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2012-07-11
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University of the Witwatersrand

The Graduate School of Social Sciences and Humanities

Trade Unions and the provision of social protection in South Africa: A case study on the influence of CONSAWU and COSATU on pension policies in post apartheid era.

A research report submitted by

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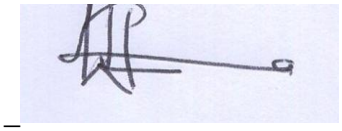
In partial fulfilment of the requirements for the degree of Master of Arts (MA) in Labour Policies and Globalisation

Supervised by: Prof. Roger Southall and Prof. David Dickinson.

February, 2012

Declaration

I declare that this research report is my own unaided work. It is submitted for the degree of Master of Arts (MA) in Labour Policies and Globalisation at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination at any other University.



_ 20th day of February 2012

Wezi Galera Shaba

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Dedication

This work is dedicated to my sons Chawanangwa and Tawonga, and my wife Chance.

Acknowledgments

Many thanks go to my supervisors Prof. Roger Southall and Prof. David Dickinson for their guidance and inspiration throughout the study period. I am also indebted to the entire GLU steering committee at Wits under the leadership of Prof. Michelle Williams for their valuable support during my studies. Special mention should also go to Pulane Ditlhake, the GLU Coordinator at Wits for always being available for me, which made my study life smooth.

I would also like to extend my gratitude to the International Labour Organization (ILO) and LO-Norway for their sponsorship towards my study at Wits. Lastly, I extend my gratitude to my employer, Teachers Union of Malawi for granting me a paid study leave during the entire period of my studies at the University of the Witwatersrand.

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List of acronyms

ANC	African National Congress
BBC	British Broadcasting Corporation
BIG	Basic Income Grant
CONSAWU	Confederation of South African Workers Union
COSATU	Congress of South Africa Trade Unions
CUSA	Council of Unions of South Africa
FEDSAL	Federation of South African Labour Unions
FEDUSA	Federation of Unions of South Africa
FSB	Financial services Board
GEAR	Growth, Employment and Redistribution
GEPF	Government Employees Pension Fund
ILO	International Labour Organisation
IMF	International Monetary Fund
NACTU	National Council of Trade Unions
NEDLAC	National Economic and Development Labour Council
NUM	National Union of Mineworkers
PFA	Pension Fund Act
RDP	Reconstruction and Development
SACP	South African Communist Party
SASSA	South African Social Security Agency
UDF	United Democratic Front
UIF	Unemployment Insurance Fund
UN	United Nations

Chapter One: Introduction to the study

1.0 Introduction

Social protection is moving up the development agenda in Africa (Frank et al, 2009 p.1). This has been heightened by the decline of the traditional support system due to rapid urbanisation and rural emigration as well as the growing 'informalisation' of the economy which has put poor people in the region at risk. As a result, many people in Africa are mired in chronic poverty and vulnerability, such that even small shocks cause a disproportionate distress and hunger (Frank et al, 2009, p.1). The United Nations defines Social protection as a set of public and private policies and programmes undertaken by societies in response to various contingencies to offset the absence or substantial reduction of income from work; and to provide assistance for families with children as well as provide people with health care and housing (UN 2001). Besides being a human right (UN, n.d), social protection is important for social and economic development and is critical for tackling poverty and reducing inequalities (Mutangadura, n.d, p. 2).

It is unsurprising therefore, that from the early 1990s, against a background of structural adjustment, globalisation and economic crises, social protection in developing countries has become central in addressing poverty and vulnerability (Barrientos and Hulme, 2009). There are several functions that social protection provide and they include: (a) protective measures, designed to save lives and reduce deprivation levels; (b) preventive, which reduce people's exposure to risks through social insurance programs such as pensions and health insurance; (c) promotive, which enhance the capability of the vulnerable to promote themselves against hazard and loss of income; and (d) social justice, in order to reduce inequalities and improve social integration through changes in laws, budgetary allocations and redistributive measures (Taylor, 2008; UN, 2001).

Despite the fact that social protection plays a crucial role in mitigating some social ills, retirement for the majority of the population is not covered in poor countries. According to the International Labour Office, few people in developing countries (about 10%) are covered by social protection of any kind as compared to almost 100% in the most industrialised countries. Financial constraints and lack of integration of social protection into national plans are some of the factors contributing to its limited coverage in most African countries. Extending the coverage of social protection is one of the many challenges most developing countries are faced with. Furthermore, the major source of formal social protection in many sub Saharan African countries is the occupational pension, which is confined to those in formal employment but still excludes the majority, especially the low paid and contract workers. Simply put, occupational pension refers to retirement benefits that are employment related, while social pensions are those that are provided by the state and do not require one to have any employment record. The fact that coverage for both occupational and social pensions is limited has compelled trade unions and other social movements to get involved in finding ways of increasing and deepening their coverage.

This is a case study of two trade union federations; Confederation of South African Workers Union (CONSAWU) and Congress of South African Trade Unions (COSATU) and one of their affiliates each namely, Solidarity and National Union of Mineworkers (NUM) respectively. The study tries to investigate the extent to which these federations and their unions have been able to contribute in policy formulation that is aimed at increasing pension coverage.

1.1 Background to the study

The post apartheid South African government inherited a racially designed social protection system. Noting the shortfalls of the apartheid racially based discriminatory social protection schemes, the ANC government, through its Reconstruction and Development Program (RDP) framework embarked on the transformation of the existing social welfare programs which aimed at 'ensuring that basic welfare rights are provided to all South Africans, priotising those who have been historically disadvantaged' (ANC, 1994, p. 52). This assertion was also echoed by COSATU, which noted that the system that was inherited by the democratic government was not based on comprehensive coverage for the whole population but rather started as a social security net for whites which excluded Africans from several benefits (COSATU, 1998).

In an effort to increase coverage of social protection to the majority of South Africans, in 2002, the government adopted the concept of a three-pillar framework for comprehensive social security system (Department of Social Development, 2006, p. 8). While significant progress was made in respect of one pillar, the non-contributory system through the rapid expansion of the safety net in the form of social grants and the provision of the social wage or basic services to millions of South Africans, little progress has been made in the other pillar, the contributory system that deals with retirement provision (ibid, p.8). Furthermore, the country's system of retirement protection remains fragmented and it is not surprising that despite high levels of contributions to retirement schemes, the gap between those employed and the non-contributors towards retirement savings is high (Department of Social Development, p. 8).

In addition, the role of the South African government in contributory retirement arrangements has been limited as the system has evolved exclusively from a privatised system with no

explicit policy framework. Although the retirement system has by world standards shown significant commercial success, it has failed to provide adequate and quality coverage to a significant portion of the population (ibid, p.13). This has resulted in the majority of pensioners experiencing poverty when in retirement.

Despite efforts to extend coverage in the recent years, only slightly more than half (52%) of South Africa's 12.6 million workers are covered; the other half is excluded because they work in uncovered sectors, or in casual or self employment while a further 13 million working age people are economically inactive and have no access to any form of social security at all (Lefko-Everett, 2008, cited in Devereux, 2010, p.7). Thus active involvement of the labour movement in pension issues may assist in finding ways of improving the coverage and benefits of the existing retirement provisions.

1.2 Statement of the Research Problem

The problem being investigated is how influential the labour movement is in policy formulation, especially those related to social protection. It is quite evident that the role of trade unions has transcended the workplace issues and they are actively involved in championing issues that affect workers and the communities beyond the workplace. Against the backdrop of limited coverage of both occupational and social pensions in South Africa and high levels of unemployment, the study will explore strategies which CONSAWU and COSATU have used in the past in engaging the government so as to extend the coverage of pension. The study will also ascertain whether trade unions engagement has been effective in the process.

1.3 Research Objectives

The main purpose of this study is to explore the extent to which the labour movement has been able to contribute in the process of policy formulation that deals with retirement provision. Specifically, the research intends to answer the following questions:

1. In what way have CONSAWU and COSATU contributed to the extension of the state of coverage and depth of pensions?
2. How have the contributions of CONSAWU and COSATU influenced pensions coverage?
3. How have CONSAWU and COSATU prepared for proposed reforms to the retirement provision, especially on the issue of pension preservation?

1.4 Rationale for the study

The Quarterly Labour Force Survey of May 2011(first quarter of 2011) indicates that out of the estimated 17, 482, 000 economically active population, only 9, 219, 000 are employed in the formal sector while 4, 364, 000 (25%) are unemployed (Statistics South Africa, 2011, p. vi). Considering that the state old age pensions only covers those 60 years and above and that social grants are paid to those less than 18 years, it follows that the majority of the unemployed 25% (roughly those between 18-59 years), unless they qualify for disability grants, are not covered by any social security. Though the last part is not the focus of the study, it is still relevant for trade unions as they also fight for social justice for the general populace.

The issue of limited coverage has been a growing concern in South Africa since the attainment of democracy. In 2004 for example, the Treasury Discussion paper (2004, p. 6) observed that; 'though there is a wide coverage in South Africa of those in employment, by international comparison, many lack effective access to an affordable retirement funding

vehicle. This relates to the structure of the economy-South Africa has a high rate of unemployment, a large informal sector and many working age individuals who have periods of unemployment scattered throughout their lives'.

Furthermore, in his national budget speech delivered on February 23, 2011, the Finance Minister of the Republic of South Africa, Pravin Gordhan, proposed the introduction of a mandatory basic retirement savings plan; placing a limit of up to one third withdrawal of benefits as provident funds; and the introduction of tax on provident funds to be in line with pensions (Gordhan, 2011, p. 29).

The limited coverage of occupational pension and the proposed changes to the treatment of the provident funds constitute part of the problem under investigation.

On the one hand, this proposed study will investigate the extent to which CONSAWU and COSATU influences pension policies and coverage. It will also explore how the two federations have prepared to respond to the proposed changes to provident funds. The study will also shed light on the roles played by CONSAWU and COSATU relating to pension coverage and what they intend to do in response to the proposed changes to provident funds. The findings will contribute to the limited literature that is available in relation to the contribution of these two federations to pension policies.

