

SOUTH AFRICA



DEMOGRAPHICS AND MACROECONOMICS

| | |
|-------------------------------|--------|
| Nominal GDP (EUR bn) | 2 283 |
| GDP per capita (USD) | 5 566 |
| Population (000s) | 49 668 |
| Labour force (000s) | 17 778 |
| Employment rate | 77.0 |
| Population over 65 (%) | 4.5 |
| Dependency ratio ¹ | 12.7 |

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Means-tested old age pensions: non-contributory, fully financed by the government

Private pensions: occupational (mandatory)

- DC pension plans, mostly established by enterprises in the private formal sector
- DB pension plans, mostly established by the public sector
- Some hybrid schemes also exist

Private pensions: occupational (voluntary)

- Retirement annuities, mainly offered by insurance companies

Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|------|------|---------|---------|-----------|-----------|------|------|
| Assets | | | | | | | | |
| Total investments (National currency millions) | ND | ND | 593,791 | 693,636 | 1,283,921 | 1,012,680 | ND | ND |
| Total investments, as a % of GDP | ND | ND | 47.10 | 49.71 | 83.16 | 58.03 | ND | ND |
| Of which Assets overseas, as a % of Total investment: | | | | | | | | |
| • Issued by entities located abroad | ND | ND | 4.85 | 4.70 | 3.18 | 4.10 | ND | ND |
| • Issued in foreign currencies | ND | ND | ND | ND | ND | ND | ND | ND |
| By financing vehicle (as a % of Total investments) | | | | | | | | |
| • Pension funds | ND | ND | 64.12 | 67.17 | 100.00 | 100.00 | ND | ND |
| • Book reserves | ND | ND | ND | ND | ND | ND | ND | ND |
| • Pension insurance contracts | ND | ND | 35.88 | 32.83 | ND | ND | ND | ND |
| • Other financing vehicle | ND | ND | ND | ND | ND | ND | ND | ND |
| By pension plan type | | | | | | | | |
| • Occupational assets | ND | ND | ND | ND | ND | ND | ND | ND |
| • % of DB assets | ND | ND | ND | ND | ND | ND | ND | ND |
| • % of DC (protected and unprotected) assets | ND | ND | ND | ND | ND | ND | ND | ND |
| • Personal assets | ND | ND | ND | ND | ND | ND | ND | ND |
| Structure of Assets (as a % of Total investments) | | | | | | | | |
| Cash and Deposits | ND | ND | 4.39 | 5.63 | 5.80 | 5.01 | ND | ND |
| Fixed Income | ND | ND | 9.68 | 13.01 | 2.64 | 8.70 | ND | ND |
| Of which: | | | | | | | | |
| • Bills and Bonds issued by the public and private sector | ND | ND | 8.96 | 12.28 | 2.49 | 8.59 | ND | ND |
| • Loans | ND | ND | 0.72 | 0.73 | 0.15 | 0.12 | ND | ND |
| Shares | ND | ND | 20.25 | 33.30 | 29.60 | 23.32 | ND | ND |
| Land and Buildings | ND | ND | 0.81 | 0.00 | 0.89 | 0.49 | ND | ND |
| Other Investments | ND | ND | 64.87 | 48.06 | 61.07 | 62.48 | ND | ND |
| Contributions and Benefits | | | | | | | | |
| Total Contributions, as a % of GDP | ND | ND | 3.68 | 3.77 | 4.87 | 4.65 | ND | ND |
| • Employer Contributions, as a % of Total contributions | ND | ND | ND | ND | 46.74 | 52.73 | ND | ND |
| • Employee Contributions, as a % of Total contributions | ND | ND | ND | ND | 53.26 | 47.27 | ND | ND |
| Total Benefits, as a % of GDP | ND | ND | 4.61 | 4.23 | 5.57 | 5.22 | ND | ND |
| • % of benefits paid as a Lump sum | ND | ND | ND | 74.40 | 69.93 | 68.47 | ND | ND |
| • % of benefits paid as a Pension | ND | ND | ND | 25.60 | 30.07 | 31.53 | ND | ND |
| Membership (in thousands of persons)¹ | | | | | | | | |
| Total membership | ND | ND | 7,230 | 8,168 | 9,222 | 10,002 | ND | ND |
| • % of Active membership | ND | ND | 91.72 | 92.40 | 88.97 | 89.40 | ND | ND |
| Of which: % of Deferred membership | ND | ND | 1.19 | 0.59 | 1.04 | 2.43 | ND | ND |
| • % of Passive membership | ND | ND | 8.28 | 7.60 | 11.03 | 10.60 | ND | ND |
| Other beneficiaries | ND | ND | 82 | 81 | 48 | 1,190 | ND | ND |
| Number of Pension Funds/Plans | | | | | | | | |
| Total number of funds | ND | ND | 13,752 | 13,607 | 13,390 | ND | ND | ND |
| Total number of plans | ND | ND | ND | ND | ND | ND | ND | ND |

Note: Data for asset overseas and structure of assets refer only to pension funds supervised under the Pension Fund Act. Other data refer to all pension funds in South Africa.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

SOUTH AFRICA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension provides a non-contributory and means- tested old age pension. The system is financed by general revenues.

