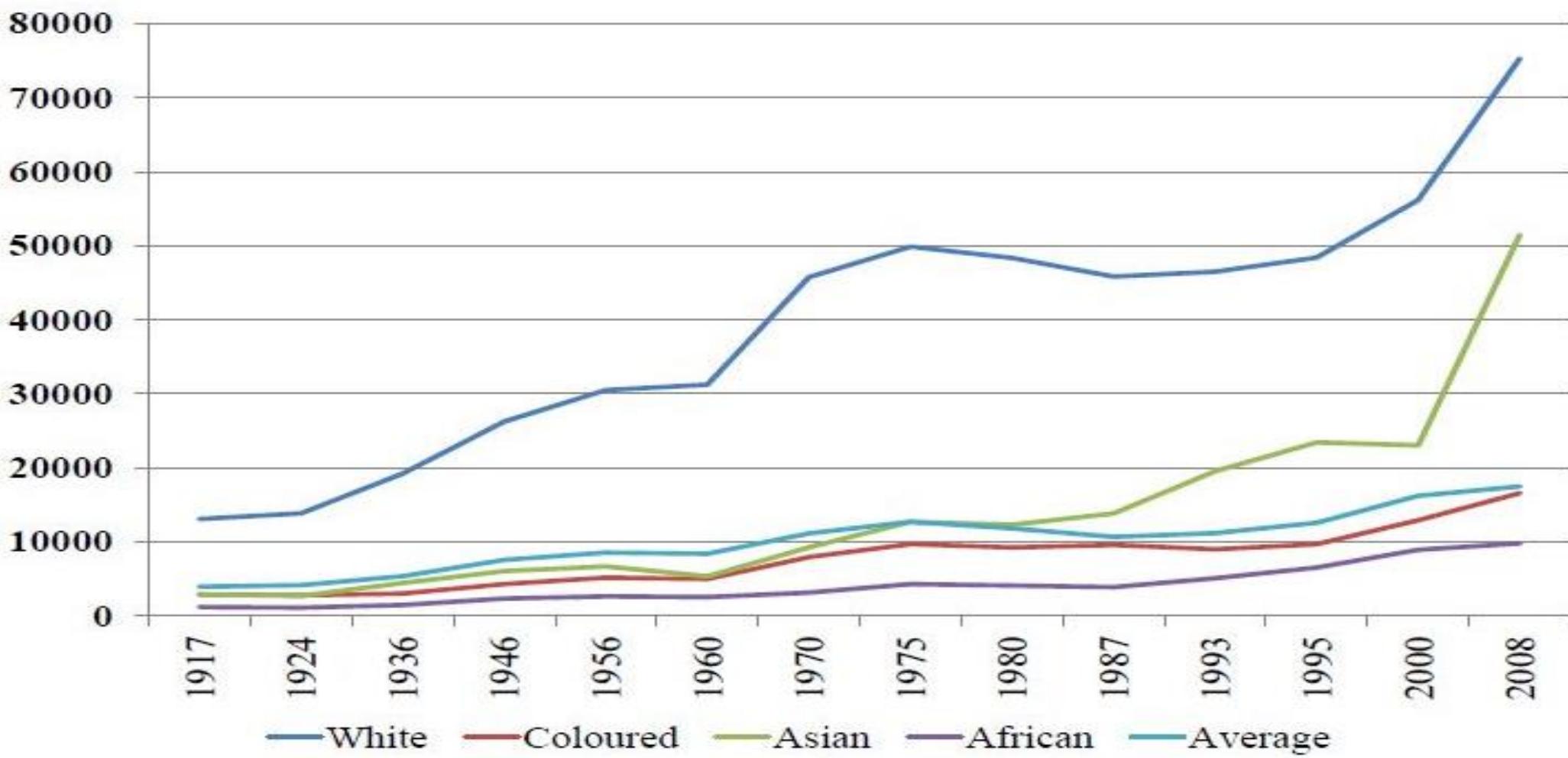
INCOME (INCLUDING SOCIAL GRANTS) DISTRIBUTION IN SA

Figure 1. Distribution of income across deciles



SOUTH AFRICA - ANNUAL PER CAPITA INCOME BY RACE

Annual per capita income by race group in 2000 Rands



Source: Leibbrandt *et al.* (2001) and own calculations.