1.5 Scope and limitation of the study

Social protection is a broad topic and it involves a myriad of components. To study it in its entirety, more time and enormous resources are needed. Against this backdrop, this study has been restricted to only focus on pensions as one of its elements and attempts to explore the extent to which the labour movement has contributed to the extension of coverage of pension

benefits to South African workers and their families. Other elements of social protection are outside the scope of this study and hence not discussed.

It is important to highlight that though the study is about the role of the labour movement on pension coverage in South Africa, it only focused on two federations and two trade unions; hence the findings may not be the accurate representation of the initiatives undertaken by the entire labour movement. Nevertheless, the study provides useful insights on the role of trade unions in pension issues and offers a platform for further critical debates and engagements on the topic.

1.6 Organisation of the study

The study is composed of six chapters. While chapter one has explained the background to the study, motives of the study, research questions and limitations amongst others, chapter two presents literature review where the background to the concept of social protection has been explained, trade unions involvement in pensions discussed, historical background to the South Africa's pension system explored and the challenges with the current South African pension system outlined. Chapter three explains the methodology used in answering the research question. Chapter four details the current status of the South African pension system, highlighting on the coverage and arrangements, legal framework, government initiatives to increase coverage and the status of the pension reform process. Chapter five focuses on the South African trade unions and pensions; presenting challenges identified by the labour movement with the current pension arrangement and outlining the initiatives undertaken so far. Chapter six provides a summary of the study.

Chapter Two: Literature review

2.1 Introduction:

This chapter looks at the historical background to social protection; discusses the global and regional coverage status of social protection; examines the importance of social protection, explains the different approaches to the provision of social protection, discusses pensions and their types, explores origins of social and occupational pensions in South Africa, and examines the roles played by CONSAWU and COSATU in relation to pensions in the post apartheid era.

2.2 Background to the Concept of Social Protection

The origin of social protection can be traced back to the 'friendly' societies of the United Kingdom, which during the transition from an agrarian rural society to an industrial urban one played a crucial role in providing social protection (Norton et al 2001, p.44). Since then, through the nineteenth century, these societies grew and evolved until they came to form the basis for collectivism, to which the trade unions and co-operative movements trace their origins; or even co-evolved with them which later contributed to the emergence of organised political pressure which led to the founding of the welfare state (ibid).

In modern society, social protection has long been a domestic concern of wealthy nations, which have developed sophisticated institutional arrangements in order to protect against their citizens risk and provide assistance to the destitute (Norton et al 2001). However, in recent years, globalisation associated with its growing integration of trade systems and capital markets has made social protection a global phenomenon. Furthermore, the global response to various forms of economic crisis in the 1990s and the recent financial crisis have compelled the world bodies such as the International Labour Organisation (ILO) and the

United Nations (UN) to call for the extension of social protection to poor countries which are greatest victims of these shocks, as increased poverty in the developing world has a potential of increasing insecurity on a global scale.

In an effort to extend social protection coverage worldwide, in 2009, a UN committee of the Chief Executives Board (CEB) meeting in France called for the introduction of a Social Protection Floor Initiative (SPF-I). A Social protection floor is defined as a basic set of rights and transfers that enables and empowers all members of society to access a minimum of goods and services (ILO & WHO, 2009, p.1). It aims at promoting a holistic and coherent vision of national social protection systems as a key component of national development strategies and supports countries in identifying and closing protection gaps.

The main elements of a SPF-I are; a basic set of essential rights and transfers in cash and in kind to provide a minimum income and livelihood security for all, and the supply of an essential level of goods and social services such as health, water and sanitation, education, food and housing, life and asset saving information that is accessible for all (ILO & WHO, 2009, p.4).

In Africa, especially the sub-Saharan region, interest in social protection has grown rapidly over the last decade, as it is being widely recognised as an effective policy to address the extreme deprivation and vulnerability which characterises the region (Commission for Africa, 2005). The expansion of existing income transfer schemes and the emergence of new social protection initiatives by the national governments, in partnership with donors, suggest a shift in anti-poverty policy thinking in the region (Zarazua et al, 2010). This approach has been fueled by persistent high rates of poverty and malnutrition; the undermining of livelihoods and family-based support systems by shocks such as the AIDS epidemic; volatile food prices and the calamities of weather and war; extensive evidence that denying children basic

nutrition, health, and education has lifelong, irreversible, and intergenerational consequences; and growing evidence of the effectiveness of social protection in low-income countries throughout the world-particularly in contributing to poverty reduction and improved health, nutrition, and education (Adato & Hoddinott, 2008).

Though there is a tendency of generalizing the characteristics of southern African countries, it is important to recognise that countries in this region are categorised further in accordance with the level of economic development which has a direct bearing on the provision of social protection. In one block, there is South Africa, Botswana, Namibia and until a few years ago, Zimbabwe. Devereux (2010) shows that these countries have 'evolved a sophisticated social protection system along European lines; with social security for formally employed workers and social grants for designated vulnerable groups such as older persons and people with disabilities which are run by governments with minimum donor involvement'. Except for Zimbabwe, the economies of the other three countries are relatively sound, and this may be the reason they are able to provide a wide range of social protection initiatives to their citizens.

In the other block, there are countries that largely depend on donor support. In these countries, donors play a dominant role in financing social protection programs and even influencing policies while international non-governmental organizations play a significant role in delivering these programs and implementing their own projects (Wahenga, 2006). These countries are; Malawi, Mozambique, Zambia, Lesotho and Swaziland. A common characteristic in these countries is the presence of multiple social protection initiatives that are 'projectised', such that at the end of the project's life span, continuity is not guaranteed. Wahenga (2006) claims that a 'wider range of interventions have been tried in Malawi than any other country in southern Africa, but these remain projects rather than being

institutionalized and are often abandoned after a few years'. Furthermore, many of the interventions are implemented in a particular selected region, rather than covering the whole country.

Malawi and Zambia for example have witnessed huge donor investment in district level cash transfer projects in recent years, which the funders hoped the respective governments would take over and scale up to a national level. Instead, governments in both countries opted to invest in agricultural input subsidies which donors did not fully support (Devereux 2010). As a result, cash transfers remain the donor business, implemented as projects with uncertain future. It is only in Lesotho and Swaziland amongst the low income countries that have managed to establish old age pensions in recent years without donor support (Devereux 2010). This then raises the question as to whether the provision of social protection is largely dependent on a country's wealth or other factors such as political commitment.

Since social protection initiatives target both absolute deprivation and vulnerabilities of the poor as well as the need of preventing the 'non-poor' from falling into poverty, its provision takes a variety of ways. At its core, there are two main broad fields of response mechanism, namely; social assistance and social insurance (van Ginneken, 1999). But, the International Labour Office (ILO) categorises social protection into three categories: social insurance; labour market regulation; and social assistance (ILO, 2001). *Social insurance* includes contributory schemes designed to protect workers and their households against life-course and work related contingencies, such as maternity, old age (in the form of pensions), unemployment, sickness and accidents. *Labour market regulations* are legal frameworks aimed at ensuring minimum standards for employment and work and safeguarding worker's rights. *Social assistance* includes tax financed policy instruments designed to address poverty and vulnerability (Barrientos & Hulme, 2008, cited in Zarazua et al).

As an employment-based social insurance scheme, pensions assure a continued income stream in the event of old age. This replacement income may be fixed (to ensure a minimum pension) or earnings related (Norton et al, 2001, p.45). However, in most developing countries, many of which are in Africa, the majority of the workforce is not involved in permanent wage labour in the formal sector. This excludes them from the statutory social insurance schemes such as occupational pensions as in most cases; premiums are beyond the reach of the poor. Furthermore, informal sector employers, who are steadily increasing in Africa, are generally outside the routine state surveillance and regulations (as many are not registered), have few capital assets, employ workers at below the legal minimum wage without written contracts, and often do not pay taxes, a situation which makes it very hard to obtain a fixed, regular employer's contributions, or even to arrange for them to collect employees' contributions through the payroll. The fact that pensions are mostly paid on the principle of 'replacement wage' with benefits paid at a set proportion of the income lost makes it hard to define what the replacement wage should be for the informal workers given the great variability in wages within a short period (Norton et al, 2001).

The exclusion of the majority of the working class (both in the formal and informal economy) from employment-related pension schemes motivate the labour movement to get involved in the processes leading to an increased coverage of social protection.

2.3 Current Global and Regional Coverage Status of Social Protection (Social and Occupational Pensions)

The ILO identifies two approaches through which the coverage of social protection can be determined. The first, *legal coverage*; is where the population group can be considered covered if there are existing legal provisions that such a group should be covered by a given

branch of social protection or will be entitled to specified benefits under certain circumstances for example, to an old age state pension upon reaching the age 65 or to income support if the income falls below a specified threshold. The second, *effective coverage*; is the actual number of people benefiting from any given branch of social support, social insurance or pension (ILO, 2010, p. 22). Effective coverage is usually lower than legal coverage due to governance problems, gaps in funding as well as other deviations of actual policies from the text of the legislation (ILO, 2010). Thus effective coverage reflects how in reality the legal provisions are implemented.

Using *effective coverage*, it is estimated that only one-third of countries globally, which are inhabited by 28% of the global population have comprehensive social protection systems (ILO, 2010). Furthermore, most of those covered are in the formal employment as wage or salary workers. But as of 2008, only 46.9% of the world population was engaged in wage or salaried work, and only 22.9% in sub-Saharan Africa (ILO, 2010, p.28). Taking into account those who are not economically active, it is estimated that only about 20% of the world's working age population have effective access to comprehensive social protection systems (ILO, 2010).

