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Lessons for South Africa's proposed social security retirement reforms from the experience of other sub-Saharan African countries

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Dissertation for the degree of Master of Science
in the School of Statistics and Actuarial Science
Code: STAT8003A

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ABSTRACT

The South African government intends reforming its current social security system, including retirement benefits. Views on how this should be done vary, even within government. Proposals often take the experience of other countries into consideration but there is limited literature on the experience of other sub-Saharan African countries.

The region is experiencing demographic change, especially reduced infant mortality, reduced fertility and increasing old age longevity. Here South Africa is advanced relative to other countries in the region, despite the high unemployment levels. South Africa's informal sector is large relative to developed countries, but smaller than elsewhere in Sub-Saharan Africa.

In order to analyse the experience of the region it was necessary to extend the existing social security models and the following framework was developed:

Generic Term	**Description**	**Distinguishing Characteristic**
Level A	• Non-contributory • Poverty alleviation benefit • Always Defined Benefit • Could be universal or targeted via means test	Mandatory Non-contributory
Level B	• National scheme • Compulsory for at least some employees • Could have eligibility criteria • Public sector employees might be included or not • Employee and employer both contribute • Defined Benefit, Defined Contribution or notional Defined Contribution • Can be open or closed	National and Compulsory (at least for some employees)
Level C1	• Group arrangements • Employer contributes • Employee may or may not contribute • Defined Benefit or Defined Contribution • Can be open or closed	Compulsory – mandated by state (opt out might be allowed)
Level C2		Compulsory – mandated by employer (no opt out)
Level D1	• Voluntary • Employee contributes • Always Defined Contribution • Freedom of choice	Group arrangements May be some redistribution
Level D2		Retail arrangements

Countries in the region have tried several approaches when introducing reform. Level A non-contributory pensions in South Africa are advanced, relative to most countries in the region. Most other countries have mandatory, contributory, government-run level B funds, the closest equivalent in South Africa is the Unemployment Insurance Fund. DB level B schemes are the norm. However, many countries are experiencing strain on the financial sustainability of these schemes and a number of countries have had to increase scheme contributions or reduce benefits. Occupational retirement funds in South Africa are well established and have experienced significant reforms recently. South Africa's level C2 occupational retirement fund coverage is not mandated by government but is high relative to other countries in the region, even those with compulsory coverage under level C1. South Africa is still relatively new to introducing contributory pensions for informal sector workers. Other countries have tried various approaches under both levels D1 and D2 without finding a perfect solution.

The research shows that maximising coverage requires all pension types. Pension reform is an iterative process, there is no perfect solution and phasing-in change is best. Government should make decisions on what incremental improvements can be made and start implementing these. The sequencing of reforms is important, what happens at each level of pension provision will influence what can and should be done at the next level. South Africa should move towards universalisation of non-contributory pensions but needs to do so in a cost-effective manner. The experience in other countries in the region should be considered when setting goals for coverage of informal sector workers by a level D1 or D2 contributory scheme. Compulsory contributory pensions should be introduced for formal sector workers, shifting from a level C2 to a level C1 approach. Expanding the Unemployment Insurance Fund to cater for retirement benefits as opposed to creating a new level B national fund should be explored.

1. INTRODUCTION

1.1 Background

Both the Department of Social Development (DSD) and National Treasury within the South African government plan to introduce wide-ranging reform of the current social security and retirement system (DSD, 2021). National Economic and Development Labour Council (NEDLAC) is the statutory body which is required, through legislation[1], to discuss all labour and economic policies before they are submitted to parliament. It consists of representatives from government, organised labour, organised business and community organisations. Many of the details of the planned reform are still unclear or under discussion between NEDLAC stakeholders (NEDLAC, 2021). Even within government, there appear to be markedly different views on how reforms should be designed and implemented[2].

Much has been written about the experience of countries outside of Africa that have introduced pension reforms. The focus in literature and other commentary is typically on the experience of developed countries in Western Europe, North America and Australasia. Chile is often the only developing country whose experience is considered (Baily & Kirkegaard, 2009; John & Levine, 2009; Cottarelli, 2011; Holzmann, 2012; Halmosi, 2014).

According to, Dorfman (2015) roughly two-thirds of countries in sub-Saharan Africa have national social security retirement systems similar in objectives and approach to that which the South African government intends introducing.

1.2 Aims

The aim of this research is to better understand the experience of other selected sub-Saharan African countries that have implemented retirement reform and what South Africa can learn from these experiences.

The research objectives are as follows:

- Deciding on an appropriate analytical framework for analysing social security pension systems, drawing on an exploration of the historical motivations for

[1] As per the NEDLAC Act, Act 35 of 1994

[2] Magubane, K. (2021) Cabinet admits state pension plan caused confusion, will be scrutinised, Fin24. Available online: https://www.news24.com/fin24/companies/financial-services/cabinet-says-state-pension-plan-cause-confusion-will-be-scrutinised-20210902 Accessed: 16 June 2022.

introduction of pension systems and comparative analysis of the World Bank and ILO models.

- Describing the situation in sub-Saharan Africa both in terms of a general overview and a detailed analysis of South Africa and five additional case-study countries in terms of the chosen framework.
- Identifying the main trends in pensions in sub-Saharan Africa together with any noteworthy exceptions.
- Describing the lessons for South Africa and the implications for the South African government's planned pension reform model.

1.3 Scope

The dissertation will explore how well the different pension benefit arrangements interact to provide appropriate benefits to older individuals in selected sub-Saharan African countries. Non-financial sources of support such as informal support from family members and formal social programs providing health care and housing will not be considered.

Consideration will only be given to retirement benefit provision, not other types of benefits such as those payable on death during working lifetime.

1.4 Hypotheses and Research Questions:

What lessons can be drawn for South Africa's proposed social security retirement reforms from the experience of other sub-Saharan countries?

1. What is an appropriate analytical framework for analysing social security pension systems?
2. How similar is South Africa to the rest of the sub-Saharan African region in terms of demography, economy and the informality of labour?
3. What is the current social security pension system in South Africa and what is the vision for it?
4. What reforms have been introduced by other sub-Saharan African countries and how do these compare against the analytical framework developed?
5. How does the South African experience compare to those of the countries studied, and what lessons can be learned to aid South Africa in achieving its vision for its social security system?

1.5 Contribution to Knowledge

Research has previously been performed into the proposed social security and retirement reform for South Africa. Some of this research has considered the experience of other countries. However, this research will consider the experience of other countries in sub-Saharan Africa, which has not been considered previously.

1.6 Plan of Development

Section 2 will set out the methodology that has been followed, which focuses on a review of available literature. Section 3 covers a brief history of pensions internationally and then sets out the chosen analytical framework. Section 4 describes the countries in sub-Saharan Africa and how South Africa compares to the others. Section 5 outlines South Africa's historic and current social security and pensions system. Sections 6 to 10 outlines the experience of five other sub-Saharan African countries. Section 11 then outlines the overall trends and experience in sub-Saharan Africa. Section 12 is a critical analysis of the proposed contributory pensions model for South Africa based on government plans and the experience of other countries in sub-Saharan Africa.

2. METHODOLOGY

2.1. Approach

Literature was sought to identify the current social security pensions models in South Africa and the rest of the sub-Saharan African region. Particular focus was made on social security pension reforms that have been introduced or that are planned for the future. Both the Google and Google Scholar search platforms were used to identify appropriate literature through use of the search phrases “pensions in Africa”, “pension reforms in Africa”, “pensions in South Africa”, “pension reforms in sub-Saharan Africa”, “social security retirement reform in Africa”, “non-contributory pensions in Africa”, “pension framework”, “International Labor Organization pension model”, “World Bank pension model” and “international pension reforms”. The Google Scholar platform’s associated search tools were also used to access literature cited in identified articles, as well as any literature which cited the identified articles.

Information was also obtained directly from organisations such as government departments, financial regulators and national social security funds. This was done both through physical published and unpublished documentation and through these organisations’ websites. Where information was difficult to obtain, the insights of individual actuaries were sought. These actuaries are experienced in working in pensions in sub-Saharan Africa.

2.2. Framework

Based on the literature review, a comparison has been made between the different frameworks envisioned by the World Bank and the International Labour Organisation for analysing social security pension provision, including how these have converged over recent years. Other frameworks revealed by the literature review were also considered in developing the framework used for this research.

2.3. Study of South Africa and other sub-Saharan African countries

The evolution of the current social security and retirement systems in South Africa has been assessed using the chosen framework. This has been done through the literature review.

Literature on the social security pension systems across sub-Saharan Africa has been reviewed to have a broad understanding of the patterns and variations in the region in respect of key elements of the chosen framework. This was to set the regional context within which to examine the plans of the South African government.

Case studies that are more detailed were done in respect of five countries using documentary review, namely: Eswatini, Ghana, Kenya, Nigeria and Zambia. Eswatini and Zambia are part of the South African Development Community (SADC) alongside South Africa, and thus particularly relevant. Kenya and Nigeria are of interest as they are countries with relatively advanced economies and larger populations. Four of these countries (namely Ghana, Kenya, Nigeria and Zambia) were chosen due to their different chosen approaches to social security and retirement reform. Documentary review covered published, unpublished and grey literature and other documents identified through the literature review and Internet search.

3. ANALYTICAL FRAMEWORK

Research Question 1: What is an appropriate analytical framework for analysing social security pension systems, and national contributory schemes in particular?

3.1. Introduction

The history of pensions will be considered in order to reflect on how it has helped lead to two schools of thought in pension benefit provision. Thereafter analytical models used for analysing social security systems will be discussed. Finally, the common features in assessing pension systems will be identified to set a framework for such assessments.

3.2. History

Prior to the introduction of retirement benefits, individuals who were no longer able to work would need to rely on personal savings or on support from friends or family (Gruber & Wise, unpublished). The first recorded retirement benefits were paid to former soldiers by the Roman Emperor Caesar Augustus from 13 B.C[3]. By the first century A.D. these took the form of monetary lump sums paid to retiring Roman legionnaires, equal to approximately 12 years of service pay[4]. The original purpose of these retirement benefits was to avoid former soldiers later rising up against the emperor[5].

Widows' pensions were the first non-military pensions.[6] Duke Ernest the Pious of Gotha in Germany created a widows' fund for clergy in 1645 and for teachers in 1662.[7] Thereafter began a trend of royal treasuries granting pensions as compensation for loss of spouses in battle, disability caused by battle wounds or for acts of military or civil merit (Blackburn, 2003). This was done to encourage the loyalty of those still in service and prevent discontent by rewarding those who had been loyal to their rulers or those who were in need (Blackburn, 2003).

In 1889 Chancellor Otto von Bismarck of Germany introduced the first compulsory national pension scheme for all workers, which provided an earnings-related benefit. His aim was both to keep the economy running efficiently by addressing a key need of

[3] Vara, V. (2013) The Real Reason for Pensions, The New Yorker, 4 December. Available online: https://www.newyorker.com/business/currency/the-real-reason-for-pensions Accessed: 16 July 2022.
[4] Cano, R. (2021). This is what a well-earned retirement looked like for a Roman veteran, We Are The Mighty. Available online: This is what a well-earned retirement looked like for a Roman veteran | We Are The Mighty
[5] Ibid
[6] TaxFitness. (2018). The Romans Started the First Pension Scheme in 13 B.C (03 June). Available online: https://taxfitness.com.au/Blog/romans-first-pension-scheme#:~:text=The%20Germans%20 Accessed 21 August 2023.
[7] Ibid

workers and thus avoiding strikes and reducing calls for more extreme socialism at a time that Marxism was increasing in popularity. The primary aim of the Bismarckian system was therefore social cohesion. (Blackburn, 2003).

In the United Kingdom in 1908, an old age pension was introduced for those aged 70 or older[8]. This was a non-contributory universal pension subject to a means test[9]. This was the successor to the support provided through the Poor Laws whereby regional parishes were responsible for caring for those too old or physically incapable of working (Blackburn, 2003). The aim of the universal pension was social assistance through the introduction of a minimum income safety net for the elderly[10]. This later became part of the Beveridge system, as the pensions became part of the overall British welfare system introduced after the Second World War based on the findings of the Beveridge report of 1942[11].

Thus, two contrasting approaches to pension provision developed: a non-contributory poverty-alleviating old-age pension (Beveridge system) and a compulsory contributory pension (Bismarckian system). These systems with their varying emphases are reflected in the pension frameworks used by the World Bank and the International Labour Organization (ILO) as illustrated below.

3.3. The World Bank and ILO frameworks

3.3.1. Introduction

A pension framework will be defined to provide both the model and assessment criteria to be used when considering a benefits system's suitability. Since the 1980s the ILO and World Bank frameworks have often been used in conceptualisation, design and reform of social security for the elderly (Cichon, unpublished).

The ILO is a United Nations agency that sets international labour standards and promotes social protection and work opportunities for all, as described by Frilander (unpublished). It was set up in 1919 under the Treaty of Versailles, which also set up the League of Nations (ILO, 2019). It became the first specialised agency of the United Nations when the latter was established in 1946 (ILO, 2019). It was created based on the belief that universal and lasting peace could be accomplished only if based on social justice (ILO, 2019). It continues to champion effective social support largely using moral

[8] Hunter, T. (2015) A turbulent history of British pensions, since 1874, The Telegraph. Available online: https://www.telegraph.co.uk/finance/personalfinance/special-reports/11523196/A-turbulent-history-of-British-pensions-since-1874.html Accessed: 9 August 2022.
[9] Ibid.
[10] Ibid
[11] Ibid

arguments (Frilander, unpublished). It operates under a tripartite structure with representation of government, employers and trade unions (ILO, 2019). Such a tripartite approach recognises that all three groups have interests, that their interests may differ, and that all voices must be considered (La Hovary, 2015). However, critics of the ILO point to the low ratification rate of its conventions amongst its member states and also accuse it of being slow to respond to issues (La Hovary, 2015).

The World Bank is an international financial institution that provides loans to countries for capital projects (Bridgeman, 2001). It was founded at the end of the Second World War to provide loans to low-income countries which were unable to obtain loans commercially (Bridgeman, 2001). The United States of America (USA) is traditionally seen as the largest role player both in setting up and maintaining the World Bank (Bridgeman, 2001). The World Bank's motto is "Working for a World Free of Poverty", but it has been criticised for putting the interests of borrower and donor governments ahead of the alleviation of poverty (Bridgeman, 2001). Specifically, the World Bank started prescribing economic reforms as one of the prerequisites for loans from the 1980s (Bridgeman, 2001). This led to accusations of bias towards capitalism and the private sector by trying to drive certain political and economic philosophies (Bridgeman, 2001). This is allegedly done by limiting the role of government with the stated aim of doing so to control state expenditure and supporting the private sector through relying on it to deliver services, including the entire pension model (Bridgeman, 2001).

3.3.2. Changes in principles of pensions

ILO approach

Frilander (unpublished) describes how prior to the 1980s the ILO was the leading advisor to governments on pension systems. The ILO's advice, at least in part, led to the widespread use of state-administered, defined benefit (DB), pay-as-you-go (PAYG) pension systems. An unfunded, or pure PAYG, pension scheme uses current cashflow to pay benefits instead of relying on a pool of assets to cover the cost of these payments (Frilander, unpublished). In practice the approach favoured by the ILO is one of partial funding of liabilities, as opposed to being pure PAYG in nature (Iyer, 1999). The traditional pensions system favoured by the ILO is based on the pooling of risks and rewards; it is also deliberately re-distributive in nature, relying on cross-subsidies for poverty reduction (Orenstein, 2005). Benefits are based on need, which is achieved through a mix of flat benefits and benefits that are linked to lifetime income (Duran-Valverde et al., 2018). The ILO's view is that their approach is a combination of the Bismarckian and Beveridge systems, through a mix of social protection benefits and national social security schemes[12].

[12] International Labour Organization. (2019) History of the ILO. Available online: https://www.ilo.org/global/about-the-ilo/history/lang--en/index.htm Accessed: 16 July 2022.

Chilean reforms

Orenstein (2005) describes the development of a new pensions model in Chile in the early 1980s which in turn led to an international trend in introducing new principles in pension provision. The pension reforms in Chile were consistent with President Augusto Pinochet's aims of economic liberalisation, privatisation of state-owned companies and stabilisation of inflation[13]. These reforms were developed by a group of Chilean economists who had studied in the USA but also supported by others in the USA and Chile who held a market-oriented view of the world (Orenstein, 2005). The new principles were to base pension provision on the private sector administering individual pension savings accounts which are defined contribution (DC) and fully funded (Orenstein, 2005). A fully-funded pension scheme is one that aims to hold assets equal to at least the full value of the scheme's accrued liabilities, a target that may or may not be achieved (Cichon, unpublished). The new pensions system had little or no pooling of risks and rewards, it also had little or no re-distribution (Orenstein, 2005). Benefits would be linked to past contributions in the new system (Orenstein, 2005).

World Bank

An international debate grew after the introduction of the new pensions system in Chile about the traditional pensions system and the new pensions model (Cichon, unpublished). The World Bank favoured this new model of replacing partially funded and PAYG DB social security schemes with fully funded mandatory DC schemes, as implemented by Chile (Cichon, unpublished). Unlike the ILO, the World Bank's focus was more on the Bismarckian approach of providing contributory benefits to workers.

Shift from unfunded to funded

An unfunded arrangement relies on transfers between generations within a country, which then exposes such an arrangement to the risk of ageing populations as threatening that transfer (Blackburn, 2003). In contrast a fully funded system effectively has current members saving for their own benefits (Blackburn, 2003). The view of those supporting the introduction of this new model was that the introduction of funded mandatory schemes would lead to economic prosperity by increased savings through the introduction of funded arrangements which would invest in the economy (Cichon, unpublished).

Shift from DB to DC

In a DC fund, contributions net of charges by service providers to members of retirement funds are invested on behalf of members in individual accounts and grow with investment returns until the time that a member claims the benefits (Broadbent et al., unpublished). Broadbent et al. (unpublished) set out the reasons for the international trend of moving pension systems from DB to DC.

[13] Kaiser, A. (2013). Is This The End Of The Chilean Economic Miracle? Forbes. Available online: Is This The End Of The Chilean Economic Miracle? (forbes.com)

As described in section 3.2 the first benefit structures were DB in nature. In DB arrangements sponsors guarantee the benefit promise made to members, regardless of experience; sponsors therefore carry the risk (Broadbent et al., unpublished). Sponsors, particularly employers, generally prefer the DC design as this does not leave them exposed to the risk of poor investment returns being insufficient to cover expenses and leave sufficient net returns to provide suitable growth (Broadbent, et al., unpublished). Members of DB funds often view these funds as being opaque (Broadbent, et al., unpublished). Members of retirement funds sometimes also prefer the DC design as they expect to benefit from positive investment returns during bull market conditions, too often ignoring the impact of low investment returns during bear market conditions (Blackburn, 2003).

Shift from public to private

The role of the private sector pensions industry expanded significantly after the Second World War (Blackburn, 2003). As this became better known as an alternative to publicly-managed pensions, the World Bank began to recommend it as the best approach for countries to consider, assuming that a private system would be more efficient as it would be free from political interference and competitive in nature (Orenstein, 2005).

However, others have argued that the private sector is not always better because of:

- Inability to leverage bargaining power (Blackburn, 2003);
- Fragmentation caused by decentralisation (Ortiz et al., 2018);
- Over-reliance on advisors who may have too short-term a focus (Blackburn, 2003); and
- High fees (Blackburn, 2003) which competition has not reduced (Ortiz et al., 2018).

The net result is that developing countries that implemented compulsory contributory funded pensions run by the private sector have seen reduced coverage and poorer than projected outcomes (Ortiz et al., 2018)

3.4. Assessment criteria

3.4.1. Introduction

In section 3.3 the different historic perspectives of the ILO and the World Bank were discussed. Due to having different perspectives, the criteria that the two organisations developed to assess social security systems also differ. These are set out below.

3.4.2. World Bank assessment criteria

The main criteria used by the World Bank to assess pension provision are: adequacy, affordability, sustainability, equity, predictability and robustness (Badat et al., unpublished). Badat et al. (unpublished) explains these criteria as follows:

1. Adequacy relates to being able to provide benefits sufficient to prevent poverty during old age allowing for country-specific requirements. The issue of coverage is

included here, as the World Bank's view is that the full breadth of the population of a country should be covered (Holzmann et al., unpublished).

2. Affordability relates to avoiding the cost of pension provision preventing other socio-economic needs being satisfied and other negative fiscal consequences.
3. Sustainability relates to a financially sound system that will continue to be financially sound going forward and does not lead to unexpected increases in contribution rates, decreases in benefit or deficits that lead to budgetary strains on governments.
4. Equity relates to income redistribution from the rich to the poor in a manner consistent with societal preferences.
5. Predictability relates to a system providing benefits prescribed in law and not subject to policymaker or implementer discretion, and which provides benefits that protect against the financial impacts of both inflation and longevity.
6. Robustness refers to a system being able to withstand major shocks such as those of an economic, demographic or political nature.

3.4.3. ILO assessment criteria

The ILO model has eight guiding principles for pension reform as set out in its 2018 policy brief (Duran-Valverde et al., 2018). These are:

1. Universality refers to the need to guarantee universal protection without leaving anyone unprotected.
2. Social solidarity and collective financing refer to mechanisms enabling positive redistribution effects and avoiding the transfer of financial and labour market risks onto individuals.
3. Adequacy and predictability of benefits refer to the entitlement to DB benefits prescribed by law, also requiring the periodic adjustment of benefits to allow for changes in the cost of living.
4. The obligation of the state as the overall guarantor for financial protection refers to the need to ensure the financial, fiscal and economic sustainability of the national social protection system with due regard to social justice and equity.
5. Non-discrimination refers to the need to ensure gender equality and responsiveness to special needs by adopting financing mechanisms, eligibility conditions and benefit conditions that offset inequalities in the labour market.
6. Financial, fiscal and economic sustainability, referring to the current and future capacity of the economy to bear the costs of social protection.
7. Transparent and sound financial management and administration, referring to the need for good governance of the system.
8. The involvement of social partners and consultations with other stakeholders to the need to ensure social dialogue and representation, thereby allowing for a wide range of views, interests and needs.

3.5. Private sector pensions models

3.5.1. Introduction

The different assessment criteria of the ILO and World Bank were set out in section 3.4. The different models for assessing social security systems will now be examined.

3.5.2. A prototype private sector model described by Wang et al. (unpublished)

Wang et al. (unpublished) describe the Four Pillars Programme of the Geneva Association, which was first published in 1987. The Geneva Association is an international think tank for strategically important insurance and risk management issues, its membership comprising the Chief Executive Officers of international private insurance companies. The Four Pillars Programme is based on the actual three pillars of the Swiss national pension system, plus a fourth pillar based on continued partial employment of the aged.

The four pillars are:

- Pillar 1: compulsory national contributory scheme;
- Pillar 2: supplementary occupational pension scheme;
- Pillar 3: voluntary individual savings; and
- Pillar 4: continued partial employment post-retirement

It is noteworthy that this pensions model designed by private sector industry participants has no focus on providing for those who are not able to contribute, and there is therefore no focus on poverty alleviation. This early pensions model has not received widespread acceptance, but it did represent the views of supporters of the new pension principles at the time of its introduction. It seems to be representative of class interests by having no focus on poverty alleviation and relying on the aged to keep working during their retirement.

3.5.3. The 1994 World Bank model

Introduction

The World Bank supported the new pension reform principles from the 1980s, as described in paragraph 3.3.2. In 1994, the World Bank published “Averting the Old Age Crisis” which set out the World Bank’s own multi-pillar pensions model which aimed at managing sharply increasing pension costs being borne by governments (World Bank, 1994). This model was seen as more flexible than one based purely on the introduction of DC private accounts as done in Chile as it did allow some state-administered redistributive benefits (Orenstein, 2005). The World Bank’s approach was to allow the continued existence of the traditional DB social security pensions model while at the same time moving the focus and reliance to funded, privately managed pension accounts (Orenstein, 2005).

The multi-pillar model

The model can be summarised as follows, in Table 1 (World Bank, 2013):

Table 1: The 1994 World Bank Pensions Model

Pillar	**Target Group**	**Characteristics**	**Nature of Participation**	**Financing Method**
1	The poor	Universal or means-tested social pension	Mandatory	General government revenue, possibly individual contributions, PAYG or partially funded
2	Formal and informal workers	Personal savings plan or occupational plan	Mandatory	Individual contributions, fully funded, DC
3	Formal and informal workers	Personal savings plan or occupational plan	Voluntary	Individual contributions, fully funded, DC

Uses and strengths

The World Bank advised widely on international pension reform using this model and at least 30 countries introduced major pension reform based, in part or in full, on the model (Ortiz et al., 2018). The approach stressed both diversification across the different pillars through the creation of a range of options to meet needs and efficiency within each pillar in respect of benefits relative to the cost of their provision (Cichon, unpublished).

Criticisms

Ortiz et al. (2018) describes how the World Bank's model has faced criticism, based on both philosophy and actual experience, with the ILO being among the most vocal critics.

Criticism - systematic risks

The multi-pillar design supposedly allows for diversification of risks but Cichon (unpublished) argues that this ignores:

- Systematic risks that impact on more than one pillar;
- That there are likely to be strong correlations between the various pillars; and
- That groups of people often rely mostly on a single pillar.

Criticism - emphasis on private sector

Cichon (unpublished) states that the World Bank focuses on the second pillar, i.e. privately managed fully-funded pensions, thereby reducing focus on the publicly administered and partially funded first pillar, even at the potential expense of equity.

Criticism – shift from DB to DC

Cichon (unpublished) describes how the World Bank's preferred approach of replacing national DB schemes with DC alternatives was criticised by those concerned that no guarantee of benefits would be provided.

Criticism - funded versus unfunded
Supporters of the World Bank's model argued that an emphasis on funded pillars would protect pension schemes against the risk of ageing populations (Cichon, unpublished). The World Bank belief was also that economic growth would increase due to increased savings and investment in a funded environment (Cichon, unpublished).

However, the ILO has shown that financing the transition to a funded system causes fiscal problems in most countries. Experience has shown that these transition costs have generally been underestimated in terms of both size and duration. The ILO notes that using a funded approach would not guarantee protection against the effects of ageing, economic shocks or bad governance. Further, most countries which shifted to a funded system did not experience the predicted sharp increase in economic growth. (Ortiz et al., 2018)

Criticism - incomplete nature of model
As per their assessment criteria set out in section 3.4.3, the ILO argues that international experience shows that both funded and unfunded systems require proper governance and consistent stable economic growth to ensure their viability. The World Bank in contrast does not explicitly include these criteria. (Ortiz et al., 2018)

Criticism - lack of focus on poverty alleviation
Another criticism of the World Bank model as set out in Frilander (unpublished) was that it did not focus on poverty alleviation. The lack of an explicit poverty alleviation pillar in the original Work Bank pensions model reflected their emphasis on Bismarckian principles and operated to the detriment of particular groups like those most affected by unemployment or underemployment within countries where it was introduced (Frilander, unpublished).

World Bank acknowledges shortcomings
In 1999 the World Bank began to acknowledge flaws in some of its previous views (Orszag & Stiglitz, 1999). Firstly, it was acknowledged that one could not assume that privatisation would always lead to improvement (Orszag & Stiglitz, 1999). Furthermore, the World Bank confirmed that it was a myth that implementing individual accounts would always raise national savings, would always result in higher returns for member and would always lead to lower administration costs through competition in the private sector (Orszag & Stiglitz, 1999). They acknowledged that it is incorrect to assume, as they were seen as having previously argued, that the investment of public funds is always mismanaged or that corrupt or inefficient governments would be sufficient justification for individual accounts to be implemented (Orszag & Stiglitz, 1999).

The World Bank modified their approach to view more flexible DB arrangements, such as those with a flexible accrual rate, as also being acceptable, as opposed to focusing purely on a move to DC (Cichon, unpublished).

3.6. Response from the ILO and evolution of the World Bank model

3.6.1. The 2000 ILO model

Introduction

The ILO remained sceptical of the advice from the World Bank, but it took until 2000 before the ILO provided a comprehensive advice model (Cichon, unpublished).

The multi-tier model

The ILO envisions a multi-tier framework, seen in Table 2, as published in Gillion et al. (2000):

Table 2: The 2000 ILO Pensions Model

Tier	Target Group	Characteristics	Nature of Participation	Financing Method
1	The poor	Universal or means-tested social pension	Mandatory	PAYG
2	Formal and informal workers	Public DB scheme, ensures a replacement rate of 40% - 50% of indexed average lifetime income	Mandatory	PAYG or partially funded
3	Formal and informal workers	DC scheme, publicly or privately managed	Mandatory or voluntary	Individual contributions, fully funded
4	Formal and informal workers	Voluntary savings	Voluntary	Individual contributions, fully funded

The ILO model explicitly allowed for a poverty-alleviation tier, in contrast with the World Bank model. It also more explicitly set out the significant role of the contributory second tier, as envisioned by the ILO (Cichon, unpublished).

Discussions between the World Bank and ILO

In 2000 the two organisations agreed on the need for the reform of pension systems that were viewed as outdated and not fit for addressing the challenges of a changing world, such as increased longevity and changing work patterns (Frilander, unpublished). However, due to different economic ideological views, their recommendations on what reforms were required and on how to implement such reforms often differed significantly, with each still recommending its particular model with different areas of emphasis (Frilander, unpublished).

3.6.2. The 2004 World Bank model

Introduction

As a result of the discussions between the World Bank and ILO, the World Bank offered an expanded five pillar model in 2004 (Holzmann, 2005; Holzmann et al., unpublished).

The model

This revised model is set out in Table 3.

Table 3: The 2004 World Bank Pensions Model (Holzmann, 2005)

Pillar	Target Group	Characteristics	Nature of Participation	Financing Method
0	The poor	Universal or means-tested social pension, provides minimum level of benefit.	Mandatory	PAYG. Viability dependent on budget constraints.
1	The poor	Contributory national scheme, contributions linked to earnings, seeks to replace portion of income.	Mandatory	PAYG, partially funded or fully funded.
2	Formal and informal workers	Personal savings plan or occupational plan	Mandatory	Individual contributions, fully funded
3	Formal and informal workers	Personal savings plan or occupational plan	Voluntary	Individual contributions, fully funded
4	Formal and informal workers	Informal intra-family or inter-generational support	Voluntary	Funded by family members, financial/non-financial support

Model changes in reaction to criticism

The revised model showed a significant move towards the ILO model discussed in 3.6.1 by splitting the first pillar in two. The introduction of an explicit poverty alleviation pillar in the form of pillar 0 addressed a significant criticism of the original model. By doing so the World Bank more formally acknowledged a role for the Beveridge system. However, the revised model went further by introducing a further pillar to recognise informal and non-financial support, which the ILO model did not include. (Cichon, unpublished).

3.7. Comparing the World Bank and ILO Frameworks

3.7.1. Assessment criteria for comparison

The framework comparison will be according to four main themes, namely benefits, coverage, contribution structure and long-term financial sustainability. These four themes are found in the assessment criteria of both the World Bank and ILO models. These themes reflect the need for balance between suitability, affordability, sustainability and coverage.

There are other factors that could be included. For example, Munro (1989) describes the impact of the pension system on the national economy through job creation and poverty alleviation. However, the limited scope of this research restricts focus to the four themes.

3.7.2. Benefits

The World Bank describes adequacy as benefits being provided at a sufficient level to prevent old age poverty. Under the equity criterion, the World Bank acknowledges the need for a system to provide income redistribution from the lifetime rich to the lifetime poor, but through limited redistribution. In their predictability criterion the World Bank emphasises the importance of providing benefits that protect retirees against the impacts of both inflation and longevity, which are protected by legislation. (Frilander, unpublished)

The ILO's third principle covers the need for adequate and predictable benefits, through both contributory and non-contributory benefits. The ILO targets a minimum replacement ratio of 40% of earnings at retirement of a skilled male labourer with 30 years of contributions (ILO,1952). The need to increase benefits periodically to allow for increases in cost of living or wage rates is included. The ILO's second principle covers positive redistribution, which can be achieved through benefit design. (Duran-Valverde et al., 2018)

3.7.3. Coverage

The World Bank framework implicitly includes coverage in its adequacy criterion, where it describes the importance of preventing old-age poverty amongst the full population together with providing a way to smooth lifetime consumption for the vast majority of people. The World Bank accepts that some could be excluded by stating that the provision of non-contributory benefits should be subject to affordability. (Cichon, unpublished)

The ILO's first principle in their framework is universality, whereby they emphasize the importance of including everyone in society. The ILO in their 2022 policy brief continue to emphasise the importance of covering all members of a country's population. (ILO, 2022)

3.7.4. Contributions

The affordability criterion of the World Bank framework requires that a system is affordable to the funder, including non-contributory systems. (Badat et al., unpublished)

The ILO's second principle describes the important role of social solidarity and collective financing creating positive redistribution benefits. This would be achieved in part through the contribution structure of a system. The ILO also addresses this topic in its sixth principle which emphasises the importance of the capacity of an economy being able to bear the costs of non-contributory social protection benefits. (Frilander, unpublished)

3.7.5. Long term financial sustainability

In the sustainability criterion, the World Bank emphasises the importance of a predictable long-term contribution rate which does not require unexpected increases. Their sustainability criterion requires that a system can be maintained in future under a broad set of reasonable assumptions. The robustness criterion of the World Bank states that a system requires the capacity to withstand major economic, demographic and political shocks. The World Bank still prefers a fully funded approach. (Holzmann et al., unpublished)

The ILO addresses this topic in its sixth principle which emphasises the importance of an economy being able to bear the costs of social protection benefits both now and in the future. The ILO continues to have concerns about a fully funded approach, preferring a PAYG approach or a partially funded approach. (Ortiz et al., 2018)

3.7.6. Comparison Summary

The criteria set out in sections 3.4.2 and 3.4.3 can be summarised, in Table 4, as follows using the numbering in those sections:

Table 4: Summary of Comparison Criteria

Framework Criterion	**World Bank**	**ILO**
BENEFITS:		
Adequacy of benefits	1	3
Predictability of benefits	5	3
Cross-subsidies within population	4	2
Social solidarity	n/a	2,8
COVERAGE:		
Coverage	1	1
Avoidance of discrimination	n/a	4,5
CONTRIBUTIONS AND AFFORDABILITY:		
Economic impact	2,3	6
SUSTAINABILITY		
Financial soundness	3,6	6
Good governance	n/a	7

The criteria listed above are those that will be used for evaluation purposes. Criteria included in the ILO framework such as the role of the state and the importance of consultative processes will not be included.