The pension is payable to women at 60 and men at 65 who are resident citizens of South Africa. Benefits amount to up to 940 rand a month for a single pensioner. Married couples may receive double the amount. The pension is reduced to 25% of the full amount for pensioners who are resident for more than 3 months in a private care institution. A means test is currently applied, which lowers the benefit by 50 cents for every R1 of other income, to a level of zero when other income exceeds R1880 per month. This is the main source of income for 75% of retirees, most of whom receive the full amount of R940 month.

Special grants are paid to war veterans (up to R838) and pensioners who need full-time attendance of another person as the result of a mental or physical condition (R180).

The benefit level is informally linked to wages (following inflation erosion in the 1990s), and relative to average formal sector wages, provides a reasonable replacement rate to lower income workers who reach retirement age as well as acting an important source of poverty relief for those who are unemployed through most of their working lives. Originally, in the Apartheid era it was introduced to cover small numbers of low-income, white workers, but was gradually extended to all South Africans, with parity payments for all ethnic groups achieved in the 1990s.

OCCUPATIONAL VOLUNTARY

Coverage

Employers decide whether to set up a fund, what type and categories of employees eligible, after which all workers in a category must join. For this reason, the system though legally voluntary can be thought of as quasi-mandatory.

Contributions

In some instances, employers are free to decide contribution levels and there are no minimum or maximum contribution limits, unless so provided for in the rules of the fund. In other instances, the rates of contribution are an outcome of negotiation between labour representatives and employers (this is the case in many so called "bargaining council" and industry funds which effectively act as multi-employer funds). Additional voluntary contributions are allowed, if the rules of the fund concerned permit.

Benefits

Pension schemes can be pure defined benefit (DB) or defined contribution (DC), or some hybrid of the two.. Pension funds must pay out a least 2/3 in annuities (maximum 1/3 as a lump sum); provident funds may pay out 100% lump sums. Generally the employer is free to decide the benefit structure and the age at which they become available when setting up an occupational scheme.

Taxation

The tax deductible contribution for employees is equal to the greater of 7,5% of remuneration or R1,750¹. The tax deductible contribution for employers is a minimum of 10% of approved remuneration. In practice, the South African Revenue Services (SARS) allows up to 20% tax deductible contributions towards pension and provident funds. Investment returns are not taxed and benefits are taxed as earned income, with a certain tax-free lump sum permitted.

PERSONAL VOLUNTARYCoverage

Estimates by the National Treasury place coverage at approximately 60% of workers in the formal sector. However, no statistics exist for pension provisioning in the informal sector.

Contributions

No information.

Benefits

In the case of retirement annuities, benefits become available from age 55 onwards. They can be paid out as annuity or as a combination of a lump sum (1/3 of assets) and annuity.

Taxation

Contributions are tax-deductible up to 15% of taxable income. Investment yields are subject to beneficial tax rules, for example exempt from capital gains tax. A lump sum payment is tax free up to R300,000 . Beyond this point, larger lump-sums are taxed up to 36%.

MARKET INFORMATIONOccupational voluntary

The vast majority of employees in the formally employed private sector in South Africa belong to defined contribution (DC) schemes, while public sector funds are still largely defined benefit (DB) arrangements. The South African environment has also seen considerable growth of multi-employer or “umbrella” funds, which are DC in nature. Most of the large trade unions have established national defined contribution funds and have negotiated an option for their members to belong to such funds, as opposed to membership of an employer-sponsored fund. In effect therefore, such funds are multi-employer funds, but along industry lines. Umbrella funds, covering multiple employers, are also allowed and have increased in number over time. Viewing the pensions market as a whole, in 2004 there were around 13,700 funds, - over 10,000 a underwritten by insurance companies - with almost 9m members and R1,1 trillion assets. Some double counting exists in terms of the number of members, as some individuals are members of more than one fund (for example, may belong to a retirement annuity fund as well as an occupational fund established by their employer). Many funds also offer death and disability benefits.

¹ In addition up to R1,800 per year can be contributed towards the purchase of past service.

Personal voluntary

In 2005, R23 billion contributions were made to underwritten funds. This consists of retirement annuities and insurance policies which are purchased by an employer on behalf of their employee.

POTENTIAL REFORM

Reform proposals include the introduction of a contributory social security pillar as well as (where applicable to persons) supplementary mandatory contributions to the private retirement funding arrangements in order to improve the coverage rate and tackle 'leakage' problems (early withdrawals leading to substantial sums of money being taken out of the funded pension system). The primary objective of this reform is to ensure a basic level of income during retirement for all South Africans.

Currently, almost 80% of funds have less than 100 members, which has tended to raise concerns about the availability of sufficiently trained trustees to govern these funds and the cost-efficiency of such arrangements for the members within these funds.

The tax treatment of occupational pension fund and retirement annuity fund contributions will be aligned, so as to remove any potential discrimination against the self-employed, as well as aid portability of pension entitlements across the various pillars of provision.

REFERENCE INFORMATION

KEY LEGISLATION

The funded pension system is governed by the Pension Funds Act which has been amended a number of times since promulgation in 1956.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Financial Services Board (FSB) oversees the regulation of financial markets and non-banking financial institutions, including insurers, fund managers, broking operations and retirement funds.

<http://www.fsb.co.za/>