2.4 Importance of Social Protection

It is quite clear that the motive behind the provision of social protection is income redistribution to protect everyone against poverty, and is a form of contributory insurance. It is well documented that social protection systems were established to replace the traditional family or neighbourhood solidarity which were greatly undermined by industrialisation, rural emigration and urban development. In this sense, social protection is a means of socialising risks and institutionalising solidarity by establishing a redistributive community (Ferrera,

1993). It is a fact that without social protection, poor people are prone to increased risks of sinking below the poverty line; worse still, to remain stuck in poverty. This assertion was affirmed during the G8 Conference 'Shaping the social dimension of globalisation' in 2007 where social protection was highlighted as a key concern and a crucial tool in combating poverty and promoting economic and social development particularly in developing countries (G8 Conference, 2007).

Social protection is also a human right. Article 22 of the Universal Declaration of Human Rights clearly define; 'everyone has a right to social security and is entitled to realisation through national effort and international cooperation' (UN, n.d). In addition, while in the short term, social protection helps to provide relief to affected families and prevents them from falling into destitution, in the longer term, its promotive and transformational functions addresses some of the underlying causes of inter-generational poverty (Mutangadura, n.d).

Though the political system of a given country and its level of economic development are crucial in the provision of social protection, organised labour, with its strategic power in the workplace, can be the most effective champion of social rights for the less privileged sectors of the society (van der Walt, 1999). As such, trade unions role transcends beyond workplace issues.

2.5 Approaches to the provision of Social Protection

Three broad approaches have been identified in the provision of social protection, each of which has distinct influence on policy formulation. These are; a) Corporatist or Conservative approach, b) Liberal approach and, c) Social Democratic approach (Esping-Andersen, 1990).

a) The Corporatist/Conservative approach:

The Corporatist approach is based on the stratification along class links and the maintenance of a hierarchical society (Hagberg, n.d). The state intervenes in a minimal way with social welfare programs only targeting those who are unable to succeed in the market place. This approach was first created in Germany under Otto von Bismarck in the 1880s and maintains a particular class structure in society, with emphasis on the family being the first level of welfare support to its members, and the state assisting only when family support fails (Dain, 2003). Access to benefits largely depends on ones occupation, though benefits are extended through social assistance to those who are outside the labour market.

b) Liberal approach

This approach put much emphasis on the market to determine the provision of welfare services. It assumes that all individuals are capable of market participation, hence must freely compete (Hagberg, n.d). Those who will lose out from this competition and end up in poverty must not blame the system, but rather their incapabilities and the state only provides minimal assistance to allow the individual have an opportunity to gain entry back into the market in the event that s/he was pushed out of it. Conditions are often imposed on those who are assisted, hence the emergence of the 'workfare' in most countries that follow this approach. The state may institute limited policies to only cater for the poor who may not be able to participate in the market economy for reasons of being destitute, disabled or elderly (ibid), and benefits are almost always means-tested. Pension and insurance schemes under this approach are market based; as such participation is often optional.

c) Social democratic approach

The Social democratic approach aims at strengthening citizenship rights in order to attain cohesion and social inclusion through a wide access to goods, services and cash benefits, related

to the perfectioning of social protection policies (Hagberg, n.d). Dain (2003) writes that, Esping-Andersen (1990) describes the Social democratic approach as 'a peculiar fusion of liberalism and socialism', one which acts to empower the individual through heavy state involvement in welfare service provision. The state provides basic individual welfare guarantees which are aimed at eradicating social divisions and promote equality. Benefits are usually neither means tested nor require one to participate in the labour market, but rather given due to 'social citizenship' and the right to welfare is considered basic and stable (Esping-Andersen, 1990).

The figure below gives a summary of the above models of social protection according to their characteristics as pointed out by Esping-Andersen.

Table 1. Characteristics of the Three Social Protection Models

Type of Welfare regime	**Liberal**	**Conservative/Corporatist**	**Social Democratic**
Values	work ethic stigma	rights according to class and status	equality, universalism of high standards
Instruments	means tested assistance	private insurance backed by state	state is the first line of support, high levels of benefits
Aims	strengthen the market	strengthen civil society, limit the market	fusion welfare and work, full employment
Class implications	middle class suspicious of the state	class maintained but stabilised	middle class wooed from market to state
Country examples	USA, Canada, UK, Australia	Austria, France, Germany	Scandinavian countries

Source: Dain, 2003, p. 13

The three approaches discussed above can be categorised into two as far as their mode of funding is concerned. They can either be Bismarckian or Beveridge. In a Bismarckian model, social protection is funded by contributions and with entitlements based on employment status (Dain, 2003). In short, benefits are occupational based. In contrast, the Beveridge model is funded by taxes with the entitlements based on citizenship or residence status (ibid). It is important though, to note that many countries implement a combination of the two; with those in employment contributing to the various pension and insurance schemes whereas those unable to contribute due to poverty being taken care of by the state through tax financed schemes.

The extent to which trade unions can effectively contribute to social protection initiatives is therefore largely determined by the social protection approach the state is pursuing; whether is it liberal, conservative or social democratic. The following sections give a brief overview of trade unions origins, their motivation for involvement in pension issues and highlight some recent examples where they have been actively involved in retirement arrangements.

2.6 Trade Unions' origins

Though the history of trade unions has traditionally been associated with the rise of the working class as a whole in the 19th century in the United Kingdom, its origins can be traced back to the 18th century, during which the small sectional groups of artisans first organised themselves into trade societies (Stevenson, 1991). It was a result of the collective actions of these associations in fighting the deteriorating conditions of work that in 1799, a Combination Act was passed, which outlawed the combination of workmen (Stevenson, 1991), forcing the trade union movement to go underground.

It was not until 1824 that the combinations of working men were rendered legal for 'improving wages and reducing the hours of labour' and for those two purposes alone (Trant, 1884). This was followed by a period of active unionism such that 'by 1831, scores of 'low unions' organised by the working class sprung into existence' (Stevenson, 1991, p. 15), which greatly contributed to the Reform Act of 1832. Since then, trade unions gradually expanded to other regions of the world, and their role transcended the workplace issues. Today, trade unions in many countries are active in contributing to policy changes, including those involving social protection in general and occupational pensions in particular.

Besides, trade unions do have a responsibility to ensure that every worker is covered by some kind of social security; including the time when s/he has become invalid or too old to work. Moreover, their involvement would guarantee, to an extent, protection of pension systems against market volatility, and abuse of funds by some employers. Above all, a pension fund comprises a great proportion of the worker's money; therefore, workers, through trade unions must have a say in how their money is invested.

2.7 Why should Trade Unions be concerned about pension schemes?

Up until 1960s, trade unions were not involved much in pension scheme negotiation and administration as they considered it to be outside their mandate. However, with more people joining occupational pension schemes; and the people and institutions running them having huge vested interests, trade unions have no choice, but to get involved lest millions of trade unionists who are members of the schemes would be short changed by insurance companies and pension fund managers if left unchecked (Ward, 1981, p. 4).

Recent years (from early 2000s) have witnessed an increased involvement of trade unions in pension issues around the globe. In the last quarter of the year 2010 for example, there were a

wave of strikes and demonstrations called by the trade union movement in France against the governments unpopular reforms of occupational pensions (BBC News, 19 October, 2010). The reforms aimed at raising the early retirement age, which qualifies one for a pension, from 60 to 62 and the normal retirement age, with full pension benefits from 65 to 67. These strike waves drew members from both private and public sectors.

German trade unions have also been pushing for a pension reform that would make corporate pensions mandatory since 2006 (Global Action on Aging, 2006). This is due to the fact that many companies, especially small ones, do not offer their employees a pension plan hence unions want the government action, so as to prevent pensioners from falling into the old poverty age trap (Global Action on Aging, 2006).

In the United Kingdom (UK), trade unions in 2006 protested against government plans to change the pension policy and they demanded restoration of pensions to workers who lost their pensions when their firms went bankrupt (Global Action on Aging, 2006).

While protests in France, German and the UK were called with the aim of protecting workers benefits, in Spain, trade unions' leadership seem not to have acted in the interest of the majority of their members. Spanish major trade union federations (Union General de Trabajadores (UGT) and Confederacion Sindical de Comissiones Obreras (CC.OO)) reached a deal with the government on pension reforms that are not supported by the majority workers. Termed as a 'Social Pact', the agreement aims at reducing the public spending on pensions, currently (2011) standing at 10% of the GDP, in order to satisfy the European Central Bank, International Monetary Fund (IMF) and the financial markets (Lopez, 2011). Lopez continues to observe that the average pension will fall by between 12 to 20% as the

pension system will be based on the last 25 years of the working life (instead of 15 years) and has criticised the Social Pact as a 'corporatist agreement' between employers association, government and trade unions which is being imposed against the will of the population. While the Social Pact slashes employers' contributions to social security, raises the pension age from 65 to 67 by 2013, cuts welfare spending and reforms the labour protection laws amongst others, trade unions agreed to it because it is claimed that it will boost Spain's ailing economy (Stuart and Lopez, 2011). Thus trade unions' involvement in pension issues can sometimes work to the disadvantage of the members who they are supposed to protect due to the pressure from the capitalist forces.

2.8 Types of Pensions

A pension, broadly defined is a regular payment, normally for life, to provide retirement income to the recipient upon completion of his or her working years (Murray, 1968, p. 13). Pensions are provided by both, the state and private institutions; can be contributory or non contributory, employment (occupational) related or not.

a) Old Age State Pensions:

The state can provide pensions to its citizens in a number of ways: First, it could be in a form of a *universal benefit scheme*. Usually, this type of pension is provided to all residents over a specified age, irrespective of their income, employment status or resources (ILO, 1984, p. 55). Secondly, it can be through a *universal social assistance scheme*, in which beneficiaries are identified through a means test, such as those who fall below a prescribed minimum income, which is deemed inadequate to support a person's living. In this case, pension benefits for the senior citizens who are in need are provided. Universal benefits also redistribute wealth. Thirdly, *social insurance schemes* also provide benefits for members in

old age. These schemes are usually subject to a person's record of employment, contributions or both. A good example of this is the South African Government Employees' Pension Scheme.

b) Private Pension Schemes

Most private pension schemes are contributory and usually take the form of insurance. They can either be employment related in which both the employer and employee contribute to the fund as in a case of occupational pension and provident funds or private contributions paid by the individual directly to an independent pension fund or insurance company.