Comparing the Different Models

As set out in section 3.6, the first tier in the ILO framework is a non-contributory anti-poverty tier, and the World Bank added its equivalent as their Pillar 0 in 2005. However, the ILO framework envisions the anti-poverty tier as being guaranteed (ILO, 2018), while the World Bank views their Pillar 0 as being subject to affordability (Cichon, unpublished).

The second tier of the ILO framework envisions a mandatory national scheme, DB in nature and with a targeted minimum replacement ratio of 40% of earnings at retirement after 30 years of contributions. This is the equivalent of Pillar 1 in the World Bank framework. The ILO still prefers the DB approach to determining benefits, while the World Bank prefers DC. (Ortiz et al., 2018)

As set out in section 3.6, the third tier of the ILO framework is DC in nature, mandatory up to a prescribed maximum earnings level, paid into a government fund or, in some countries, with the option of paying into a fund managed by the private sector. The World Bank equivalent is Pillar 2.

The fourth tier of the ILO framework is DC in nature, as set out in section 3.6. It is voluntary with no earnings ceiling but with limited tax benefits and is managed by the private sector. The World Bank equivalent is Pillar 3.

The organisations differ on emphasis. The World Bank emphasises the higher numbered pillars in its framework, reflecting its original objective of limiting public expenditure (Wang et al., unpublished). The ILO emphasises the earlier tiers in its framework, reflecting its original objective of providing secure and adequate income for all. Thus, when these organisations advise developing countries with limited budgets on pension and social protection reform, their advice differs. Duran-Valverde et al. (2018) describe how the primary focus of the ILO remains income security and income redistribution through collective funding to ensure equity, while the World Bank's focus remains on control of costs to government (Wang et al., unpublished). The ILO has not added a tier similar to the World Bank's fourth pillar as they do not view this as being feasible additional or consistent with their principles (Wang et al., unpublished). The ILO continues to emphasise the vital overall role of the state in the social protection system (Duran-Valverde et al., 2018).

Differences remain despite the World Bank and ILO becoming more aligned over the years (Cichon, unpublished; Wang et al., unpublished). This alignment led to a global partnership for universal social protection in 2016[14]. Universal social protection was jointly

[14] USP2030. (2016). How to join the Global Partnership for Universal Social Protection to Achieve the Sustainable Development Goals (USP2030). Available online: RessourcePDF.action (social-protection.org) Accessed: 04 September 2023

defined as being the integrated set of policies designed to ensure income security and support to all people throughout life, with particular attention for the poor and vulnerable[15].

3.8. Summary and Framework

3.8.1. Summary

Sections 3.3 to 3.7 have detailed how the World Bank and ILO models for categorising benefits in a social security system have evolved over time. Although they have grown closer to each other over time, their ultimate foci still differ as they arose from different perspectives. Based on these different perspectives, the organisations have different criteria for assessment.

These criteria are set out below under four chosen assessment criteria, showing the main themes resulting from the criteria used by the World Bank and ILO. Thereafter a generic pensions model with four levels is set out, based on the similarities of the World Bank and ILO models. The analytical framework adopted for this research uses a four level model similar to the ILO and World Bank coupled with these four main focus areas to assess the suitability of a pensions system.

3.8.2. Assessment Criteria

Four main themes will be considered when assessing the suitability of a pensions system from the perspective of different stakeholders in a country. These four main themes are benefits, coverage, contribution structure, and long-term financial sustainability.

The focus on these four main themes will form the basis of the framework for examination of the pensions systems in individual countries. However, the reasons why pensions systems developed in a particular manner will also be considered for context.

3.8.3. Four Level Generic Pension Model

The literature review in sections 3.5 and 3.6 sets out different pension models. For the remainder of this dissertation generic terms (shown in Table 5 below) will be used to denote the different components common to these models.

Within Level C, sub-levels will be used to differentiate between schemes where membership is required by the state (Level C1) versus the employer (Level C2).

Within Level D, sub-levels will be used to differentiate between schemes run on a group basis (Level D1) versus a retail basis (Level D2).

[15] International Labour Organization. (2016). World Bank, ILO announce new push for universal social protection. Available online: Social protection for all: World Bank, ILO announce new push for universal social protection

Table 5: Four Level Generic Pension Model

Generic Term	**Description**	**Distinguishing Characteristic**	**International Model Equivalents**	
			World Bank	**ILO**
Level A	• Non-contributory • Poverty alleviation benefit • Always DB • Could be universal or targeted via means test	Mandatory Non-contributory	Pillar 0	Tier 1
Level B	• National scheme • Compulsory for at least some employees • Could have eligibility criteria • Public sector employees might be included or not • Employee and employer both contribute • DB, DC or notional DC • Can be open or closed	National and Compulsory (at least for some employees)	Pillar 1	Tier 2
Level C1	• Group arrangements • Employer contributes • Employee may or may not contribute • DB or DC • Can be open or closed	Compulsory – mandated by state (opt out might be allowed)	Pillar 2	Tier 3
Level C2		Compulsory – mandated by employer (no opt out)		
Level D1	• Voluntary • Employee contributes • Always DC • Freedom of choice	Group arrangements May be some redistribution	Pillar 3	Tier 4
Level D2		Retail arrangements		

4. OVERVIEW OF THE SUB-SAHARAN AFRICAN REGION

Research Question 2: How similar is South Africa to the rest of the sub-Saharan African region in terms of demography, economy and the informality of labour?

4.1. Definition of sub-Saharan Africa

While there is some debate over the definition of sub-Saharan Africa, the World Bank includes 48 countries in its sub-Saharan classification (Dorfman, 2015) out of the 55 members of the African Union (AU)[16]. The excluded AU member states are Algeria, Egypt, Libya, Morocco, Sudan, Tunisia and Western Sahara[17].

4.2. History of sub-Saharan Africa

Borders within sub-Saharan Africa have largely remained unchanged since the 1950s, despite many years of civil wars and wars between countries. The 1960s saw both Nigeria and Congo-Leopoldville (modern day Democratic Republic of Congo) defeat strong separatist movements in Biafra[18] and Katanga[19] respectively. An attempt to merge Senegal and the Gambia into one country during the 1980s proved short-lived[20]. The annexation of Eritrea by Ethiopia in 1962 and its independence in 1993 following a war of independence was an exception to this experience of relatively stable borders[21]. Another notable exception was seen when South Sudan was granted independence from Sudan in 2011 following many years of war[22]. Somalia's collapse as functional state in 1991 subsequently saw Somaliland become de facto independent, but most countries do not officially recognise its independence[23]. The early 2020s have witnessed two active wars with a secessionist aim: in Nigeria the Niger delta area sees an ongoing active campaign with some links to the Biafran independence movement[24] and in Ethiopia a war for the independence of the Tigray region was fought from 2020 to 2022[25].

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[16] African Union [Na]. Member States. Available online: Member States | African Union (au.int)

[17] World Bank. (2023). Sub-Saharan Africa. Available online: Sub-Saharan Africa | Data (worldbank.org)

[18] Britannica. (2023). Nigerian Civil War. Available online: Nigerian Civil War | Description, Causes, Deaths, & Facts | Britannica

[19] Britannica. (2023). The Congo Crisis. Available online: britannica.com/place/Democratic-Republic-of-the-Congo/The-Congo-crisis

[20] Britannica. (2020). Senegambia. Available online: Senegambia | confederation, Africa | Britannica

[21] Britannica. (2020). Eritrea summary. Available online: britannica.com/summary/Eritrea#:~:text=A%20provisional%20Eritrean%20government%20was,1997%20but%20was%20never%20implemented.

[22] Britannica. (2023). South Sudan. Available online: britannica.com/place/South-Sudan

[23] Britannica. (2023). Somaliland. Available online: britannica.com/place/Somaliland

[24] BBC News. (2023). Biafra quest fuels Nigeria conflict: Too scared to marry and bury bodies. Available online: Biafra quest fuels Nigeria conflict: Too scared to marry and bury bodies - BBC News

[25] European Parliament. (2022). Ethiopia: War in Tigray. Available online: Ethiopia: War in Tigray (europa.eu)

Decolonisation and the movement to democracy began in sub-Saharan Africa in the 1950s, following the end of the Second World War[26]. The movement to independence began in 1957 with the independence of Ghana and ended with the independence of Namibia in 1990[27]. The movement to democracy has progressed at different paces (Bates, 2010). Eswatini is the last absolute monarchy in sub-Saharan Africa[28] while Eritrea is a one-party state that has not had national elections since its independence in 1993[29]. A number of countries such as Mali, Nigeria and Somalia are fighting against Islamic jihadist campaigns that are a direct threat to their democracy[30].

4.3. Demography of sub-Saharan Africa

The total population of sub-Saharan Africa was estimated at 1.2 billion in 2021. Of the 50 countries with the highest population growth rates, 38 are in sub-Saharan Africa[31]. The current population growth rate is 2.3% relative to the global rate of 1.2%, but there are considerable variations. For example, the population growth rate in South Africa is estimated at 1.0%.

Figure 1 highlights the difference in population growth in sub-Saharan Africa relative to other regions (UN DESA, 2022). Figure 1 shows that countries in sub-Saharan Africa generally have significantly higher mortality rates among young children than the rest of the world. Of the 50 countries with the highest mortality among children younger than five years of age, 40 are in sub-Saharan Africa (World Bank, 2019).

[26] Britannica. (2023). Independence and decolonization in Southern Africa. Available online: britannica.com/place/Southern-Africa/Independence-and-decolonization-in-Southern-Africa

[27] United Nations. (2010). A 'wind of change' that transformed the continent. Available online: un.org/africarenewal/magazine/august-2010/%E2%80%98wind-change%E2%80%99-transformed-continent

[28] NPR. (2021). Pro-Democracy Protests Continue In Eswatini, Africa's Last Absolute Monarchy. Available online: npr.org/2021/07/16/1016031822/pro-democracy-protests-continue-in-eswatini-africas-last-absolute-monarchy

[29] Freedom House. (2023). Eritrea. Available online: Eritrea: Freedom in the World 2021 Country Report | Freedom House

[30] BBC News. (2020). Is Africa overthinking the Middle East as the new Jihadist battleground? Available online: bbc.com/news/world-africa-55147863

[31] Central Intelligence Agency. (2023a). Population growth rate. Available online: Population growth rate - The World Factbook (cia.gov)

Figure 1: Projected Population Growth by World Region (Source: UN DESA, 2022*)*

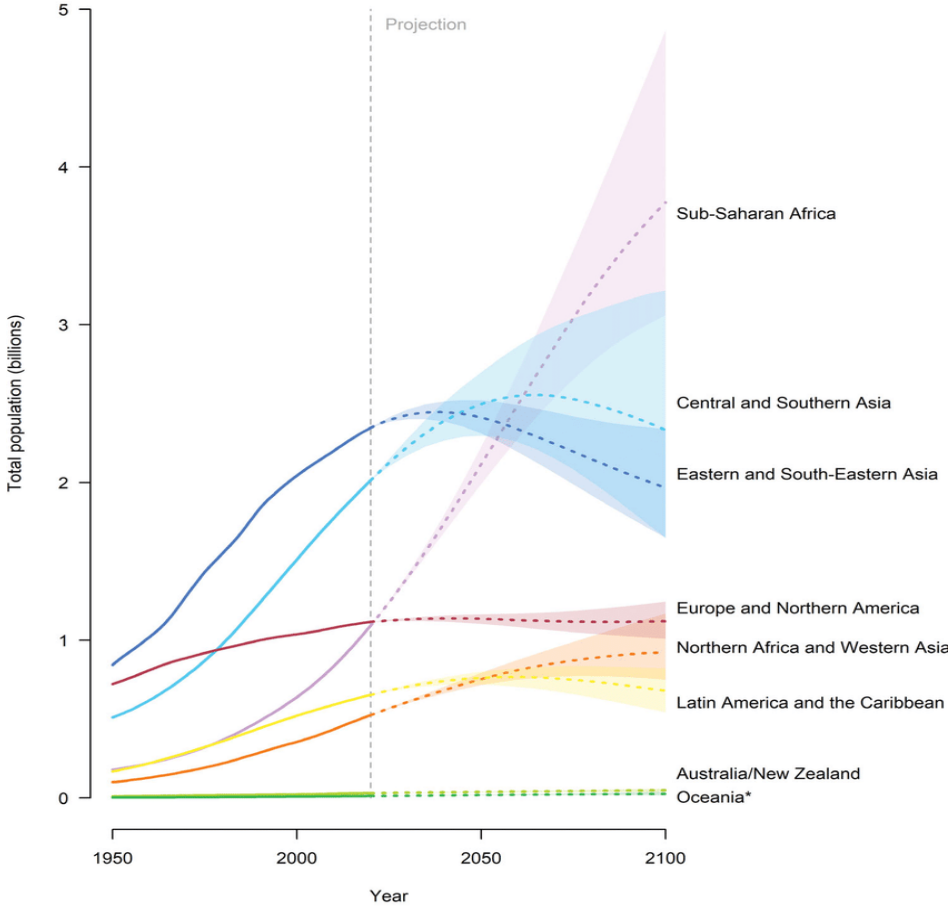
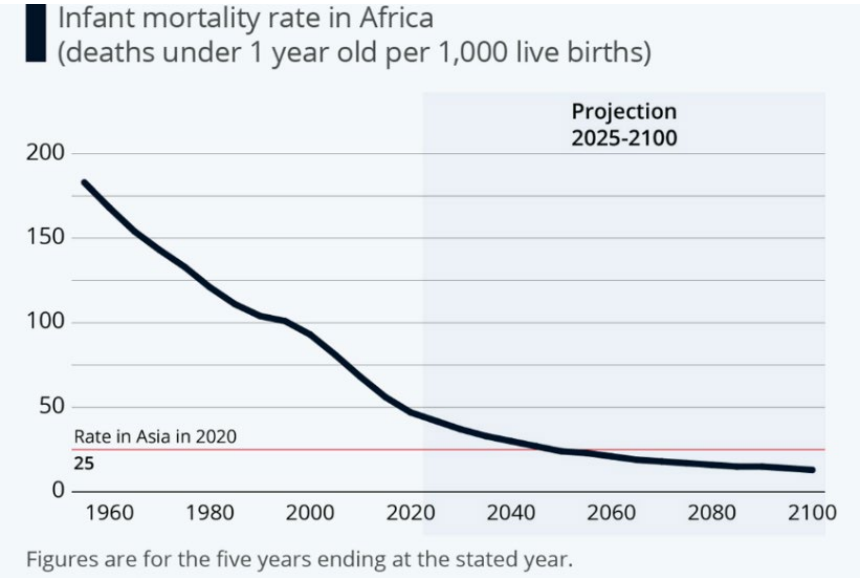


Figure 2: Infant Mortality in Sub-Saharan Africa[32]

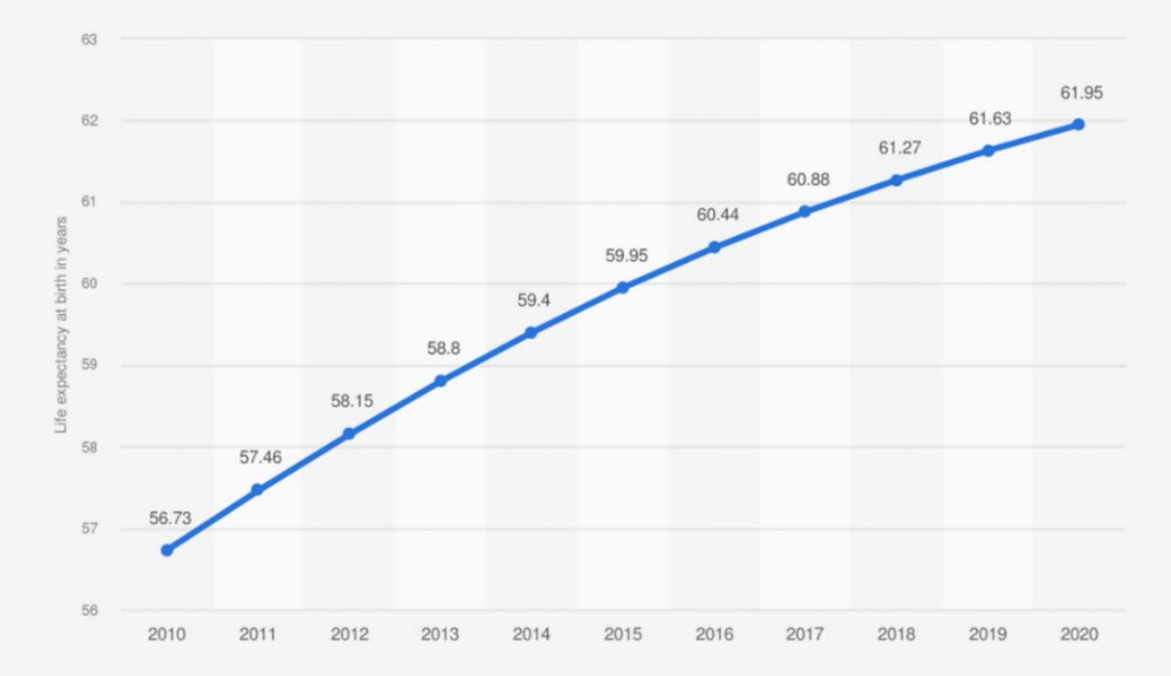


[32] Editorial Staff. 2022. Infant mortality in Africa: downward trajectory and a safer future, Africa Briefing (08 April). Available online: Infant mortality in Africa: downward trajectory and a safer future - Africa Briefing Accessed: 04 September 2023

However, child mortality is reducing over time. Shown in Figure 2, South Africa's infant mortality rate has reduced faster than the rest of sub-Saharan Africa and is now roughly half that of the average for sub-Saharan Africa[33].

Of the 50 countries with the lowest life expectancy at birth, 41 of these are in sub-Saharan Africa[34]. However, life expectancy is increasing over time. Life expectancy at birth in sub-Saharan Africa increased from 40 years in 1960 to 61 years in 2017[35], as shown in Figure 3: Life Expectancy at Birth in Sub-Saharan Africa:

Figure 3: Life Expectancy at Birth in Sub-Saharan Africa[36]



South Africa has also seen an increase in life expectancy at birth, from 48.2 in 1960 to 62.0 in 2020[37], as shown in Figure 3. The improvement in South Africa's life expectancy at birth was disrupted due to a high prevalence of HIV/AIDS in the general population and a lack of access to antiretroviral treatment which was only resolved in 2003[38].

[33] UNICEF. (2023). Country Profiles South Africa. Available online: South Africa (ZAF) - Demographics, Health & Infant Mortality - UNICEF DATA

[34] World Bank. (2019). Pension Systems in East Africa: A Deep Dive. In partnership with the International Bank for Reconstruction and Development

[35] Ibid

[36] O'Neill, A. (2023). Sub-Saharan Africa: Life expectancy at birth from 2011 to 2021, Statista (02 June). Available online: Sub-Saharan Africa - life expectancy at birth 2011-2021 | Statista Accessed: 04 September 2023.

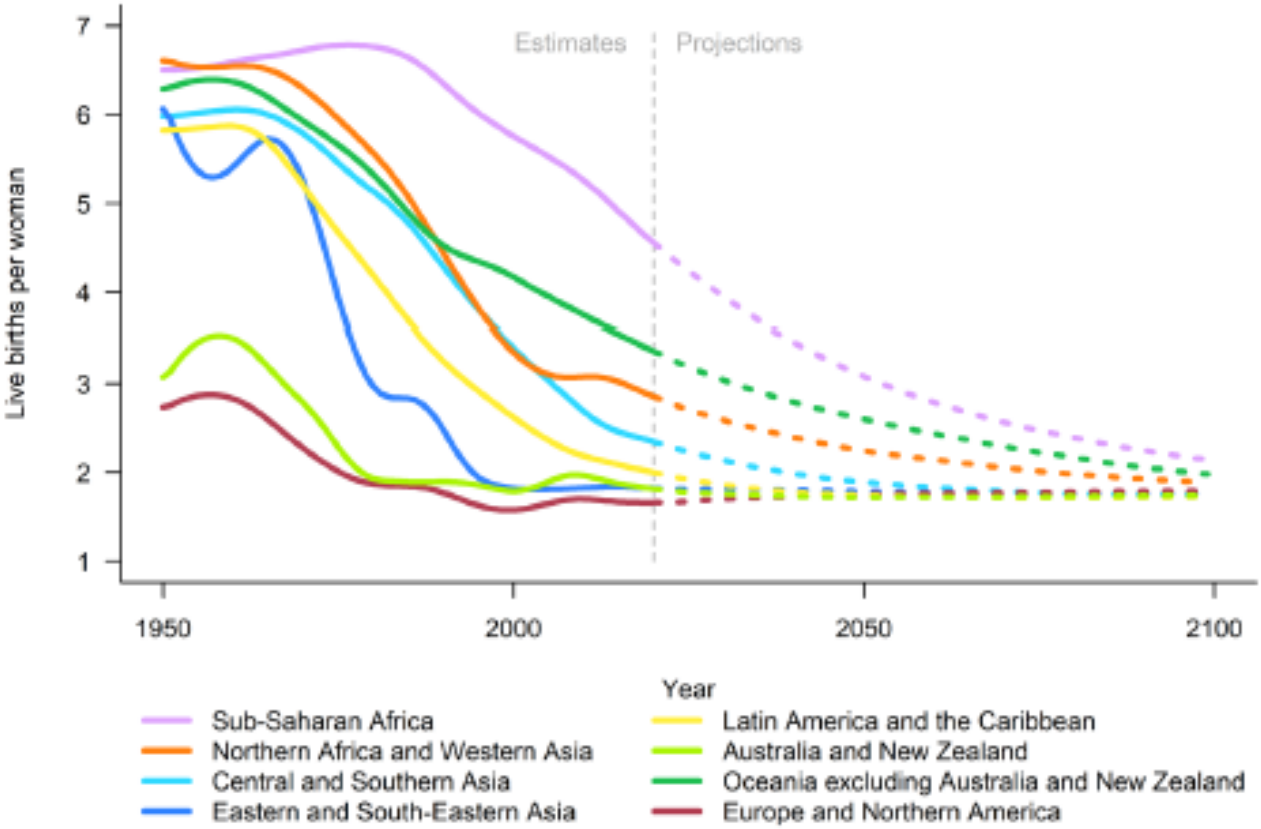
[37] Macrotrends. (2023) South Africa Life Expectancy 1950-2023. Available online: South Africa Life Expectancy 1950-2023 | MacroTrends

[38] Niussp. (2022) Access to antiretroviral therapy for HIV/AIDS and life expectancy in South Africa. Available online: niussp.org/health-and-mortality/access-to-antiretroviral-therapy-for-hiv-aids-and-life-expectancy-in-south-africa/

Countries in sub-Saharan Africa generally have much higher fertility rates than in the rest of the world. Of the 50 countries with the highest fertility rates, 39 are in sub-Saharan Africa[39].

Fertility rates across the world have dropped across the globe since the middle of the twentieth century and are projected to continue to decrease in the future. Sub-Saharan Africa is also reflecting this trend, as depicted below in Figure 4: Total Fertility Rate by World Region.

Figure 4: Total Fertility Rate by World Region (UN DESA, 2022)

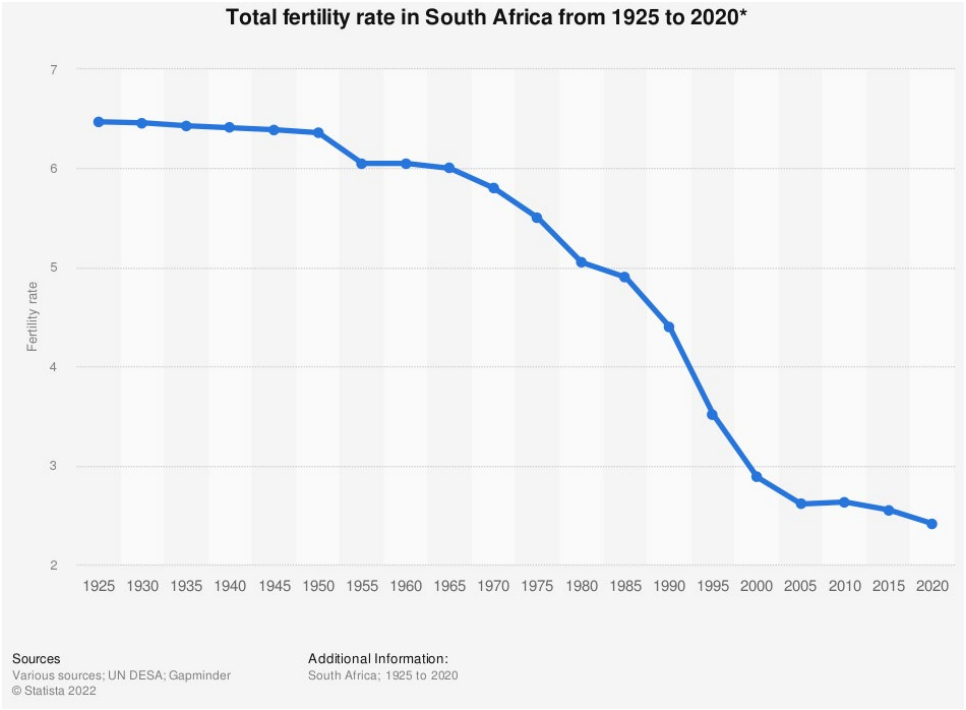


The decline of fertility in sub-Saharan Africa has been relatively slow and occurring later compared to other regions in the world. It is projected that 34 years will be required for fertility to decline from 6.0 to 4.0 live births per woman (from 1995 to 2029). However, between 2010 and 2019, 7 of the 10 countries with the largest reductions in the total fertility rate were in sub-Saharan Africa: Chad, Ethiopia, Kenya, Malawi, Sierra Leone, Somalia and Uganda. (UN DESA, 2022)

[39] United Nations Populations Fund. (2022). Demographic dividend. Available at: Demographic dividend (unfpa.org)

South Africa has experienced this drop in fertility at a faster rate than elsewhere in sub-Saharan Africa[40] as shown in Figure 5: Total Fertility Rate in South Africa:

Figure 5: Total Fertility Rate in South Africa (UN DESA, 2022)



Of the 50 countries with the largest proportion of their population aged under 15, 41 are in sub-Saharan Africa, while South Africa is number 76 on that list. Of the 50 countries with the smallest proportion of their population over 65, 38 are in sub-Saharan Africa, while South Africa is number 85 on that list.[41]

For a country, longevity risk is due to the impact of people living longer in retirement (Hunt & Caliendo, 2021). Relatively high infant mortality rates in sub-Saharan Africa make life expectancy at birth a poor indicator of this longevity risk[42]. The impact of the HIV/AIDS pandemic was heaviest on those of working age[43], therefore this also reduced the usefulness of using life expectancy at birth as a means of measuring a country's longevity risk.

[40] World Bank. (2022) Fertility rate, total (births per woman) - South Africa. Available online: data.worldbank.org/indicator/SP.DYN.TFRT.IN?locations=ZA

[41] CIA (Central Intelligence Agency). (2020). Country Comparisons - Median age, The World Factbook. Available online: Median age – The World Factbook (cia.gov)

[42] Mises Institute. (2018). Infant Mortality Is a Misleading Statistic for International Comparisons. Available online: Infant Mortality Is a Misleading Statistic for International Comparisons | Mises Wire

[43] International Labour Organization. (2005). The impact of HIV/AIDS on the labour force in Sub-Saharan Africa: a preliminary assessment. Available online: Microsoft Word – RPA3_HIVimpactOnLFinSSA.doc (ilo.org)

The average life expectancy of 60 year olds across sub-Saharan Africa is 14.5 years (UN DESA, 2019). In Table 6 is a comparison of the life expectancy of 60-year-olds in the twenty countries in sub-Saharan Africa with the largest populations[44], showing the change over time.

Table 6: Increase in Life Expectancy of 60 Year Olds Across Sub-Saharan African Countries[45]

Country	**Life Expectancy at 60**	
	2004	**2019**
Angola	15.6	17.0
Burkina Faso	14.6	16.8
Cameroon	15.5	17.1
Congo, Democratic Republic of	15.7	16.6
Chad	15.3	16.5
Côte d'Ivoire	13.2	17.1
Ethiopia	16.5	18.5
Ghana	14.8	17.3
Kenya	16.5	17.6
Madagascar	16.3	16.8
Malawi	15.4	17.2
Mali	14.8	17.5
Mozambique	16.1	15.8
Niger	15.1	17.2
Nigeria	13.0	18.2
Senegal	15.7	18.2
South Africa	15.7	19.1
Tanzania	16.0	18.2
Uganda	16.1	17.7
Zambia	15.2	16.5

Sub-Saharan Africa is therefore experiencing reducing fertility, reducing child mortality and increasing life expectancy. This in turn is expected to lead to significant changes in the overall population pyramid over time, shown relative to South Africa alone in Figure 6 below.

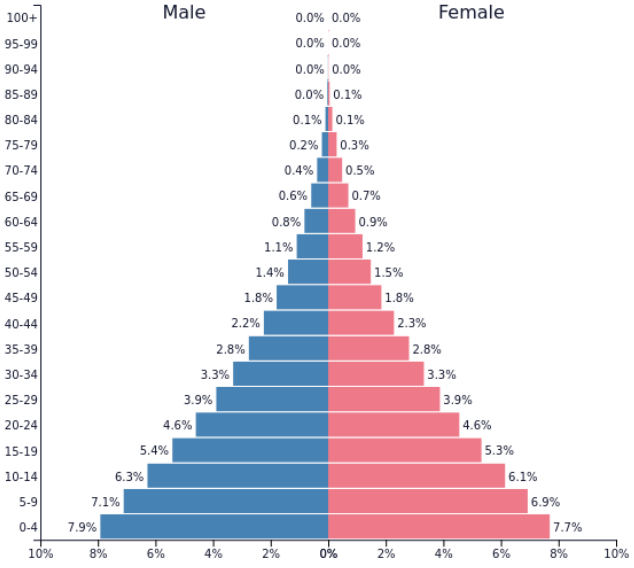
[44] World Health Organization. (2023). Maternal, Newborn, Child, and Adolescent Health and Ageing. Available online: Life expectancy at age 60 (who.int)

[45] World Health Organization. (2023) supra.

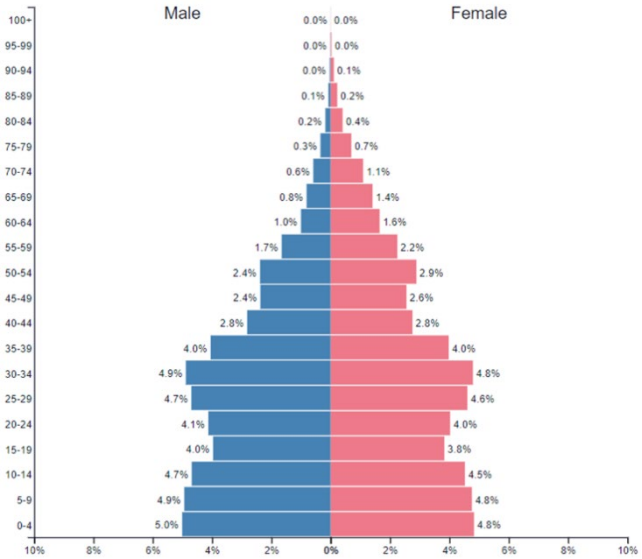
Figure 6: Population Age Distribution in South Africa vs Sub-Saharan Africa[46]

2020

Sub-Saharan Africa

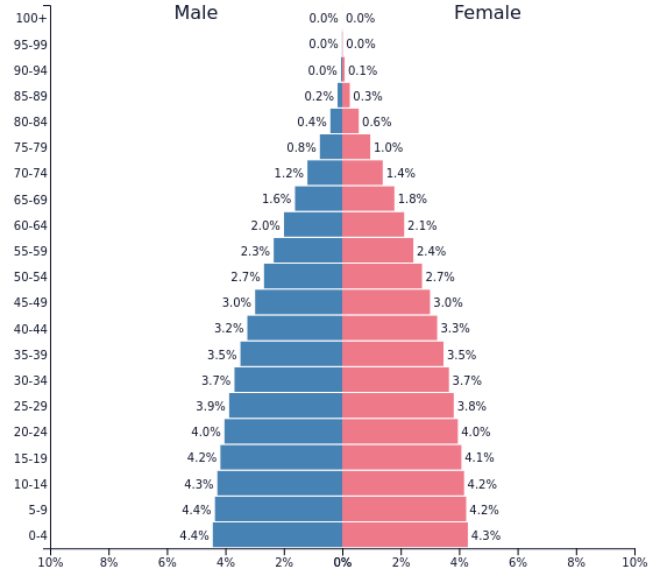


South Africa

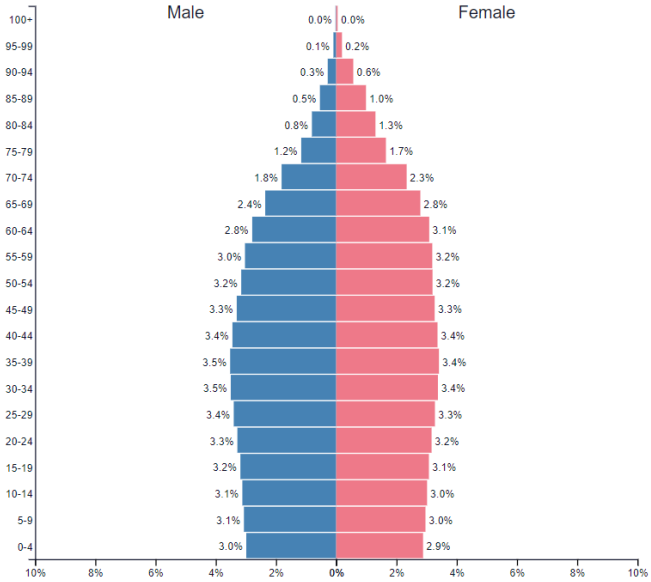


2080

Sub-Saharan Africa



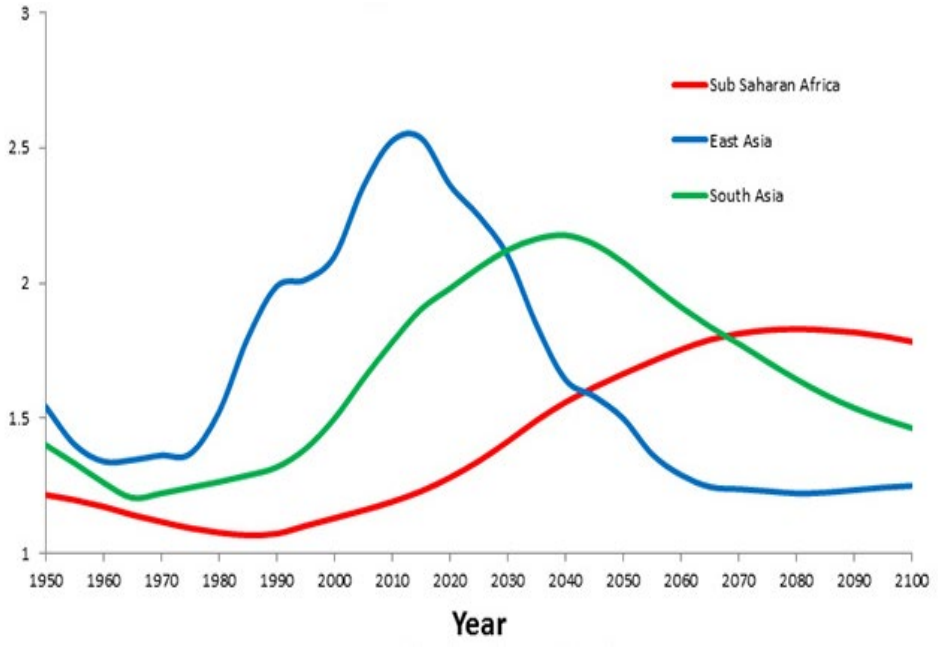
South Africa



[46] Population Pyramid. (2023). Sub-Saharan Africa. Available online: populationpyramid.net/sub-saharan-africa

This change in the overall age structure of the population is expected to lead to a change in the ratio of people of working age relative to the number of dependants as shown in Figure 7: Ratio of Working Age to Number of Dependants.

