

Nactu's approach to

Social security reform

Over the last few years government has put forward a number of policy proposals on social security reform. **Moemedi Kepadisa** discusses where the National Council of Trade Unions supports these proposals and where it would like to see changes, qualifications or extensions.

Social security has been the primary tool, which the trade union movement and other progressive forces in society have used to build an equal, caring and sharing society. Social security policies and programmes have been used in different countries to address matters as varied as income security, employment security, housing security, death and disability of workers.

A groundbreaking study by the International Confederation of Free Trade Unions (ICFTU) in 2005 titled: 'World Bank Involvement in the Privatisation of Public Pension Systems in Developing and Transition Countries', affirmed the above: 'Pay as you go systems have been among the most effective antipoverty programmes. In many countries that now have efficient, adequately financed systems, only a few generations ago, millions of older people who were too old to work, but too young to die, were condemned to misery and were burdens to their children. This major accomplishment - decent living standards and dignity for older people - is something that shouldn't be risked or tossed aside due to ideological fashions.'

This point should guide trade union's approach to the current reform processes. Nactu (National Council of Trade Unions) and the broad labour movement should not participate in the current social security and retirement reform process, to embolden the neo-liberal approach and privatisation of the public system, and farm them out to private providers. This position should be remembered in our engagement with government and other stakeholders.

APPROACH AND GUIDING PRINCIPLES

Nactu and the labour movement are engaging in a reform process to expand and strengthen the system and make it more efficient and responsive to our citizens, especially the poor and workers.

The core principles that inform our approach to a social security system are:

- Universal access - every working person should belong to and benefit from some form of social security or retirement fund.
- Comprehensive in scope - A social security system should secure the basics through

income security and disability and death benefits and should promote sustainable livelihoods by supporting access to housing, medical care and food security.

- Inclusivity in coverage and participation - All who participate in schemes including workers and employers, government and civil society should be informed and know their rights and obligations.
- Build social solidarity - It must promote a culture of caring and risk sharing between the young and old, healthy, frail and able bodied, and those physically disabled.

Current social security reform gives the union movement a rare opportunity to influence and shape outcomes in a way that responds to our social realities such as high unemployment, widening inequality and to correct past inequalities.

While social security reform seems to largely address issues related to retirement reform, the objective and scope of social security should be much broader than this. Therefore, Nactu, and the broader union movement, must achieve the goals of decent work and decent life.



Nactu supports the three-pillar system proposed by National Treasury: state old-age grant, workplace retirement funds and voluntary retirement arrangements. But income security for the unemployed is lacking.

BE ON GUARD

Nactu's recent experience of retirement fund reform is that we must guard against a well meaning process such that can end up being hijacked by private interests and unbridled capitalist motives such as in Central Europe and Latin America.

In Central and Eastern Europe, reforms were deliberately introduced to lower benefits by raising the retirement age and making the basic pension lower.

In Latin America, in countries such as Argentina, Mexico and Chile governments, on the advice of the World Bank, converted the public pay-as-you-go system into a partial or fully privatised system.

Subsequently, after the social security system was privatised there were problems around declining coverage rates and avoidance of risk sharing.

Our experiences at home also reveal that privatised schemes, whilst they may be administratively efficient, are expensive and the returns marginal. It is estimated that the costs range between 26% and 40% annually for a retirement annuity.

RESPONSE TO GOVERNMENT PROPOSALS

Nactu supports the three-pillar system proposed by National Treasury, and especially the social assistance fourth pillar, a strong point of the Social Development document.

The three-pillar system is structured as follows:

The first pillar, the state old age grant is for all aged persons, normally above age 60. The current system is not universal as it is based on the means test of income.

The second pillar comprises of various workplace retirement funds in the formal sector. This system is not compulsory, with some employers and employees electing to opt out.

The third pillar consists of voluntary retirement savings arrangements such as retirement annuities and prefunded medical savings schemes.

What is lacking from this three-pillar system is an income security arrangement for those who are unemployed or too young to benefit from the above.

Nactu supports a fourth pillar which Social Development calls

social assistance, or income security, for those workers who are unemployed, have very low incomes or are in the informal economy. This pillar should also support those not in a position to earn due to disability or to being orphaned.