Employers are mostly motivated to provide pensions in order to show that they are 'good employers', and also for competing for labour with other employers who already have pension schemes (Ward, 1989, p. 4). Besides, the benefits of a pension are not one sided, as it also assists the employer in the retention of an experienced work force.

c) Occupational Pension Schemes

These pension schemes are employment related and only apply to those with a record of formal occupation, be it in the private or public sector.

2.9 Types of occupational pension schemes:

Whether provided by the state or private companies, a pension scheme will fall in one of the systems discussed below:

I. Pay-as-you-go pension system.

In this system, current income finances current expenditure. Contributions of people who are currently employed pays for the benefits of current pensioners (Human Awareness Program,

1983, p. 58). Contributions are mainly calculated as a percentage of income; as such an increase in income increases the contribution and so increases the pension benefit. This system does not require the establishment of a pension fund and is mainly used by governments.

II. Defined benefit pension scheme.

This is a pension fund where the benefits are defined in terms of the rules of the fund. Benefits are generally guaranteed and are not dependent on the investment returns of the fund or on the level of the employer contributions (GEPF News, January, 2011). The final salary, a persons' years of pensionable service and a formula or factor are the major determinants of what one receives after leaving employment.

III. Defined contribution pension scheme.

It is a pension fund in which benefits are mainly based on the sum of contributions plus investment returns. Benefits are dependent on the level of member and employer contributions as well as on the level of investment return. Under this scheme, the member generally bears the risk of poor investment returns, unlike in defined benefit where the employer bears the risk (GEPF News, January, 2011).

Iv. Provident funds.

According to the ILO (1984, p. 6), provident funds are a way of compulsory saving, which also provide benefits to the aged in society. Workers and their employers contribute to the fund and the benefit is paid as a lump sum when a person leaves employment. The benefit paid includes ones contribution, employer's contribution plus interest earned by this combined account.

The major difference between a pension and a provident fund is that benefits are paid at once as a lump sum in a provident fund while a pension pays a regular monthly income, for a longer period, usually until one dies. Furthermore, provident funds are often times employment-related and contributory while some pensions are provided freely by the state.

2.10 The historical background of the South African pension system

It is believed that the first form of pension to be paid in South Africa was to field cornets in 1837; followed by a fund for the wounded, widows and orphans of the Boer war in 1882 and the poor relief which was introduced in 1909, being only administered at the provincial level (Human Awareness Program, 1984, p. 3). But on a larger scale, the origins of social pensions in South Africa can be traced back to the 1928 Old Age Pensions Act, which was a response to the first Report of the Pienaar Commission on Old Age Pensions and National Insurance which was appointed in early 1926 (Seekings, 2007, p 378). Under the Act, non contributory old age pension was introduced for poor white and coloured people aged 65 years and older. This was followed by: pensions for the blind in 1936, pensions for war veterans and unemployed insurance fund in 1937, workman's compensation in 1941 and disability pensions in 1946 (Human Awareness Program, 1984, p. 3).

Seekings (2007) argues that the old age pension was designed to lift 'poor whites' out of poverty and re-establish a clear racial hierarchy. The discovery of gold and diamonds in the late 19thcentury, followed by the expansion of capitalist agriculture dislocated white communities and converted small farmers into landless labourers, or displaced them into urban areas where they faced low wages and high unemployment (Devereux, 2007, p. 540). This resulted in wide spread poverty amongst the white population, such that by 1920s, the

poor white problem had entered a policy discourse which required an institutional response (Devereaux, 2007, p. 540). These response measures were mainly aimed at preventing African workers competing with white workers. They included the 1923 Native Urban Areas Act which limited African people to racially segregated locations and requiring them to have valid 'passes'. This was aimed at pushing the African people down or to push them out of urban areas (Seekings, 2007, p. 380). Their exclusion from the old age pension scheme also served the same purpose, as it guaranteed their continued poverty.

However, the Africans exclusion from old age and other social pensions was justified on the following grounds: a) it would be difficult to establish the age of the Africans, b) distinguishing urban Africans who needed pensions from rural Africans who had their own native customs which makes pension for maintaining dependent persons was a challenge and c) politically, the state saw little gain but significant fiscal cost in incorporating the disenfranchised natives into the pension system (Devereaux, 2007, p. 542).

Following the recommendations of the 1943 Social Security Committee instituted to investigate pensions for black people, Africans started to benefit from the state social pensions in 1944. These pensions were means tested unlike the ones enjoyed by whites and coloureds. For an African to qualify for pension; he or she must have lived in the urban area for not less that 5 out of the last preceding 7 years, must not have been allocated land in a native area and did not have immediate family members in rural areas (Human Awareness Programme, 1983, p. 3). Those in rural areas or reserves did not receive any pension unless they were landless, because 'that would conflict with or break down their tribal food sharing habits' (Human Awareness Programme, 1983, p. 3).

Pension benefits paid were discriminatory. Africans received less pension as compared to that of whites and coloureds. As of 1965, whites received R 723, Indians and coloureds R 348 while Africans were paid R 105 per year; being argued that natives paid lower taxes and that their standards of living was low (Devereaux, 2007, p. 543).

The gap of social pensions between different racial groups began to narrow during the 1970s and 1980s by raising the African rate faster than the white. While in the 1960s, the pension ratio between whites, coloureds and blacks was 11: 4: 1, by 1975, it had been narrowed to 7:3:1. The 1980s witnessed a rapid increase in the social pensions for Africans such that by 1992, the monthly payment to whites (R345) was just 1.1 times payment of the coloureds and Indians (R318) and 1.2 times payment of Africans (R293); (Devereaux, 2007, p. 546). After coming to power in 1994, the African National Congress (ANC) equalised social pension benefits for all racial groups.

2.11 Occupational pensions in South Africa

Private pension schemes were extended to a certain category of the so called 'non-white' workers, mainly the skilled and semi skilled Indians and coloureds during the economic boom of the 1960s (Human Awareness Programme, 1983, p. 4). By the mid 1970s however, the majority of black employees (mainly contract and migrant) were still effectively excluded from pension membership due to various eligibility requirements such as exclusion of the hourly or weekly paid, and the lower paid, to which the majority belonged.

Even for those who were included, many did not fully benefit from the scheme as the majority were paid annuities and not pensions because their benefits were too small in many cases; in addition, neither the employers nor insurers were willing to calculate migrants'

pensionable service, given that the employers did not contribute to the fund when their employees were on long leave or contract leave (Human Awareness Programme, 1983, p. 4). Besides, black workers were rarely represented on the management bodies despite the fact that membership of a pension fund was usually a compulsory condition of service. In addition, their regulations, coverage, contributions, benefits and management could not be negotiated between management and black trade unions (Human Awareness Programme, 1983, p. 52).

Black South Africans had no say in the formulation of policies with regard to the social security system and had no access to the formal institutions; neither public nor private which administered pensions and processed applications. This resulted in the pension unrest of 1981, during which black trade unions and workers expressed their dissatisfaction with the prevailing pension scheme as well as the then proposed Preservation of Pensions' Interest Bill (Human Awareness Programme, 1983, p. 76). The proposed bill sought to legislate for the compulsory transfer of pension and provident fund benefits on an employees' termination of service to another fund rather than effect the payment in cash of the withdrawal benefit (Field, 1993, p. 966). Workers wanted their money as they 'argued that the long term benefits such as pensions were a luxury that poorly paid workers struggling to meet their immediate needs could not afford' (Field, 1993, p. 966). Hunter et al (2010, p.xx) also argues that workers saw the proposed legislation as an attempt to deny them the state old pension, which was based on a means test that would take into account pensions paid to them after retirement. Thus the wave of industrial strikes led to the suspension of the bill by the government and its eventual withdrawal.

2.12 The South African pension system in the post apartheid era

The major change witnessed in post apartheid pension system was the bringing about of the parity of benefits. Discrimination on the basis of race was abolished and pension rules now applied to everyone without regard to race.

The South African retirement arrangement system is a combination of the Bismarckian and Beveridge models which caters for both contributors and non-contributors. The system rests on three pillars, which are; an occupational pillar, a voluntary saving pillar and a re-distributive pillar (van der Merwe, 2004). A voluntary saving pillar involves individuals whether employed or not, freely making contributions to private pension fund institutions, while a re-distributive pillar encompasses social assistance programs provided by the state. The occupational pillar is confined to those in formal employment, both in private and public sectors.

Occupational based retirement arrangements in South Africa fall within three broad categories; private pension schemes, government pension schemes and provident funds.

i. *Private Pension Schemes:*

These are schemes that are provided for employees in the private sector. They are provided by either an independent institution or the employer. Most of these schemes are defined contributory schemes, as this arrangement does not oblige the employer to bear the risk on poor pension returns. Contributions to the fund by both the employer and employee vary depending on the type of pension fund and contractual agreements.

ii. Government Employees' Pension Fund (GEPF):

The Government Employees Pension Fund (GEPF) was established in May 1996 under the Government Employees Pension (GEP) Law Proclamation 21 of 1996. Various public sector funds of the former TBVC (Transkei, Bophuthatswana, Venda and Ciskei) states and the Government pension fund were consolidated and formed the GEPF (GEPF website, 2011). The GEPF is a defined benefit fund, and members contribute 7.5% of their monthly salary as well as 7.5% of their service bonus when they receive it. The employer (state) contributes 13% of monthly salary and a service bonus for every employee other than the military personnel and intelligence service, for whom it contributes 16%. All government employees are members of this fund.

iii. Provident Funds:

Provident funds cater for employees of both private and non-pensionable public sector workers (South African Financial Advice, n.d). These funds are defined contribution schemes; as such employees contribute a portion of their salary every month in a saving scheme to be used in the event of retirement, sickness, unemployment or disability. Depending on the type of scheme and contractual agreements, employers may also contribute.