Figure 7: Ratio of Working Age to Number of Dependants[47]



The ratio of working age people to number of dependants in South Africa is 1.1. [48]

It is hoped that this demographic transition in the population of sub-Saharan Africa will create a temporary demographic dividend for the region. The demographic dividend, as defined by the United Nations Populations Fund, is "the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working age population is larger than the non-working age share of the population"[49]. One potential reason for a demographic dividend is that with fewer children to care for, more women are able to enter employment (Phan, 2013). Achieving such a temporary demographic dividend is cited as one of the main reasons for the economic success achieved in East Asia[50].

[47] World Bank Blogs. (2015). The demographic transition and labor markets in Sub-Saharan Africa. Available online: blogs.worldbank.org/africacan/the-demographic-transition-and-labor-markets-in-sub-saharan-africa

[48] Trading Economics. (2022). South Africa – Age Dependency Ratio. Available online: tradingeconomics.com/south-africa/age-dependency-ratio-percent-of-working-age-population-wb-data.html

[49] United Nations Populations Fund. (2022). Demographic dividend. Available online: Demographic dividend (unfpa.org)

[50] Abels, M. & Guven, M. U. (2016). Publication: Pension Systems in Sub-Saharan Africa: Brief Review of Design Parameters and Key Performance Indicators. Available online: Pension Systems in Sub-Saharan Africa: Brief Review of Design Parameters and Key Performance Indicators (worldbank.org)

However, this is based on potential economic growth. Of the 50 countries in the world with the lowest nominal GDP per capita, 33 are in sub-Saharan Africa[51]. The average nominal GDP per capita across sub-Saharan Africa is US$1 690[52]. South Africa has a nominal GDP per capita of US$7 055[53].

Of the 43 countries that averaged more than the world average real growth in GDP per capita of 1.63% per annum over 2010 to 2018, 13 were in sub-Saharan Africa[54]. However, the average for sub-Saharan Africa as a whole was only 0.63% per annum[55].

Unemployment in the region is also high relative to the rest of the world, especially amongst the youth (UNDP & ILO, 2021). This worsened during the recent COVID-19 pandemic. Recent economic growth in sub-Saharan Africa has not been high enough to allow this potential to be achieved. This appears to be a significant threat to the region's ability achieve a demographic dividend (UNDP & ILO, 2021).

4.4. Informality of work force

The ILO estimates that roughly 85% of employment in sub-Saharan Africa is informal in nature[56] while the World Bank estimates it to be 80%[57] (UNDP & ILO, 2021). Sub-Saharan Africa has the largest proportion of GDP represented by the informal economy, as shown below in Figure 8: Size of Informal Economy.

[51] United Nations Statistic Division. (2023). Basic Data Selection. Available online: Basic Data Selection – amaWebClient (un.org)

[52] Macro Trends. (2022).Sub-Saharan African GDP Per Capita. Available online: www.macrotrends.net/global-metrics/countries/SSF/sub-saharan-africa-/gdp-per-capita

[53] World Bank. (2022). GDP per capita (current US$) – South Africa. Available online: data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=ZA

[54] Central Intelligence Agency. (2020), supra.

[55] United Nations Statistic Division. (2023), supra.

[56] International Labour Organization. (2022). Informal Economy in Africa: Which Way Forward? Making Policy Responsive, Inclusive and Sustainable. Available online: Informal Economy in Africa: Which Way Forward? Making Policy Responsive, Inclusive and Sustainable (ilo.org)

[57] World Bank Blogs. (2020). Supporting Africa's urban informal sector: Coordinated policies with social protection at the core. Available online: blogs.worldbank.org/africacan/supporting-africas-urban-informal-sector-coordinated-policies-social-protection-core

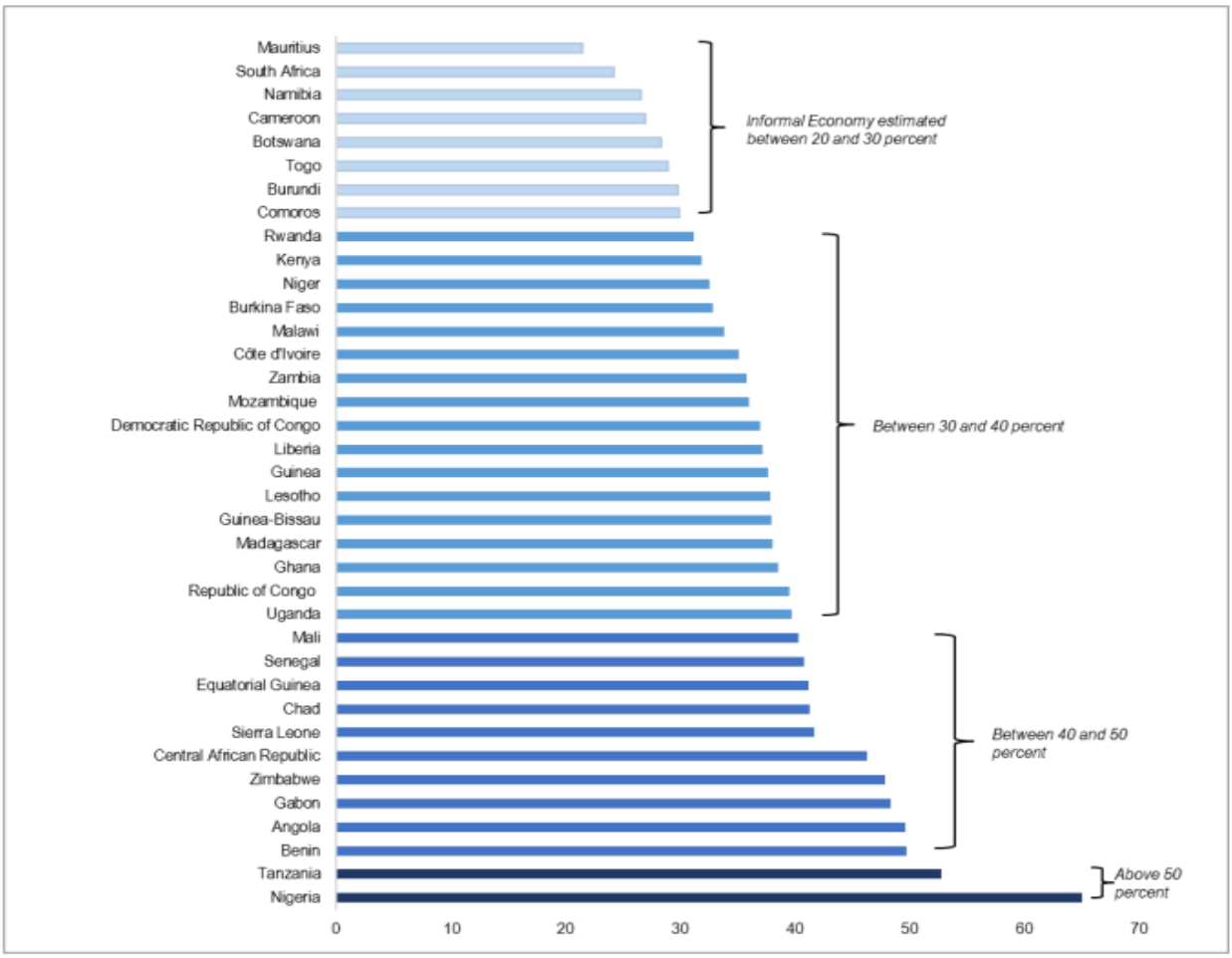
Figure 8: Size of Informal Economy[58]



The size of the informal sector varies significantly between countries in the region. Figure 9: Size of Informal Sector Across Sub-Saharan Africa depicts the size of the informal economy (as a share of GDP) in sub-Saharan Africa (2010 to 2014 average).

[58] Economist. (2017). Africa's informal economy is receding faster than Latin America's. Available online: economist.com/finance-and-economics/2017/05/13/africas-informal-economy-is-receding-faster-than-latin-americas

Figure 9: Size of Informal Sector Across Sub-Saharan Africa (Medina et al., unpublished)



As shown in Figure 9, South Africa's informal sector is small relative to most other sub-Saharan African countries.

Workers employed in the informal sector generally do not contribute in a significant manner towards a country's public finances as they do not generally pay income tax nor towards social security schemes.[59] The World Bank estimates that only 10.6% of the working age population in sub-Saharan Africa contribute to a pension scheme of some sort (Guven, 2019). Again, this varies significantly by country, in more than half of the countries in the region this figure is less than 6% (Guven, 2019). The World Bank's view is that a pure Bismarckian system is inappropriate for the informal sector, a view shared by the ILO who argue that Level A benefits should play a greater role in covering informal sector workers (UNDP & ILO, 2021).

[59] Deléchat, C & Medina, L. (2020). What is the Informal Economy? International Monetary Fund (December). Available online: What is the Informal Economy? (imf.org) Accessed: 04 September 2023.

A challenge noted by both the World Bank and ILO is how heterogeneous the informal sector is (UNDP & ILO, 2021). The World Bank further identifies certain aspects of informal sector workers that need to be considered when trying to find solutions for increasing their pension coverage (Guven, 2019). Typically their income is more irregular than formal sector workers and they are more susceptible to financial shocks. Informal sector workers may be difficult to reach, especially in rural areas, but at the same time they are often well organised and can be reached through their own associations (Guven, 2019).

The ILO's recommendations on covering informal sector workers focus on using non-contributory Level A benefits and aligning these better with Level B and Level D schemes. A focus on women's specific needs is also emphasised, with women forming the majority of informal sector workers. The ILO also recommends the inclusion of informal sector workers in social dialogue, scheme design and oversight. There is a lack of trust in many sub-Saharan African countries and ensuring the participation of workers is seen as one way of building trust and ultimately establishing a social contract in respect of social protection. These discussions would also need to include other relevant stakeholders. (UNDP & ILO, 2021)

4.5. Summary

South Africa is a part of sub-Saharan Africa and reflects many of the same traits as other countries in the region, in comparison with the rest of the world. However, it can still be seen that there are still marked differences between South Africa and the average of the other countries. Table 7 highlights the differences between South Africa and sub-Saharan Africa:

Table 7: Differences in current demography of South Africa and sub-Saharan Africa

Demographic	**Sub-Saharan Africa**	**South Africa**
Population growth	2.3% per annum	1.0% per annum
Infant mortality	50 per 1 000 live births	26 per 1 000 live births
Total Fertility rate	4.6 per woman	2.4 per woman
Ratio of working age persons to dependants	1.3	1.1
Life expectancy for 60 year old	14.5 years	19.1 years
GDP per capita	US$1 690	US$7 055
Real growth in GDP per capita	0.63% per annum	-1.22% per annum
Percentage of adult working population in informal sector	85%	31%

For example South Africa has a lower total fertility rate, lower infant mortality, higher life expectancy and lower overall population growth. Furthermore, South Africa has a smaller proportion of its working population in the informal sector. This will need to be considered when comparing pension models in South Africa with those of other countries in the region.

4.6. Overview of Case Studies

Section 5 will firstly cover the history of pensions in South Africa and the framework will be used to assess the current pensions model in place in South Africa. Next the five chosen countries (Eswatini, Ghana, Kenya, Nigeria and Zambia) will be covered individually using the framework. Thereafter the overall experience and trends in social security and retirement reform in sub-Saharan Africa will be considered in Section 11 using the general framework.

5. PENSIONS IN SOUTH AFRICA

Research Question 3: What is the current social security pension system in South Africa and what is the vision for it?

5.1. Introduction

In South Africa a multi-level system developed over time and has existed for many years. Benefits within South Africa will be assessed using the framework set out in section 3.8., to examine the different types This analysis will include a detailed consideration of the history of pensions in South Africa, examining past reforms and setting out the future reforms currently being considered.

5.2. Level A: Non-Contributory Pensions

5.2.1. History

South Africa has a well-developed system of non-contributory benefits, referred to as grants (Woolard, 2022). These include not only the old age grant, but also other grants including those in respect of disability, children and war veterans.[60] These benefits focus mostly on poverty relief and are meant to be redistributive.[61] All except the foster child grant, which focuses on child protection rather than poverty relief, are means tested.[62] Applying a means test allows benefits to be focused on individuals who have not been able to save adequately for retirement, which is essential given relatively high levels of unemployment in the country and the relatively low earnings of those in employment (Social Development, 2007). Criticism (Social Development, 2007) has been made that many people in South Africa experience hardship during their working lifetimes and receive state benefits only if they manage to survive to the qualifying age (National Treasury, 2007). The focus here will be on the old age grant, as opposed to other grants.

Devereux (2007) describes how social pensions in South Africa can in part trace their origin to the 1922 Rand Rebellion which saw white miners violently revolt against the government of Jan Smuts. The Rebellion was blamed on mining companies reducing miners' wages due to the fall in the international gold price and on the plan to allow cheaper black labourers to fill skilled and supervisory roles in the mines (Devereux, 2007).

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[60] Lambley, G. (2023). What are the EIGHT SASSA payment grants South Africans can apply for? The South African (20 July). Available online: What are the EIGHT SASSA payment grants South Africans can apply for? (thesouthafrican.com) Accessed: 12 August 2023.

[61] Rossouw, J. (2017). Why social grants matter in South Africa: they support 33% of the nation, The Conversation (16 February). Available online: Why social grants matter in South Africa: they support 33% of the nation (theconversation.com) Accessed: 12 August 2023.

[62] SASSA Grants. (2023a). SASSA Means Test – Asset and Income Threshold (April). Available online: SASSA Means Test - Asset and Income Threshold for 2023 (sassagrants.co.za) Accessed: 12 August 2023.

The 1924 general election saw the defeat of Jan Smuts' South African Party by a coalition of Barry Hertzog's National Party and the Labour Party.[63] The new government introduced employment creation and social welfare programmes to alleviate the perceived problem of white poverty and to placate white labourers that had voted it into power (Fourie, unpublished). The 1926 Pienaar Commission on Old Age Pensions and National Insurance recommended the introduction of a non-contributory pension for the aged (Seekings, 2021). This was introduced in 1928, making South Africa one of the first countries in the world to introduce a non-contributory pension for the aged (Devereux, 2007). The intention was to provide a basic level of assistance, not a comfortable pension (Actuarial Society of South Africa, 1985/1986). Under the racially-based laws of the time eligibility was limited to the white and coloured population (Manamela, unpublished). Devereux (2007) states that all white and coloured men and women over the age of 65 were able to claim the benefit subject to a means test considering both income and assets. From the outset benefits favoured whites, as coloured people received a benefit equal to only 60% of that payable to whites; men and women were paid the same benefit (Devereux, 2007).

Kruger (2006) states that in 1937 improved government finances enabled Barry Hertzog's government to expand social benefits. This followed stricter application of the means test during the Great Depression. Pension amounts and means test limits for whites were increased significantly. The age threshold was also changed to 60 for women.

In 1943 the government, once again led by Jan Smuts, set up a Social Security Committee, which led to the extension of coverage to all racial groups after the end of the Second World War in 1945 (Manamela, unpublished). Devereux (2007) states that for years the government had argued that there was no need to pay such benefits to aged black people as they were cared for by their families. Social pressures were created by the urbanisation of black people seeking employment and poor increases in wages in the gold industry, which increasingly made this argument seem invalid as it was not a sustainable approach to depend fully on family support of the aged and hence the benefits were extended to black workers. However, the benefit payable to whites remained significantly higher than for other groups. For example, the year 1947 also saw state monthly pensions paid to whites being five times what was paid to blacks with coloureds and Indians receiving half of what whites were paid (Manamela, unpublished).

In 1993, shortly before the dawn of democracy in 1994, the state old age pension was made equal for all races. This was done by increasing the benefit payable to other racial groups to the same level paid to whites. (Manamela, unpublished).

In 2010 the non-contributory old age grant was made payable to everyone from age 60, following a 2006 legal challenge to age discrimination (Manamela, unpublished).

[63] SAHO (South African History Online). (2019). State policies and social protest, 1924-1939. Available online: State policies and social protest, 1924-1939 | South African History Online (sahistory.org.za) Accessed: 12 August 2023.

5.2.2. Benefits

The increase in benefits over recent years is shown in Table 8 below:

Table 8: Recent History of Old Age Grant in South Africa[64]

Nominal amounts							
Age	**1998**	**2003**	**2008**	**2013**	**2018**	**2022**	**2023**
60 to 74	R500	R700	R940	R1 260	R1 695	R1 980	R2 080
75 and more	R500	R700	R940	R1 260	R1 715	R2 000	R2 100
Real values (in April 2023 rands) [65]							
Age	**1998**	**2003**	**2008**	**2013**	**2018**	**2022**	**2023**
60 to 74	R1 940	R1 944	R2 049	R2 076	R2 151	R2 115	R2 080
75 and more	R1 940	R1 944	R2 049	R2 076	R2 177	R2 137	R2 100

The grant increased by 5.9% per annum from mid-1998 to mid-2022, relative to the 5.5% per annum[66] increase in the Consumer Price Index (Statistics SA, 2022). From 2017 onwards the grant has been increased for those aged 75 and older as shown in Table 7. Pensioners falling into this age category receive R20 more in monthly pension; no explanation was given for this change (National Treasury, 2017).

StatsSA announced in September 2022 that the upper-bound poverty line had increased to R1 417 per person. This is based on the food poverty line, which is in turn based on the money required to afford the minimum required daily energy intake, plus the average amount derived from non-food items of households with food expenditure equal to the food poverty line. The old age grant is therefore equal to roughly 1.33 times this measurement of poverty (StatsSA, 2022a).

The minimum wage in South Africa was increased to R23.19 per hour from 1 March 2023.[67] This is equivalent to R4 081 per month based on 8 working hours per day and 22 working days per month. The old age grant was therefore equal to roughly 50% of the national minimum wage in 2023. In contrast the remuneration in November 2022 was estimated at R26 032 per month in the formal non-agricultural sector (Statistics South Africa, 2022b), which the old age grant lags far behind.

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[64] SASSA Grants. (2023b). SASSA Grants – Social Grants in South Africa. Available online: SASSA Grants South Africa - A Platform of SASSA Information Accessed: 17 August 2023.

[65] Calculation performed on information available at: http://www.statssa.gov.za/publications/P0141/CPIHistory.pdf

[66] Calculation performed on information available at: http://www.statssa.gov.za/publications/P0141/CPIHistory.pdf

[67] Truter, J. (2023). Minimum Wage Increase from 1 March 2023, Labourwise (21 February). Available online: MINIMUM WAGE INCREASE FROM 1 MARCH 2023 | Labourwise - The Employer's Choice Accessed: 12 August 2023.

The figures in Table 7 are the full value payable. The benefit is reduced through a sliding scale if the individual does not pass the means test (Carswell et al., 2021). The means test is based on both annual income and assets. The income limit is R86 280 per annum for unmarried applicants and R172 560 per annum for married applicants[68]. The asset limit is R1 227 600 for unmarried applicants and R2 455 200 for married applicants[69].

The means test has been criticised for discouraging saving for retirement as savings may result in the state old age pension being reduced or not being paid at all. It is also costly to administer which may negate any financial benefit. (National Treasury, 2007)

There has been agreement between the various groups represented at NEDLAC since 2007 that the means test on the old age grant be removed, but this has not been done yet (National Treasury, 2008). In the 2021 Green Paper, DSD again recommended that the means test be removed, through alignment with tax rebates for the elderly (DSD, 2021).

5.2.3. Coverage

The South African Social Security Agency (SASSA) confirmed total grant beneficiaries of 18.8 million in December 2022. Roughly 70% of these are child support grants. This excludes the 10.5 million estimated beneficiaries of the temporary COVID-19 social relief of distress grant, which has been extended since the pandemic reached South Africa in 2020. (SASSA, 2022)

The old age grant benefit is paid to 3.8 million people aged 60 and above (SASSA, 2022), which represents coverage of approximately two-thirds of the 5.6 million people in South Africa aged 60 and above[70].

5.2.4. Contributions

The benefits are funded on a PAYG basis as part of general government tax revenue and expenditure. The government is under strain in terms of its income versus expenditure. Social protection spending is expected to represent approximately 14% of government expenditure in total. The old age grant is expected to represent approximately 4% of total expenditure. (National Treasury, 2022)

Carswell et al. (2021) explains how South Africa's population is expected to age over time, in line with developed countries; this would lead to an increase in the cost of the old age grant. However, if fertility rates also reduce as per the experience in developed

[68] Western Cape Government. (2022). Old Age Pension (Old Persons Grant). Available online: Old Age Pension (Old Persons Grant) | Western Cape Government

[69] Ibid

[70] Calculation performed using information available from SASSA 2022 (December 2022 social assistance report.pdf (sassa.gov.za) and Statistics SA (2023)

countries, this would partially offset the cost by reducing child support grant payments (Carswell et al., 2021). The combination of reducing fertility rates and increased longevity would then introduce the problem experienced by developed countries where fewer working age people are supporting more aged people (Solanki et al., 2019).

5.2.5. Financial sustainability

Carswell et al. (2021) state that South Africa is a developing country which spends more on social welfare than recommended levels, spending proportionately more than many more developed countries (BIG Financing Reference Group, unpublished). Grants were being paid to almost 31% of the population prior to the COVID-19 pandemic (SASSA, 2022). The introduction of the temporary COVID-19 social relief of distress grant increased this to roughly 47% of the population (SASSA, 2022). Grant recipients already outnumbered registered taxpayers in South Africa prior to the COVID pandemic[71]. South Africa has a relatively small number of taxpayers, due in part to high unemployment[72]. There are thus concerns about the sustainability of the grant system, including the old age grant[73].

5.3. Level B: Mandatory contributory social security scheme

5.3.1. History

South Africa has never had a mandatory national contributory scheme for retirement benefits. In 1976 the Minister of Social Welfare and Pensions recommended that a national contributory pension scheme be introduced. This would require automatic enrolment of employees who did not belong to retirement funds or whose fund did not provide adequate benefits. This was not implemented due to strong opposition, especially from the private sector. Business feared a significant diversion in investable assets from the private sector; at the time government-sponsored retirement funds invested entirely in loans to government and state-owned enterprises. Business also argued that pensions should be controlled by employers and workers, not the state. (Manamela, unpublished)

The Mouton Commission (1992) was set up in 1988 to launch an investigation into South Africa's retirement provision system and it delivered its report in 1992. The Commission was not in favour of a compulsory contributory national pension scheme, describing this as being the ILO's preference. The Mouton Commission did not believe that such a national scheme would be appropriate for the informal sector. It also believed that improving the existing occupational retirement fund system would be a better solution.

[71] Business Tech. (2021). Treasury warns that South Africa's grant system could become unsustainable. Available online: Treasury warns that South Africa's grant system could become unsustainable (businesstech.co.za)
[72] Ibid
[73] Ibid

DSD recommended the introduction of a contributory national pension scheme in 2007, 2012 and 2021. Although this has not happened, it appears to remain DSD policy. (Inter-Departmental Task Team on Social Security and Retirement Reform, 2012; DSD, 2021).

The Unemployment Insurance Fund (UIF) is intended to help prevent the need for someone to withdraw retirement fund benefits if temporarily unemployed (Actuarial Society of South Africa, 1985/1986). Later benefits were expanded to compensate for loss of income due to pregnancy, illness and death through payment to dependants (Swanepoel & Schoeman, 2003). The UIF will be described here because it is an existing contributory national benefit scheme in South Africa.

Unemployment Insurance was first introduced in South Africa in 1937 through the Unemployment Benefit Act[74]. Initially it aimed at addressing the loss of employment due to the events experienced during the Great Depression (Swanepoel & Schoeman, 2003). This was later replaced by the Unemployment Insurance Act of 1946[75], which in turn was replaced by the Unemployment Insurance Act of 1966[76] which set up the UIF and its administration. Later there was a new Unemployment Insurance Act[77] in 2001.

The 1992 Mouton Commission commented on how most black workers had been excluded from belonging to the UIF until the late 1970s and that membership of the UIF increased substantially due to allowing black workers to contribute (Mouton, 1992). This followed the recommendation of the Wiehahn Commission which led to all but a few categories of workers being included as contributors to the UIF (Mouton, 1992). In 1992 an amendment was enacted to extend coverage to agricultural workers.[78]

The Unemployment Insurance Act of 2001[79] extended coverage to domestic and seasonal workers. The 2001 Act also required all employees to contribute up to a maximum monthly contribution, while introducing a more redistributive approach to benefits by capping earnings for benefit purposes. This results in the UIF paying a higher percentage of earnings for lower paid workers. The rest of section 5.3 covers the UIF.

5.3.2. Benefits

A contributor is entitled to one day of benefits for every five days of contributory employment, but accrues a maximum of 365 days of benefits. However, a separate carer benefit can be claimed without impacting on the main benefit. A person who has contributed continuously for a minimum of four years and becomes unemployed can claim

[74] Unemployment Benefit Act, Act 25 of 1937
[75] Unemployment Insurance Act, Act 53 of 1946
[76] Unemployment Insurance Act, Act 30 of 1966
[77] Unemployment Insurance Act, Act 63 of 2001
[78] Unemployment Insurance Amendment Act - The Compensation for Occupational Injuries and Diseases, Act 130 of 1993
[79] Unemployment Insurance Act, Act 63 of 2001

a maximum of 365 days of benefits, allowing for the maximum earnings ceiling applied to contributions. Benefits must be claimed within six months of becoming unemployed.[80]

Salary caps are used to determine both contributions and benefits. The monthly salary cap for contributions increased from R14 872 to R17 712 in June 2021.[81]

Unemployment benefits are payable to those retiring due to no longer being able to work owing to their age, subject to having met the contribution criteria. The income replacement ratio is 60% of capped earnings for the first 238 days of claiming. This is reduced to 20% of income for the remainder of the period.[82]

5.3.3. Coverage

There are roughly 10 million contributors to the UIF[83], representing almost 90% of the formal private sector work force in South Africa but only 61% of all employed workers. Although both domestic and seasonal workers are now covered by the UIF, coverage still remains low especially among informal sector workers. It is estimated that only 20% of domestic workers are registered with the UIF[84]. Government is the largest single employer in South Africa, however state employees do not contribute to the UIF.[85]

5.3.4. Contributions

The UIF depends on compulsory monthly contributions from the employer and employee, in order to provide contributing members unemployment (and other) benefits. All private sector employers and employees must each contribute 1% of the employee's earnings to the UIF, up to the maximum contribution.[86]

Most UIF contributions are collected by the South African Revenue Services.[87] The UIF directly collects contributions from firms not registered with SARS and employers of certain employees such as domestic workers.[88]

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[80] Unemployment Insurance Amendment Act, Act 10 of 2016

[81] SARS. (2021). 1 March 2021 Legislative Amendments. Available online: www.sars.gov.za/wp-content/uploads/Docs/TaxDirectives/1-March-2021-Legislative-Amendments.pdf

[82] Ibid

[83] A Donaldson, personal correspondence, 16 March 2022

[84] Mafolo, K. (2020). Labour department urged to include unregistered domestic workers in UIF, Daily Maverick (14 May). Available online: Labour department urged to include unregistered domesti... (dailymaverick.co.za)

[85] SARS. (2021). supra.

[86] SARS. (2022a). Unemployment Insurance Fund (22 November). Available online: Unemployment Insurance Fund | South African Revenue Service (sars.gov.za) Accessed: 12 August 2023.

[87] SARS. (2022b). How we collect TAX (12 August). Available online: How we collect tax | South African Revenue Service (sars.gov.za) Accessed: 12 August 2023.

[88] LegalWise. (2022). Unemployment Insurance Fund (UIF) (July). Available online: Unemployment Insurance Fund South Africa | LegalWise Accessed: 12 August 2023.

5.3.5. Financial Sustainability

The South African government effectively underwrites the UIF's solvency (Bhorat et al., unpublished). The UIF's 2017 financial statements note that there had been a history of growth in surplus and that this was being used to improve benefits over time such as improved parental benefits, plus the continuation benefit equal to a 20% replacement ratio for four months, which extended the benefit period (Department of Labour, 2017; DSD, 2021). The surplus in the UIF stood at roughly R100 billion as at 31 March 2019. However, by 31 March 2021 this had reduced to roughly R36 billion primarily due to the impact of the COVID-19 pandemic (Department of Labour, 2021).

5.4. Level C: Occupational Retirement Funds

5.4.1. History

Early Beginnings

The first occupational pension fund in South Africa was introduced in the Transvaal Republic in 1882 (Moleko & Ikhide, 2017). Such funds became more widespread from the 1920s and also started to receive more government attention (Manamela, unpublished).

The first retirement funds were DC and funded by endowment policies; later the DB design would become the most popular form of retirement fund by the 1960s due to the greater predictability of benefits (Asher, unpublished). Manamela (unpublished) describes how occupational funds in South Africa are mostly either pension or provident funds. Both forms have existed since at least the 1920s, provident funds members could take full benefits in cash at retirement, unlike in pension funds which require annuitisation of at least two thirds of retirement benefits (Manamela, unpublished). Both fund types have historically allowed for full cash payment upon withdrawal prior to retirement (Manamela, unpublished).

Formalisation and Increased Government Control

The Pension Funds Act[89] (Moleko & Ikhide, 2017) was introduced in 1956. This was in response to growth in retirement funds and to introduce requirements for funds, their trustees and service providers. However, public sector employees' funds did not fall under the Pension Funds Act (Manamela, unpublished).

Prescribed assets were also introduced in 1956, whereby funds were required to hold a minimum portion of their assets in the form of loans to government and state-owned

[89] Pension Funds Act, Act 24 of 1956

enterprises[90]. This allowed the Nationalist Party government to obtain domestic loans as foreign creditors were becoming increasingly reluctant to provide finance owing to Apartheid[91]. The prescribed asset requirement peaked in 1977 when a minimum of 77.5% of fund assets were required to be held in this category[92]. This requirement would later start reducing as a result of criticism from fund trustees and the private sector which argued that more flexibility in choice of investments would provide better investment returns[93].

The Income Tax Act[94] and Regulation 28 of the Pension Funds Act were both issued in 1962. The Income Tax Act consolidated existing tax legislation and set out how contributions to retirement funds would be taxed, aiming to encourage people to save more for retirement by providing tax deductions for doing so. It thereby also encouraged saving in vehicles that made more funds available to government. Regulation 28 set out the maximum proportion of retirement fund assets that could be invested in certain categories, such as in equities and foreign assets. This regulation thereby controlled investment risk to stakeholders. (Manamela, unpublished)

Munro (1987) describes how since at least the 1960s there has been debate about how to reform the social security system and especially pensions within that. The Actuarial Society of South Africa (1985/1986) refers to a 1964 Government Committee of Enquiry that considered the forced preservation of retirement savings. This built on discussions during the 1950s when the Association of Pension and Provident Funds and a committee appointed by the Minister of Finance had both recommended that compulsory pension preservation be introduced, but this was not implemented (Cilliers, unpublished).

Increased Role of Organised Labour

Asher (unpublished) explains how following the legalisation of black workers joining trade unions in 1979, the 1980s saw major growth in the strength of organised labour, in order to resist both the Apartheid government in general and specifically the exploitation of workers. Kerrigan (1991) also describes how these emerging largely black trade unions first became involved with retirement funds in the early 1980s when they launched industrial action against government plans to introduce compulsory preservation of retirement fund savings. This also led to organised labour becoming more actively involved with retirement funds (Kerrigan, 1991). The historic resistance of organised labour to the introduction of compulsory preservation of retirement savings is due at least in part to concern about the insufficient provision for unemployment (Actuarial Society of

[90] Mindspace Team. (2019). Prescribed assets – should you be concerned? Old Mutual (03 April). Available online: Prescribed assets – should you be concerned? | Mindspace (oldmutual.co.za) Accessed: 13 August 2023.

[91] Van Breda, H. (2019). Behind the opposition to Prescribed Assets, M&G Investments (December). Available online: Behind the opposition to Prescribed Assets (mandg.co.za) (Accessed 13 August 2023);

[92] Mindspace Team. (2019). supra.

[93] Lings, K. (2019). OPINION: The implications of prescribed assets in South Africa, news24 (13 November). Available online: OPINION: The implications of prescribed assets in South Africa | Business (news24.com)

[94] Income Tax Act, Act 58 of 1962

South Africa, 1985/1986). Kerrigan (1991) sets out the aims that the trade unions wished to achieve in the sphere of occupational retirement funds at the time: fairer withdrawal benefits, the payment of lump sums on retirement, greater influence on investment policy and the power to elect trustees. The 1980s and 1990s saw a large increase in provident funds due to the increased involvement of organised labour (National Treasury, 2004).

Kerrigan (1991) describes how for many blue-collar workers; retirement funds acted as a means of saving towards buying a house at some point in their lives. He describes how funds have played a role in providing affordable housing for such workers since the 1980s, through using retirement fund benefits to finance property purchases, through direct home loans to member of these funds, through arranging loans with banks using retirement savings as collateral or by using cash from withdrawal benefits. From January 2023, the limit on how much members can use of their accrued retirement benefits for home loan financing was reduced from 95% to 65% owing to concerns about abuse (National Treasury, 2022).

