South Africa's social security net is still leaking

Government has recently published a discussion document on social security and retirement reforms. **Fikile Majola** wonders what will happen to the unemployed and those earning below R60 000 per annum and posits a wholly different approach.

Social security is a right to which all citizens are entitled in terms of Section 27 of our Constitution. This means that even those who do not hold jobs to contribute to social insurance schemes must be covered.

The Constitution seeks to protect everyone from economic hardship caused by old age, ill-health, accident, breadwinner's death and unemployment. Because social security is a right, it is the state rather than the market that must deliver social grants and social insurances such as retirement schemes. This calls for a fundamental shift in our present social security system. But since 1994, government has left privatised health and retirement insurance systems intact.

The Treasury's discussion document on social security and retirement reforms is part of the government's comprehensive social protection framework adopted in 2004. Like its 1997 "developmental welfare", its package of reform proposals fails to break new ground.

Its proposals maintain a privatised retirement insurance system whilst tinkering with regulations in the hope that this will make the market function more efficiently. This makes it remarkably consistent with the reforms undertaken under apartheid between 1972 and 1990. The only difference is that it is now official that the working-class, which is mostly black and female, is condemned to a derelict public health system and pitiful grants.

The four million underemployed, earning less than R1 000 a month, remain excluded from health and retirement insurance. As for the eight million unemployed, they are told that the Basic Income Grant (BIG) is going to make them "dependent" and "lazy". Thus they are better off in their misery with "dignity" and "pride" than in the "shame" of grants.

SOUTH AFRICA OUT OF STEP

South Africa's fully privatised, individual and occupational retirement system has always been at odds with international practices. The public sector pensions for civil servants are an exception even though many of them have come under the control of profit-making fund managers.

To deal with poverty and income insecurity in the aftermath of the second world war, the British government published the *Beveridge Report* which called for a comprehensive social security system. From then onwards many governments introduced a range of social insurance plans such as public pension schemes. Social democratic states guaranteed everyone's right to a pension, including impoverished senior citizens with no record of contributions. Together with other social insurances, these measures rolled back the power of the free market.

By contrast, South Africa remained stuck in its privatised social insurance system except for certain benefits to whites. With job-reservation in place, government implemented a range of social security benefits for whites. Low-skilled, migrant and weekly paid workers who were all African were excluded from these state benefits in terms of the 1956 Pensions Act. JG Strijdom, Nationalist Party Prime Minister in the 1950s, claimed that "if you grant them [blacks] old age benefits and other benefits you would only make them lazy…" Apart from its racism, this is the same market-based argument that the ANC government holds against

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BIG (Basic Incomes Grant).

By the 1970s, the rising black trade union movement began to connect workplace demands with socioeconomic rights and the political struggle. This led to the Riekert Commission reforms which however, sought to maintain the same social exclusion of black people.

PROPOSED RETIREMENT PACKAGE

The Treasury's proposed package of pension reforms comprises four "pillars", including the current state-funded R870 per month old-age pension and a voluntary supplementary option for the rich. Its key proposals are a compulsory national pension scheme for workers earning no more than R60 000 per year, supported by a government "wage-subsidy". This is a subsidy to employers who are not required to contribute to workers' retirement.

The state's pension fund will be managed by a selected panel of fund managers to ensure profitable returns on the fund's resources. The benefits will be based on contributions into individual accounts, plus returns from investments. Thus, each account will cover its own administration costs charged at a flat rate. Without cross-subsidy, this means that low-income workers will effectively pay higher administration costs.

There will also be an additional compulsory occupational or individual retirement pillar for those earning above R60 000 a year. In addition to the prescribed contribution to the national pension scheme, the remaining contribution will be managed by the current estimated 13 500 private retirement funds.

This package of pension reforms clearly falls within the framework of the World Bank's "multi-pillar model", which formed part of their structural adjustment programmes. Thus they are more geared towards enhancing the private-sector's role in social provision than in ensuring income security for retirees.

FLAWS IN RETIREMENT PROPOSALS

Below is an assessment of some of the pension reforms' obvious flaws.

Access to retirement, disability and unemployment insurance will become a right conditional on employment. Those who do not qualify for any grant between the ages of 15 and 60 (women) or 65 (men) will remain deprived of their constitutional right.

The proposals promote a defined contribution benefit model, thus allowing speculative investment with workers' funds in a variety of risky operations in the market. Some of the investments will be offshore, thus taking resources for job-creation out of the economy in which they have been produced.