In South Africa, contributions made to the provident funds by the employer are tax deductible while those made by employees are not (South African Financial Advice, n.d), and the member's benefit is paid in full when a person exits employment, unlike a pension which only pays up to one third of one's benefit at retirement and the remaining two thirds is calculated and accessed on a monthly basis in equal instalments by the member for the rest of his or her life. Moreover, members' contributions to pension funds are tax deductible, as are

those of the employer. However this may change soon. In his 2011/12 Budget Speech, the Finance Minister, Pravin Gordhan proposed 'alignment of the tax treatment of provident and pension funds effective March 2012, and also a one third lump sum withdrawal limit to provident funds with a view of protecting worker's savings' (Gordhan, 2011, p. 29). The workers and trade unions are yet to make their official position known on the proposal since the government has not formally submitted an official document regarding the same for engagement at NEDLAC, a fora where labour, business and government meet on policy matters directly affecting labour.

As of 2011, provision of pension in South Africa is not mandatory. Nevertheless, there are some industries whose pension schemes make it compulsory for any of their employee to join it. Examples include the Transnet pension fund, Telkom pension fund and the GEPF.

2.13 Challenges within the current South Africa's pension system arrangement

The major challenge with the current occupational pension system is that it is not mandatory (van der Merwe, 2004). As such, those people who are employed by industries that do not have a pension fund may not make any provision for their retirement, and only rely on state pensions which are not adequate in providing for the basic needs (R1,140.00 per month as of 2011) when they retire. Moreover, new developments in occupational pensions, mainly the replacement of conventional pension funds with provident funds in many schemes tend to have detrimental effects on the insurance motives, as beneficiaries tend to spend all the money they receive as a lump sum when exiting employment, (van der Merwe, 2004, p.304), leaving the majority in destitution a few years after retiring.

Besides, many South Africans will never have the opportunity to become members of occupational pensions because they will not find employment in the formal sector of the economy (van der Merwe, 2004, p. 303) due to high levels of unemployment, hovering around 25% as of 2011 (Stats SA, 2011). The current pension system seems not to have been designed for the low income groups, as the schemes do not accept relatively small and irregular contributions which may be the only avenue open to lower income groups (van der Merwe, 2004, p. 313). Furthermore, the lowly paid may not find the pension suitable for them, as the value at retirement will also be low, sometimes closer to the social pension that does not require a person to contribute.

Corruption is the other challenge rocking the South African pension system. This may take the form of bribes so that officials 'facilitate' the speedy payment of benefits. Patel and Triegaardt (2008, cited in Asher, 2009) estimate that within the pension industry, corruption accounts for approximately 15% of all claims. Furthermore, conflict of interest amongst pension fund administrators also exacerbates the situation.

The existing pension regulatory system has also been criticised for not adequately protecting the pension funds. Whereas the current framework focuses on the cases of fraud and fund collapses which are easier to detect, there are some less visible but potentially more devastating losses which the system fails to address. The Reform of Retirement Provision Discussion document (2006, pp 11-12) identifies the following to be taking place in the pension industry: a) the removal of surplus funds under questionable circumstances, which is facilitated by conflict of interest between actuarial advisors, brokers and employers; b) non-payment of benefits, incomplete payment of benefits and late payment of benefits and c),

administration companies and brokers are in a position to distort the value of the fees to which they are entitled.

The South African pension arrangement structure is also blamed for perpetuating a sharp divide between the first and second economies. On the one hand, the old age grant that supports the poor requires a means test, implying that not everyone within the low income bracket may be covered, while on the other, private sector pensions are tax incentivised so that greater fiscal incentives are provided to higher income individuals to save than to low income individuals (National Treasury, 2007, p. 3). Furthermore, the means test applied to the old age grant 'implies that low income earners are in fact penalised for saving', as the little that they may have saved disqualifies them from receiving the social pensions. In addition, retirement saving by the poor carries the dual burden of being eroded by costs and loss of social benefits, with a possible effect of creating a poverty trap: worse still, fiscal support for saving and income protection for the poor diminishes as their income rises, while the tax incentive for higher-income groups rises in value as lifetime income increases (ibid).

The other challenge with the current South African pension arrangement is that it has failed to provide adequate and quality coverage to a significant portion of the population (Department of Social Development, 2006, p. 13). It is claimed that many people face significantly reduced standards of living going into retirement. Reasons cited for this include high costs of pension administration, early withdrawals by those who have been retrenched or are changing jobs, fund failures, gaps in life time contributions and limited prospects of protection from sharp commercial practices (ibid).

Against the backdrop of the challenges explained above, trade unions have increasingly found themselves taking an active role in pension issues so as to protect the benefits of their members. The following section gives a brief background of CONSAWU and COSATU and the initiatives undertaken by them in relation to pensions in the post apartheid South Africa.

2.14 Brief background of CONSAWU and COSATU

The Confederation of South African Workers Union (CONSAWU) and the Congress of South African Trade Unions (COSATU) are two of the workers' federations in South Africa that play a role in pension issues in the country. CONSAWU was formed during the post apartheid era, in 2003, arising from the need of non affiliated unions to come together and has 27 affiliated unions, representing over 290, 000 workers spread across the various sectors of the economy (CONSAWU website). The federation is not affiliated to any political party.

On the other hand, COSATU was formed during the apartheid era in 1985 following four years of unity talks between unions opposed to apartheid and committed to non-racial, non sexist and democratic south Africa (COSATU website). It played an active role in the fight against apartheid and is currently in a political alliance with the ruling African National Congress (ANC) party. It is the largest federation in South Africa, with close to 1.8 million members (COSATU website).

Besides their different backgrounds and political positions, both CONSAWU and COSATU are committed to fighting for the improved conditions of the working population, including pensions that are currently very limited in both coverage and depth. Below are some of the initiatives undertaken by the two federations in the post apartheid South Africa.

COSATU has been making submissions, mainly focusing on the extension of social protection to government from as early as 1996 in democratic South Africa. In response to the Social Welfare White Paper in 1996, COSATU 'called on the government to find out how social insurance and the provision of social assistance can be integrated to achieve the most effective and widest possible social security net' (COSATU, 1996, p. 8). They also objected to the suggested cuts to the welfare to pay off South Africa's debt, but instead called for the universal coverage of state pension benefits to all eligible households which was then at 60% (COSATU, 1996, p. 5).

At their policy conference of May 1997 as well as the Central Committee Resolution of 1998, COSATU maintained their call for increased coverage to all deserving South Africans. This was followed in 2000, when the federation took an audit on what it has been advocating in relation to social protection (COSATU website), a further commitment of COSATU on the issue.

Just like COSATU, CONSAWU has also played an active role in calling for the extension of social protection coverage. In 2006 for example, the federation passed a resolution, urging the government to legislate a child support grant till the age of 18 and the payment of a monthly R 2,500.00 to each and every unemployed economically active person, until such a time they found employment (CONSAWU website). Effective January 2010, child support grant has been extended until the child reaches 18 years. In addition, the federation has also been conducting campaigns for a comprehensive social grant for all economically active unemployed people (CONSAWU website).

2.15 Other Labour Federations in South Africa

Although this study focuses on CONSAWU and COSATU, a brief background of the other trade union federations is in order so as to give a clear picture of the South Africa's labour landscape. There is a total of four federations in South Africa and the other two are; the National Council of Trade Unions (NACTU), and the Federation of Unions of South Africa (FEDUSA). Below is a brief background of these federations.

NACTU was formed in 1986 as a result of a merger between Council of Unions of South Africa (CUSA) and the Azanian Confederation of Trade Unions (AZACTU) (NACTU website). This merger followed unsuccessful unity talks that took place in 1985 between the trade unions that were expelled from the then United Democratic Front (UDF) on one hand and AZACTU on the other which wanted to broaden unity (ibid). This unity meeting was aborted due to ideological differences between the so called 'workerists' and the 'populists' (ibid). As of 2011, NACTU has 13 affiliates and is not affiliated to any political organisation,

FEDUSA was established in 1997 and represents in excess of 500,000 members spread across its 18 affiliates (FEDUSA website). The federation was formed by the amalgamation of two federations namely; the Federation of South African Labour Unions (FEDSAL) and the Federation of Organisations Representing Civil Employees (FORCE) with the aim of 'creating greater democracy and balance by offering alternative solutions within the South African Labour movement' (ibid). Just like NACTU, FEDUSA is not affiliated to any political party. The federation claims not to be crippled by any ideology as such it is able to focus on its real mandate; workplace matters and issues that affect its members and is able to accomplish more in labour relations through sophisticated strategic interventions in boardrooms, and not through being vocal and militant as other unions (ibid).

Both NACTU and FEDUSA are members of the National Economic Development and Labour Council (NEDLAC) and together with COSATU, they form labour constituency at the negotiation forum which also consists of employer representatives and the government. CONSAWU on the other hand is not part of the labour constituency at NEDLAC hence is not involved in the negotiation processes that take place at this forum.

Against the background of limited pension coverage (8.7 million against 11.3 million workers in formal employment, Stats SA, 2005), this research will explore the extent to which the trade unions in South Africa have contributed to increased pension coverage. The research will focus on the efforts by CONSAWU and COSATU and will concentrate on one affiliate from each federation namely Solidarity and the National Union of Mineworkers respectively in investigation of occupational pension schemes at industry level.

2.16 Conclusion

It is clear from the literature review that the current South African pension system has some short falls that require to be addressed for it to be more effective and have a wider coverage. Trade unions therefore need to take an active role in order to contribute in policy options that could lead to an increased coverage so that all South Africans who deserve to receive a pension of some kind are included.