The 2007 National Treasury paper states that organised labour has historically preferred provident funds. Most provident funds are DC in nature, but there are a few exceptions (Manamela, unpublished). Provident funds became popular with blue collar workers as benefits could be taken fully in cash at retirement. In South Africa the means test for the state old age pension also adds to provident funds being more popular, as provident fund benefits are less likely to affect access to the full grant (National Treasury, 2015a). Kerrigan (1991) describes how the relatively shorter average life expectancy of mainly black blue-collar workers results in their subsidising the cost of annuities for white-collar workers, adding to the preference for provident funds as annuities are perceived by blue collar workers as being poor value for money.

The involvement of organised labour in the retirement fund sphere from the early 1980s led to trade union funds being created, where trade unions were directly involved in running these funds. These could be in the form of negotiated funds specific to a particular employer or a bargaining council fund specific to a particular industry. (Manamela, unpublished)

The 2007 National Treasury paper describes how the vast majority of funds in South Africa were DB in nature by the 1970s until the 1980s. Asher (unpublished) and the 2007 National Treasury paper describes how the 1980s and 1990s saw large-scale conversion from DB to DC. The reasons are similar to the reasons for the international trend, namely the preference of employers to avoid volatile contribution rates in DB funds and the greater flexibility and transparency of DC funds from the perspective of workers (National Treasury, 2007). Kerrigan (1991) further describes how organised labour preferred the DC design, in part due to DB fund withdrawal benefits being traditionally low. DB withdrawal benefits were designed to reward long-serving employees relative to those who left employment after a relatively short period.

DC schemes fit better with the cost to company format of remuneration preferred by employers in South Africa for almost all white-collar workers and some blue-collar workers[95]. Employees may prefer the greater transparency and portability of DC arrangements if only considering withdrawal benefits and their financial situation in the short term, perhaps not fully appreciating the transparency and value of the long-term retirement benefit guarantees that they receive under DB arrangements (Kerrigan, 1991).

The Emergence of Umbrella Funds and the Beginning of Democracy

Commercial umbrella funds were first introduced in the mid-1980s. Umbrella funds allow participation by employers as "sub-funds" for the benefit of their employees, unlike free-standing retirement funds which only have one sponsoring employer or a small group of closely related sponsoring employers. Industry funds such as those set up by trade unions for specific sectors also operate on an umbrella fund basis, but are not considered commercial in nature. Umbrella funds were set up by the private sector to cater for smaller employers who were otherwise unlikely to have their employees participate in a retirement fund. Such funds aim to benefit members through lower costs being achieved due to economies of scale but can be viewed as a means for the administration company which sponsors the umbrella fund to control all aspects of members' benefits. Umbrella funds would increasingly dominate the occupational retirement fund sphere. (Manamela, unpublished)

Government removed the last requirement for prescribed assets in 1989 following years of criticism by fund trustees and the private sector[96]. Racially discriminatory benefits were common during Apartheid, and were only totally removed by 1994 (Manamela, unpublished).

In 1996 the Government Employees Pension Law was passed, creating the Government Employees Pension Fund (GEPF) through the consolidation of a number of public sector funds (Manamela, unpublished). However, this consolidation of public sector funds has not yet been completed and two other public sector funds remain (Government Pensions Administration Agency, 2021).

Living Annuities Change the Annuitisation Landscape

Traditionally members of retirement funds who were required to purchase an annuity or chose to do so would purchase a life annuity, which would pay a set income for life (Manamela, unpublished). Living annuities were introduced in South Africa in the 1990s (Lodhia & Swanepoel, unpublished) following the introduction of the Income Tax Act of 1992[97]. A living annuity is similar to an investment of a DC nature, whereby retirement savings remain invested and can be drawn down subject to certain limits, while all remaining retirement assets in the living annuity at the time of the pensioner's death can

[95] HRTorque. (2016). Total Cost to Company – Benefits and Pitfalls. Available online: Total Cost to Company – Benefits and pitfalls – HRTorQue Outsourcing

[96] Lings, K. (2019), supra.

[97] Income Tax Act, Act 141 of 1992

be left to beneficiaries (National Treasury, 2012). The overall maximum drawdown rate for a living annuity is 17.5% of capital (National Treasury, 2012). This was previously 20% but was reduced in 2009 due to concerns that people draw too much of their retirement savings in the early years of retirement threatening their financial sustainability. (National Treasury, 2012).

National Treasury (2012) and Lodhia & Swanepoel (2012) describe how living annuities were originally intended for high income earners for greater flexibility relative to life annuities, but over time they became popular with lower income earners, which appears to be due to this same flexibility, the preference for brokers to sell living annuities and the desire to leave capital behind at death. Roughly 90% of annuities purchased by retiring members of retirement funds are now living annuities (Lodhia & Swanepoel, 2012).

Increased Focus on Governance

The Pension Funds Amendment Act of 1996[98] introduced the requirement that all retirement funds must have a board of trustees of at least four members of which at least half must be elected by fund members. It is unclear how widely implemented this was prior to this requirement. Manamela (unpublished) emphasises that trustees are meant to perform their duties regardless of who appointed or elected them to office. However, the fact that government introduced the requirement for member-elected trustees showed an appreciation of the need to ensure that members' perspectives were being taken into account, as requested by organised labour since the 1980s (Asher, unpublished).

National Treasury (2021b) has raised a concern that commercial umbrella funds can apply for exemption from the requirement for 50% member-elected trustees.

Early Reforms

Retirement fund tax on interest and rental income of retirement funds was introduced in 1996 (Reserve Bank, 2023) in order to expand the tax base of the country (National Treasury, 2003).

The Pension Funds Second Amendment Act[99] of December 2001 prescribed minimum benefits in both DB and DC funds, which addressed organised labour's concern about low early exit benefits. The aim was to ensure equity between different groups of defined stakeholders and to introduce a formal process to be followed in apportioning surplus that considered all stakeholders. This would spur on DB fund membership outside of the public sector continuing to dwindle and now consists of closed funds[100].

[98] Pension Funds Amendment Act, Act 22 of 1996

[99] Pension Funds Second Amendment Act, Act 39 of 2001

[100] G Tognon, personal correspondence, 12 December 2022

Simplified taxation and greater investment freedom

Retirement fund tax was abolished from 1 March 2007 (Reserve Bank, 2015) following years of criticism from retirement fund trustees and the private sector pensions industry.[101]

From its introduction, Regulation 28 allowed a maximum of 15% of fund assets that could be held outside of South Africa. In 2011 this was increased to 25% plus an additional 5% in Africa outside of South Africa (Bradfield & Munro, 2015). This allowed funds the ability to diversify their investment strategies more, to take greater advantage of international investment opportunities not available in South Africa and to hedge against fluctuations in the rand[102]. In 2018 this was increased to 30% plus an additional 10% in Africa outside of South Africa[103]. In 2022 the limit was increased to 45% in total.[104] Funds could also in future invest up to 45% of their assets in infrastructure investments, as the government wished to encourage such investment[105].

Streamlining of Private Sector Retirement Sector Offerings

National Treasury has driven many of the recent reforms to the pensions industry and regulations in South Africa (Bezuidenhout, unpublished). As set out in National Treasury (2007), it seeks to improve retirement savings benefits for members of retirement funds through, amongst other things, increased retirement fund membership, lower fees, increased preservation and increased annuitisation.

Previously, contributions paid by an employer to a pension or provident fund were tax deductible, subject to a maximum of 20% of the member's income. Contributions paid by members to a pension fund were tax-deductible up to 7.5% of income, while contributions paid by a member of a provident fund were not tax deductible. Contributions paid to a retirement annuity fund by its members were tax deductible up to 15% of income but one could not claim tax deductions by contributing to both a pension fund and a retirement annuity fund. Contributions paid by an employer to a retirement annuity fund were not tax deductible. From 1 March 2016 individuals were permitted to contribute up to 27.5% of their total earnings, subject to a maximum of R350 000 per annum, from pre-tax income to a pension fund, provident fund or retirement annuity fund. (Bezuidenhout, unpublished)

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[101] FA News. (2006). Tax on Retirement Funds (25 April). Available online: Tax on retirement funds (fanews.co.za) Accessed: 19 August 2023.

[102] Davison, A. (2022). Regulation 28 allows retirement funds to build more resilient investment strategies, BusinessLive (26 August). Available online: Regulation 28 allows retirement funds to build more resilient investment strategies (businesslive.co.za)

[103] Lamprecht, I. (2018). What a revised Regulation 28 means for investors, Moneyweb (24 April). Available online: What a revised Regulation 28 means for investors – Moneyweb

[104] Momentum Investments. (2022). Regulation 28: Investment limits and compliance. Available online: mw-reg-info-reg28-investment-limits-and-compliance-client-via-feb-2022.pdf (momentum.co.za)

[105] Davison, A. (2022). Regulation 28 allows retirement funds to build more resilient investment strategies, BusinessLIVE (26 August). Available online: Regulation 28 allows retirement funds to build more resilient investment strategies (businesslive.co.za)

This reform was meant to be introduced at the same time as the phasing out of provident funds; however, the latter reform was postponed due to significant resistance from organised labour[106]. The so-called *de minimis* rule was updated from 1 March 2016 to allow retirement lump sums of less than R247 500 be taken fully as cash.[107] The Tax Law Amendment Act of 2021[108] ensured that two-thirds of contributions to all retirement funds from 1 March 2021 onwards would be required to be used to purchase an annuity at retirement while a maximum of one-third could be taken as cash.[109] Vested rights are protected under provident funds and it is expected that this change will take years before the full effect is felt.[110]

The 2017 default regulations[111] require every retirement fund in South Africa to have policies setting out default strategies in respect of preservation, investment strategy and annuitisation. This was implemented to improve member retirement benefits (FSCA, 2019). The default regulation on annuitisation prescribes maximum drawdown rates, based on age and gender, that must apply to any default living annuity (FSCA, 2019).

5.4.2. Benefits

An often-quoted statistic is that only 6% of those retiring in South Africa can expect to be financially stable after retirement (National Treasury, 2014). Both the 2022 Old Mutual Corporate Consultants (OMCC) umbrella fund analysis[112] and the 2021 Alexander Forbes Member Insights analysis[113] similarly found that roughly 6% of occupational retirement fund accounts were projected to achieve the target 75% ratio of pension to salary at the time of retirement, ignoring the possibility of savings outside of a single fund. These poor outcomes have been attributable to several different reasons (National Treasury, 2021a):

- High fees;
- Poor coverage due to lack of compulsion;
- Poor preservation rates; and
- Low contribution levels.

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[106] Le Cordeur, M. (2016). Zuma signs law to appease provident fund members, news24 (24 May). Available online: news24.com/fin24/money/retirement/zuma-signs-law-to-appease-provident-fund-members-20160524

[107] Momentum. (2016). Legal Updates, No. 8 of 2016 (June). Available online: Legal_Update_8-2016_Revenue_Laws_Amendment_Act_June2016.pdf (momentum.co.za)

[108] Tax Law Amendment Act, Act 20 of 2021

[109] Momentum. (2016). Legal updates – Revenue Laws Amendment Act. Available online: Legal_Update_8-2016_Revenue_Laws_Amendment_Act_June2016.pdf (momentum.co.za)

[110] SARS. (2021). supra.

[111] Government Gazette. (2017). National Treasury. Available online: KM_C554e-20170825104202 (treasury.gov.za)

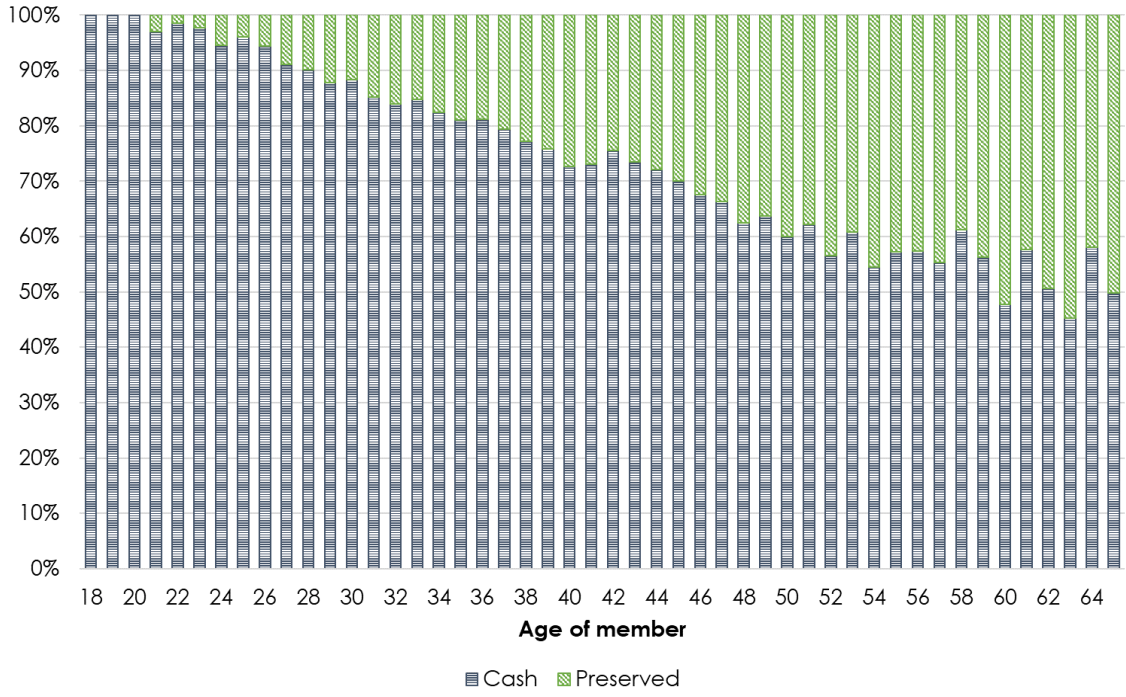
[112] Old Mutual. (2022). Old Mutual SA Retirement Gauge 2022. Available online: Old Mutual SA Retirement Gauge 2022

[113] Alexander Forbes. (2021). Member Insights Executive Summary 2021. Available online: za.alexforbes.com/download/afo/media-centre/Member%20Watch/Member%20Insights%20Summary.pdf

Preservation on retirement has been strengthened by the harmonisation of pension and provident fund annuitisation rules but preservation on withdrawal still remains a significant and politically-charged issue. COSATU as the largest trade union federation has historically argued against the forced preservation or annuitisation of workers' "deferred wages" as being unwelcome interference from government and the private sector[114].

Preservation rates from one large administrator, Old Mutual, are shown in Figure 10: Proportion of savings taken when exiting fund prior to retirement.

Figure 10: Proportion of savings taken when exiting fund prior to retirement[115]



Similarly, the 2021 Alexander Forbes Member Insights analysis[116] found that only roughly 10% of members preserve their retirement savings when exiting their occupational retirement fund prior to retirement. The Mouton Commission (1992) had found similar low levels of preservation.

5.4.3. Coverage

Coverage of workers by retirement funds remains a concern as provision of a retirement fund is voluntary for employers (National Treasury, 2021a). The notable exception in the private sector is if there is a sectoral determination or bargaining council agreement which requires retirement fund participation for employees in that sector (National Treasury,

[114] Parliamentary Monitoring Group. (2016). Revenue Laws Amendment Bill [B4-2016]: public hearings; Treasury, COSATU, ASISA submissions. Available online: Revenue Laws Amendment Bill [B4-2016]: public hearings; Treasury, COSATU, ASISA submissions | PMG

[115] Old Mutual. (2022), supra.

[116] Alexander Forbes. (2021), supra.

2021a). It is estimated that 58% of formal sector workers belong to contributory retirement schemes including retirement annuity funds[117]. Approximately 31% of the workforce is employed in the informal sector and their pension coverage is estimated at roughly 10%[118].

Most public sector employees remain members of DB schemes, specifically the DB GEPF which is the largest pension fund in Africa with 1.2 million contributing members[119].

5.4.4. Contributions

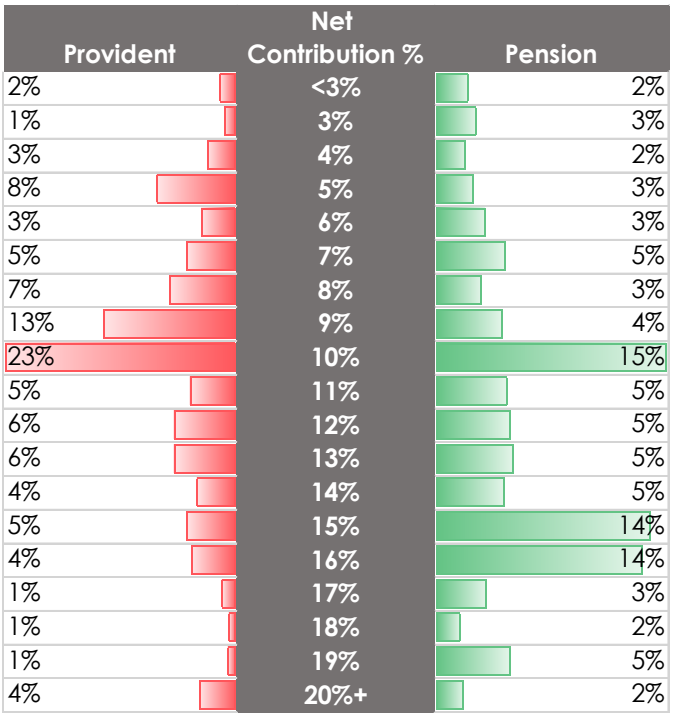
Most retirement fund members are DC, but there remains a minority in DB funds and the majority of public sector employees are still in DB schemes (South African Reserve Bank, unpublished). As per section 5.4.1, from 1 March 2016 contributions are tax deductible up to the lesser of 27.5% of income or R350 000 per annum.

The typical structure of contributions in a DC occupational retirement fund is that the members of such funds are provided risk benefits, for example benefits payable on death or disability, through their fund[120]. The cost of both administration fees, management fees and the premiums in respect of risk benefits significantly reduce the contribution allocated to retirement savings and therefore final retirement benefits (National Treasury 2013).

According to the Alexforbes 2021 Member Insights analysis the average net contribution relative to pensionable salary was 10.7% and the recommended net contribution rate per that analysis was 17%[121]. According to the 2022 OMCC umbrella fund analysis, Figure 11: Comparison of Net Contribution Rates below, depicts the spread of net contributions to retirement savings:

[117] A Donaldson, personal correspondence, 16 March 2022
[118] Ibid
[119] GEPF. (2023). Who is GEPF. Available online: https://www.gepf.co.za/
[120] Sanlam. (2023). Sanlam Benchmark 2023. Available online: sanlam.co.za/corporate/retirement/benchmarksurvey/Pages/default.aspx
[121] Alexander Forbes. (2021), supra.

Figure 11: Comparison of Net Contribution Rates[122]



The analysis found that the average net contribution relative to salary was 12.6% for pension fund members and 10.8% for provident fund members, relative to a minimum recommended rate of 15%.[123] It also found that in pension funds 18% of members pay 4% or more of their pensionable salary towards deductions; while 38% of provident fund members pay this level of deductions. This was believed to be the result of prioritising risk benefits over retirement savings meaning higher risk benefits but also reflecting higher risk premiums.[124] The average pension fund member's earnings were found to be higher than that of the average provident fund member, adding to the relatively higher impact of deductions.

5.4.5. Financial Sustainability

Financial sustainability varies between private sector DB funds, depending on experience. Due to such funds generally being closed to new entrants, they are reducing in size over time and are therefore becoming increasingly financially unsustainable. Prior to 2016, DB funds were allowed a small funding deficit but the practice at the FSCA since 2016 is to require full funding for all funds that fall under the Pension Funds Act[125].

[122] Old Mutual. (2022), supra.
[123] Old Mutual. (2022). supra.
[124] Ibid
[125] G Tognon, personal correspondence, 12 December 2022

As the GEPF does not fall under the Pension Funds Act, it is allowed a minimum funding level of 90%.[126] DC funds have fixed contribution rates and set liabilities equal to assets, they are thus expected to be sustainable (Manamela, unpublished).

5.5. Level D: Personal Pension Policies

5.5.1. History

South Africa has a well-developed financial sector (Allen et al., 2011) and individuals make use of a variety of different savings products such as insurance policies, unit trusts and banking products[127]. This section will focus on retirement annuity funds which have tax-treatment aligned with that of occupational retirement funds as discussed in section 5.4 and are similarly regulated (Manamela, unpublished). The Sanlam-sponsored Central Retirement Annuity Fund commenced in 1960[128]. The Old Mutual-sponsored South African Retirement Annuity Fund commenced in 1961[129]. Favourable tax treatment for retirement annuity funds was formalised in the Income Tax Act of 1962[130]. Level D arrangements in South Africa are generally sold on an individual or retail basis and are thus Level D2.

Manamela (unpublished) also describes how members of some occupational retirement funds are allowed to make additional voluntary contributions.

5.5.2. Benefits

Members may only access their money for retirement purposes from the age of 55, unlike in a pension and provident fund where members can access their savings when membership is terminated due to change in employment status. The annuitisation rules are the same as those for occupational pension funds as discussed in section 5.4.

5.5.3. Coverage

An employer-employee relationship is not required in the case of a retirement annuity fund, as it is a personal retirement investment vehicle (Manamela, unpublished). However, retirement annuity funds can be arranged on a group basis (Level D1) by employers for their employees (Manamela, unpublished). The FSCA reflects 3.962 million

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[126] GEPF. (2021). Statutory actuarial evaluation. Available online: gepf.co.za/wp-content/uploads/2022/04/GEPF-Statutory-Actuarial-Valuation-2021.pdf

[127] Old Mutual. (2023) supra.

[128] Sanlam. (2022). Rules of the Central Retirement Annuity Fund. Available online: sanlam.co.za/retirementfunds/Documents/Central%20Retirement%20Annuity%20Fund-Fund%20Rules.pdf Accessed: 28 August 2022.

[129] Old Mutual. (2023). What is SARAF? Available online: oldmutual.co.za/personal/solutions/retirement-plans/SARAF/ Accessed: 28 August 2022.

[130] Income Tax Act, Act 58 of 1962

members of registered retirement annuity funds as at the end of July 2022[131]; however, some of these members belong to more than one fund including Level C funds (Pillay & Fedderke, unpublished).

5.5.4. Contributions

Contributions are DC in nature and have identical tax treatment as Level C funds, as set out in section 5.4. Prior to that, contributions to retirement annuity funds were tax deductible up to 15% of earnings (National Treasury, 2013; National Treasury, 2015b).

5.5.5. Sustainability

The contribution payable is known in advance and offers some flexibility.[132] However, should the individual member become unemployed, it is unlikely that they would be able to continue paying contributions to the retirement annuity fund (Manamela, unpublished).

Costs related to Level D private pension policies are relatively higher than those in Level C occupational retirement funds, especially those in respect of distribution and marketing (National Treasury, 2004). These costs have a significant impact on final benefit outcomes and have led to criticism by the South African government when expressing views on proposed retirement reform.

5.6. International perspective of South African pensions system

South Africa's pension system is well established and attracts international analysis. An example is the Mercer CFA Institute Global Pension Index. This annual analysis now compares the pension systems in 43 countries, covering more than 65% of the global population. South Africa was the only African country to be included in the analysis, from 2014 to 2022[133]. Countries are measured according to:

- Adequacy;
- Sustainability (focusing on coverage, contributions and demographics) and
- Integrity (focusing on regulation and governance) of their pensions system.

South Africa has consistently scored low among countries surveyed. The 2022 report[134] recommended that:

- The level of support to the poorest aged individuals be increased;
- A minimum level of mandatory retirement contributions be introduced;
- Coverage of employees in occupational retirement funds be increased; and

[131] FSCA. (2023). Registered Active Funds. Available online: LREP-Retirement-Fund-Verifications-Registered-Active-Funds (fsca.co.za) Accessed: 14 August 2023.
[132] Discovery. (2021). Retirement annuities versus pension and provident funds – which is better for you? (15 July) Available online: Retirement annuities versus pension and provident funds |Understanding retirement - Discovery Accessed: 14 August 2023.
[133] Knox, D. (2022). Mercer CFA Institute Global Pension Index 2022, Mercer (11 October). Available online: Mercer CFA Institute Global Pension Index 2022 Accessed: 14 August 2023.
[134] Ibid

- Preservation on withdrawal from occupational retirement funds be introduced.

This seems consistent with the current debate on the need for retirement reform in South Africa. The first bullet point relates to improvements in Level A benefits, as discussed in section 5.2. The second bullet point could be seen as relating to the proposal for a Level B scheme as set out in section 5.3 or as a consequence of the planned auto-enrolment regime as set out in section 5.7 below. The planned auto-enrolment regime would address the third bullet point for the formal sector. The fourth bullet point would be addressed through the planned changes to be implemented from 1 March 2024, as set out in section 5.7.

5.7. Vision

Although most agree that reform is required, there are different visions on how pensions in South Africa should be reformed and function in the future. As described in section 5.2, the current Level A pension is planned to be converted to a universal pension as part of overall social security reform and this has been agreed to by NEDLAC stakeholders.

DSD continues to call for a complete overhaul of the social security system. The preferred reform of the DSD is both to expand the Level A non-contributory grant system and to introduce a compulsory DB national social security scheme at Level B to ensure a minimum level of benefits for all, based on the idea of social solidarity (Inter-Departmental Task Team on Social Security and Retirement Reform, 2012). There appears to be a common theme within government of calling for a national pension fund, but the detailed vision thereof differs.

As per National Treasury (2021) and the DSD (2021), government is considering introducing an auto-enrolment or mandatory system of retirement savings. Although government departments differ on how retirement reform should be introduced, there does appear to be consensus on the need for compulsory contributions, especially for formal sector workers. This would mean moving from the current Level C2 nature to Level C1.

In the 2012 budget speech the Minister of Finance announced the intention to encourage savings through a series of reforms. National Treasury (2012) identified specific concerns:

- Inadequate lifetime savings and coverage;
- Low levels of preservation of benefits;
- Low levels of annuitisation; and
- High fees.

The aim of National Treasury is to strengthen governance to create a stable financial system that works in the public's interest and supports sustainable economic growth. Their focus has been to improve efficiency and governance of Level C and D schemes. Since 2012 they have driven much of national retirement reform, as set out in section 5.4.1. This included the long debated phasing out of provident funds by introducing compulsory annuitisation requirements. National Treasury released discussion papers in

December 2021 proposing major changes to retirement savings vehicles. (National Treasury, 2004; National Treasury, 2007)

National Treasury (2021a) proposed mandatory retirement savings for formal sector employees, with a national DC pension fund for such workers to default into if they do not wish to belong to a private sector scheme. This proposal was termed auto-enrolment (National Treasury, 2021a).

The proposal in National Treasury (2021b) is to change the access rules in respect of retirement savings, to split contributions between an accessible savings pot and a retirement pot subject to compulsory preservation. One-third of contributions would be allocated to the accessible pot (representing the amount that can be taken as a lump sum at retirement) and two-thirds to the retirement pot preserved until retirement or death (National Treasury, 2021b).

National Treasury has the stated aim to reduce the number of registered retirement funds to under 200, in order to be able to improve their ability to oversee governance (National Treasury, 2021a). Commercial umbrella funds have grown to dominate the pensions industry, raising concerns amongst some observers such as COSATU[135], that this is reducing competition and increasing fees in an opaque manner. National Treasury's proposals to improve governance were set out in National Treasury (2021b).

Both COSATU and DSD criticise the "piecemeal approach" to retirement reform which appears to be preferred by National Treasury[136]. DSD has repeated the call for a compulsory national social security fund in DSD (2021) and in 2022[137], backed by COSATU[138].

There are four main themes in the vision for South Africa, which have been considered for years. These will be examined in more detail in Section 11:

- Universal social assistance for the elderly;
- Introducing a national contributory scheme (possibly under Level B);
- Wider cost-effective coverage; and
- Greater preservation and annuitisation.

[135] Parliamentary Monitoring Group. (2016). Revenue Laws Amendment Bill [B4-2016]: public hearings; Treasury, COSATU, ASISA submissions. Available online: Revenue Laws Amendment Bill [B4-2016]: public hearings; Treasury, COSATU, ASISA submissions | PMG

[136] Ibid

[137] Business Tech. (2022) Big Changes Coming for Grants in South Africa (11 March). Available online: businesstech.co.za/news/finance/568604/4-big-changes-coming-for-grants-in-south-africa/amp/ Accessed: 28 July 2022.

[138] Business Tech. (2021) COSATU Welcomes 'Long Overdue' Social Security Fund, SPII (25 August). Available online: **spii**.org.za/article-cosatu-welcomes-long-overdue-social-security-fund/ Accessed: 28 August 2022.

5.8. Summary

South Africa's pension model has been examined in detail, both in terms of historic developments and future reforms that are being considered. Level A is well established, but there is pressure to make this universal by removing the means test. There are also well-established benefit arrangements under Level C and D, but reforms of these benefits have been ongoing for decades and this will likely continue in future. There is no Level B national social security scheme explicitly designed to provide retirement benefits, but introducing such a scheme has been debated for years.

The five case study countries from elsewhere in sub-Saharan African countries will now be considered.

6. PENSIONS IN ESWATINI

Research Question 4: What reforms have been introduced by other sub-Saharan African countries and how do these compare against the analytical framework developed?

6.1. Introduction

The Kingdom of Eswatini, formerly known as Swaziland, was a British protectorate until independence in 1968[139]. It has a population of approximately 1.1 million people[140]. The 2021 labour force was estimated at 389 933[141]. Official unemployment in the country in 2021 was estimated at approximately 26%[142], with the more expanded definition of unemployment estimating this to be approximately 33%[143]. Its GDP was US$10.6 billion in 2021, equivalent to GDP per capita of US$8 900[144]. Life expectancy at birth is 60.2 years[145], while life expectancy at age 60 is 15.1 years[146].

6.2. Level A: Non-Contributory Pensions

6.2.1. History

A non-contributory old age pension (the Old Age Grant) was introduced in 2005 in response to the extreme vulnerability experienced by the elderly[147].

6.2.2. Benefits

A monthly grant of E500 was payable in 2023, for those aged 60 and above; this is paid quarterly but will be changing to monthly payment in future[148] This is subject to a means test being applied which is based on a monthly income of E1 000. The benefit history is given in Table 9:

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[139] Britannica. (2023). Eswatini. Available online: https://www.britannica.com/place/Eswatini

[140] Central Intelligence Agency. (2023b). The World Factbook Eswatini. Available online: cia.gov/the-world-factbook/countries/eswatini/

[141] World Bank. (2023). Labour force, total – Eswatini. Available online: data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=SZ

[53] CIA.gov. (2023a). supra.

[143] Ibid

[144] Ibid

[145] Ibid

[146] World Health Organization. (2023), supra.

[147] Pension Watch. [Na] Swaziland. Available online: Swaziland | Country profiles | Pension watch (pension-watch.net)

[148] Mkhonta, N. (2023). Elderly, disability grants beneficiaries increase, Times of Eswatini (13 February). Available online: PressReader.com - Digital Newspaper & Magazine Subscriptions

Table 9: History of Non-Contributory Pension in Eswatini

Year	Nominal Old Age Grant	Real Old Age Grant (2020 terms)[149]
2005	E100.00 per month[150]	E250.70 per month
2009	E200.00 per month[151]	E368.70 per month
2013	E220.00 per month[152]	E315.05 per month
2015	E240.00 per month[153]	E308.87 per month
2017	E400.00 per month[154]	E452.14 per month
2020	E500.00 per month[155]	E500.00 per month

The Eswatini and South African currencies are fixed in a 1 to 1 ratio.[156] Increases in the Old Age Grant over time appear to be erratic, based on Table 8. This reflects an average annual increase of 10.7% p.a. compared to inflation of 6.0% per annum over the same period[157].

6.2.3. Coverage

Coverage is estimated at roughly 77% of the population aged above 60[158].

6.2.4. Contributions and Financial Sustainability

By definition, the benefit is non-contributory. The Eswatini government faces budgetary constraints; therefore, there have been times when these benefits were paid late due to them being unaffordable and this also leads to infrequency in the increases granted (World Bank, 2023a).

[149] Calculation performed on information available at: https://www.macrotrends.net/global-metrics/countries/SWZ/eswatini/inflation-rate-cpi

[150] Department of Social Welfare. [Na]. Questions and issues for contributions to Secretary-General Report pursuant General Assembly Resolution 65/182. Available online: Microsoft Word - Swaziland (ohchr.org)

[151] Ibid

[152] Dlamini, W. (2013). E20 increase to the elderly grant 'laughable', Times of Eswatini (23 February). Available online: Times Of Swaziland

[153] Deputy Prime Minister's Office. (2021). Mandate. Available online: Department of Social Welfare (gov.sz)

[154] UNICEF. (2017). *Social Protection Budget*. Available at: UNICEF-Swaziland-2017-Social-Protection-Budget-Brief.pdf

[155] Mkhonta, N. (2023). supra.

[156] Xe Currency Converter. (2023). Trusted Global Currency Converter & Money Transfer Solutions. Available online: www.xe.com Accessed: 30 July 2023.

[157] Statista. (2023). Swaziland: Inflation rate from 1988 to 2028. Available online: Swaziland- Inflation rate 1988-2028 | Statista

[158] Pension Watch. [Na] Social pensions database. Available online: pension-watch.net/social-pensions-database/social-pensions-database--/

6.3. Level B: National Contributory Social Security Scheme

6.3.1. History

The Eswatini National Provident Fund (ENPF) was established in 1974[159](Dorfman, 2015).

6.3.2. Benefits

The ENPF is a DC arrangement for formally employed workers. Benefits are payable on retirement, disability, emigration and death of the contributing member. The scheme has a retirement age of 50 with early retirement allowed from age 45; members may continue contributing beyond the age of 50.[160]

The ENPF has an explicit target of keeping costs to less than 6% p.a. of members' funds in order to protect benefit values, however this target has never been met[161].