There has been a shift to defined contribution funds in recent times in South Africa. Defined contribution funds are pre-funded. This means that they seek to meet future pension liabilities through today's premiums and returns from investments. This makes workers' savings vulnerable to market fluctuations. Despite the fact that the funds will be run by 'for-profit' fund managers, the risks are still borne by workers. Even with amendments tightening regulations, workers' funds may continue to be misused and surpluses not distributed, as illustrated by the Fidentia case.

The privatised defined contribution model of the World Bank was foisted on Latin American countries in the 1990s. Unlike the defined benefit model, which keeps the risk with employers, the defined contribution model shifts the risk to the shoulders of workers.

The privatisation of the pension system along the lines of the World Bank's model began under Pinochet's Chile in 1982, followed by Thatcher's Britain in 1985. Chile was punted as a success story which ought to be followed by all developing countries. Yet, today the recently elected left-leaning president, Michelle Bachelet, carries a clear electoral mandate to overhaul this privatised pension system. Chile follows other countries that have already reverted back to public pension schemes, based on a defined benefit model and pay-as-you-go funding. Today, the British private pension schemes are in crisis. In 2004 alone, about 500 000 people abandoned private pensions and moved back into the state pension system.

Yet South Africa is shifting towards defined contributions. Despite the impact of HIV/AIDS, South Africa as a developing country has a young population. This makes the pay-as-you-go funding system within a defined benefit model more appropriate, maybe mixed with other funding options. In the pay-as-you-go system, current workers pay for the pension funds of current retirees. In this way the pay-as-you-go system could lessen the burden of premiums and secure decent pensions since the fund will mature when the present contributors retire, with some reserves.

The International Labour Organisation, which promotes the defined benefit model including a pay-as-you-go funding system, has compiled a report identifying some of the problems in the World Bank model that have been discussed here.

Across the world administration costs on contributions are always high compared to state-managed funds. In fact, the South African insurance industry charges the highest in the world. This undermines the value of workers' savings, whilst securing easy profits for fund managers.

High administration costs promote a tendency to very few companies dominating the pension investment market. A significant part of the administration costs go towards massive spending on advertisements, bureaucracy and sales personnel. In some instances this reduces monthly pensions to as low as 23.9% of the retirees' last pay. Since women generally earn less and work fewer years than men, they tend to receive considerably lower benefits because benefits are linked to the individual's contributions.

FLAWS IN OTHER SOCIAL SECURITY PROVISIONS

Our unemployment crisis is made worse by current economic strategies. Yet government persists with the inherited unemployment insurance system and rejects BIG outright.

Lasting only for six months, the Unemployment Insurance Fund (UIF) assumes that our unemployment is temporary and therefore there is no need for BIG. The UIF system is also inadequate because it excludes people with other income sources, even when they have made contributions to the UIF; non-citizens who tend to be hired on fixed-term contracts; casual and self-employed workers; workers in unpaid care work and the long-term unemployed.

The state's social security reforms continue its lack of contribution to the UIF. The ANC inherited a bankrupt UIF from the apartheid regime and have only secured its survival by excluding public sector workers.

Unlike South Africa, reforms in the developed world were prompted by the rise in the number of retiring citizens relative to those who were working. This meant that pension fund liabilities could not be met. Yet, these countries still maintained the basic structure of their state pension systems, even though they introduced changes.

NEED TO ENGAGE ON SOCIAL SECURITY

The possibility of engaging at Nedlac (National Economic Development and Labour Council) on social security and retirement reforms offers a unique opportunity to break new ground. It could help to break the predominance of the private retirement industry. Unions could exercise their power and demand a public pension fund in line with Cosatu's call for a single compulsory national retirement fund. Private schemes would lose up to 80% of their members and R3 billion per month of savings if union funds moved to a state pension scheme.

Government must leverage existing capacity in its Public Investment Corporation (PIC) and the South African Social Security Agency to create a state pension scheme. This could be strengthened by incorporating existing provincial and local government retirement arrangements. The PIC's approach in managing funds should also be reviewed. Appointing a select panel of private schemes will only replicate the current governance problems afflicting the industry.

New reforms must assert the fact that retirement insurance is primarily workers' deferred wages. In addition, retirement reforms must promote the redistribution of resources from employers to workers and from the wealthy minority to the poor majority. Because of its market-orientation, what government is proposing on social security and retirement reforms simply serves to highlight the extent to which our social security system is still full of holes.

LB

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