Chapter Three: Methodology

3.0 Introduction

The method which one uses in collecting data is crucial in determining the reliability of the results of the study. This study used in-depth interviews as the primary tool for collecting primary data. Weiss (1994) argues that interviewing gives us access to the observation of others, provides us with a window on the past and also rescues events that would otherwise be lost. This section discusses the processes which were implemented in carrying out this research, external validity, ethical issues and limitations of the study.

3.1 Sampling

The research used purposeful sampling, and mainly targeted interviewees who were perceived to have the necessary information to answer the questions on: the role of trade unions in the provision of social protection in South Africa. The research sought to investigate the influence of CONSAWU and COSATU on occupational and social pension policies and coverage in democratic South Africa. CONSAWU was selected to participate in this study due to the nature of the federation. The federation is relatively new, formed in 2003 and not much had been written on its contributions to South African society. Besides, it is not affiliated to any political party hence was expected to provide non-partisan views on the subject under study. On the other hand, COSATU is the largest workers' federation and plays active roles on policy issues in the country, including pension issues. In addition, the federation is in alliance with the ruling ANC, which gives a high probability that they are consulted on crucial decisions, including those on pensions.

Solidarity and the National Union of Mineworkers (NUM), affiliates of CONSAWU and COSATU respectively were also chosen to participate in the study on purpose. NUM is the

largest COSATU affiliate and has the largest pension fund in the country which was formed in 1989. Their fund was established so as to increase coverage of black workers, as the majority were excluded. The origins of their pension fund and long experience in pension industry suggested that NUM would provide the necessary information in answering the research question.

Solidarity is also the largest CONSAWU affiliate and is actively involved in pension funds. It has a pension scheme for its members and recently (2011) conducted a research on pensions amongst its membership. Their active involvement in pension issues was perceived to greatly contribute to the topic under study. Both the elected leadership and professionals from the trade unions were interviewed during the study.

Senior Government officials were also interviewed during this research. These were drawn from the Departments of Social Development, the National Treasury and Department of Labour. These departments were chosen because they play a crucial role in pension issues and are actively involved in the reform process of the retirement provisions. Besides, they closely work with the labour movement through the NEDLAC framework and also do have labour representatives in some of their committees dealing with workers benefits.

I. Sample size

Of the total sample of the 19 earmarked interviewees, only 15 were interviewed and efforts to interview the remaining ones proved futile despite persistent follow up by the researcher. For a qualitative study, this sample is within the accepted range and was able to give rich material for the study as 'each respondent provided a great deal of information' (Weiss, 1994, p. 3). Time was not on the side of the researcher to keep on waiting for a chance for when an appointment would be granted for the interview. The table below presents a summary.

Table 2: Summary of Interviewees

Institution	Interviewee	Contribution
COSATU	Elected official (from the Executive Committee) failed to get an appointment despite constant reminders and follow ups	
	Pension official	provided information on professional initiatives at federation level on pension issues, publications and position papers released
	Parliamentary Liaison Officer	provided detailed information on COSATU's submissions to parliament on pension policies and retirement provision in general
CONSAWU	Senior elected official	provided more insight on the overall political position on pension policies, initiatives undertaken so far to extend coverage at federation level, and their opinion on proposed changes to provident funds, effectiveness of existing policies, legislation and coverage
	Pension official	provided more information on professional initiatives at federation level on pension issues, publications and position papers released
Solidarity (CONSAWU affiliate)	Senior elected official	provided more on policy initiatives at affiliate level, to inquire whether they have ever submitted their position

		regarding pensions to their federation and their position on the proposed amendments to provident funds
	shop stewards/ pension fund trustees	provided information on Workers' perspectives on current pension policies and their stand on lump sum withdrawal on retirement, their position relating to positions taken by the union
NUM (COSATU affiliate)	Senior pension official	provided information on policy initiatives at affiliate level, NUM's position on proposed amendments to retirement provision, union's stand on lump sum withdrawals
	Shop stewards	provided information on workers' perspective on current pension policies and their stand on lump sum withdrawal on retirement, whether they support positions taken by the union
Government Departments (Labour, National Treasury and Social Development	Senior government officials	provided information on the status of pension reform process, government's position and initiatives on extending pension coverage, clarified on some issues gathered from other interviews

II. Data collection technique

The main technique used for collecting information was the in-depth interview. This was chosen so as to capture as much information as possible from the interviewees. The interview guides were used so that the researcher does not lose the main focus during interviews. The in-depth interviews were supplemented by document analysis.

III. Document analysis

The study also analysed several documents which were sourced from the interviewees during the interviews. In the process, pamphlets, brochures, research papers, newsletters, minutes of meetings, congress resolutions, policy documents and position papers and submissions on pension by CONSAWU, COSATU and their affiliates were analysed. Publications by the South African Government through its Departments of Social Development and National Treasury dealing with pensions were also analysed. In addition, some relevant documents were also accessed through the internet from the websites of COSATU, CONSAWU, NUM, Solidarity, Department of Social Development, National Treasury and the Department of Labour which supplemented the information gathered from the interviews.

IV. Data analysis

The interviews were recorded on an audio tape and then transcribed by the researcher. Due to time limitation, only nine of the fifteen recorded interviews were transcribed as recommended by Weiss (1994, pp. 55-56) who writes: if a study's budget is limited, consideration might be given to listening to a tape once, transcribing only what seems likely to be useful and paraphrasing the rest...or to take notes on what is contained on the tape, never transcribing at all except for quotations to be used in the report'. The transcribed data was studied, key themes identified, and then analysed using computer software known as

Atlas.ti 5.0, one of the programs recommended for analysing qualitative research. This computer program assisted the researcher to align themes to the transcripts and compile them in line with the responses from the interviewees.

3.2 External validity

Greenstein (2004, p. 4) writes that 'external validity is the extent to which the findings derived from one study can be generalised and assumed valid for other cases and situations', and adds that 'the more representative of other sites our research site is, the more confident we can become that its conclusions are externally valid'. This research was carried out in two federations and two unions only, as such, the views expressed from the interviewees from the unions may not be an accurate representation of the initiatives undertaken by the entire labour movement regarding South Africa's pensions. Hence caution has been taken in drawing conclusions from the study. Nevertheless, conclusions drawn from responses from government officials are applicable to the wider section other than the four unions under study.

3.3 Ethical considerations

The researcher ensured that the welfare of the research participants was protected in the process of the research. As such, the researcher did not at any time interview minors, and protected interviewees' confidentiality by using pseudo names in the transcripts which are well secured. Before the start of the interview, the researcher explained clearly the purpose of the interview, invited the interviewees to participate and made it clear to them that should they wish to withdraw in the course of the interview, they were free to do so. The researcher also sought signatures from participants for their voluntary participation in the study. The

researcher applied for ethical clearance from the university's ethics committee before embarking on the interviews.

3.4 Work plan

The research work started with the presentation and submission of the proposal for approval in June 2011 and after getting the approval from the faculty in late July, field work started in August, 2011 and went on up to early October. Below is the summary of the work plan for the whole exercise.

a) Figure 1: Work plan in months

	Month	**June**	**July**	**August**	**Sept**	**October**	**Nov**	**Dec**
Activity								
Presentation of Proposal								
Application to ethics committee								
Data collection								
Data analysis								
Writing thesis								
Preliminary drafts								
Editing								
Final draft								
Final report								
Submission								

3.5 Limitations of the study

Time was the greatest limitation in carrying out this study. Carrying out research at the same time

attending course work was not an easy thing to do. The fact that most respondents were not based in Johannesburg made the situation even worse.

Getting access to some interviewees was a major challenge. Despite several reminders and follow ups, the researcher was not given the opportunity to interview some of the political leaders within the trade union movement. As such, some questions which sought the opinions of the political leadership on the topic under study were not extensively addressed. That notwithstanding, the researcher was able to get the relevant information from the technocrats who are part and parcel of the policy formulation machinery, including being involved in the NEDLAC engagement fora.

Some respondents, especially from the government departments were not very comfortable with the subject under investigation. Against the background of lack of consensus amongst government departments on some issues on the ongoing pension reform process, they viewed the researcher with suspicion. This was so because even labour is perceived not to be in favour of one of the documents and it is possible that they had a feeling that the researcher, coming from the trade union background might use the information outside the academic research despite assurance that the information being gathered was purely academic and would be treated with utmost confidentiality. This was evidenced on how they responded to some of the questions and maintained that other information would only be available to the public after the government releases a consolidated paper on the subject, though respondents were senior officials who were directly involved in the reform process.

Chapter Four: Current Status of the South African Pension

4.0 Introduction

This chapter presents an overview of the current status of South Africa's pension arrangement. Section one discusses the coverage of occupational and social pensions, section two analyses the legal and regulatory framework of pensions, section three examines the governments' initiatives to increase pension coverage, section four discusses the status of the reform of the retirement provision and section five presents the trade union response to the reform process.

4.1 Coverage and institutional arrangements of occupational funds

The 2011 Annual Report from the Financial Services Board (FSB) indicates that as of March 31, 2011, there were 10, 032 registered retirement funds supervised by the FSB. Of these funds, 3, 160 were active whilst the remainder comprised of funds that are dormant, orphaned (those without boards of management) or being deregistered or liquidated (FSB, 2011, p. 70). In addition to funds supervised by the FSB, there are other funds that are self managed on the one hand, of which the major ones include; the Government Employees' Pension Fund (GEPF), Transnet Fund and Telkom Fund and those administered by life insurers, known as underwritten funds on the other. The figure below shows some of the major retirement funds as of March 31, 2011.

Figure 2: Showing the Total Number of Retirement Funds as of March 31, 2011.