There have long been plans to convert the national scheme from a DC provident fund paying lump sums on retirement to a DB pension fund paying a regular income from retirement[162]. These plans have been in place since 1993 but have been delayed repeatedly. However, there are still active plans by the Eswatini government to implement these reforms.[163]

Members of the ENPF are exposed to the risk of fluctuating or worsening investment returns and expenses due to the national scheme being DC in nature. Increased longevity will worsen the impact of having a relatively low retirement age in the ENPF given the current provident fund structure, as the lump sum benefit paid on retirement will likely be depleted early in a person's retirement years. The targeted cap on costs is intended to mitigate the expense risks for members. (Dorfman, 2015)

[159] Oxford Policy Management. (2010a). Evaluation of Retirement Systems of Countries Within the Southern African Development Community: Synthesis Document (June). Available online: 100714 6890 SADC Retirement Synthesis (finmark.org.za)

[160] ENPF (Eswatini National Provident Fund). (2023). Age Benefit. Available online: Benefits - E.N.P.F | Eswatini Provident Fund (enpf.co.sz)

[161] F Tembe, personal correspondence, 29 May 2019

[162] International Labour Organization. (2023). Eswatini. Available online: ILO | Social Protection Platform (social-protection.org)

[163] ENPF (Eswatini National Provident Fund). (2021). Annual Report 2021. Available online: https://enpf.co.sz/wp-content/uploads/2022/03/ENPF-2021-Annual-Report.pdf

6.3.3. Coverage

Members of the Public Service Pensions Fund (Eswatini PSPF) and Members of Parliament and Designated Office Bearers Pension Fund (MOPADO) are exempt from contributing to the ENPF[164]. Formal private sector employees and temporary public sector employees are required to contribute to the ENPF (Dorfman, 2015). Self-employed persons, household workers, casual employees, and foreign workers are not eligible to belong to the fund (Social Security Administration, 2019b). The ENPF reported that it had 137 903 actively contributing members as at 30 June 2021.[165] The ENPF estimates compliance at approximately 90% amongst private sector employers[166] but this translates to roughly 48% of the estimated total employed because excluded informal workers make up 38% of the workforce[167] and 40 594 Eswatini PSPF members are exempt[168].

The Eswatini government plans to introduce reforms to make membership of the ENPF compulsory for all those employed in the formal sector in Eswatini, and to extend coverage to the informal sector on a voluntary basis. However, they do not yet have a practical plan as to how to include the informal sector[169].

6.3.4. Contributions

Employees and employers each contribute 5% of the employee's monthly earnings, subject to a maximum contribution.

The maximum monthly contribution and equivalent salary have increased as follows over time as shown in Table 10.

[164] International Organisation of Pension Supervisors. (2011). Kingdom of Swaziland. Available online: oecd.org/countries/eswatini/48839292.pdf
[165] ENPF (Eswatini National Provident Fund). (2021). Supra.
[166] F Tembe, supra
[167] International Labour Organization. (2016). Labour Force Survey 2016. Available online: ilo.org/surveyLib/index.php/catalog/5246/related-materials
[168] Public Service Pensions Fund. (2023). Eswatini's Public Service Pensions Fund. Available online: pspf.co.sz/
[169] F Tembe, supra

Table 10: Recent History of ENPF Monthly Salary Cap for Contributions[170]

	Nominal		Real (January 2023 terms)[171]	
Date	**Maximum Total Monthly Contribution**	**Monthly Salary Cap**	**Maximum Total Monthly Contribution**	**Monthly Salary Cap**
1 January 2010	E130	E1 300	E256	E2 559
1 January 2011	E140	E1 400	E264	E2 637
1 January 2012	E150	E1 500	E266	E2 663
1 January 2013	E160	E1 600	E261	E2 607
1 January 2014	E170	E1 700	E262	E2 623
1 January 2015	E190	E1 900	E277	E2 774
1 January 2016	E210	E2 100	E292	E2 921
1 January 2017	E230	E2 300	E297	E2 966
1 January 2018	E250	E2 500	E304	E3 036
1 January 2019	E270	E2 700	E313	E3 128
1 January 2020	E290	E2 900	E327	E3 274
1 January 2021	E310	E3 100	E337	E3 370
1 January 2022	E330	E3 300	E346	E3 458
1 January 2023	E350	E3 500	E350	E3 500

6.3.5. Financial Sustainability

Based on the description of DB funds in Section 3, the financial sustainability of the ENPF could become a concern if it does convert to a DB pension fund, especially due to high unemployment and high HIV/AIDS rates among the working population combined with increasing pensioner longevity.

6.4. Level C: Occupational Retirement Funds

6.4.1. History

Occupational retirement funds have existed in Eswatini for a number of years, these are Level C1 in nature. The Eswatini PSPF, for example, commenced in 1993[172].

[170] ENPF (Eswatini National Provident Fund). (2020). Employers. Available online: enpf.co.sz/employers/; ENPF (Eswatini National Provident Fund). (2022). Upward Revision of Statutory Contributions to the Eswatini National Provident Fund, LGN-10/17/IV/53. Available online: EswatiniNationalProvidentFund2023.pdf (payspace.com) Accessed 08 August 2023.

[171] Calculation performed on information available at: https://www.macrotrends.net/global-metrics/countries/SWZ/eswatini/inflation-rate-cpi

[172] International Organisation of Pension Supervisors (2011), supra

6.4.2. Benefits

The PSPF and MOPADO are both contributory DB funds but most other occupational retirement funds provide DC benefits[173].

Members of DC funds are exposed to the risks of poor investment returns and other factors (such as high fees and increased life expectancy increasing the cost of annuities at retirement) impacting on their final benefits (Blackburn, 2003).

There is no requirement to preserve retirement savings when withdrawing from either a pension fund or a provident fund[174]. A member can commute up to a maximum of one-third of pension fund benefits for cash when retiring; provident fund benefits can be taken fully in cash upon retirement[175].

6.4.3. Coverage

All public servants who are permanent employees belong to the PSPF, which represents approximately 10% of the labour force or 14% of those employed in Eswatini (based on 40 594 active members relative to population statistics in Section 6.1.). Political office bearers are covered separately by MOPADO as described in section 6.3.3., with active membership of approximately 150.[176]

Eswatini has a relatively well-established occupational pension system for the private sector with 70 registered retirement funds[177], though there is no compulsion for an employer to participate in a retirement fund on behalf of its employees (Dorfman, 2015). The occupational retirement fund membership in Eswatini overall is shown in Table 11.

Table 11: Occupational Retirement Fund Coverage in Eswatini

Level C arrangements	**Membership count**	**Date**	**Percentage of employed population**
PSPF	40 594	31 March 2022	14.1%
MOPADO	150	30 June 2022	0.1%
Other occupational funds	47 609	30 June 2022	16.6%
Total	**88 353**	**30 June 2022**	**30.7%%**

[173] Ibid.
[174] Ibid.
[175] Ibid.
[176] B Hlatshwayo. Personal Correspondence, 31 July 2023.
[177] Financial Services Regulatory Authority. (2023). Licensed Entities – Insurance & Retirement Funds – Local Retirement Funds [68]. Available online: Local Retirement Funds – Licensed Entities – Insurance & Retirement Funds – Supervised Sectors – Financial Services Regulatory Authority (FSRA) Accessed: 30 July 2023.

This excludes workers in Eswatini who are members of foreign retirement funds.

6.4.4. Contributions

The vast majority of occupational retirement funds are DC in nature as discussed in section 6.4.2.. Therefore contributions will vary according to what has been set for the retirement fund in question.

In contrast, the Eswatini PSPF, MOPADO and a minority of occupational retirement funds pay DB benefits, where the required contribution from the employer will vary over time (Dorfman, 2015).

6.4.5. Financial Sustainability

In DB funds the sponsoring employers are exposed to risks of adverse experience requiring higher contribution rates to be paid to keep the occupational retirement fund solvent. (Blackburn, 2003)

6.5. Level D: Voluntary and Personal Retirement Savings

There are a number of insurance companies and other financial services companies in Eswatini which provide individual retail products, to enable individuals to increase their retirement savings voluntarily. This is specifically important for those not covered by either the national contributory scheme or an occupational retirement fund, especially for informal sector workers. These fall under Level D2. (Dorfman, 2015)

Some occupational retirement funds allow their members to pay additional voluntary contributions to the fund to increase their retirement savings (Dorfman, 2015). This is Level D1.

The ENPF also has a similar supplementary contribution option allowing members of the scheme to request that their employer pay over additional voluntary member contributions to the scheme in excess of the maximum statutory contribution. The employer does not have to increase its contributions. This option is available for those who do not belong to an occupational retirement fund and who do not wish to have an individual retirement savings policy with a financial services company[178] but it is possible to be both a member of an occupational fund and to make use of this facility on the ENPF.

It was estimated that there were 17 144 members making use of this facility on the ENPF in early 2019. [179]

[178] F Tembe, supra.

[179] Ibid. Note that this statistic was accurate as at 2019 and hence the table assumes the same coverage in June 2022

6.6. Summary

Eswatini's pensions model is similar to that of South Africa before the reforms of the last 10 to 15 years. For example, Level A and Level C benefit schemes seem to have been at least partially based on developments in South Africa. The notable exception is that Eswatini has a Level B national social security scheme, which only provides very basic benefits due to the low contributory salary cap. How best to reform this scheme has been a topic of debate in Eswatini for years and currently remains so.

7. PENSIONS IN GHANA

Research Question 4: What reforms have been introduced by other sub-Saharan African countries and how do these compare against the analytical framework developed?

7.1. Introduction

Ghana was a British colony until independence in 1957 – the first African colony to be granted independence – and it has been a multi-party democracy since 1992[180]. It has a population of approximately 33.1 million people. Life expectancy at birth is 69.7 years[181]; life expectancy at age 60 is 17.0 years[182]. The 2021 labour force was estimated at 13.7 million[183]. Unemployment in the country is estimated at approximately 12%[184]. It is estimated that 85% of people employed in Ghana are in the informal sector (Baah-Boateng & Vanek, 2020). Its GDP in 2020 was US$165 billion, equivalent to a GDP per capita of US$5 300[185].

In Ghana, the first pension was set up in the 1950s for colonial public employees. This pension scheme continued after independence. Initially this was a non-contributory scheme for public sector employees, but from the mid-1970s employees were required to contribute. Following independence some private companies began setting up provident funds for their employees, which would pay out lump sums at retirement. These were all compelled to transfer into the new social security scheme for private sector employees that had been created in 1965. Employees in the private sector had to contribute 7.5% of their salary to this scheme, and their employers had to contribute 15% of salaries on their behalf, totalling 22.5%. In 1972, the Ghanaian government established the Social Security and National Insurance Trust (SSNIT) to administer this national social security scheme. The social security scheme was converted from a provident fund to a pension fund in 1991 paying full benefits in the form of a monthly pension (without commutation to a cash lump sum being allowed). [186]

The concerns of both public and private sector workers about their pension benefits led to the establishment of a presidential commission on pensions in 2004. This led, in turn,

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[180] Central Intelligence Agency (2023b) The World Factbook – Ghana. Available online: cia.gov/the-world-factbook/countries/ghana

[181] Ibid

[182] Help Age. (Unpublished) Global AgeWatch Index 2015. Available online: helpage.org/global-agewatch/population-ageing-data/country-ageing-data/?country=Ghana

[183] Ibid

[184] Ibid

[185] Ibid

[186] Van Dam, J. (2020). Towards a three-pillar pensions system in Ghana. Available online: theactuary.com/features/2014/04/2014/04/09/towards-three-pillar-pensions-system-ghana

to the passing of the National Pension Acts of 2008[187] and implementation thereof began in 2010. The National Pensions Act of 2008 represented a major reform to the pensions sector. The existing national DB pension fund administered by SSNIT was denoted to be Tier 1 of the new pension model. Two DC levels, of which one is compulsory for the formal sector and the other is voluntary, were added to create a three-tier pensions system. Membership and contributions are voluntary for the self-employed and informal sector workers. [188]

The changes to pensions legislation in Ghana implemented from 2010 onwards effectively ended a government monopoly on pensions that had existed since 1965.

The Ghanaian three-tier model mapped to the generic framework is set out in Table 12.

Table 12: Ghanaian Three Tier Pensions Model[189]

Name	**What it is**	**Level**
'Ghanaian Tier 1': government-administered, contributory DB fund	Compulsory for the formally employed. But the informally employed may join on a voluntary basis.	B
'Ghanaian Tier 2': fully funded DC accounts run by the private sector.	Compulsory for the formal sector but the informally employed and self-employed may join on a voluntary basis.	C1
'Ghanian Tier 3': fully funded DC accounts run by the private sector.	Employers in the formal sector may compel members to join the scheme.	C2
	Open, voluntary membership	D1

The mandatory contributions for Ghanaian Tiers 1 and 2 appear to be pooled, meaning there is no clear split between employer and member contributions to either scheme although in total employers are required to contribute 13% and employees are required to contribute 5.5% to these two Tiers. In total, contributions towards all three Tiers are tax-deductible up to 35% of earnings (Guven, 2019).[190]

[187] National Pensions Act, Act 766 of 2008

[188] Van Dam, J. (2020). Towards a three-pillar pensions system in Ghana. Available online: theactuary.com/features/2014/04/2014/04/09/towards-three-pillar-pensions-system-ghana

[189] Ibid

[190] E Obiri-Yeboah. (2023), Personal Correspondence. 23 April 2023.

7.2. Level A: Non-Contributory Pensions

7.2.1. History

Ghana does not have a fully implemented benefit scheme that is consistent with Level A of the generic pensions model (Dorfman, 2015). However, a social cash transfer programme entitled Livelihood Empowerment Against Poverty (LEAP) was introduced in 2008 as a pilot scheme and is still ongoing[191].

7.2.2. Benefits

Eligibility for LEAP is subject to a means test based on income and assets and the following groups are potentially eligible:

- People over the age of 65 who are without any financial support;
- People who are disabled and therefore cannot work;
- Impoverished pregnant women or mothers with infants under the age of one; and
- Orphans and vulnerable children.[192]

The benefit, which does not appear to be increased regularly, is paid every second month according to the benefit scale in Table 13[193]:

Table 13: LEAP benefit scale in 2022

Number of Identified Household Individuals in Need	**Benefit**
One	GH₵32.00 per month
Two	GH₵38.00 per month
Three	GH₵44.00 per month
Four or more	GH₵53.00 per month

As at 31 December 2022 one Ghanaian cedi = 1.74 South African rands[194]

In addition to the cash benefit, beneficiaries are also provided with free health insurance through the National Health Insurance scheme[195].

[191] Republic of Ghana: Ministry of Gender, Children and Social Protection. (2023). Livelihood Empowerment Against Poverty (LEAP). Available online: Livelihood Empowerment Against Poverty (LEAP) : Ministry of Gender, Children and Social Protection (mogcsp.gov.gh) Accessed: 30 July 2023.

[192] The Transfer Project. (2023) Country: Ghana. Available online: transfer.cpc.unc.edu/countries/ghana/

[193] Ibid

[194] Xe Currency Converter. (2023). Trusted Global Currency Converter & Money Transfer Solutions. Available online: www.xe.com Accessed: 30 July 2023.

[195] Ghanaian Times. (2022) LEAP to disburse GH₵54.7 million to beneficiaries. Available online: ghanaiantimes.com.gh/leap-to-disburse-ghc54-7-million-to-beneficiaries/ Accessed: 10 October 2022.

7.2.3. Coverage

Coverage remains low at 344 389 households or 1.5 million people in 2022. [196]

7.2.4. Contributions and Financial Sustainability

The benefit is non-contributory. LEAP's source of funding is the Government of Ghana with support from development partners and other donor agencies[197].

7.3. Level B: National Contributory Social Security Scheme

7.3.1. History

The National Pensions Regulatory Authority (NPRA) was set up in 2009 to oversee all three pension tiers (Guven, 2019).

7.3.2. Benefits[198]

Ghanian Tier 1, the national DB scheme, is consistent with Level B of the generic pensions model. The national social security fund provides benefits in the form of old age pensions, invalidity pensions, survivor lump sums and emigration lump sums. The normal retirement age of the scheme is 60 with a reduced pension payable from early retirement age 55 onwards. The pension is paid based on the average of the three highest annual salaries with no inflation adjustment during membership of the scheme. A minimum of 180 months (15 years) of contributory membership is required to qualify for an old age pension. The pension is calculated as 37.5% of the applicable salary value. Additional membership accrues at 1.125% per annum up to an overall ratio of 60% of the applicable salary value after 35 years of contributory membership. If a member has less than 180 months of contributions, the contributions plus interest will be paid on retirement as a lump sum.

7.3.3. Coverage

The Ghanaian Tier 1 scheme had 1 633 505 actively contributing members and 227 407 pensioners as at 31 December 2020. The NPRA estimates compliance within the private sector to be approximately 50%. (NPRA, 2020)

7.3.4. Contributions

The Ghanaian Tier 1 scheme requires contributions of 11% of earnings towards retirement and risk benefits, and 2.5% towards National Health Insurance benefits[199].

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[196] Ibid
[197] Ibid
[198] Social Security and National Insurance Trust. (2023). Self Service. Available at: ssnit.org.gh/
[199] Van Dam, J. (2020), supra

7.3.5. Financial Sustainability

The Ghanaian government is ultimately responsible for the financial solvency of the Ghanaian Tier 1 scheme, which is a partially funded DB scheme (Dorfman, 2015). Both the 31 December 2014 and 31 December 2017 actuarial valuations performed by the ILO of the national social security scheme found that it was not financially sustainable in the current form [200]. It was found that the 11% contribution rate to the national DB scheme would need to be increased to 17.4% to avoid future insolvency[201]. This could not be achieved by redirecting contributions from Tier 2, as the latter would be removed or become sub-economic[202]. Alternative suggestions include decreasing the value of benefits, most likely through an increase in the normal retirement age[203].

7.4. Level C: Occupational Retirement Funds

7.4.1. History

The compulsory nature of Ghanaian Tier 2 contributions has led to large growth in private sector pensions savings[204]. These contributions fall under Level C1 of the generic framework as they are required by government for eligible employees. These schemes are work-based, with contributions being deducted by the employer and paid to a registered pension scheme chosen by the employer[205].

Part of Tier 3 of the Ghanaian pensions model could also be viewed as falling under Level C2 as they are not compulsory from the Government's perspective but may be made mandatory by employers in the formal sector.

7.4.2. Benefits

Ghanaian Tier 2 benefits are DC and are therefore based on the accumulation of contributions plus investment returns net of expenses[206]. Due to the mandatory nature of these contributions, member and employer contributions vest immediately; however, preservation before retirement is compulsory (Guven, 2019). Members of Ghanian Tier 2 schemes can either preserve their retirement savings in their former employer's pension scheme or transfer their retirement savings to their new pension scheme when changing employers (Guven, 2019). Retirement benefits on Ghanaian Tier 2 are payable from the scheme retirement age or from early retirement age 50 if the individual is unemployed or

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[200] Ghana News Agency (2021) Parliament asked to address imbalance in SSNIT finances, Ghana News Agency. Available online: https://gna.org.gh/2021/11/parliament-asked-to-address-imbalance-in-ssnit-finances/

[201] Ibid

[202] E Obiri-Yeboah. (2023), supra.

[203] The Africa Report. (2022). Should Ghana raise compulsory retirement age to 65? Available at: Should Ghana raise compulsory retirement age to 65? (theafricareport.com)

[204] Van Dam, J. (2020), supra.

[205] Ibid

[206] Ibid

self-employed, and benefits must be taken wholly in cash due to the lack of a developed annuity market.

Tier 3 benefits are also DC in nature and are not subject to compulsory preservation on exit, but voluntary preservation is encouraged through the tax system[207].

7.4.3. Coverage

Mandatory Tier 2 schemes registered with the NPRA had total active membership of 2 107 322 as at 31 December 2020 (NPRA, 2020), which appears to include duplicate memberships caused by preservation. As mentioned in 7.3.3, the NPRA estimates compliance within the private sector to be approximately 50%.

7.4.4. Contributions

Ghanaian Tier 2 has mandatory contributions set at 5% of earnings[208].

Where an employer sets the contribution rates payable under Tier 3 of the Ghanaian pensions model, this is equivalent to Level C2 contributions. The Ghanaian Tier 3 contributions are tax deductible up to a maximum of 16.5% of earnings (Guven, 2019).

7.4.5. Financial Sustainability

Due to the DC nature of contributions, the contribution rate is known in advance and is therefore sustainable from that perspective.

7.5. Level D: Voluntary and Personal Retirement Savings

7.5.1. History

Level D arrangements were largely made possible by the pension legislation changes introduced in 2008 and implemented in 2010 (Guven, 2019). Importantly, Level D pensions in Ghana include institutional (Level D1) and retail (Level D2) benefits with opportunities for workers in both the formal and informal sectors.

SSNIT set up the Special Informal Sector Fund (SISF)[209] for workers in the informal sector, it can accept members on either an individual retail or a group institutional basis. This was piloted over the period 2005 to 2008 before being launched nationally in 2009 during the introduction of the new pension legislation. A private sector company acquired the SISF in 2012. By 2019, the SISF had roughly 155 000 actively contributing members. (Guven, 2019)

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[207] Ghana Education Service. (2020). Planning for Retirement. Available online: gespensions.com.gh/2020/06/30/planning-for-retirement/

[208] Van Dam, J. (2020), supra.

[209] Obiri-Yeboah, E. (2023), supra.

From 2016 onwards other private sector firms have also launched similar retail pension schemes to specifically target workers in the informal sector. These companies have tried to attract informal sector workers by utilising interesting product features such as the use of mobile money, wallet accounts, short message service reminders, and standing orders, but still retain the short-term savings account–retirement account structure of the original SSNIT design. (Guven, 2019)

A Cocoa Farmers Pension Scheme was announced in the 2018 government budget speech (Guven, 2019). This was launched effective 1 December 2020 as a special project under the partnership of the Ghanaian government and the Cocoa Board (NPRA, 2020). The aim of this pension scheme is to cover both Tier 2 and Tier 3 contributions (Guven, 2019), while attracting up to 1.5 million cocoa farmers in the informal sector (NPRA, 2020). Participating farmers are required to contribute 5% of their cocoa sales while the Cocoa Board will also contribute 1% of their cocoa sales as a contribution on their behalf; however participating farmers can contribute more on a voluntary basis (Guven, 2019). It is hoped that this concept can be extended to other groups within the informal sector in the future (Guven, 2019), creating opportunities for group-priced structures that informal sector workers can join on a voluntary basis.

7.5.2. Benefits

Benefits are DC and are therefore uncertain, as they are based on the accumulation of contributions plus investment returns[210]. Due to the voluntary nature of these contributions, early withdrawals are allowed, although withdrawals before 10 years (formal sector) and five years (informal sector) will be subject to tax penalties[211]. In some schemes, vesting scales meaning that employees can lose part of their contributions after short periods of service[212]. Currently these benefits are typically paid out in the form of a cash lump sum at retirement due to the lack of a developed annuity market (Guven, 2019).

The looser rules around preservation may detract from the long-term benefits that could be received via these schemes.

7.5.3. Coverage

Voluntary Tier 3 schemes registered with the NPRA had total active membership of 559 155 as at 31 December 2020, of whom 315 980 were from the informal sector including SISF (NPRA, 2020). It should be noted that the Cocoa Farmers Pension Scheme was only a month old at that point.

The only coverage options for informal workers fall under Level D and the NPRA estimates that only 4% of informal sector workers are covered by Tier 3 of the Ghanaian

[210] Van Dam, J. (2020), supra.
[211] Obiri-Yeboah, E. (2023), supra.
[212] Ibid

pensions model and the NPRA wishes to explore ways to increase this coverage (NPRA, 2020).

Guven (2019) comments on the challenges created by legislation grouping tax incentivised contribution schemes for formal sector workers with products aimed at informal sector workers who typically do not pay income tax. Guven (2019 argues that it would likely have been better to split these two groups, with the matching contributions payable to the cocoa fund being an example of an alternative incentive structure for informal sector workers.

7.5.4. Contributions

The Ghanaian Tier 3 tier allows for individually-chosen additional voluntary contributions for formally employed members, essentially creating a Level D1 structure. These voluntary contributions are tax deductible up to a maximum of 16.5% of earnings and members can contribute more than this if they wish (Guven, 2019).

7.5.5. Financial sustainability

Due to the DC nature of contributions, the contribution rate is known in advance and is therefore sustainable from that perspective.

7.6. Summary

Ghana has introduced major changes to its contributory pensions model by allowing space for both DB and DC plus compulsory and voluntary contributions. Significant challenges remain, especially due to its Level A scheme is still very much at pilot stage with low coverage and benefits, while the informal sector is relatively large. The compulsory nature of contributions in the formal sector coupled with an allowance for tax-deductible additional contributions are consistent with the future vision for South Africa. However, there seem to be challenges also in enforcing compliance with the compulsory contributory schemes that exist in the country.

8. PENSIONS IN KENYA

Research Question 4: What reforms have been introduced by other sub-Saharan African countries and how do these compare against the analytical framework developed?

8.1. Introduction

Kenya was a British colony until independence in 1963[213]. It has been a multi-party democracy since 1992[214]. It has a population of approximately 57.0 million people[215]. Life expectancy at birth is 70.0 years; life expectancy at age 60 is 17.6 years[216]. The 2021 labour force was estimated at 23.9 million[217]. Unemployment in the country is officially estimated at approximately 5.7%[218]. It is estimated that the informal sector employs approximately 83% of people employed in Kenya (Odundo & Ouma, 2018). Its GDP in 2021 was US$267.9 billion or a GDP per capita of US$4 700[219].

The first pensions in Kenya were paid to colonial civil servants. This was introduced firstly for Europeans from 1927 and for other groups from 1932 (National Treasury Pensions Department, 1976).

The Kenyan National Social Security Fund ('KNSSF') was established in 1965 by an Act of Parliament to provide a provident fund scheme for formal-sector workers in Kenya. The formal sector was defined to be any employer with at least one employee, thereby effectively defining the informal sector as the self-employed. An amendment to the Act in 1997 defined the KNSSF as a retirement benefits scheme and thus brought it into the regulatory ambit of the Retirement Benefits Authority. (World Bank, 2019)

The National Social Security Fund (NSSF) Act of established two new national social security funds for the private sector, namely a mandatory pension fund for employees in the formal sector ('new KNSSF') and a voluntary provident fund for the self-employed (effectively representing the informal sector in Kenya). The former is a Level B scheme and the latter a Level D1 scheme run by the state.

[213] CIA (Central Intelligence Agency). (2023c). Explore all Countries – Kenya, The World Factbook. Available at: Kenya - The World Factbook (cia.gov)
[214] Ibid
[215] Ibid
[216] World Health Organization. (2023), supra.
[217] CIA. (2023c), supra.
[218] Ibid
[219] Ibid

These new fund structures were meant to commence in January 2014. However, a series of legal challenges by trade unions delayed the implementation of the new national funds. The legal challenge process ended when the Court of Appeal ruled in favour of the new legislation in February 2023; employers are now expected to comply with the new requirements from 1 July 2023.[220]

8.2. Level A: Non-Contributory Pensions

8.2.1. History

Kenya introduced a pilot scheme for Level A non-contributory benefits in 2007, known as the Older Persons' Cash Transfer scheme (OPCT) (Odundo & Ouma, 2018) which targeted specific regions (ILO, 2019). The OPCT was one of four cash transfer programmes which comprise the Kenya National Safety Net Programme, the others being the Hunger Safety Net Cash Transfer, the Cash Transfer for Orphans and Vulnerable Children and the Persons with Severe Disabilities Cash Transfer.

In 2018 the Kenyan government re-launched the OPCT as the nation-wide Inua Jamii Senior Citizens' Scheme[221].

8.2.2. Benefits

The benefit aims at poverty reduction and is means tested. The OPCT was originally payable to those who are 65 years of age older, however with the re-launch of the scheme in 2018 the qualification age was increased to 70 to make the expansion more affordable for the Kenyan government. Those beneficiaries younger than 70 who were already receiving the benefit would continue to receive the benefit but new applicants must be aged 70. (ILO, 2019)

The benefit is currently KShs 2 000 per month, it was initially introduced as a benefit of KShs 1 500 per month (ILO, 2019). World Bank (2023b) quotes poverty lines of KShs 3 252 and KShs 5 955 per month for rural and urban areas respectively. The formal sector monthly minimum wage in 2022 was KShs 7 600 and KShs 15 200 for rural and urban areas respectively[222].

As at 31 December 2022 one Kenyan shilling = 0.14 South African rands[223]

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[220] EY Global. (2023). Kenya's Court of Appeal declares National Social Security Fund Act of 2013 proposing increase to monthly contributions constitutional. Available online: Kenya's Court of Appeal declares National Social Security Fund Act of 2013 proposing increase to monthly contributions constitutional | EY - Global

[221] Chirchir, R. et al. (2019) Kenya: Inua Jamii Senior Citizens' scheme. Geneva: ILO.

[222] Hairsine, K. (2022). What Kenya's minimum wage rise means, DW News, 05 October. Available online: What Kenya's minimum wage rise means – DW – 05/10/2022

[223] Xe Currency Converter. (2023). Trusted Global Currency Converter & Money Transfer Solutions. Available online: www.xe.com Accessed: 30 July 2023.

8.2.3. Coverage

The coverage of the benefit scheme has expanded over time as shown in Table 14. It was estimated that in 2019, the Level A coverage was equivalent to around 60% of the elderly population aged 65 years and above[224].

Table 14: Coverage for Level A benefit in Kenya:

Date	Coverage	Scheme	Source
2007/2008	200	OPCT	Odundo & Ouma, 2018
2015/2016	310 000	OPCT	Odundo & Ouma, 2018
2018	523 000	OPCT	Mohamed et al., unpublished
2019	833 000	Inua Jamii Senior Citizens' Scheme	[225]

8.2.4. Contributions

The benefits are funded on a PAYG basis as part of general government tax revenue and expenditure. The government is generally under strain in terms of its income versus expenditure. Social protection spending is expected to represent approximately 1.2% of government expenditure in total. Total Level A benefits (for all four programmes) are expected to represent approximately 0.5% of total expenditure.[226]

8.2.5. Financial Sustainability

Kenya is a developing country with fiscal limits. Social protection spending is a small proportion of the country's total expense budget. Benefits are rarely increased, which has allowed the Kenyan government to expand the coverage over time without massively increasing the total value spent annually on such benefits. However, this means that the real value of the benefits relative to pensioners' cost of living is decreasing over time.[227]

8.3. Level B: National Contributory Social Security Scheme

8.3.1. History

As discussed in section 8.1, the Level B benefit arrangements are currently transitioning from the KNSSF to the New KNSSF.

[224] Ibid

[225] The Standard. (2022). Money for the elderly to be paid this week. Available online: Money for the elderly to be paid this week - The Standard (standardmedia.co.ke)

[226] National Treasury and Planning. (2022) Statement Delivered to the National Assembly of Kenya on 7 April 2022 by Ukur Yatani (Cabinet Secretary for National Treasury and Planning)

[227] National Treasury and Planning. (2022), supra.

8.3.2. Benefits

The KNSSF scheme is in nature a provident fund in that it pays out a lump sum in cash (Dorfman, 2015). According to the National Social Security Fund Act of 1965 benefits are based on an accumulation of contributions using a smoothed rate of return, subject to a minimum of 2.5% p.a. and after an allowance for expenses. Benefits are payable on retirement, disability, death or emigration of the contributing member[228]. The scheme has a normal retirement age of 60 with early retirement allowed from age 50[229].

It is intended that the New NSSF would have the same accumulation mechanism but pay pensions and limited lump sums instead of full lump sums (World Bank, 2019).

The National Social Security Funds Act of 2013 requires that the New KNSSF expenses not exceed 2% of the total fund assets for the administration of the fund. This is required to be lowered to 1.5% in the sixth year after the commencement of the New KNSSF. (World Bank, 2019)

8.3.3. Coverage

All employees in the formal private sector are required to contribute to the KNSSF and the New KNSSF, but public-sector workers are excluded (Dorfman, 2015). The KNSSF has 6.2 million registered members, however only approximately 2.5 million of these are actively contributing members (Retirement Benefits Authority, 2021). The percentage of eligible workers actively contributing is roughly 80% (Retirement Benefits Authority, 2021) and the increase in the minimum annual rate of return from 2.5% to 5% in 2008 is credited with making the scheme more attractive (Raichura, unpublished).

8.3.4. Contributions

At the time the Act was promulgated, the contribution rate to the KNSSF for employers and members was 5%[230] with an earnings cap of KShs 4 000 per month (World Bank, 2019). Given the legal challenges to the National Social Security Fund Act of 2013, contributions were frozen at this level (World Bank, 2019), which is low relative to Kenya's minimum wages as set out in 8.2.2.

In the New KNSSF, employers and members are each required to pay 6% up to the Lower Earnings Limit for their Level B benefit. Initially the Lower Earnings Level will be set at KShs 6 000 per month, however over time this will be increased to the urban minimum wage.

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[228] National Social Security Fund. (2023). Overview of NSSF. Available online: Overview of NSSF – NSSF Kenya Accessed: 30 July 2023.

[229] Social Security Administration. (2023). Research, Statistics, & Policy Analysis. Available online: International Update, May 2023: Recent Developments in Foreign Private & Public Pensions, Social Security & Retirement (ssa.gov)

[230] Ibid

8.3.5. Financial Sustainability

Due to the DC nature of contributions, the contribution rate is known in advance and is therefore sustainable from that perspective.

The KNSSF and New KNSSF provide smoothed defined contribution benefits, subject to a guaranteed minimum return, which has been 5% since 2008 (Raichura, unpublished). In addition to this guarantee, which can create an unfunded liability, the returns are also smoothed. There is little connection between the crediting rate and the investment rate of return earned, with sometimes the crediting rate being higher, but frequently being lower, than the investment rate of return (Raichura, unpublished).

8.4. Level C: Occupational Retirement Funds

8.4.1. History

Occupational retirement funds are voluntary in nature, being set up by employers for their employees and are thus Level C2.

8.4.2. Benefits

Historically, pension benefits for public service employees were PAYG DB in nature and the government as employer therefore guaranteed benefits provided to such employees. A funded DC scheme was introduced in January 2021. Public sector employees younger than 45 on 1 January 2021 had to join the new C2 scheme, those 45 or older could voluntarily join the scheme or could continue accruing benefits under the previous PAYG DB rules. (Retirement Benefits Authority 2021)

Over 90% of private sector occupational retirement fund membership in Kenya is DC in nature with the balance being DB or mixed DB-DC in nature (Retirement Benefits Authority, 2021).

Preservation of at least 50% of employers' contributions to occupational pension schemes is compulsory (Odundo & Ouma, 2018).

8.4.3. Coverage

The PAYG DB pension scheme for government employees was said to cover over 500 000 employees before the DC fund was introduced (Odundo & Ouma, 2018). At the end of 2021, membership of the new funded DC scheme was reported at 220 000, but by the second quarter of 2022 it was estimated that membership was over 352 000 members (Retirement Benefits Authority, 2021).