Some of the other motivations for social and retirement fund reform such as rationalisation of contributions and benefits, pooling of risks, mandatory participation, and administrative efficiency are commendable.

RESPONSE TO POLICY DOCUMENTS

National social security savings fund

A national social security savings fund that is compulsory with a minimum income threshold for all working people makes sense. It will ensure universal access and will represent a social sovereign fund that will contribute to increasing the national savings rate, investment and national development.

With the fickle nature of foreign direct investment, the national savings fund will serve as a safety net to improve a savings base for the nation.

This fund can also facilitate a wage subsidy for low-income workers, and assist in providing access to social security for the self-employed, casual and informal economy workers.

Exemptions for large funds

Nactu supports this position but clarification is necessary. Does *large* refer to size of asset value or to volume - the number of members? We would be inclined to an exemption based on numbers and that is sector or industry based.

A large fund that is elitist in terms of size of individual contributions, say a fund of 1 000 members who each contribute R20 000 a month is not what we envisage by this exemption.

Portability

We support portability between funds as it provides flexibility for example in a change of employment. This principle will allow workers who move between industries and sectors, and across different employment types, formal and informal, to carry their lifetime savings with them, and not to be penalised.

Investment choice

Investment choice needs a broader debate on first principles. Is it right for retirement funds to invest in different assets classes such as equities and bonds? Given the experiences of exchange-traded funds and the risks and return mix, should there be stricter measures on where and how these social security funds should be invested?

Affordability

Affordability is crucial and must be considered especially for the working poor who are employed but earn poverty wages. This brings into focus the idea of a non-contributory dimension, or a wage subsidy, to those workers who do not earn enough to make a contribution to a social security savings fund.

Benefit structures

Informed by our principle of social solidarity, we would like to see a place for a pay-as-you-go system. This is a choice between a defined benefit system and a defined contribution system.

With the former, the benefits received by a member are predetermined by a formula based on the salary of the member prior to retirement, and which builds in the sharing of risks and benefits between members.

With the defined contribution, the benefits of the member are defined in advance and are based on the accumulation of the members' contributions, usually without any guarantees or sharing of risks between members.

It is also possible to have a hybrid arrangement that takes a bit of each system – risks sharing and a prefunded arrangement.

The debate within the union movement should assess the costs and benefits between the two systems, informed by our social transformation goals.

Differentiation

Material differences based on salary or grade in terms of contribution and benefits should be prohibited; and the tax incentives for high-income earners should be abolished as they undermine the call for a redistributive tax system. They provide huge rebates to high-income earners who at any rate would have elected to put the extra disposable income in a normal savings account or increased their retirement savings.

Individual retirement funds

These should only be an option once the first two pillars of a state old-age pension and national savings fund are in place, so that social solidarity is not compromised.

Insurance

Insurance could be built in at a minimum and cover death, disability and dread diseases such as HIVAids and cancer.

Administration

A national social security benefits administrator for the first two pillars should be established so that we achieve economies of scale and uniformity. However, administrative efficiency within the public service would still need to be addressed.

The third pillar of discretionary savings and individual arrangements could be administered on a regulated basis by a rationalised number of private and public providers.

Preservation

Preservation should be mandatory,

but there must be space for a limited amount of drawdowns for financial distress, such as in the case of retrenchment.

Pension backed housing loans in the form of guarantees should be allowed but other loans should not be supported. Loan sharks have used such direct loans to reduce workers' savings on the pretext that they are being given as housing loans.

Loans should also be given on a discounted basis as there is a fixed asset as security, in this case, the land and the property being bought or developed.

Governance and regulation

The disparate governance and regulation of the public and private social security and retirement fund arrangements needs to be rationalised for cost efficiency, and also to provide a seamless well-coordinated system.

Central to such a process, is the right of members to have representation and a voice in governance and management of their social security rights. Sectoral or constituency-based representation must be the bedrock of the new social security landscape, while also making space for participation of individuals with specialised skills and knowledge in governance and management structures.

Conclusion

This represents an initial response by Nactu to this rapidly developing process and is intended to stimulate discussion on how a social security system can be harnessed to respond to the twin challenges of South African society – poverty and unemployment. LB

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