	Private Funds			**Under written**			**Summary**		
Administrators' Name	Active	Other	Total	Active	Other	Total	Total Active	Total Other	Total Funds
Liberty	40	24	64	671	3 404	4 075	711	3 365	4 076

Momentum	49	40	89	23	1 161	1 184	72	1 201	1 273
Alexander Forbes	399	450	849	-	1	1	399	451	850
Sanlam	72	30	102	173	375	548	245	405	650
Metropolitan	27	4	31	55	389	444	82	393	475
Old Mutual	75	43	118	57	188	245	132	231	363
Absa	259	86	345	-	3	3	259	89	348
NBC	92	64	156	2	-	2	94	64	158
Own Administrator	61	63	124	-	-	-	61	63	124
Coris Capital	18	4	22	-	-	-	18	4	22
All other Administrators	992	463	1 455	95	143	238	1 087	606	1 693
TOTAL	**2 084**	**1 271**	**3 355**	**1 076**	**5 664**	**6 740**	**3 160**	**6 872**	**10 032**

Source: FSB 2011 Annual Report, p. 74.

From the figure above, you will notice that there are several funds with a number of administrators, a scenario that has presented huge challenges as far as overall regulation of the funds is concerned. With such a myriad of pension funds, it is certain that the existing regulatory authority may not be able to provide effective oversight.

In terms of the actual membership, as of December 31, 2009, the total membership of all South

African retirement funds was 11, 679, 957 of which 9, 132, 816 were active members, 2, 547, 143 pensioners, deferred pensioners and dependants. These statistics may not give a very accurate reflection of participation as some people are members of more than one fund; hence they are counted more than once (FSB, 2011, p. 71).

When compared against the people employed in formal employment (9, 219,000), the retirement participation rate looks impressive. However, when compared to the total employment participation of 13, 118,000 covering both formal and informal employment (Statistics South Africa, 2011, p. vi), results clearly show the gaps in retirement provision coverage, especially considering the issue of double counting, the coverage gap becomes even wider.

Since pensions are not yet mandatory in South Africa, the majority of the population in informal employment, contract workers and those in low paying jobs do not save for their retirement. Instead, they rely on the governments' old age pension when they exit employment.

4.1.1 Coverage of Social Pensions

Unlike the occupational pension which is contributory, recipients of social pensions are subjected to a means test, to determine whether they qualify. The old age pension in South Africa is given to senior citizens above the age of 60 earning annual income below R31, 536 (single) and R63, 072 (married). During the 2010/11 calendar year, approximately 2, 659, 470 older people received grants and this is projected to increase to 2, 844, 243 in 2013/14 (National Treasury, 2011, p. 402).

As of 2011, the social pension is an amount of R1140 per month, which according to one senior government official is, *'by all levels of poverty, a rather generous benefit'*.

He went further to claim that;

> *'about two thirds of South Africans currently retire and then apply for these benefits, that*

gives a total of 2.6 million South Africans out of approximately 3.7 million of the population over the age of 60, men and women. So you can see that we cover a great number, approximately 75% covered. But from our estimates of those who are eligible, we cover in excess of 90% of them for the old age pension' (Pat 1, 2011).

Statistics from the National Treasury show that the number of recipients of state old age grant is increasing steadily. The figure below shows the progression of recipients from 2007/8 to the projected period of 2013/14.

Figure 3: Showing the trend of Old age grant recipients from 2007/08 – 2013/14

	Past			**Current**	**Projections**		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Total number of old age grant beneficiaries	2.2 million	2.3 million	2.5 million	2.7 million	2.7 million	2.8 million	2.8 million

Source: National Treasury, 2011, p 399

The steady increase of the old age grant recipients is a clear manifestation that many people do not save for their retirement. Nonetheless, there are some people who save for their retirement, but find their savings, due to low wages, remain very low at the end of the day, sometimes even lower than the social pensions, and hence have no choice but apply for the old age grants.

'As far as provident funds are concerned, the reality is that in most cases, the amount that is put aside is not sufficient to last the entire life of a person's life after retirement. And that means that they depend on relatives or state old age pension which is not adequate' (Pat 2, 2011).

For others, after being retrenched or voluntarily changing jobs, they cash in their accumulated retirement savings from their present fund and spend, rather than preserving it, a situation referred to as ‘leakage’.

4.2 Legal framework and regulation of pensions

The 1996 Constitution of the Republic of South Africa provides for social security for its citizens. Section 27.1 (c) states that ‘everyone has the right to have access to social security, including, if they are unable to support themselves and their dependants, appropriate social assistance’. It adds that the ‘state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights’ (27.2) (Republic of South Africa, 1996, section 27). With such a law, it is safe to deduce that every South African citizen is legally covered as far as social security, of which pensions fall under is concerned. Nevertheless, effective coverage paints a different picture as there are still some South Africans who are not covered by any retirement arrangement.

In addition to the Republican Constitution, the 1956 Pensions Funds Act (PFA) is the other prominent statute concerned with the provision of retirement arrangements. Enacted during the apartheid regime, at a time when the National Party government was at the height of strengthening by amendments several racially discriminatory statutes (Hunter, et al, 2010), the PFA, to date, has remained the principal regulator of the majority of occupational pension funds in South Africa. Initially, the PFA did not regulate the funds of the lesser skilled workers, which were mostly for black people.

As of 2011, all retirement funds established in terms of the industrial bargaining council agreement are subject to the PFA (Hunter, et al, 2010, xvii). However, there are still some occupational retirement funds that are not under the PFA. The major ones include the GEPF, being administered

under the Government Employees' Pension Law, Proclamation 21 of 1996; Members of Parliament and Political Officers Pension Fund established under the Act of 1994; Transnet Retirement Fund under the Transnet Pension Fund Act of 1990; Post Office Pension Fund and Telkom Pension Fund established in terms of the Post Office Act, 1958, just to mention a few.

Since its enactment in 1958, the PFA has undergone several amendments. Worth mentioning here are the 1996 amendment which established the office of the Pension Funds Adjucator, and the amendment that provides for the institution of the Board of Trustees, of which not less than 50% must be elected from members of the fund. These and other several amendments have been undertaken so as to make the PFA more encompassing and more effective. However, many stakeholders still consider the PFA to have several gaps which need policy redress.

> *'The major challenge is that the Act guiding the pensions is very old. It is an Act of 1956. Secondly, the act does not recognise the role of trade unions in pension issues....'* (Pat 3, 2011).

In addition, the PFA does not provide for a mandatory pension arrangement. This assertion was also echoed by a senior government official who stated;

> '*we are also looking at the issue of the non availability of the statute to make it mandatory for members to have a retirement fund, it's something that the government is looking at in terms of national social security fund, even though the talks are not progressing....[given] the absence of the statute to make sure that retirement fund contributions or benefits are mandatory and offered to all workers in order to make sure that they are covered, so that is the why we need to have a statute'* (Pat 1, 2011).

On the part of social pensions, the key legislation guiding the administration of old age grant is the Old Age Pensions Act of 1928. While it was initially enacted to provide for poor whites and

coloureds, by 1944, blacks were also covered by the Act, though under different terms; such as being subjected to a means test and receiving considerably low benefits as compared to the other races. The Old Age Pension Act has undergone numerous amendments which were aimed at reducing the benefit gaps which were racially designed and it was only after 1994 that all races in South Africa are subjected to equal terms under the Act. Currently, the Old Age Pension Act subjects all South African citizens to a means test; a beneficiary to be above the age of 60 and earning an annual income below a prescribed minimum.

Other statutes that deal with social protection in general include the South African Social Security Agency Act of 2004 which provides for the establishment of the South African Social Security Agency (SASSA). SASSA's main role is to 'ensure that there is effective and efficient administration, management and payment of social assistance, to provide for the prospective administration of payment of social security, including the provision of services related thereto and to provide for matters connected therewith' (SASSA, 2011, p. 12). The other is the Social Assistance Act of 2004 (Act No. 13 of 2004) which provides for the rendering of social assistance to persons; for mechanisms for rendering of such assistance... (ibid).

4.3 Government initiatives to increase pension coverage

In their RDP development framework, the ANC government stressed their desire of extending the coverage of both occupational and social pensions to the majority of South Africans who were excluded from the existing social security systems. 'The national social security system must be designed to meet the needs of workers in both formal and informal sectors, and of the unemployed, through social insurance which includes compulsory private contributory pension schemes or provident funds for all workers, and state social pensions' (ANC, 1994, p. 55).

In view of the above, over the past decade or so, there have been a number of commissions that have

proposed numerous significant changes in government policy mainly in relation to employment related retirement funding. These commissions include the Katz Commission of 1995; The Smith Commission, 1995; The National Retirement Consultative Forum (1997) and the Taylor Committee of 2002, which reported on comprehensive social security (Hunter et al, 2010).

Following the recommendations from the various commissions and committees, in 2004, the National Treasury compiled a *Discussion Paper on Retirement Fund Reform.* Hunter et al (2010) claim that the *Discussion Paper on Retirement Fund Reform* largely focused on the reform of occupational retirement arrangements and did not envisage any fundamental policy changes. This shortfall was also observed by other government departments, and it is not surprising therefore that in 2006, the Department of Social Development responded by releasing its own document; *Reform of Retirement Provisions.*

> *'National Treasury published a paper on retirement and they said, we don't think the system needs to be reformed, it is the finest and it complies with the World Bank standards as we have all the three pillars. In 2006, we published a paper in which we said nonsense (sic), that is not a true three pillar arrangement and we think we've got it wrong and we think there should be an amendment to the system...'*(Pat 1, 2011).

Amongst the proposals contained in the document by the Department of Social Development, those involved with extending coverage included the following; a) a state old age grant should be made universal and the means test be abolished, and b) a mandatory contributory system should be introduced, with contributions mandated from the age of 25 for all income earners (Department of Social Development, 2006, p. 12).

In 2007, the National Treasury released yet another document, the *'Social Security and Retirement Reform'*. In this second discussion document, proposals that focus on increasing the coverage of

retirement provisions are not very different from those proposed by the Department of Social Development. This document too proposes that means test either be removed or significantly increased on social grants including state old age pensions and also calls for mandatory participation in a national social security system up to an agreed earnings threshold. These measures are aimed at closing the gap that exists between social assistance grants and the current private sector provision (National Treasury, 2007, p. 3). Nonetheless, though the documents from Department of Social Development and National Treasury do have some similar policy proposals on other issues, there exist such fundamental differences between the two that they caused a stale mate on the progress of policy reform.