Odundo & Ouma (2018) report the size of these occupational funds as 1 306 registered schemes with a total membership of approximately 447 000. But the Retirement Benefit Authority (2021) estimated that the total membership had grown to 522 690 in 2021.

Relative to the formal sector of approximately 3.1 million workers, coverage is estimated at 28% (Retirement Benefits Authority, 2021).

8.4.4. Contributions

Contributions to retirement funds will vary significantly between different occupational retirement funds.

Under the New KNSSF dispensation, employers must also ensure that they and their employees each contribute a further 6% of earnings up to the Upper Earnings Limit on top of their Level B contributions described in 8.3.4, but for this portion they can opt out of the New KNSSF and instead contribute to a privately administered fund. The Upper Earnings Level will initially be set at KShs 18 000 per month, but this will be increased over time to four times national average earnings. This arrangement classifies as Level C1 in terms of the generic framework. [231]

8.4.5. Financial Sustainability

The vast majority of these funds are DC in nature. Due to the DC nature of contributions to such funds, the contribution rate is known in advance and is therefore sustainable from that perspective. In contrast the financial sustainability of DB funds would vary significantly depending on their own circumstances, however, any Tier 2 portion under the New KNSSF provided by a separate fund can be DB in nature. This portion would fall under Level C1.

8.5. Level D: Voluntary and Personal Retirement Savings

8.5.1. History

Under Level D1, formal sector workers may make additional voluntary contributions to either the KNSSF or New KNSSF or to their occupational retirement fund (World Bank, 2019). In the 2022 budget speech the Kenyan Minister of Finance announced the launch of a government-backed pensions scheme for informal sector workers, namely the Kenya National Entrepreneurs Savings Trust (KNEST). This would officially target the roughly 15 million informal sector workers.[232]

There are a number of insurance companies and other financial services companies in Kenya which provide individual products, to enable individuals to increase their retirement savings voluntarily as part of Level D2 (Odundo & Ouma, 2018). This is specifically important for those not covered on Levels B or C. These individual benefit schemes have been the biggest source of growth in pensions in Kenya over recent years, with a

[231] Mondaq. (2023). Kenya: Kenyan Employers Required To Immediately Comply With New National Social Security Fund Contributions. Available online: Kenyan Employers Required To Immediately Comply With New National Social Security Fund Contributions - Employee Benefits & Compensation - Kenya (mondaq.com)

[232] National Treasury and Planning. (2022), supra.

particular focus on the informal sector (Odundo & Ouma, 2018). This has been the result of a drive towards greater financial education championed by the government, financial regulator, private sector providers and informal sector associations (Khanna et al., 2018). The greater use of technology and the simplifying of products has added to this growth (Khanna et al., 2018).

The Mbao individual pension plan is the largest Level D2 pensions vehicle specifically set up for the informal sector. It was set up in 2009 by the National Federation of Jua Kali Associations for informal sector workers with the support of the Retirement Benefit Authority and opened to members in 2011. This pension plan operates as a mobile money platform with support from telecommunication companies in Kenya. It is estimated that 73% of adults in Kenya have mobile money accounts. (World Bank, 2019)

8.5.2. Benefits

All Level D benefits are fully DC in nature (Dorfman, 2015). The individual schemes that are aimed at informal sector workers, such as Mbao, function as provident funds with very little preservation requirements and members often use them as short savings vehicles for purposes other than retirement. Members can make withdrawals three years after their first contributions. (Khanna et al., 2018)

8.5.3. Coverage

Odundo & Ouma (2018) report the total membership of Level D2 as approximately 162 000 effective December 2015. The Mbao Pension Plan had membership of 70 000 in December 2015; this had grown to 100 000 by late 2018 (Kabare, unpublished). However subsequently the number of members started decreasing (Guven, 2019).

The challenge in pension coverage of the informal sector in Kenya stems from the limited capital base of the scheme, impacting its ability to finance a massive growth plan to achieve scale (Guven, 2019). The other major challenge relates to the high cost of administration (Guven, 2019). Coverage could be improved by improved management and public awareness of micro-pensions, like Mbao as well as better savings incentives (Guven, 2019).

Public awareness would be improved by developing a comprehensive multi-media communication strategy and targeting specific demographic groups and geographical locations. The recommendations on improving the management of micro-pensions covers a variety of approaches. This includes establishing a new, more efficient and more effective administrative platform which can provide contributors with general and specific individual information more timeously. Micro-pensions should also become more innovative and diversified in terms of product range (including bundling with other products and services). (Guven, 2019)

8.5.4. Contributions

Under Level D2, contributions payable to pension schemes targeting the informal sector, such as Mbao, are very flexible. Retirement savings contributions can be made on a daily, weekly, fortnightly, monthly, quarterly, seasonal, or annual basis, according to the decisions of the members. The minimum savings is KShs 20 per day, KShs 500 per month and KShs 6 000 per year. There is no maximum or ceiling on savings. There is also no penalty in case of default. (World Bank, 2019)

8.5.5. Financial Sustainability

Due to the DC nature of contributions to such funds, the contribution rate is known in advance and is therefore sustainable from that perspective.

8.6. Summary

Kenya is currently introducing a number of pension reforms. It has recognised the importance of both non-contributory benefits and the need for specific contributory solutions for informal sector workers. The country is introducing major reforms for formal sector workers, with the aim of improving benefit outcomes through compulsory contributions. It remains to be seen how successful these reforms will be. Kenya's experience demonstrates that introducing a suitable solution for informal sector workers remains a challenge.

9. PENSIONS IN NIGERIA

Research Question 4: What reforms have been introduced by other sub-Saharan African countries and how do these compare against the analytical framework developed?

9.1. Introduction

Nigeria was a British colony until independence in 1960[233]. It has been a multi-party democracy since 1999 and has operated as a federal republic since independence[234]. It has a population of approximately 225.0 million people[235]. Life expectancy at birth is 61.3 years[236]; life expectancy at age 60 is 16.0 years[237]. The 2021 labour force was estimated at 64.5 million[238]. Unemployment in the country is estimated at approximately 16.5%[239]. It is estimated that the informal sector employs 80% of workers in Nigeria (Ohnsorge & Yu, 2022). Its GDP in 2020 was US$1.0 trillion equivalent to a GDP per capita of US$4 900[240].

9.2. Level A: Non-Contributory Pensions

Nigeria does not have any national non-contributory pension benefit scheme consistent with Level A (Dorfman, 2015); however two of the 36 Nigerian states have introduced Level A benefits. The Ekiti State Social Security Scheme was introduced in 2011, while the Osun Elderly Pensions Scheme was introduced in 2012 (Cirillo & Tebaldi, 2016). These benefit schemes aim at poverty reduction and are means tested (Cirillo & Tebaldi, 2016).

9.3. Level B: National Contributory Social Security Scheme

Nigeria does not currently have a mandatory contributory social security scheme (Dorfman, 2015).

In 1961 a National Provident Fund was introduced on a compulsory basis for private sector employees who did not belong to a Level C pension scheme. The Nigeria Social Insurance Trust Fund was established in 1994 to replace the National Provident Fund

[233] CIA (Central Intellignence Agency). (2022). Explore all Countries – Nigeria, The World Factbook. Available at: cia.gov/the-world-factbook/countries/nigeria/ Accessed: 10 September 2022.
[234] Ibid
[235] Ibid
[236] Ibid
[237] Help Age. (Unpublished) Global AgeWatch Index 2015. Available online: helpage.org/global-agewatch/population-ageing-data/country-ageing-data/?country=Nigeria Accessed: 10 September 2022.
[238] Ibid
[239] Ibid
[240] CIA. (2022), supra.

and provide enhanced social protection for private sector employees, including paying out pensions instead of lump sum benefits. Nigeria introduced widespread pension reform in 2004 which removed the National Social Insurance Trust Fund. Before 2004 the overall Nigerian pensions system used to suffer from very low coverage in the private sector and large deficits in the public sector. There were also concerns about poor governance of pension schemes and the susceptibility to corruption in both the public and private sectors. (Ademola et al., unpublished)

9.4. Level C: Occupational Retirement Funds

9.4.1. History

In Nigeria, an unfunded DB public sector scheme was first set up in 1951, with retroactive effect from 1946 by granting pensionable back-service. Private sector pension schemes were first set up in Nigeria from 1954. These pension schemes would fall under Level C2 as there was no legislative or regulatory compulsion for employees to join, although enrolment was compelled through the employment relationship. (Khanna et al., 2018)

This changed in 2004 with the introduction of a Contributory Pension Scheme (CPS) concept. This was mandatory for public and private sector workers and was fully funded, DC individual Retirement Savings Accounts managed by approved private sector pension fund administrators, based on the Chilean model introduced in the 1980s. The CPS effectively introduced Level C1 pensions in Nigeria. (Khanna et al., 2018)

The 2004 pension reforms aimed to establish an improved regulatory framework and uniform rules for pension administration in Nigeria. The Nigerian government wished to reduce its fiscal costs by moving to a DC arrangement, but it was required to continue contributing to the deficit in respect of accrued pension benefits of public sector workers. (Ademola et al., unpublished)

The CPS applied to all employers with five or more employees, including the government but excluded state and local government workers, and members of existing Level C2 schemes who had to transfer their retirement savings into their new CPS individual Retirement Savings Accounts, effectively replacing the C2 layer. Likewise, contributions paid into the Nigeria Social Insurance Trust Fund were also moved to the new individual Retirement Savings Accounts, when level B was eliminated. (Ademola et al., unpublished)

The CPS required a minimum total contribution rate of 15% towards retirement savings, with the employer and employees each contributing 7.5%, and additional voluntary contributions allowed on Level D1. Furthermore, each employer had to pay for life insurance cover equal to a minimum of three times employees' annual remuneration. Part of the benefit at retirement can be taken in cash, the balance must be annuitized. (Khanna et al., 2018)

Further pension reforms were introduced in 2014. As coverage had not improved as much as had been hoped, the eligibility criteria were expanded to employers with at least three employees in order to cover more informal sector workers. In addition, employees of states and local governments were now also included. The previously closed scheme was now opened so that the self-employed could also now participate on a voluntary basis on Level D1. The minimum contribution rates were increased to 8% by the employee and 10% by the employer to provide higher benefits at retirement. (Khanna et al., 2018)

Challenges were experienced in Nigeria with the introduction of the 2004 and 2014 pension reforms. The financial services industry was too small and underdeveloped to be able to accept the significant growth in business smoothly. This included the annuity market being relatively small at the outset of these reforms and the lack of suitable investment opportunities for the new pool of assets backing retirement savings. (Khanna et al., 2018)

From mid-2018 to early 2019 a series of further reforms were introduced. In July 2018, it became a requirement that member investment choice be made available to members of the CPS but rules and standards regarding the investments were only issued in February 2019 (Social Security Administration, 2019c).

9.4.2. Benefits as described by Khanna et al. (2018)

The DC nature of the mandatory Retirement Savings Accounts leaves contributing members exposed to the risk of adverse experience of retirement savings over time, especially in respect of poor investment returns and increased longevity.

A holder of a Retirement Savings Account can access benefits upon the later of retirement or reaching age 50. At retirement, employees can draw a lump sum from their Retirement Savings Account balances provided the balance after the withdrawal can provide monthly payments for life that are not less than 50% of monthly remuneration as at retirement.

An early lump sum withdrawal of 25% of the balance can be made by a member who lost their employment due to dismissal or retrenchment if the individual is still unemployed for a minimum deferred period, which was reduced from six months to four months as part the reforms introduced in 2014.

9.4.3. Coverage

The National Pension Commission (2021) quoted total membership of pension schemes as 9.586 million as at 31 December 2021, of whom 58% were employed in the private sector. Coverage in the formal sector is therefore only about 50% and is problematic within both the public and private sectors (Odo et al., 2019).

Several measures are in place to improve compliance and hence coverage. The Regulator may perform physical spot-checks of companies. Recovery agents are used to follow-up on defaulting employers. The regulator also encourages organisations to voluntarily submit for compliance verification leading to the issuance of a compliance certificate. Compliance certificates are required by companies bidding for Federal Government projects. (Khanna et al., 2018)

9.4.4. Contributions

Members must pay a minimum contribution of 8% of their earnings while their employers must pay a minimum contribution of 10% (Khanna et al., 2018).

9.4.5. Financial Sustainability

Due to the DC nature of contributions within the compulsory system, the contribution rate is known in advance and is therefore sustainable from that perspective.

The Nigerian government remains responsible for funding the historic accrued pension rights of public sector employees prior to the pension reforms of 2004. These benefits are of a DB nature and therefore the government remains exposed to potential increases in these liabilities from various factors for example increased longevity.

9.5. Level D: Voluntary and Personal Retirement Savings

9.5.1. History

Under Level D1, formal sector workers may make additional voluntary contributions into their Retirement Savings Accounts (Khanna et al., 2018). The 2014 pension reform explicitly allows workers in the informal sector to contribute towards Retirement Savings Accounts of their choice, as part of the CPS as discussed in section 9.2. These work the same on Level D as on Level C.

In September 2018, new guidelines were issued to promote a Level D2 Micro Pension Plan (MPP) targeting informal sector workers (Social Security Administration, 2019b). The MPP was launched in March 2019 by the Nigerian government and the National Pension Commission, which also acts as its regulator (National Pension Commission, 2021). The MPP pension schemes are administered by private sector Pension Fund Administrators (National Pension Commission, 2021); these are independent entities so this limits the ability to achieve scale.

In October 2018 guidelines were issued in respect of voluntary contributions allowed under the 2014 reform (Social Security Administration, 2019b).

9.5.2. Benefits

Contributions to the MPP are split 40% towards a Contingent Withdrawal portion and 60% towards the Retirement Benefits portion. Withdrawals from the Contingent Withdrawal portion can commence three months after joining the scheme. Full benefits from both portions can be accessed upon permanent ill-health, reaching age 50 or retiring after the age of 50. Informal sector workers who join the scheme can convert to the mandatory CPS for formal workers but cannot convert back to the informal version. (National Pension Commission, 2021)

The relatively small number of contributory members and administration fragmentation does risk making it sub-economic.

9.5.3. Benefits

By the end of June 2022 only 81 674 informal sector workers had joined the MPP, which is very small compared to the size of the informal sector in Nigeria[241]. The National Pension Commission was cited[242] as giving several possible reasons for this lack of uptake by informal sector workers including:

- a lack of awareness,
- a lack of suitable incentives for people to contribute to the scheme,
- competition from more flexible savings products,
- negative memories from the previous DB schemes leading to a lack of trust in formal retirement savings systems and
- relatively high costs due to service providers not adopting a shared technological platform for administration purposes.

9.5.4. Contributions

To allow for the greater flexibility required in the informal sector, the MPP allows for variability in monthly contributions paid into it. The plan allows a contributor to pay contributions on a daily, weekly, or monthly basis. Contributions can be made by cash deposit, electronically, and through any payment platform or approved financial services agent. (National Pension Commission, 2021)

9.5.5. Financial Sustainability

Due to the DC nature of contributions under Level D2, the contribution rate is known in advance (subject to affordability, as it is voluntary) and is therefore sustainable from that perspective.

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[241] Inotokong, J. (2022) Micro Pension Plan Recorded N296.957m From 81,674 Contributors — PenCom, Nigerian Tribune. Available online: tribuneonlineng.com/micro-pension-plan-recorded-n296-957m-from-81674-contributors-%E2%80%95-pencom/ Accessed: 12 September 2022.

[242] Ibid

9.6. Summary

Nigeria lacks a meaningful Level A non-contributory benefit. The country has tried to introduce suitable contributory schemes for informal sector workers, but this remains a challenge. The country has introduced major reforms in the form of compulsory contributory schemes for formal sector workers, with relatively high minimum contribution rates and aimed at providing suitable retirement benefits. However, enforcing compliance with this requirement seems to be a challenge. It remains to be seen how successful these different reforms aimed at formal and informal sector workers will be over the long term.

10. PENSIONS IN ZAMBIA

Research Question 4: What reforms have been introduced by other sub-Saharan African countries and how do these compare against the analytical framework developed?

10.1. Introduction

Zambia was a British colony until independence in 1964 and has been a multi-party democracy since 1991 [243]. It has a population of approximately 20.2 million people of whom roughly 54% are estimated to live in poverty[244]. The 2021 labour force was estimated at 8.1 million[245]. Unemployment in the country is estimated at approximately 13%[246]. However, it is estimated that the informal sector employs roughly 90% of people employed in Zambia.[247] Its GDP was US$63.0 billion in 20201, and GDP per capita was US$43 200[248]. Life expectancy at birth is 66.6 years; life expectancy at age 60 is 16.5 years[249].

10.2. Level A: Non-Contributory Pensions

10.2.1. History

Zambia introduced a pilot scheme for Level A benefits in 2003, known as the Social Cash Transfer (SCT) scheme. This has been gradually expanded over the following years and is now payable nationally. (Arruda & Dubois, unpublished)

The Zambian government, advised by the ILO, has been working on a first draft of a National Social Protection Bill [250] to improve the overall social protection system, released in 2014. The draft bill[251] envisions the further expansion of Level A benefits.

[243] Central Intelligence Agency. (2023d). The World Factbook – Zambia. Available online: Zambia - The World Factbook (cia.gov)
[244] Ibid
[245] Ibid
[246] Ibid
[247] Oxford Policy Management. (2010a). supra.
[248] Ibid
[249] World Health Organization. (2023), supra.
[250] Republic of Zambia. (2018). 2014-2018 National Social Protection Policy. Available online: Easy to read version of the 2014-2018 National Social Protection Policy (ilo.org)
[251] Ibid

10.2.2. Benefits

As described by the Zambian government[252], the SCT benefit aims at poverty reduction and is paid to households which are viewed as being labour-constrained due to any of the following reasons:

- Having at least one household member who is 65 years of age older,
- Having three or more children in the household, or
- Having household members who are either disabled or chronically ill.

A double benefit is available for households with a disabled member (UNICEF, 2022a). A recent history of benefit amounts for the elderly are shown in Table 15.

Table 15: History of Non-Contributory Pension in Zambia (UNICEF, 2022b)

Year	Benefit for the elderly (Nominal)	Benefit for the elderly (in 2022 terms) [253]
2014	K70.00 per month	K175.85 per month
2017	K90.00 per month	K162.48 per month
2021	K150.00 per month	K175.66 per month
2022	K200.00 per month	K200.00 per month

As at 31 December 2022 one Zambian kwacha = 0.94 South African rands[254]

10.2.3. Coverage

The coverage of the SCT has been expanded over the years and it was estimated to cover approximately 20% of households in 2018 (Arruda & Dubois, unpublished) rising to about 31% of all households in early 2022 (UNICEF, 2022b). The Zambian government aimed to cover about 33% of households in the country by the end of 2022 (UNICEF, 2022b).

10.2.4. Contributions

As at 2017, about 75% of the cost of the implementation of the SCT is funded by the Zambian Government with the balance coming in the form of technical and financial donor support. This is in sharp contrast with the position in 2009 when the government was only responsible for 5% of the cost.[255]

[252] Republic of Zambia. (2022). Social Cash Transfer Factsheet. Available online: Zambia-SCT-factsheet-2022.pdf (unicef.org)
[253] Calculation performed on information available at: https://www.worlddata.info/africa/zambia/inflation-rates.php
[254] Xe Currency Converter. (2023). Trusted Global Currency Converter & Money Transfer Solutions. Available online: www.xe.com Accessed: 30 July 2023.
[255] Chali, K. (2020). Social Cash Transfers in Zambia, socialprotection.org (3 April). Available online: Social Cash Transfers in Zambia | socialprotection.org Accessed: 30 July 2023.

10.2.5. Financial Sustainability

Zambia is a developing country with fiscal limits. Social protection spending is a small proportion of the country's total expense budget. Benefits are seldom increased, which has allowed the Zambian government to expand the coverage over time without massively increasing the total value spent annually on such benefits. However, this means that the real value of the benefits relative to pensioners' cost of living is decreasing over time. (UNICEF, 2022b)

10.3. Level B: National Contributory Social Security Scheme

10.3.1. History

A DB National Pension Scheme (NPS) was launched in Zambia in February 2000. It is administered by the National Pension Scheme Authority (NAPSA) and replaced the old DB Zambian National Provident Fund (ZNPF) which was set up in 1966 for private sector formal sector workers. The ZNPF was criticised as being not fit for purpose, due to both low monthly salary caps for contributions that were rarely revised and its provident fund nature which meant that lump sums paid on retirement were too often exhausted soon after retirement. The design of the NPS addressed both concerns.[256]

In terms of transitional arrangements, ZNPF members were allowed to keep their benefits in this scheme in which case the benefit could be claimed either as a lump sum equal to the contributions paid plus investment returns, effectively converting the ZNPF to a DC arrangement. Alternatively, the member's ZNPF past service could be used to purchase NPS service at a rate of 12 ZNPF months to 3 NPS months.[257]

10.3.2. Benefits[258]

The NPS is a DB fund with benefits payable on retirement, disability and death of the contributing member. A member must have made a minimum of 180 monthly contributions to be eligible to claim a pension on retirement. If this is not the case, a lump sum benefit will be paid.

Pension benefits are based on average salary over an individual's working lifetime, indexed according to the increase in National Average Earnings since the date of each monthly contribution. The monthly accrual rate is 0.1111%. This targets a replacement ratio of 40% of indexed earnings after 30 years. A minimum pension amount is payable equal to 20% of the National Average Earnings in the year of retirement, which protects low-income earners. Pension benefits in payment are increased in line with National Average Earnings.

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[256] National Pension Scheme Authority. (2023). Our History. Available online: Our History - National Pension Scheme Authority (napsa.co.zm) Accessed :30 July 2023.

[257] National Pension Scheme Authority. (2023). Claims FAQ. Available online: Claims FAQ - National Pension Scheme Authority (napsa-web04.azurewebsites.net) Accessed: 30 July 2023.

[258] Social Security Administration. (2023), supra.

Lump sum benefits are calculated based on the total contributions paid by the member and their employer, indexed according to the change in National Average Earnings from the date of payment of the different monthly contributions.

The scheme has a normal retirement age of 60 with early retirement allowed from age 55 and late retirement allowed until age 65. All of these age thresholds were increased by five years in 2015. Members who joined the NPS before 14th August 2015 can claim an early retirement benefit from age 50 in accordance with the previous benefit rules.

Following discussions that started during the COVID pandemic, in April 2023 the law was changed to allow members to make once off withdrawals of up to 20% of their indexed contributions plus interest. Members need to have at least 60 months of contributions and be over the age 45 to qualify. Such pre-retirement benefits will reduce future pension benefits through a reduction in service used to calculate pension benefits. Initial experience showed a massive demand for these payments, with 128 000 withdrawal payments being made in the first month[259].

10.3.3. Coverage

Members of the Level C2 occupational pension funds Public Service Pension Fund (PSPF) or the Local Authority Superannuation Fund (LASF) who joined prior to February 2000 are exempt from contributing to NPS. The LASF closed to new entrants from February 2000. The PSPF remained open to new members only from certain designated classes namely the military, police, prison and intelligence service employees. Hence all local authority employees and most government employees had to join the NPS from February 2000. Foreign employees with diplomatic status are also exempt.[260] Coverage has increased over time as shown in Table 16.

Table 16: Recent History of Active NAPSA Membership[261]

Date	Active Members
31 December 2017	768 591
31 December 2018	810 408
31 December 2019	858 724
31 December 2020	818 661
31 December 2021	888 335

Initially the informal sector could join this scheme voluntarily as a Level D1 arrangement[262]. Following the launch of the Extension of Coverage to the Informal Sector

[259] Social Security Administration. (2023). International Updates: Recent Developments in Foreign Public and Private Pensions, SSA Publication No. 13-11712. Available online: International Update, May 2023 (ssa.gov) Accessed: 08 August 2023.

[260] National Pension Scheme Authority. (2023). Requirements. Available online: www.napsa.co.zm/requirements Accessed: 30 July 2023.

[261] A Mwila, personal correspondence, 2 May 2023

[262] A Mwila, supra.

(ECIS) project in February 2017, where there is a clear employer-employee relationship, for example domestic workers, membership is compulsory which extended Level B coverage to certain groups of informal workers[263].

Despite this almost all members are believed to be employed in the formal sector[264] and given the estimated size of the formal sector in 2020[265], the NPS would cover just over 80% of the formal sector.

10.3.4. Contributions

Employees and employers each contribute 5% of the employee's monthly earnings, subject to a maximum contribution[266]. The monthly salary cap is reportedly equal to four times the National Average Monthly Earnings as computed by the Central Statistical Office for the second quarter of the previous year[267]. The maximum statutory contribution for the NPS ensures that most employees are provided benefits based on their full earnings or on a large proportion thereof (Dorfman, 2015). It does reduce the scope for savings in Levels C and D.

The maximum monthly contributions and equivalent salaries are shown in Table 17.

10.3.5. Financial Sustainability

The NPS is a DB fund underwritten by the government of Zambia as guarantor of those benefits (Dorfman, 2015) and has been underfunded since inception [268]. The ZNPF was incorporated into the NPS, bringing with it a significant deficit which has been the biggest source of strain on the NPS[269].

Despite these deficits the 31 December 2017 actuarial valuation of the NPS projected that the current contribution and benefit structure were sustainable until approximately 2045 to 2050, due to the relatively young age of the NPS and its members. This is demonstrated by the NPS having only approximately 17 000 pensioners and benefits representing only roughly 30% of ongoing contribution income. The charges relating to managing the NPS amount to approximately 15% of ongoing contribution income. The NPS is aiming to reduce the charges percentage to less than 15% through expanding coverage. [270]

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[263] Ibid
[264] Ibid
[265] Ministry of Labour and Social Security & Zambia Statistics Agency. (2020). Labour Force Survey Report. Available online: www.mlss.gov.zm/wp-content/uploads/2022/03/2020-Labour-Force-Survey.pdf Accessed: 30 July 2023
[266] National Pension Scheme Authority. (2023). Important Facts. Available online: Important facts - National Pension Scheme Authority (napsa.co.zm) Accessed: 30 July 2023
[267] A Mwila, supra.
[268] O Chimpinde, personal correspondence, 7 October 2019
[269] Ibid
[270] Ibid

Table 17: History of NPS Monthly Salary Cap

	Nominal			Real (January 2023)[271]		
Date (1 January)	**Maximum Total Monthly Contribution**	**Equivalent Monthly Salary**	**Increase**	**Maximum Total Monthly Contribution**	**Equivalent Monthly Salary**	**Increase**
2012[272]	K1 173.98	K11 739.80		K3 670.76	K36 707.64	
2013[273]	K1 339.30	K13 393.00	14.1%	K3 929.14	K39 291.44	7.0%
2014[274]	K1 581.10	K15 841.00	18.3%	K4 335.88	K43 441.02	10.6%
2015[275]	K1 592.40	K15 924.00	0.5%	K4 050.52	K40 505.18	-6.8%
2016[276]	K1 687.94	K16 879.44	6.0%	K3 899.32	K38 993.27	-3.7%
2017[277]	K1 789.22	K17 892.16	6.0%	K3 506.65	K35 066.39	-10.1%
2018[278]	K1 990.00	K19 900.00	11.2%	K3 659.36	K36 593.65	4.4%
2019[279]	K2 147.60	K21 476.00	7.9%	K3 673.99	K36 739.90	0.4%
2020[280]	K2 299.20	K22 992.00	7.1%	K3 603.61	K36 036.08	-1.9%
2021[281]	K2 318.80	K23 188.00	0.9%	K3 140.35	K31 403.51	-12.9%
2022[282]	K2 443.60	K24 436.00	5.4%	K2 712.15	K27 121.52	-13.6%
2023[283]	K2 684.00	K26 840.00	9.8%	K2 684.00	K26 840.00	-1.0%

[271] Calculation performed on information available at: https://www.worlddata.info/africa/zambia/inflation-rates.php

[272] The National Pension Scheme Act (2012). Available online: zambialaws.com/Zambia2012Pdfsi/SI-2012-4.pdf Accessed: 03 August 2023.

[273] The National Pension Scheme Act (2013). Available online: pmrczambia.com/wp-content/uploads/2015/08/The-National-Pension-Scheme-Pensionable-Earnings-Amendment-Regulations-Statutory-Instrument-No.-3-of-2013.pdf Accessed: 03 August 2023.

[274] PricewaterhouseCoopers Ltd. (2015). National Pension Scheme Authority: Revision of NAPSA Contribution Ceiling for 2015. Available online: pwc.com/zm/en/assets/pdf/zambia-napsa-update.pdf Accessed: 03 August 2023.

[275] Ibid

[276] The National Pension Scheme Act (2015). Available online: zambialaws.com/Zambia2015Pdfsi/SI%20101%20of%202015.pdf Accessed: 03 August 2023.

[277] The National Pension Scheme Act (2017). Available online: zambialaws.com/Zambia2017Pdfsi/SI%2080%20of%202017.pdf Accessed 03 August 2023.

[278] National Pension Scheme Authority. (2023) 2018 Social Security Ceiling. Available online: napsa.co.zm/2018-social-security-ceiling/ Accessed 03 August 2023.

[279] Brand, F. (2018). Zambia: New National Pension Scheme (NAPSA) Ceiling for 2019. Available online: sagecity.com/za/sage-vip-payroll-hr/f/general-discussion/120410/zambia-new-national-pension-scheme-napsa-ceiling-for-2019 Accessed 03 August 2023.

[280] Anitas. (2019). Zambia: New National Pension Scheme (NAPSA) Ceiling for 2020. Available online: sagecity.com/za/sage-payroll-professional/f/announcements/143638/zambia-new-national-pension-scheme-napsa-ceiling-for-2020 Accessed: 03 August 2023.

[281] National Pension Scheme Authority. (2021). Public Notice: Revision of Contribution Ceiling and Pension Payments for 2022. Available online: napsa.co.zm/public-notice-revision-of-contribution-ceiling-and-pension-payments-for-2022/ Accessed: 03 August 2023.

[282] Ibid

[283] Ramdhunee, A. (2023). Zambia: National Pension Scheme Authority (NAPSA) ceiling for 2023. Available online: sagecity.com/za/sage-payroll-professional/f/announcements/194833/zambia---national-pension-scheme-authority-napsa-ceiling-for-2023 Accessed: 03 August 2023.

10.4. Level C: Occupational Retirement Funds

10.4.1. History

Public sector employees who are exempt from contributing to NPS must belong to either the PSPF or LASF, therefore these two funds effectively fall under Level C1 of the framework. Zambia has occupational retirement funds that fall under Level C2, where the employer has decided that its employees should belong to such a scheme.

The draft National Social Protection Bill envisions introducing mandatory contributions to an occupational retirement fund, thereby moving the country from Level C2 to Level C1 contributions with a minimum contribution rate of 5% of earnings to be funded half by employers and half by employees. This would aim at producing a pension equal to roughly 20% of the retiring individual's pensionable earnings at retirement, to add to the 40% target replacement ratio by NPS. [284]

10.4.2. Benefits

The PSPF and LASF are DB in nature and the government as employer therefore guarantees benefits provided to such employees. The normal retirement age of new entrants to the PSPF was increased from 60 to 65 in 2015 to assist with controlling the growth of the deficit in that fund. This was done despite objections from some groups of public sector employees due to the impact on the value of their retirement benefits. [285]

In Zambia, there is no requirement to preserve retirement savings in an occupational retirement fund when changing employer.[286] Previously high taxation of lump sum withdrawals was used to discourage taking cash lump sums, however from January 2016 all benefits paid from such funds are free of tax[287]. On retirement, members may receive half of their retirement savings as cash, and the balance must be used to purchase an annuity (IOPS, 2009).

10.4.3. Coverage

The PSPF had 93 454 actively contributing members as at 31 December 2020, of which approximately half relate to entrants before February 2000[288]. In 2012 the LASF had 5 082 active members, which would have likely reduced to close to 2 500 active members over the last 10 years.[289] Therefore the PSPF and the LASF together cover roughly 10%

[284] Republic of Zambia. (2018), supra.
[285] Lusakatimes. (2015). President Lungu makes changes to retirement age , three Options provided. Available online: Zambia : President Lungu makes changes to retirement age, three Options provided (lusakatimes.com)
[286] Zambia Revenue Authority. (undated). Taxation of Pension Benefits). Available online: Pension Benefits (zra.org.zm)
[287] Ibid
[288] H Prinsloo, personal correspondence, 16 January 2023
[289] H Prinsloo, personal correspondence, 31 July 2023

of the formal sector, complemented by the NPS covering approximately 80% of the formal sector.

In terms of Level C2 funds, as at 31 December 2021, there were 248 registered retirement funds with total active membership of 96 261, excluding the PSPF and LASF[290]. Occupational retirement fund membership represent only approximately 9.6% of the formal sector. This reflects a low take-up rate of such arrangements by employers and fund membership seems low on average, making it difficult to be cost effective.

10.4.4. Contributions

Contribution rates vary widely between different occupational retirement funds. Depending on the solvency position in DB pension funds, the existence of a surplus or deficit can lead to even more range in contribution rates[291].

10.4.5. Financial Sustainability

As discussed in 10.3.3, the PSPF and LASF are long established DB pension funds which are partially or fully closed to new entrants. The PSPF and LASF have significant deficits of K46.2 billion and K4 billion respectively[292].

The majority of occupational retirement funds are DC in nature.[293] Therefore contributions will vary according to what has been set for the retirement fund in question.

10.5. Level D: Voluntary and Personal Retirement Savings

As discussed in 10.1, most people employed in Zambia work in the informal sector and hence would not typically participate in occupational retirement funds. However, as mentioned in 10.3.3, they do have the opportunity to contribute to the NPS on Level D1.

As mentioned in 10.3.3, the ECIS project was launched in February 2017 to improve informal sector coverage. The ECIS project has focused on improving communication and raising awareness of the benefits of contributing to the NPS. Market sellers and traders are encouraged by informal sector associations to join. [294]

At the time of the launch of the ECIS project it was estimated that there were only 2 500 contributing workers from the informal sector. A further 2 600 and 4 800 informal sector

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[290] PIA. (2021). Annual Report 2021. Available online: PIA Annual Report 2021 – P I A | Pensions and Insurance Authority

[291] Zambia Daily Mail Limited. (2015). Know more about private pension schemes. Available online: Know more about private pension schemes – Zambia Daily Mail (daily-mail.co.zm)

[292] Lusakatimes. (2019). Secretary to Cabinet wants article to Pay Pensions Promptly and Regularly removed from Bill no 10. Available online: Zambia : Secretary to Cabinet wants article to Pay Pensions Promptly and Regularly removed from Bill No 10 (lusakatimes.com)

[293] B Hamanzuka, personal correspondence, 12 August 2023

[294] A Mwila, supra

workers were registered in 2017 and 2018 respectively. From 1 January to 31 August 2019 an estimated 17 000 new informal sector workers were registered, due to the use of trained and dedicated field agents to register informal sector workers.[295] Currently the Zambian government is investigating launching a national provident fund for informal sector workers, as voluntary membership of the NPS has remained low, which is at least in part due to DB benefit accrual not being a good fit for informal sectors with volatile income levels.[296] Such a national provident fund for informal sector workers would fall under Level D1, compared to voluntary membership of the NPS falling under Level B, but different funds can operate under different levels.

Formal sector workers may also make additional voluntary contributions to the NPS and these workers may also be allowed to make similar additional contributions to their Level C2 fund. (IOPS, 2009)

There are a number of insurance companies and other financial services companies in Zambia which provide individual products, to enable individuals to increase their retirement savings voluntarily on Level D2. (Dorfman, 2015)

10.6. Summary

Zambia has recognised the importance of Level A non-contributory benefits, but due to budgetary constraints is taking time to expand the coverage and level of these benefits. The delay in increasing benefits levels shows that increased coverage is being prioritised. The country introduced major reform of the contributory pensions model in 2000, by converting from a national provident fund with a relatively low salary contribution cap to a national pension fund with a relatively high salary contribution cap. The country is currently considering what future contributory pension reforms to introduce. This would be to address ongoing concerns in respect of benefits for both formal and informal sector workers.

[295] Ibid

[296] H Prinsloo, personal correspondence, 16 January 2023

11. DISCUSSION OF PENSIONS WITHIN SUB-SAHARAN AFRICA

Research Question 5: How does the South African experience compare to those of the countries studied, and what lessons can be learned to aid South Africa in achieving its vision for its social security system?

11.1. Vision: Universal social assistance for the elderly

As discussed in section 5.7, the South African government intends to make the OAG universal. In this section, the experiences of other African countries with their Level A pensions are considered to see what lessons can be learned.

11.1.1. History

South Africa was the first country in Africa to introduce Level A pensions in 1928. Namibia's level A pension was introduced in 1949, while it was still a protectorate of South Africa. Similar to Apartheid South Africa, Namibia paid different levels of benefits to different race groups until its independence from South Africa in 1990. (Dorfman, 2015).

Level A pensions are increasingly being introduced across sub-Saharan Africa, but generally have not had a long history as most were introduced after 1990 (Dorfman, 2015). A notable exception is Mauritius which introduced its means tested Level A benefit in 1950, prior to becoming independent in 1968 (Yen, unpublished).

As discussed in 8.2.1 and 10.2.1 Kenya and Zambia introduced Level A benefits initially as pilot programmes which are now national programmes. Similarly, Tanzania launched a universal pension benefit in 2016 in Zanzibar, and this is being introduced to the rest of the country through pilot programmes (Abels & Guven, 2016).

The institutional status of Level A benefits in 15 sub-Saharan African countries as described by Dorfman (2015) is given in Table 18 below.

Table 18: Non-Contributory Pension Benefits in Sub-Saharan Africa

Country	**Introduced**	**Still at Pilot Stage**
Cabo Verde	2006	No
Botswana	1996	No
Eswatini	***2005***	***No***
Ghana	***2008***	***Yes***
Kenya	***2007***	***No***
Lesotho	2004	No
Mauritius	1950	No
Mozambique	1992	No
Namibia	1949	No
Nigeria	***2011***	***Yes***
Seychelles	1979	No
South Africa	***1928***	***No***
Tanzania	2016	Yes
Uganda	2011	Yes
Zambia	***2003***	***Yes***

Schubert (2020) states that although countries like Malawi and Zimbabwe do not have formal Level A benefit schemes, these countries use a variety of programmes to support the households most in need.

South Africa already has a very well-established Level A pension, while in contrast the rest of the region has had such pensions introduced more recently.

11.1.2. Benefits

Level A benefits for 14 selected sub-Saharan African countries is given in Table 19.

The change in eligibility ages in Table 19, given the ageing of populations, is interesting to compare. The Mauritian Level A benefit was initially for those aged 65 and older, this was reduced to age 60 in 1953 (Yen, unpublished).

*Table 19: Level A Benefits in Sub-Saharan Africa (Case Study Countries in **Bold**)*[297]

Country	**Introduced**	**Description**	**Pension Age**	**2022 Monthly Benefit**	
				Local Currency	**SA Rands 31 Dec 2022**
Cabo Verde[298]	2006	National	60	Esc6 000	R987.86
Botswana[299]	1996	National	65	P530	R706.11
Eswatini	***2005***	***National***	***60***	***E500***	***R500.00***
Ghana	***2008***	***Pilot***	***65***	***GH₵32***	***R55.68***
Kenya	***2007***	***National***	***70***	***KES2 000***	***R274.80***
Lesotho[300]	2004	National	70	M850	R850.00
Mauritius[301]	1950	National	60	Rs10 000	R3 870.20
Mozambique[302]	1992	National	Men – 60 Women – 55	MT540	R143.73
Nigeria	***Ekiti - 2011*** ***Osun – 2012***	***Pilot***	***65***	***NGN5 000*** ***NGN10 000***	***R189.96*** ***R379.91***
Namibia[303]	1949	National	60	N$1 400	R1 400.00
Seychelles[304]	1979	National	63	SCR5 750	R7 658.70
South Africa	***1928***	***National***	***60***	***R1 990***	***R1 990.00***
Uganda[305]	2011	Pilot	60/65 (varies per region)	UGX25 000	R114.10
Zambia	***2003***	***Pilot***	***65***	***ZMW200***	***R187.58***

[297] 2022 monthly benefit levels: For case study countries see references in relevant sections above. Exchange rate information: see www.xe.com. Remaining fields: Pension Watch. [2018] Social pensions database (online). Available at: http://www.pension-watch.net/social-pensions-database/social-pensions-database--/

[298] CNPS (Caisse Nationale de Prevoyance Sociale)[National Social Pension Centre). (2018). Social Pension will be increased from January 2019. Available online: Social Pension will be increased from January 2019 (cnps.cv) Accessed: 09 August 2023.

[299] BNN Newsroom. (2023). Botswana to increase old age pension (08 February). Available online: Botswana to increase old age pension - BNN Accessed: 09 August 2023.

[300] M Macheli, personal correspondence, 20 December 2022.

[301] National Social Inclusion Foundation. (2022-2023). Budget Brief 2022-2023. Available online: PowerPoint Presentation (nsif.mu) Accessed: 09 August 2023.

[302] Castelo, V, Castigo, F, Cardoso, J, Noble, M, Oliveira, R. & Wright, G. (2022). Mozambique: MOZMOD V2.9, 2015-20" SOUTHMOD Country Report (April). Available online: SOUTHMOD Country Report – Mozambique: MOZMOD v2.9 (unu.edu) Accessed: 09 August 2023.

[303] Parliament of the Republic of Namibia. (2023). Finance Minister tables N$ 84.6 billion budget for the 2023/24 Financial Year (22 February). Available online: Finance Minister tables N$ 84.6 billion budget for the 2023/24 Financial Year – Namibian Parliament Accessed: 09 August 2023.

[304] Joubert, P. (2023). Ministry explains rationale for increasing retirement age to 65, Seychelles Nation (05 April). Available online: Ministry explains rationale for increasing retirement age to 65 -Seychelles Nation Accessed: 09 August 2023.

[305] Byaruhanga, I, & Debesay, J. (2021). The Impact of a Social Assistance Program on the Quality of Life of Older People in Uganda, *SAGE Open*, 11(1). Available online: https://doi.org/10.1177/21582440219893111 Accessed: 09 August 2023.

Mauritius later increased the Normal Retirement age for all its Level B national social security schemes and its Level C2 civil servants pension scheme, but the Level A benefit pension age was kept at 60 for political reasons despite the ageing of the population (Yen, unpublished). As discussed in 5.2.1, South Africa reduced the male eligibility age from 65 to 60 when forced to equalise the eligibility ages for men and women. Kenya, on the other hand, managed to increase their eligibility age from 65 to 70, as discussed in 8.2.2.

In terms of the adequacy of these benefits, many of these countries do not have official poverty levels or accessible national monthly average earnings data to use for comparison. Comparisons were possible for South Africa, Botswana and Mauritius where the Level A benefits were 8%, 10% and 27% of the respective national average monthly earnings[306].

Increases in the Level A benefits in sub-Saharan Africa are not guaranteed to happen every year but are subject to affordability (Dorfman, 2015).

11.1.3. Coverage

The coverage statistics for Level A pensions in 14 Sub-Saharan African countries are shown in Table 20. Countries that apply means testing have lower coverage, as one would expect. But Table 20 also shows some anomalies. Botswana does not have 100% coverage despite having a universal benefit whereas Lesotho achieves 100% coverage with a means test.

The ILO and World Bank have both commented on the negative impact of means tests, which create a disincentive for people to save towards their own retirement (Abels & Guven, 2016; UNDP & ILO, 2021). Mauritius removed its means test in 1958 (Yen, unpublished). When Namibia gained independence in 1990, they discontinued the means-tested approach favoured by South Africa.

[306] Own calculations based on
The change in eligibility ages in Table 18 given the ageing of populations is interesting to compare. The Mauritian Level A benefit was initially for those aged 65 and older, this was reduced to age 60 in 1953 (Yen, unpublished).

Table 18 and earnings data from Trading Economics. (2023). 20 million Indicators From 196 Countries. Available online: TRADING ECONOMICS | 20 million INDICATORS FROM 196 COUNTRIES

*Table 20: Proportion of Aged Population by Country (Case Study Countries in **Bold**)*[307]

Country	**Means Testing**	**Age of Eligibility**	**Proportion of Population Aged:**	
			Over age of Eligibility	**60 or older**
Cabo Verde	Yes	60	68.2%	68.2%
Botswana	No	65	93.3%	65.2%
Eswatini	***Yes***	***60***	***77.1%***	***77.1%***
Ghana	***Yes***	***65***	***Not available***	***Not available***
Kenya	***Yes***	***70***	***63.8%***	***39.4%***
Lesotho	Yes	70	100%	60.8%
Mauritius	No	60	100%	100%
Mozambique	Yes	Men – 60 Women - 55	19.3%	23.8%
Namibia	No	60	100%	100%
Nigeria	***Yes***	***65***	***0.5%***	***0.3%***
Seychelles	No	63	100%	88.1%
South Africa	***Yes***	***60***	***74.0%***	***74.0%***
Uganda	60/65	Yes	6.5%	4.3%
Zambia	***65***	***Yes***	***31.0%***	***21.4%***

[307] Pension Watch. Social pensions database. Available online: http://www.pension-watch.net/social-pensions-database/social-pensions-database--/

11.1.4. Contributions

Estimates of the cost of providing Level A benefits are shown Table 21.

*Table 21: Cost of Level A Benefits as Percentage of GDP (Case Study Countries in **Bold**)*[308]

Country	**World Bank as at 2016**	**Pension Watch as at 2018**
Cabo Verde	0.4%	0.9%
Botswana	0.3%	0.3%
Eswatini	***0.6%***	***0.3%***
Ghana	***Not included***	***Not included***
Kenya	***1.1%****	***Not included***
Lesotho	1.7%	1.3%
Mauritius	2.2%	2.9%
Mozambique	Not included	0.3%
Namibia	1.1%	1.2%
Nigeria	***1.2%****	***0.1%***
Seychelles	1.7%	1.5%
South Africa	***1.7%***	***1.3%***
Uganda	0.8%*	0.1%
Zambia	***0.5%****	***Not included***

* These estimates allowed for national scaling of pilot schemes in order to make them comparable with other countries where the benefits are already national.

11.1.5. Financial Sustainability

As discussed in 4.3, the population of sub-Saharan Africa is expected to age and Table 22 shows how the populations of 14 countries in the region offering Level A benefits are expected to age. This shows that the population ageing experience in in sub-Saharan Africa countries is expected to be uneven.

[308] World Bank figures from Guven & Leite, 2016. Pension Watch figures from Pension Watch. Social pensions database. Available online: http://www.pension-watch.net/social-pensions-database/social-pensions-database--/

*Table 22: Ageing of Population by Country (Case Study Countries in **Bold**)* [309]

Country	**Cost as Percentage of GDP as at 2018**	**Proportion of Population Aged 60+**	
		2018	**2050**
Cabo Verde	0.9%	7.0%	24.2%
Botswana	0.3%	6.5%	24.8%
Eswatini	***0.3%***	***4.9%***	***14.8%***
Ghana	***Not included***	***5.4%***	***17.0%***
Kenya	***Not included***	***4.3%***	***19.9%***
Lesotho	1.3%	6.7%	13.4%
Mauritius	2.9%	17.2%	29.1%
Mozambique	0.3%	4.8%	14.5%
Namibia	1.2%	5.6%	18.2%
Nigeria	***0.1%***	***4.5%***	***13.5%***
Seychelles	1.5%	13.8%	29.2%
South Africa	***1.3%***	***8.5%***	***20.2%***
Zambia	***Not included***	***3.7%***	***15.6%***

These are generally developing countries that have limited finances and the ageing population will inhibit the ability of these countries to provide Level A benefits. Cost control measures include reducing benefits in real or nominal terms or constraining coverage by means testing or failing to roll out pilot programmes more widely (Abels & Guven, 2016).

Abels & Guven (2016) argue that countries in sub-Saharan Africa generally have a few decades to benefit from a potential demographic dividend. Therefore, they argue that this is the best time to introduce social security reforms. As described in section 4, South Africa is further advanced in terms of demographic change than most other sub-Saharan African countries. Furthermore, Abels & Guven (2016) point out that high unemployment and high informal employment rates in sub-Saharan Africa are a threat to a potential demographic dividend being experienced in the region and so this cannot be relied upon to fund the increasingly expensive Level A benefits, even in the short-term.

11.1.6. What can South Africa Learn?

South Africa's Level A benefit system is better established than elsewhere in sub-Saharan Africa, meaning that those countries have more to learn from South Africa than vice versa. The cost to GDP is higher than in most of these other countries. The difference in coverage between means-tested and universal systems is clear from Table 19. The vision is to move to a universal system, but this will increase costs significantly. The ageing of the population is also expected to lead to increased costs. Government has budgetary

[309] Pension Watch. (2018). Social pensions database. Available online: http://www.pension-watch.net/social-pensions-database/social-pensions-database--/

constraints and needs to consider options in managing costs. Increasing the eligibility age for benefits over time could help but would not be seen as politically acceptable.

It is proposed that the means test be phased out (fully or partially) through alignment of social assistance with the structure of income tax rebates. It seems advisable to move to a system using a simplified means test from age 60 which then moves to a universal approach at a later age, where that later age can be increased to achieve cost neutrality.

All grants are increased on an ad-hoc basis subject to affordability, which helps to keep grants affordable. An institutionalised increase would create greater benefit certainty, although this could still be set as a promise to keep benefits inflation-linked subject to affordability. This may therefore be of limited benefit for stakeholders.

11.2. Vision: Introducing a Level B National Contributory Scheme

11.2.1. History

Most countries in sub-Saharan Africa have Level B schemes. These mostly appear to have been set up during the 1960s and 1970s, after independence, in response to colonial benefit schemes that excluded the majority of the population. Schemes in former British colonies originated either as national funded DC provident funds or as national PAYG DB pension schemes. Several schemes in former French and Belgian colonies originated as work injury and family allowance schemes, later adding old age, disability and survivor benefits. (Dorfman 2015).

A summary of the overall position in Sub-Saharan Africa is shown in Table 23.

*Table 23: National Pension Schemes in Sub-Saharan Africa in June 2023 (Case Study Countries in **Bold**)*[310]

Description	Country count	Countries
No Level B scheme	9	Botswana, Eritrea, Lesotho, Malawi (yet to implement), Namibia, ***Nigeria***, Somalia, ***South Africa***, South Sudan
National DC provident fund	4	***Eswatini***, ***Kenya***, The Gambia, Uganda
National DB PAYG pension scheme	35	Angola, Benin, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Congo-Brazzaville, Congo-Kinshasa, Côte d'Ivoire, Djibouti, Equatorial Guinea, Ethiopia, Gabon, ***Ghana***, Guinea, Guinea-Bissau, Liberia, Madagascar, Mali, Mauritania, Mauritius, Mozambique, Niger, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, Tanzania, Togo, ***Zambia***, Zimbabwe

[310] Comoros see Caisse des Retraites des Comores (2023), Eritrea see Habtom (2022), Somalia see World Bank (2022), Djibouti, Equatorial Guinea and Gabon see Social Security Administration (2019b). For all others see Abels & Guven (2016).

Table 22 shows that the great majority of national schemes now operate on a PAYG DB basis, which pay pensions from retirement. There has been a trend towards this. Tanzania introduced a national funded DC provident fund in 1964, and later converted it to a PAYG DB pension scheme in 1998. There are only four countries still operating national funded DC provident funds. The DB design seems strongly preferred to DC, but this preference will have been influenced by advisors such as the ILO.

11.2.2. Benefits

The four countries operating national DC funds all provide the benefit as a lump sum at retirement although Kenya is busy converting theirs to a pension fund which would pay regular pensions. The other countries, namely the Gambia, Eswatini and Uganda have considered or are considering doing the same. (Dorfman, 2015)

In national PAYG DB pension funds, the targeted replacement ratio at retirement varies significantly across these schemes. Abels & Guven (2016) provide examples of accrual rates for these schemes and expected replacement ratios after 30 years of contributions which. are summarised in Table 24.

*Table 24: National Scheme Accrual Rate by Country (Case Study Countries in **Bold**) (Abels & Guven, 2016)*

Country	**Accrual Rate**	**Replacement Ratio after 30 years**
Benin	2.0%	60%
Burkina Faso	2.0%	60%
Cabo Verde	2.0%	60%
Cameroon	2.0%	60%
Central African Republic	1.3%	40%
Chad	2.0%	60%
Congo, Democratic Republic of	1.7%	50%
Ethiopia	3% (for 10 years) +1.25%	55%
Guinea Bissau	2.8%	84%
Ghana	***2.5% (for 15 years) + 1.1%***	***54%***
Mozambique	1.7%	51%
Rwanda	2.0%	60%
São Tomé and Príncipe	2.5%	75%
Seychelles	1.8%	53%
Sierra Leone	2.0%	60%
Tanzania	2.5% (for 15 years) +1.1%	54%
Togo	1.3%	40%
Zambia	***1.3%***	***40%***

For the countries in Table 23 that have national Level A benefits, Table 25 shows the estimated average total replacement ratio across Level A and Level B.

*Table 25: Total Replacement Ratio (Case Study Countries in **Bold**)*

Country	**Replacement Ratio after 30 years**	**Gross National Income Per Capita in 2022**[311]	**Level A Annual Benefit in 2022**	**Level A Replacement Ratio**	**Total Replacement Ratio**
Cabo Verde	60%	R70 380	R11 854	16.8%	76.8%
Mozambique	51%	R8 500	R1 725	20.3%	71.3%
Seychelles	53%	R243 780	R91 904	37.7%	90.7%
Zambia	***40%***	***R19 890***	***R2 251***	***11.3%***	***51.3%***

Gross National Income Per Capita was used as it was not possible to find a suitably reliable source for national average earnings figures across the region.

The other case study countries have not been included here, as they do not fit well into such a comparison. For example, Nigeria and Ghana have very low coverage for their Level A benefits. Eswatini and Kenya have very low maximum thresholds on salaries used for calculating contributions and benefits under Level B; for Kenya this was changed effective 1 July 2023.

These Level B replacement ratios meet or exceed the targeted ratio of 40% of insured earnings after 30 years per ILO Convention 102. The level of insured earnings must be considered, with ILO Convention 102 setting out guidelines on the level required. If insured earnings are low relative to total earnings for individual workers, the replacement ratio could look sufficient, but overall adequacy may prove to be insufficient. (ILO, 1952).

Some countries have a maximum threshold on the level of monthly salary used for the calculation of mandatory contributions and benefits, otherwise known as a cap on insured earnings. Examples of these monthly limits in the SADC region are shown in Table26.

[311] Kamer, L. (2023). Gross National Income (GNI) per capita in Africa in 2022, by country, Statista (24 August). Available online: Africa: income per capita by country 2022 | Statista Accessed: 11 September 2023.

*Table 26: Examples of Monthly Salary Caps in Level B Schemes (Case Study Countries in **Bold**) (For Eswatini see Eswatini National Provident Fund (2022), Madagascar[312], Mauritius[313], Zambia[314], Zimbabwe[315]. For others see Dorfman (2015)*

Country	**Monthly Salary Ceiling (July 2023)**	**Method used to Determine Ceiling (if applicable)**
Angola	None	N/A
Congo, Democratic Republic of	None	N/A
Eswatini	***E3 500***	***Gradually increasing***
Madagascar	Ar1 910 400	Eight times minimum wage
Mauritius (National Provident Fund only)	RS24 315	Originally set at national average earnings but now lags due to limited increases
Mozambique	None	N/A
Seychelles	None	N/A
Tanzania	None	N/A
Zambia	***K26 840***	***Four times national average earnings***
Zimbabwe	ZWL$2 414 896	75% of total consumption poverty line for five person household

As discussed in 8.4.4, Kenya's intention is to work towards an insured earnings ceiling of four times national average earnings, but with the option to pay part of the contributions to a Level C scheme with the Level B scheme as the default.

Kenya is an example of a sub-Saharan African country whose Level B scheme is not consistent with the standard design recommended by the ILO. The ILO strongly prefers a DB design and strongly opposes DC designs, therefore the ILO would not view the new Kenyan Level B scheme as being compliant with Convention 102.

The ILO places a lot of emphasis on the importance of using redistribution within state benefit schemes to improve situations for the disadvantaged, such as lower income earners and women (UNDP & ILO, 2021). It is common within Level B schemes in sub-Saharan Africa to make use of minimum and maximum pensions, which seems to be the

[312] Payspace. (2023). Madagascar Minimum Wage Update (20 July). Available online: Madagascar Minimum Wage Update | PaySpace Accessed: 08 August 2023.

[313] Ramco. (2023). Payroll Compliance Updates: Mauritius. Available online: Ramco Global Payroll Compliance Portal Mauritius Accessed: 08 August 2023.

[314] Workpay. (2023). Understanding Zambia's National Pension Scheme Authority (NAPSA): Contributions and Benefits. Available online: Understanding Zambia's National Pension Scheme Authority (NAPSA): Contributions and Benefits (myworkpay.com) Accessed: 08 August 2023.

[315] Brand, F. (2023). Zimbabwe: NSSA Insurable Earnings Ceiling – July 2023 to September 2023, Sage City. Available online: www.sagecity.com/za/sage-vip-payroll-hr/f/announcements/202527/zimbabwe-nssa-insurable-earnings-ceiling---july-2023-to-september-2023#:~:text=Zimbabwe%3A%20NSSA%20Insurable%20Earnings%20Ceiling%20-%20July%202023%20to%20September%202023,-Posted%20By%20Fra Accessed: 08 August 2023.

clearest example of redistribution being applied in respect of retirement benefits (Social Security Administration, 2019a), however the definitions of the insured earnings and salary used for benefit calculation can also contribute towards redistribution.

The focus on Level B schemes is, by design, on the benefits payable to skilled labourers and those who earn less than such labourers. This is consistent with the ILO's policy recommendations. Inclusion of Level A benefits increases this effect, providing higher replacement ratios for lower income earners and leaving Levels C and D schemes to be used to improve replacement ratios for higher income earners.

In DB schemes the salary used for benefit calculation can be set in different ways, which has a direct impact on the calculation of benefits for retiring members. Abels & Guven (2016) show that in the region, countries differ as to whether they use final or best earnings and the averaging period, which is shown in Table 27. In contrast, Zambia now uses revalorised career average earnings as discussed in 10.3.2, which Abels & Guven (2016) confirm as a relatively rare approach to determining pensionable earnings figures to use for benefit calculations in sub-Saharan African Level B schemes. Using a career average earnings leaves benefits very dependent on the revalorisation rates applied.

*Table 27: Salary Examples Used for Benefit Calculation in National Schemes (Case Study Countries in **Bold**) (Zambia[316], all other countries see Abels & Guven (2016)*

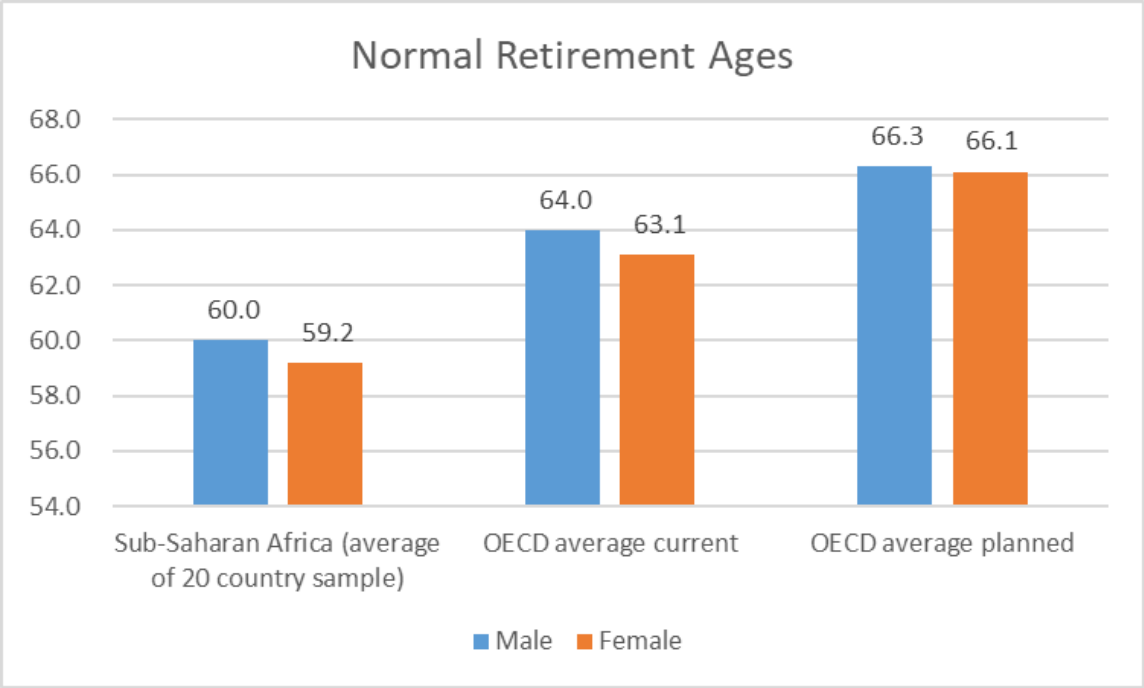
Country	**Best/Final**	**Earnings averaging period**
Benin	Final	5
Cabo Verde	Final	1
Ethiopia	Final	3
Ghana	***Best***	***3***
Mozambique	Final	1
Seychelles	Final	5
Sierra Leone	Best	5
Tanzania	Best	5
Togo	Final	1
Zimbabwe	Final	1

Abels & Guven (2016) observe that Level B Normal Retirement Ages in sub-Saharan African countries are generally lower than in Organisation for Economic Co-operation and Development (OECD) countries. They also point out that there are plans to phase in increases in Normal Retirement Ages in most OECD countries due to increased life expectancy. At the same time male and female normal retirement ages are converging due to both demographic and political reasons. This is summarised graphically in Figure 12.

[316] Social Security Administration. (2023), supra.

Abels & Guven (2016) further make the point that there is an expectation that Level B normal retirement ages in sub-Saharan African countries are expected to increase in the future for similar reasons.

Figure 12: Average Normal Retirement Ages for National Schemes (Abels & Guven, 2016)



These changes are already happening. Between 2003 and 2019, at least 15 countries in Sub-Saharan Africa increased Level B normal retirement ages as shown in Table 28.

Table 28: Changes in National Scheme Retirement Ages (Mauritius see Yen (unpublished). All other countries see Social Security Administration (2019a)

Country	**Change in Normal Retirement Age**
Benin	55 to 60
Burkina Faso	55 to 56/58/60/63 (depending on occupation)
Central African Republic	55 to 60
Chad	55 to 60
Congo, Republic of	55 to 57/60 (depending on profession)
Cote d'Ivoire	55 to 60
Ethiopia	55 to 60
The Gambia	55 to 60
Madagascar	Female rate 55 to 60 (already 60 for men)
Mauritania	Female rate 55 to 60 (already 60 for men)
Mauritius	60 to 65
Senegal	55 to 60
Tanzania	55 to 60
Togo	55 to 60

In the Seychelles the Normal Retirement Age is being increased from 63 to 65 effective 1 January 2023[317].

Rwanda maintained its normal retirement age at 65 but increased the early retirement age from 55 to 60. Benin, Ethiopia and Rwanda granted increases to Level B benefit accrual during this period when the Normal Retirement Age was increased. Cabo Verde, Liberia and São Tomé and Príncipe reduced future benefit accrual rates during this period, as opposed to increasing the Normal Retirement Age. (Social Security Administration, 2019a)

There should be consistency between the Normal Retirement Ages of Level A and Level B schemes, however this is not always the case. As described in section 8.2.2. Kenya moved this from 65 to 70 but this seemed to be a means of controlling cost when converting the benefit to a national scheme. Yen (unpublished) describes how the Mauritian government took the decision to increase the Normal Retirement Age for Level A benefits from 60 to 65 when implementing this change for the Level B schemes, but later backtracked on this for Level A benefits for political reasons.

11.2.3. Coverage, as per Abels & Guven (2016)

Level B coverage as a proportion of the labour force is generally low in sub-Saharan African countries. Only Mauritius and the Seychelles have more than half of their labour force actively contributing to these funds. The main reason for poor coverage is the combination of high unemployment and the fact that most employment across the region is found in the informal sector who either do not participate at all or are included on a voluntary basis. The size of the labour force may also make enforcing compliance difficult. Dorfman (2015) also emphasised that the informality of the labour market was a contributor to poor coverage as well as schemes being poorly equipped to deal with rural workers. Compliance with compulsory membership requirements for formal sector workers would also add to low coverage, as per the example of Ghana set out in section 7.3.3.

Coverage as a percentage of the labour force for selected countries is given in Table 29.

[317] Seychelles Nation. (2022) Assembly votes to approve increase in retirement age. Available online: nation.sc/articles/16126/assembly-votes-to-approve-increase-in-retirement-age

*Table 29: Examples of National Scheme Coverage (Case Study Countries in **Bold**) (Abels & Guven, 2016)*

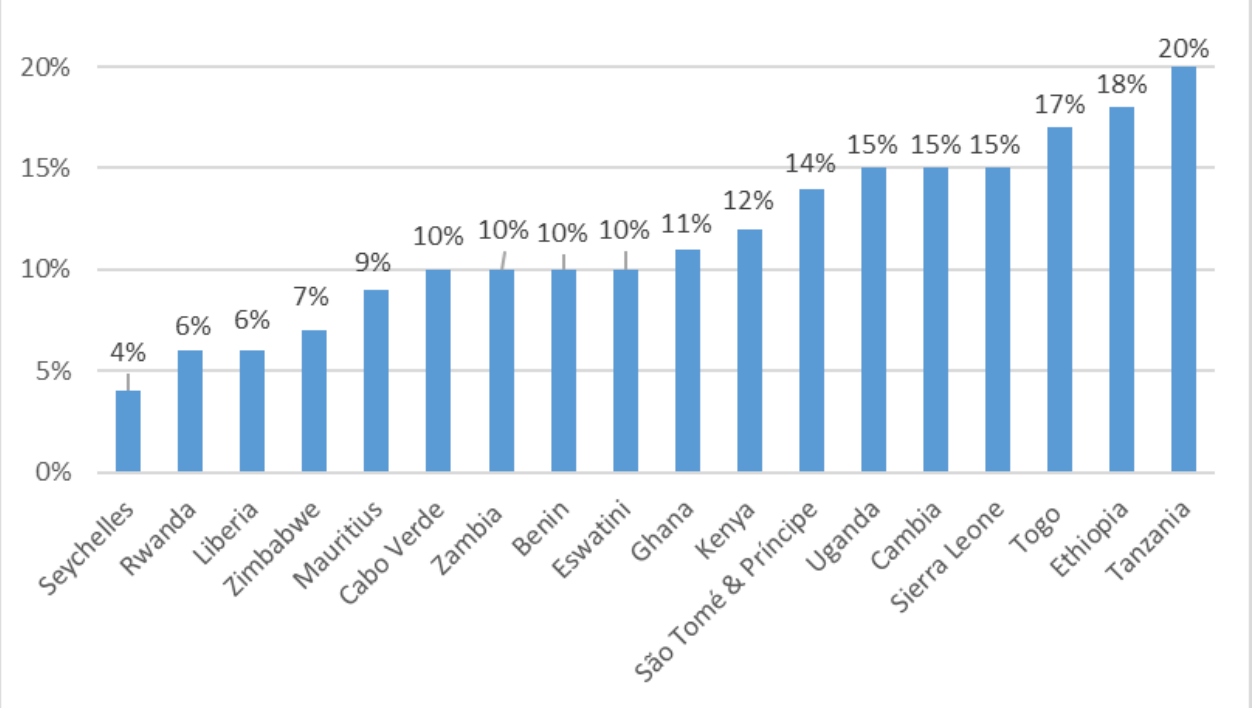
Country	**Separate Public Servants Scheme?**	**Proportion of Labour Force Actively Contributing**
Cabo Verde	No - integrated	23.0%
Cote d'Ivoire	Yes	7.1%
Eswatini	***Yes***	***19.0%***
Ethiopia	Yes	1.9%
Ghana	***No - integrated***	***10.1%***
Guinea Bissau	Yes	0.2%
Kenya	***Yes***	***7.8%***
Liberia	Yes	5.4%
Mauritius	Yes	54.4%
Mozambique	Yes	4.0%
Rwanda	No - integrated	6.0%
São Tomé and Príncipe	No - integrated	19.0%
Seychelles	No - integrated	63.0%
Sierra Leone	No - integrated	9.4%
Tanzania	Yes	1.7%
Togo	Yes	2.8%
Uganda	Yes	3.9%
Zambia	***Yes***	***8.8%***
Zimbabwe	Yes	14.7%

However, even when considering only the formal sector, coverage is variable. It is high at roughly 90% of the formal sector in countries like Eswatini and Zambia, but low in Ghana at roughly 50% of the formal sector. However, these statistics should be interpreted considering that most countries in the region have separate pension schemes for public sector workers, for whom membership means that they are exempt from having to contribute to the Level B scheme. In sub-Saharan African countries the public sector often makes up a relatively significant proportion of the formally employed.

11.2.4. Contributions

Total 2016 contribution rates range from 4% in the Seychelles to 20% in Tanzania as shown in Figure 13 and on average the contribution rates in sub-Saharan African countries appeared low relative to OECD countries' Level B schemes at the time (Abels & Guven, 2016).

Figure 13: Total Contribution Rate by National Scheme (Abels & Guven, 2016)



Subsequent to the analysis by Abels & Guven (2016), the contribution rate to the Level B scheme in the Seychelles has seen significant increases in contribution rates as shown in Table 30 below.

Table 30: Change in Seychelles National Scheme Contribution Rates[318]

	Member Contribution Rate	**Employer Contribution Rate**	**Total Contribution Rate**
Pre-July 2017	2.0%	2.0%	4.0%
July 2017	3.0%	2.0%	5.0%
January 2018	3.0%	2.5%	5.5%
January 2019	3.0%	3.0%	6.0%
April 2022	4.0%	5.0%	9.0%
January 2023	5.0%	5.0%	10.0%

At least a further 16 countries have increased their total contribution rates between 2003 and 2019 as shown in Table 31 below.

[318] Seychelles Pension Fund. (2021). Understand how you qualify for a pension. Available online: www.pensionfund.sc

Table 31: Change in National Scheme Contribution Rates (Social Security Administration, 2019a)

Country	2003		2019	
	Employee	Employer	Employee	Employer
Burkina Faso	4.5%	4.5%	5.5%	5.5%
Burundi	2.6%	3.9%	4%	6%
Cabo Verde	3%	7%	4%	8%
Cameroon	2.8%	4.2%	4.2%	4.2%
Central African Republic	2%	3%	3%	4%
Chad	2%	4%	3.5%	5%
Congo, Democratic Republic of	3.5%	3.5%	5%	5%
Congo, Republic of	2.4%	3.6%	4%	8%
Côte d'Ivoire	3.2%	4.8%	6.3%	7.7%
Equatorial Guinea	4.5%	21.5%	4.5%	26%
Ethiopia	4%	6%	7%	11%
Liberia	3%	3%	4%	4%
Mauritania	1%	2%	1%	8%
Niger	1.6%	2.4%	5.25%	6.25%
Senegal	4.8%	7.2%	5.6%	8.4%
Togo	4%	8%	4%	12.5%

In certain countries, increases in contribution rates have been reversed. For example, the Zimbabwean Level B scheme had an initial contribution rate of 6% in 1994 which was increased to 8% in January 2009 but reduced back to 6% in May 2010 against actuarial advice[319]. From June 2013 the contribution was increased to 7% with a further increase to 9% in January 2020[320]. In São Tomé and Príncipe, the required contribution rate in 2014 was 10% which was increased to 14% during 2015 to 2017, but thereafter reverted to the previous rates (Social Security Administration, 2019a).

Dorfman (2015) found that based on a limited survey of Level B benefit schemes in sub-Saharan Africa, these are inefficient in respect of administrative costs which reduces benefits relative to the contributions.

11.2.5. Financial Sustainability

As covered in 4.3, countries in sub-Saharan Africa are expected to experience ageing populations. The ageing of their populations has caused Mauritius and the Seychelles to increase their Normal Retirement Ages in Level B schemes (Abels & Guven, 2016). Increases are expected elsewhere in sub-Saharan Africa (Abels & Guven, 2016). In

[319] MyWage.org. (2023) Social Security. Available online: National Social Security Pension - Information on NSSA in Zimbabwe - Mywage.org/Zimbabwe

[320] Ibid

Ghana there is already a need for a significant increase to the Level B contribution rate while in Zambia there is an expectation that contributions will need to be increased in the future[321].

Sub-Saharan African countries that have already started making changes to benefits or contribution rates due to financial sustainability concerns have not seen large scale resistance or protests in contrast to civil backlash in other regions[322].

11.2.6. What can South Africa Learn?

Across sub-Saharan Africa, DB Level B schemes are preferred but are experiencing sustainability issues. However, the fact that a trend of converting provident fund to pension funds can be seen, shows that passing longevity risk entirely to workers is viewed as being unacceptable. Most countries have stuck to the DB design on Level B schemes when introducing recent reforms, with the notable exceptions of Kenya and Nigeria. Unlike Level C scheme sponsors in the private sector, governments seem to be more reluctant to pass investment risk to members of Level B schemes.

There are levers that can be used to control costs e.g. changing accrual rates, increasing Normal Retirement Ages or changing the minimum or maximum pensions payable. Countries in sub-Saharan Africa can be seen to have used such levers, especially increasing Normal Retirement Ages in Level B schemes. Many Level B schemes have also had to increase contribution rates to help maintain financial sustainability.

Countries in sub-Saharan Africa do seem to struggle with coverage in their Level B schemes. South Africa's Level C coverage in the formal sector is relatively high despite not being mandatory (C1) in nature. Coverage could be increased by converting to a Level C1 approach. The UIF already has higher coverage in the formal sector and coverage could be increased by roughly 3 million simply by expanding the UIF's contributions and benefits to include retirement. However, it is not clear if the UIF has the administrative capacity or the willingness to do so.

No country in sub-Saharan Africa has been able to successfully cover informal sector workers using a Level B scheme. Therefore, South Africa should be wary of utilising a Level B scheme to achieve this. Much will depend on developments in Level A benefits in South Africa, especially from informal sector workers' perspective.

If South Africa does decide to implement a Level B scheme, consideration should be given to the benefit design and phasing in improvement over time. One approach would be to commence with a strong replacement ratio but low insured earnings which are increased over time or commence with high insured earnings and a low replacement ratio which increases over time.

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[321] L Llewellyn-Jones, personal correspondence, 30 November 2022

[322] Ibid

11.3. Vision: Wider Cost-Effective Coverage

11.3.1. History

For public sector employees

The largest occupational schemes are those set up for public sector employees (Dorfman, 2015). These schemes fall under Level C, specifically Level C1 where they are required by legislation such as in Eswatini, Kenya and Zambia as discussed in sections 6, 8 and 10 respectively.

For formal employees in the private sector

In sub-Saharan Africa, private sector occupational schemes are most prevalent in southern Africa, especially in former British colonies (Dorfman, 2015). However, as discussed in the case studies, Ghana and Nigeria appear to be the only two countries in sub-Saharan Africa that have introduced mandatory occupational retirement savings by all formal sector employees on Level C1 benefits, with Kenya effectively doing so from July 2023. Elsewhere it is largely up to employers to decide whether to require their employees to contribute to an occupational retirement fund, which would fall under Level C2 as described in section 3.8.

For the informal sector

Given the size of their informal sectors, several countries in sub-Saharan Africa have begun taking steps to include informal sector workers in contributory pension coverage. Rwanda and Kenya were the first to do so, in 2005 and 2011 respectively. They were followed by Benin, Côte d'Ivoire and Senegal in west Africa and Uganda which neighbours both Rwanda and Kenya. In southern Africa the best examples have been Zambia and Zimbabwe. (Guven, 2019)

Governments have played a significant role in launching and supporting these types of pensions, as described in the case studies. This has often been done through the financial regulator's support (e.g. in Kenya and Uganda) or through the direct involvement of the government sponsored Level B arrangement (e.g. in Ghana, Rwanda and Zambia) (Guven, 2019).

Overall

As described in Section 3 the ILO advocates the use of a small number of umbrella funds for all workers and using social solidarity principles to support lower-income workers. As described in section 5 the South African government has criticised the private sector for high costs and is exploring various options for introducing a state-run national pension fund as part of new Level C1 requirements. As described in section 10 the Zambian government tried to informal sector workers to join the Level B scheme but is now exploring setting up a separate Level D1 national provident fund for such workers, which is similar to the Kenyan approach as described in section 8. Setting up one national fund would allow cross subsidies to be created and thereby benefit groups deemed to require this, but the needs of formally and informally employed workers are quite different.

11.3.2. Benefits

For public sector employees

Public sector employee benefit schemes are typically generous relative to both public sector funds in OECD countries (Abels & Guven, 2016) and the private sector.

Abels & Guven (2016) point out that most countries in sub-Saharan Africa still provide public sector employees with benefits via PAYG DB schemes. In some cases, these are entirely unfunded, being paid out of the government's budget (Dorfman, 2015). Like South Africa, Namibia and Eswatini have funded or partially funded DB pension funds for public sector employees (Abels & Guven, 2016). However, there is a trend to these converting to funded DC schemes as was done in Botswana in 2001[323], Lesotho in 2008 (Mhango & Mosito, 2023), Mauritius in 2012 (Soto et al., unpublished), Malawi in 2017 (IOPS, 2022) and Kenya in 2021 (Republic of Kenya, 2020).

For formal employees in the private sector

As described in section 3.3.2 over time the international norm has become to move away from DB to DC, especially in the private sector.

For the informal sector

They are fully DC in nature (Guven, 2019).

Overall

The trend will likely continue in moving all pensions beyond Level B to DC, in line with what was described in section 3.3.2.

11.3.3. Coverage

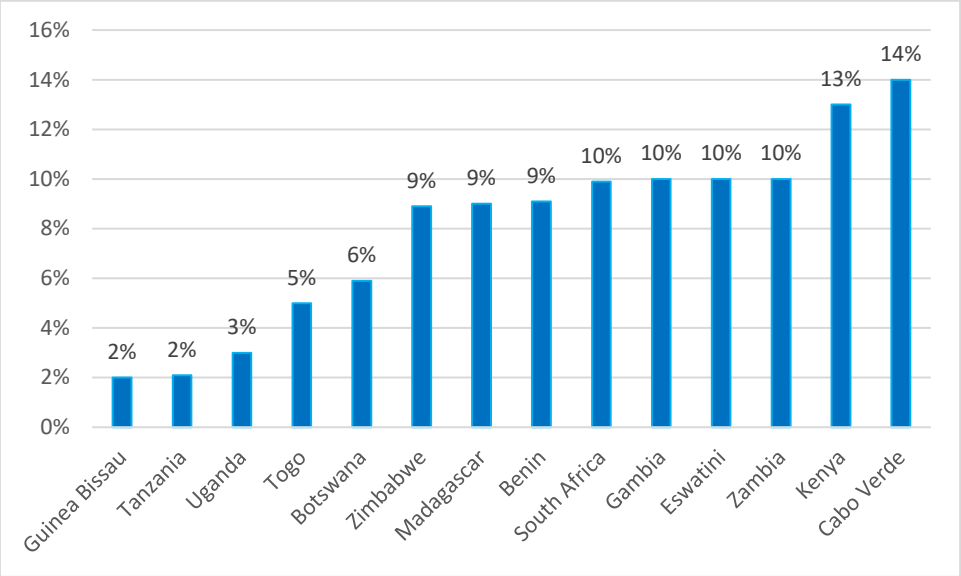
Section 4.4 described how informal sector employment represents a large portion of employment in sub-Saharan African countries relative to the rest of the world. Dorfman (2015) describes how in many sub-Saharan African countries the public sector represents a significant proportion of formal sector employment, even the majority in some instances.

For public sector employees

The size of the public sector as an employer is evidenced by the relatively high coverage of the population aged 60 and over by public servants pension funds in a number of sub-Saharan African countries (Abels & Guven, 2016). This is shown in Figure 14.

[323] Oxford Policy Management. (2010b). Evaluation of Retirement Systems of Countries Within the South African Development Community, Country Profile: Botswana (April). Available online: 100430 Botswana CP (finmark.org.za) Accessed: 08 August 2023.

Figure 14: Coverage *of Population over 60 by Public Servants Pension Fund – source: Abels & Guven (2016)*



Abels & Guven (2016) further comment on how the coverage of these public service schemes is higher than that of the Level B scheme in several countries where the two schemes are separate, and Uganda is a notable example of this.

Ghana and Nigeria appear to be the only countries that have implemented compulsory Level C1 contributions for private sector employees in the formal sector and both did this on a DC basis (Dorfman, 2015). Despite this compulsion actual coverage in both of those countries is estimated at roughly 50% of the formal sector (as per paragraphs 7.4.3 and 9.4.3) due to problems with compliance and enforcement.

Zambia is considering introducing a Level C1 requirement too, as discussed in section 10.4.1. Kenya intends to follow suit from July 2023 as discussed in section 8.4.4, although Level C1 funds may also be DB.

Dorfman (2015) comments on how occupational pension coverage on Level C2 in several southern African countries is relatively high compared to the rest of the continent, where several countries do not have a Level B arrangement. South Africa has coverage of about 58% of formal sector workers, as stated in paragraph 0. Namibia has coverage of roughly 60% of formal sector workers[324]. Botswana has coverage of roughly 59% of formal sector workers[325].

<u>For the informal sector</u>

There has been much research done in respect of how countries in the developing world, especially sub-Saharan Africa, can increase coverage of informal workers (Guven, 2019).

The World Bank has suggested that features summarised in Table 32 are included when trying to design schemes to increase coverage in for informal workers.

[324] K Crous, personal correspondence, 11 April 2023

[325] NBFIRA. (2022). Annual Report. Available online: https://www.nbfira.org.bw/annual-report

Table 32: Recommendations for Informal Sector Contributory Schemes

Challenges	**Recommendations**						
	Allow for deposits made in different periods & amounts	Include behavioural economics and financial inclusion mechanisms	Allow for partial withdrawals	Build trust & linkages to other services in scheme	Allow population to use different channels to contribute remotely	Create database to track individual contributions	Transparency in services for population
Informal sector is heterogeneous	**X**				**X**	**X**	**X**
Income and savings may not be regular	**X**	**X**	**X**			**X**	
More susceptible to short term shocks			**X**	**X**			
Hard to reach, mobile and geographically distributed		**X**			**X**		
Use other informal savings	**X**	**X**	**X**	**X**			**X**
Informal sector is organised				**X**	**X**		

A number of countries in sub-Saharan Africa have used voluntary personal pension savings products on Level D2 to attract informal sector workers. Success has been limited, despite good initial take-up as ultimately countries fail to reach even 10% of informal sector workers. (Guven, 2019)

The use of incentives for the informally employed, many of whom may not benefit from tax incentives[326], is also an important consideration. The cost of these incentives needs to be considered in the context of the limited financial ability of countries in sub-Saharan Africa to financially support informal sector workers, either through Level A benefits being paid or through paying incentives to encourage membership of contributory schemes (UNDP & ILO, 2021). Guven (2019) states that some individuals appear to choose informal employment in order to avoid paying tax on their income, therefor they are unlikely to choose to participate in any scheme that will reveal their income.

The World Bank and ILO both consider contribution-matching as an incentive to boost informal sector coverage. The ILO quotes research which shows that paying matching contributions does indeed help increase coverage, but evidence from cross-country comparisons suggest the size of the effect is small – if the sponsor contributes an additional 25% of the member's contribution, then participation is expected to increase in 5% in absolute terms. (UNDP & ILO, 2021)

Targeted enrolment projects can be used to encourage informal sector workers to join contributory schemes, by marketing positive reasons for doing so. The case studies reflect that a number of countries in sub-Saharan African have had initial success when targeting informal sector workers by focusing on certain groups. However, experience also shows that after initial success the number of new joiners reduces drastically and some of the original joiners all cease paying regular contributions.

Overall

It is important to ensure consistency with Level A and B benefit schemes in a country. Incentives provided to both formal and informal sector workers should be to encourage them to use Level C and D benefit schemes to improve their expected retirement benefit outcomes. Benefits provided across the different levels must be integrated to guide workers into helping themselves into a suitable retirement benefit outcome while providing a suitable benefit floor if they do not take up all the opportunities provided to them.

11.3.4. Contributions

Contributions to Levels C and D retirement funds vary drastically. The tax incentives per country may impact on this (United Nations University, 2022)

[326] ActionAid. (2018). ActionAid International Briefing: Taxation of the informal sector, pp 1-8. Available online: informal_sector_taxes.pdf (actionaid.org) Accessed: 09 August 2023.

Plans for informal sector workers typically allow a contributor to pay contributions on a daily, weekly, or monthly basis (Guven, 2019). Contributions can be made by cash deposit, electronically, through any payment platform or approved financial services agent (Guven, 2019).

11.3.5. Financial Sustainability

For public sector employees

As discussed in 11.3.2, within public sector schemes, the provision of DB benefits is still the norm. Increases in life expectancy will be expected to impact on the financial sustainability of these schemes. The Normal Retirement Age of public servants was increased from 60 to 65 in both Zambia (see paragraph 10.4.2) and Mauritius (Soto, Thakoor & Petri, unpublished) due to such concerns.

For formal employees in the private sector

To avoid volatility in experience and required contribution rates, employers in the private sector have driven the conversion to DC (United Nations University, 2022). Here the contribution rate is known in advance and is therefore sustainable from the sponsor's perspective. The impact of increased life expectancy would be felt here too, but this would impact on the cost of annuities that are purchased by members at retirement (Dorfman, 2015).

For informal sector workers

Benefits here are DC in nature and are dependent on investment returns received and charges deducted from their retirement savings (UNDP & ILO, 2021). Guven (2019) points out that costs in general for schemes covering informal sector workers are high relative to those covering formal sector workers on a group basis; the costs of distribution or marketing are particularly high.

11.3.6. What Can South Africa Learn?

Contributory pension membership is lowest amongst informal sector workers. Experience elsewhere in sub-Saharan Africa shows that including a significant proportion of informal sector workers in any contributory scheme is very challenging. Including even just 10% of informal sector workers could result in 500 000 members in a scheme, which should be large enough to create a single fund. A number sub-Saharan African countries have attempted to do this, but none yet seems to have succeeded.

An alternative approach would be for government to set up a national pension fund with two membership categories, one for formal sector workers (Level C1 arrangement) and one for informal sector workers (Level D1). No other country in sub-Saharan Africa appears to have tried this previously. This would depend on what is done at Level B, where currently uncovered formal sector workers could be forced to join.

Consideration must be given as to how social solidarity can be achieved in what currently functions as a voluntary system, under Level C2 and Level D. Furthermore, consideration should be given to the DB benefits provided to public sector employees, as future costs could be become unsustainable due to demographic change. Most countries seem to have accepted the DC design as the way forward in Levels C and D.

The interconnectedness of benefits means that decisions taken on Levels A and B reforms will heavily influence what can or should be done under Levels C and D to expand coverage.

11.4. Vision: Greater Preservation and Annuitisation

11.4.1. History

Section 5 described how the South African government has gradually moved towards greater preservation and annuitisation of retirement savings. Other countries have had more mixed experience, with Kenya introducing a requirement for compulsory pension preservation as described in section 8.4.2 while Zambia removed a taxation incentive that encourage preservation as described in section 10.4.2. and Nigeria made it easier to withdraw 25% of retirement savings as described in section 9.4.2.

South Africa has introduced compulsory annuitisation of all retirement fund benefits, but due to the protection of vested rights this will mean that it will take years before most retirees are required to annuitise their benefits. A number of countries in sub-Saharan Africa converted their national provident funds to national pension funds, which pay pensions at retirement instead of only lump sums. The experience of these countries can therefore examined when considering how future annuitisation will benefit retirement fund members in South Africa.

Due to the impact of the COVID-19 pandemic, there have been moves to make it easier to access benefits from Level B schemes - this was done to a limited extent in Uganda in January 2022 (Social Security Administration, 2022) and in Zambia in May 2023 (Social Security Administration, 2023). Eswatini introduced early access for members of funds who were placed on long-term unpaid leave. Namibia's planned introduction of 75% compulsory pension preservation appears relatively rare in a post-COVID world.[327]

11.4.2. Benefits

<u>For formal sector workers</u>

Rules pertaining to compulsory pension preservation vary per country, as set out in the case studies above. Countries such as South Africa (and Namibia, Lesotho and Eswatini) are relatively rare in not having any compulsory preservation requirements for

[327] Forster, C. (2023). Understanding the Context of Pensions in Namibia in 2023 - Part 2, Old Mutual (24 April). Available online: Understanding the Context of Pensions in Namibia in 2023 - Part 2 (oldmutual.com.na) Accessed: 9 August 2023.

occupational retirement funds.[328] Public sector funds in most sub-Saharan African countries seem to have the same preservation requirements as in the rest of the country.

Generally, state-run pension funds require annuitisation of benefits within the fund. It should be noted that unlike in most other schemes, in the experience of the author in Lesotho pensioners are allowed to take their retirement benefits out of the pension fund to purchase an annuity in the private sector; and most do so. Section 11.2 describes how national provident funds across sub-Saharan Africa have generally converted to pension funds paying benefits in the form of a regular pension.

In many countries there is no requirement to annuitise private sector run DC retirement savings, this often being linked to a lack of developed annuity markets in the countries in question. (Guven, 2019).

For informal workers

Level D2 schemes for informal workers typically function as provident funds with very little preservation requirements compared to traditional pension vehicles and members often use them as short savings vehicles for purposes other than retirement (Guven, 2019). The looser rules around preservation may detract from the long-term benefits that could be received via these schemes (Guven, 2019). However, partial withdrawals are an important design feature of funds for informal workers given that this group may have irregular income, is more susceptible to shocks and tends to utilise informal savings vehicles that tend to provide good access (see section 11.3.3).

11.4.3. Coverage

Section 11.3.3 describes how greater flexibility for informal sector workers is a way to attract more of them to voluntarily save towards retirement using pension products. However more flexibility implies less strict rules around preservation and annuitisation. The case studies show that this results in relatively different approaches for pension rules pertaining to formal sector versus informal sector workers.

11.4.4. Contributions

The Kenyan example in section 8.5. describes the splitting of contributions for informal sector workers into different accounts, which have different rules for preservation and annuitisation. Which is a means of balancing the needs of workers for flexibility and introducing some formalisation to their pension savings.

[328] Ibid

11.4.5. Financial Sustainability

The experience in Zambia has been that granting early access to benefits has led to a massive number of qualifying members making such withdrawals (Social Security Administration, 2023). Which is likely to increase charges for funds allowing early access, as the administration work increases.

The Ghanaian experience in section 7 is one where annuity markets are expected to develop over time. The Nigerian annuity market described in section 9 is more developed than in Ghana but is also need of further development.

11.4.6. What can South Africa Learn

The experience elsewhere in sub-Saharan Africa shows the importance of striking the correct balance in terms of how much preservation and annuitisation must be enforced. South Africa is moving towards finding a workable solution, but is yet to find a contributory pension scheme that is attractive to informal sector workers.

11.5. Critical Analysis

11.5.1. All pension levels are required

The experience of other sub-Saharan African countries demonstrates that the different pension levels, tiers or pillars are all required to ensure maximum coverage. Workers can be grouped into very different categories (and may move between these categories over time), they are best targeted by different types of benefit schemes.

Finding one perfect pensions solution for everyone is impossible, that is why countries need the various levels. In some cases, it is how the different pension levels work together that results in certain workers being suitably included. For example, formal sector workers may experience periods of unemployment or underemployment, during which time they could not save towards their own retirement and would require the Level A benefit to provide a suitable benefit floor. Or workers may go through periods of informal employment, where they require suitable Level D benefit schemes in order to continue saving for retirement during such periods. This is likely to mean that people will continue to receive benefits from different schemes at retirement, depending on the experience that they have had during their working lifetime.

Section 11.1 described how countries in sub-Saharan Africa are increasingly introducing and expanding non-contributory pensions, realizing the importance of these benefits. The experience of Ghana in section 7, Kenya in section 8 and Zambia in section 10 reflect countries coming to the realization that having a Level B scheme is not sufficient even for formal sector workers, leading to a trend of both Level C1 schemes being introduced and also Level D1 schemes including a tax-incentivised method of these workers voluntarily increasing their benefits. South Africa should also switch from Level C2 to Level C1.

11.5.2. Pension reform is an ongoing and iterative process

Social security and pension reform is also seen to be an iterative process, it is unlikely that reforms will get things perfect the first time. Stakeholders should be open to further changes and adjustments to improve benefit outcomes for participants. It is very difficult to balance the need for suitable benefits, affordable contributions and financial sustainability against each other. This is another reason that future change is likely required no matter what choice of benefits and funding is made. It is also better to phase in reforms rather than to have one single set of reforms forced through, as people respond better to gradual changes. Due to budgetary constraints it is also advisable to consider starting with lower levels of coverage and benefits, then expanding these over time; this is similar to how a number of sub-Saharan African countries have introduced Level A benefits.

Pension reform is ongoing in nature, there is no “pensions heaven” that one hopes to reach, South Africans should expect to have to keep working on this. This is due to it both being so challenging and because of the situation continuously changing over time. The Nigerian experience described in section 9 illustrates this, with a series of reforms being introduced every few years to build and improve on upon what had been done previously. This is similar to what South Africa has been experiencing over the last 10 to 12 years, as described in section 5, with a series of reforms being introduced but this has been almost exclusively limited to Level C2. It should be understood that it is likely that future reforms would also require regular expansion and updating, to remain suitable. Policymakers should strive to avoid complexity in vested rights as reforms are introduced, as this would make it difficult for people to understand.

11.5.3. Moving towards universalisation of non-contributory pensions

The continued use of a means test in South Africa is believed to be causing more harm than good, through the administrative costs incurred, disincentivisation against saving and limited coverage for the elderly. This led to the decision being made to remove the means test years ago as set out in section 5.2.2 but this has not yet been implemented. The experience in other sub-Saharan African countries shows that the absence of a means test makes a significant difference in coverage as described in section 11.1.3. Similar to the reforms in Kenya, years have passed since the decision was taken to remove the means test. South Africa should move towards removing the means test, but should do so in such a manner that a simplified version can still be used for those have passed the eligibility age but who are still relatively close to it, for example from age 60 to 65. A universal approach can be implemented at a later age (initially set at 65), where that later age can be increased to achieve cost neutrality.

11.5.4. Challenges for inclusion of informal sector in any contributory scheme

The case studies described above reflect that the experience elsewhere in sub-Saharan Africa has shown that the informal sector is particularly difficult to include in a pensions

model, especially within contributory schemes. South Africa should be realistic in the goals that are set for this segment. The country should set up a suitable savings vehicle (possibly under Level B or Level D) so that such workers have the opportunity to improve their positions in retirement, but ultimately Level A benefits will be the main means of how informal sector workers are provided for in retirement.

It is important to note the fact that countries pay what they can afford, consider the relatively generous Level A benefits paid by the Seychelles and Mauritius. These countries have relatively small informal sectors, while the majority of sub-Saharan African countries have relatively large informal sectors and struggle to afford suitable Level A benefits. Balance must be struck between caring for people through the provision of suitable Level A benefits and over-taxing those who are paying tax.

Based on the experience in other sub-Saharan African countries the South African government should be involved in setting up either a Level B or a Level D solution for informal sector workers, this should not be solely left to the private sector to solve. A public-private partnership is required to achieve the best outcome for these workers.

Workers in the formal sector who earn more than the income tax threshold are incentivised to save for their own retirement through the tax deductibility of their contributions. Very few informal sector workers earn enough to pay income tax, therefore the South African government will need to explore what sort of alternative financial incentives can be provided for them. Such incentives would need to strike a balance between affordability and attractiveness.

Only those individuals who have sufficient information to make use of these options and can afford to do so will benefit. This is in turn dependent on individual levels of financial education and understanding together with level of income.

11.5.5. Formal sector solutions

In terms of Level C benefits, the South African pensions industry is proud of the retirement fund system that has developed over many years. Recent reforms are generally viewed as improving the system further. Other sub-Saharan African countries can learn from the South African experience in respect of Level C2 funds. However, the trend towards introducing compulsory C1 schemes must be noted, where South Africa is falling behind a number of other sub-Saharan African countries in that regard. Nigeria and Ghana have already introduced this requirement years ago, Kenya is now introducing it and Zambia has been considering this since before the South African auto-enrolment plan for the formal sector was announced. Requiring formal sector employees to contribute towards their retirement savings is therefore something that South Africa should do (as per the 2021 National Treasury proposal), although how exactly this will be done will be subject to discussion and negotiation. The National Treasury proposal is that a DC government run national pension fund be set up as an alternative for employers who do not wish to choose from private sector run schemes or industry funds. Such a government run fund

should be managed by independent trustees and be based on providing limited options, in order to aim for a cost-effective solution for small employers and low-income earners.

Introducing compulsory retirement saving provision for the formal sector would be expected to dramatically increase contributory coverage for such workers, based on experience elsewhere in sub-Saharan Africa and the UIF experience in South Africa. This could see contributory membership of schemes increase from 7 to 10 million, although UIF figures include domestic workers who are generally regarded as being part of the informal sector. Furthermore, this may include the introduction of minimum contribution rates based on the new compulsory rates that are to be introduced in future, which is effectively what has happened in Nigeria and Ghana. This would improve benefit outcomes for existing members of occupational retirement funds. As described in section 5 many members of occupational retirement funds are contributing too little or at too low a rate to save sufficiently for a suitable benefit at retirement. Therefore, this must be addressed as part of future reforms.

Section 5 describes the expected reforms to be introduced from 1 March 2024, whereby future contributions and benefits would be split between an accessible portion and the remainder which must be preserved until retirement. This is expected to improve overall benefit outcomes due to the requirement of preserving at least two-thirds of future benefit accrual. However, it is expected that many members will withdraw whatever cash they can, leading to increased costs and tax impacts in the short term. Members should be encouraged to only take early withdrawals for actual emergencies and not for short term consumption reasons, but this messaging does not appear to have been successful elsewhere in sub-Saharan Africa.

Private sector workers who are formally employed are already required to contribute to the UIF. The UIF provides a limited set of benefits based on the current contributions. One way to achieve greater contributory pension coverage of the formal sector would be by using the UIF. Contributions and benefits could be expanded to cover retirement benefits. Using the UIF as an existing scheme would help avoid compliance issues as experienced by countries like Ghana and Nigeria, the contributory membership is already in existence. However, the UIF has specific legislation setting out the benefits that it provides, there would be significant practical challenges in using the UIF in this way.

11.5.6. What role then for Level B?

In terms of Level B benefits, South Africa is part of a small minority in sub-Saharan Africa by not already having such a national social security retirement scheme. If one looks across the continent there are many countries with such schemes, but they have different structures, different benefits, and different goals. What we can learn depends on what exactly our goal is for South Africa. We cannot see much evidence of redistribution effects within sub-Saharan African national schemes, besides minimum and maximum pensions, but there are ways to achieve redistribution.

The South African government seems to believe in the need for a national pension fund, however the details of the design are not agreed upon within government. A DC government-run national pension fund as an alternative for formal sector employers to the private sector is one such proposal. Such a DC national fund could also have a separate membership category for informal sector workers, who would then contribute on a D1 basis. Similarly to how this has been done in other sub-Saharan African countries, such a pensions solution for informal sector workers should be marketed through its contribution flexibility, benefit design (e.g., having other benefits such as funeral cover included) and technological design making it easy to use. This design would not be compliant with the requirements of the ILO's Convention 102, however the South African government should decide how closely Convention 102 must be complied with. Such a national pension fund would be a state solution but could still use private sector service providers as part of a public-private partnership, similar to the approach that Zambia is investigating for informal sector workers. In South Africa, an often-quoted example of public-private partnership is the Government Employees Medical Scheme, which is a state scheme using a number of private sector service providers[329].

This would also allow a national pension fund to compete with the private sector for both formal sector and informal sector workers, without forcing anyone to belong to the national fund. Therefore, a national fund under Level B could exist alongside Level C1 schemes and also operate as a Level D scheme as a state provided solution. The alternative approach would be to compel employers to make a choice under a mandatory contributory system.

South Africa is at a more advanced stage of demographic change than the rest of the region. Low formal sector employment of the youth is a major threat to any temporary demographic dividend ever being achieved as part of this demographic change. These are reasons why introducing a new partially-funded DB national scheme, as is popular in other parts of the region, is not likely to prove successful in South Africa. ILO modelling shows that the required contribution rate would steadily increase, making this financially unsustainable from the public's perspective.

The adequacy of benefits in ILO-style partially funded national DB schemes elsewhere in sub-Saharan Africa seem highly dependent on the covered earnings and the revalorisation rates applied to benefits accrued over members' working lifetimes. However, the actual revalorisation rates for such schemes do not appear to be publicly available information therefore this cannot be analysed or commented on.

Since South Africa already has a well-established national social security fund in the form of the UIF, it would be wise to consider incrementally expanding the contributions and benefits applicable to this scheme to include explicit retirement benefits. Although this

[329] GEMS (Government Employees Medical Scheme). (2023). GEMS Service Providers. Available online: Government Employees Medical Scheme (gems.gov.za) Accessed: 15 September 2023.

does not appear to be a politically acceptable solution to the reform debate, not until the political decision is made to house all social security schemes and benefits under one ministry and not across various ministries as is currently done.

11.5.7. In Summary

The sequencing of reforms is important, as what happens at each level of pension provision will heavily impact on what can and should be done at higher levels. The overall requirements are complicated and there is no silver bullet to achieve pensions utopia. Government should make decisions on what incremental improvements can be made and start implementing these.

12. CONCLUSION

12.1. Limitations

A possible criticism of the use of a unique taxonomy as a pensions model basis is that it could cause confusion given the pre-existing ILO and World Bank models. However, the author found that the existing frameworks were not sufficiently detailed. For example, they did not distinguish between schemes that were made compulsory by the government and schemes made compulsory by the employer.

It has been challenging to gather relevant information from the various sub-Saharan African countries. Much of this has been achieved only through personal contacts and repeated requests sent to different parties. Part of the problem has been that many of these requests do not receive a response. This contrasts with countries in the developed world for whom such information is readily available. The research work done by the World Bank and the ILO has been very helpful. It would be very useful if a formal monitoring and reporting process is introduced in sub-Saharan Africa covering pension arrangements.

The case studies have focused on countries in Anglophone Africa, as information was easiest to obtain for such countries. High-level information has been considered for countries in Francophone and Lusophone Africa, however a detailed analysis of such countries could reveal interesting aspects not considered here.

12.2. Areas for Future Research

There are other countries in sub-Saharan Africa that could have been considered in more detail if the information was available. The focus has mostly been on Anglophone parts of sub-Saharan Africa, with not much detailed perspective on Francophone or Lusophone countries.

The chosen framework does not cover all solutions for retirement. The fourth pillar of the World Bank pensions model covers some of these, but this was outside of the scope of this research. Support provided to senior citizens by family members or the community, part-time work for senior citizens and informal savings are all examples whose viability as an alternative solution to formal pension provision can be research further.

There is a dearth of information on NGO involvement and this is also an area for future research. Benefits besides those on retirement have not been considered and this too is worthy of future research. Examples of existing private-public partnerships in South African (such as the Government Employees Medical Scheme) could also be researched further to learn how these can benefit a national contributory pension scheme.

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