As a way forward, an interdepartmental task team on social security and retirement reform was established so as to debate the different proposals from the two documents.

> *'This task has been sitting for four years.... We now have a draft consolidated government document which contains these reform proposals and will be submitted to cabinet in the next month or two... I could say we are probably eight months from legislation if not more (effective September end). Believe me an interdepartmental task team of senior managers is often a place with egos and politics and because it is a negotiating forum within the government, it does take some time'* (Pat 1, 2011).

In addition to the above initiatives, the government in 2010, lowered the age from 65 to 60 for the eligibility of the old age grant, a decision that has led to coverage of more senior citizens with the social pension.

4.4 The status of the pension reform process

At the time of writing this report, the interdepartmental task team had neither produced a final document for public comments nor presented its formal proposals at the National Economic

Development and Labour Council (NEDLAC) for the inputs from the social partners.

It seems the fact that different government departments released different policy proposals for public discussion on one issue had brought a tug of war between the concerned departments. This was clear from the responses of government officials.

> *'Two documents on the reform process? Who have you been speaking to? Who have you been speaking to? (Emphasis). There's only one document officially'* (Pat 4, 2011).

When pressed further on the core differences in relation to extending coverage between the two documents, this is what this senior government official had to say;

> *'I cannot speak on social security reform because it is a really contested terrain. We are waiting to have consolidated views from different departments which are releasing different views and making them public, to try to get their views heard publicly. When we release a consolidated government paper, we'll consider all those views and have one consensus view. So let's talk about grants'* (Pat 4, 2011).

Indeed, the issue of lack of consensus was evident from all the respondents from the three government departments which were visited. Other than the differences which they had in relation to policy proposals to be considered in the pension reform process, the other area of contention borders on the institutional arrangement. All of the three government departments namely; Department of Social Development, Department of Labour and the National Treasury are fighting to be custodians of the final product of the reform process. For the National Treasury, their justification is that they have been the custodians of the Pensions Fund Act of 1956 ever since, whereas the Department of Labour claim that since they deal with the Unemployment Insurance Fund (UIF) and other occupational related compensation benefits, they should be the rightful custodians.

> *'There is no convergence amongst government departments at the moment. I can anticipate*

that the whole process could be fully fledged in 2014. Some roles are being taken away from other departments, especially Department of Labour; we feel most of the funds belong here' (Pat 5, 2011).

But the Department of Social Development is also convinced that they are the rightful custodians of the final product of the reform process because they are the ones responsible for social security and that pension is just one of the several elements of it. At the time of writing this report there was no consensus on the institutional arrangement as confirmed by one government official:

'The truth is that there is no one clearly defined as being the responsible department for pensions. And because of that, this is the case, you can imagine that you have three departments claiming responsibility over it, so until such a time when a political decision has been taken, it's when we shall continue....And everyone fears losing control over it and perhaps the complexity and the delay that we have, bearing in mind that this dimension has been there since 2004' (Pat 1, 2011).

4.4.1 Trade union response to the reform process

The uncertainty and slow progress of the reform process from the government departments is also affecting the pace of the labour movement's contributions to the process as one respondent had pointed out;

'According to information that we have received, even themselves (Departments of Labour, Social Development and National Treasury) have not finalised the nitty gritty...' (Pat 6, 2011).

As a consequence, labour is at crossroads as it does not know the final outcome from the government departments which would be a basis for their engagement.

'There isn't a formal position as yet because the document has not been tabled; there are two conflicting documents, and they have not been tabled for discussion as yet by social partners at NEDLAC, so we haven't necessarily forwarded a formal official position...' (Pat 2, 2011).

The above notwithstanding, labour, particularly the federations that are represented at NEDLAC namely COSATU, FEDUSA and NACTU had started engaging so as to prepare for the impending proposals from the government. Their engagement was provoked by the unilateral declaration of proposed 'piece meal' reforms on the retirement provisions by the Minister of Finance during his budget speech at a time when a comprehensive social security reform process had been dragging for over three years. Meeting at Hunters' Rest in Rustenburg from 3-5 April 2011, delegates from the three federations condemned the 'paternalistic' approach in which the government, through the National Treasury, is handling the retirement reform process.

Labour feels it is being sidelined by the government in the reform process and their concerns and fears were raised in a joint statement at the end of the conference as highlighted below;

- National Treasury, without consulting labour, has introduced proposals for 'piecemeal' reforms of retirement funds, being fully aware that these cannot take place outside the context of comprehensive social security reform.

- There have been extensive consultations between National Treasury and the Financial Service Sector on both 'the piecemeal proposals' and the pending policy paper while excluding labour apart from minimal and superficial contact.

- Finalisation of the policy document on comprehensive social security reform is at an advanced stage, yet there has been no significant engagement with Labour to identify policy choices to be taken forward from the previous discussions which were abandoned by government in 2007.

- Signals from Departments, including inputs which were made to the Conference, suggest that there remains vagueness and incoherence within government on important aspects of the proposals, including key questions such as income support for the unemployed (COSATU, FEDUSA, NACTU, April, 2011).

These fears from labour signals yet another tough task ahead when the policy document on the reform process will be officially tabled for discussion at NEDLAC. Already, labour is concerned with the proposal by Treasury to introduce compulsory preservation of retirement funds which would bar members of provident funds from withdrawing their full lump sum on unemployment or retirement. The argument is that preservation of retirement funds cannot be implemented before a comprehensive social security system is put in place, which must consider providing income support to all those who are not employed.

Labour is adamant that a decision on the preservation of pension cannot be taken without widespread consultation and discussion with affected workers and reiterates that should the government try to bull doze their proposal without seriously considering labour's input, the latter will have no choice but respond accordingly.

> *'Before these issues are clarified, government is aware that they are heading for a full conflict with us. They can see light at the end of the tunnel, but it is not the light from outside, it is the light of the oncoming train'* (Pat 3, 2011), warned one of the delegates to the conference.

The absence of the final proposals from government and lack of engagement is also derailing trade unions' consultation with their grassroots membership. It was pointed out during the study that trade union leadership is yet to roll out extensive consultative meetings with workers as they did not have a 'concrete message' to be delivered to them.

> *'It becomes clear to us that we cannot go to our members and give them the promise of something that we are not sure of or that is not there. What we need to do is to engage with government and see their attitude, and in the event that government does not want to come to party, then we will tell our members to do what they do best; to down tools and just withhold our labour'* (Pat 3, 2011).

Meanwhile labour has resolved to critically look at how issues such as changing jobs, unemployment, retirement and divorce will be treated in the proposed retirement preservation reform. Before coming up with a final position, labour needs to be convinced on how the proposed pension preservation would work when one is changing jobs; are the savings going to be transferred? Will there be costs for the transferring of the savings from one fund to the other? When one is unemployed, will the state provide grants to support them up until they can be able to access their pension? And in case of a divorce, will the current law that entitles a divorcee to 50% of the spouse's pension's savings be retained? Upon retirement, what percentage will be one's earning? Will there be a minimum pension guaranteed by the state, as the lowly paid, who are the majority of South Africans may end up receiving even less than the state old age pension?

To this effect, the conference resolved to set up a working group within the NEDLAC framework with the support of the necessary expertise to thoroughly debate and consider the best options in relation to the issues raised above.

Even though the political landscape has changed in the post apartheid era such that workers regardless of race do have an 'influence' over their retirement savings, it must not be forgotten that the issue of pension preservation brought the industrial unrest of the 1980s. Indeed, workers do have representation through member trustees in retirement fund boards, but some of the conditions that precipitated the protests have not really changed since. For instance, the majority of South Africans still receive low wages and may consider saving for pension as a luxury. There is a strong likelihood

that the ordinary workers will resist pension preservation altogether. Even government officials are aware of this as one member of the retirement reform committee observed:

> *'The lowly paid will have to contribute though they will be going home with less..... people will have objections to it, because for many of them, it means they will now be going home with less but as a country, I think it's better to have one slice of bread each day in two days than to have two slices of bread in day and have nothing the following day'* (Pat 1, 2011).

Though the labour movement was yet to make an official position on the pension preservation at the time of writing the report, it was clear that consensus was lacking. For instance, tapping from the previous experience, whereby mine workers who had received their lump sum on employment exit had to come back to the union office after a year or so after spending all that they received and requesting union officials to fight for their re-employment in the mines, NUM union officials showed total support for the proposed pension preservation so that issues like these do not re-occur in future. On the other hand, some officials from other unions stressed that in recognisance of the poor wages that most workers receive, it would be absurd to withhold part of their money on retirement, because the lump sum can enable them venture into a business which can sustain them, unlike the 'peanuts' which they would be receiving at the end of the day as a result of their little savings. Definitely this issue will only be settled when the government tables its consolidated discussion document; clearly outlining how the system will work and the remedy for the low earners.

4.5 Conclusion

The discussion above clearly demonstrates that more needs to be done if the dream of increasing pension coverage is to be realised. The gaps identified in the existing pension regulatory framework need to be filled. In addition, the ongoing contestation between the various government departments on the administration of the yet to be instituted comprehensive social security scheme needs a

political solution as soon as possible as it is derailing the whole pension reform process. Complaints from the labour movement regarding their marginalisation in the pension reform process send wrong signals; labour has to wake up and reclaim their rightful position in the process, after all the main focus of the reform hinges on their membership, their retirement savings.

Chapter Five: South African Trade Unions and Pension: Is Labour doing enough?

5.0 Introduction:

This chapter presents an overall of what trade unions have done so far in influencing pension policies and assesses the extent to which their interventions have been successful. It further provides an insight on whether the trade unions under investigation support the changes being proposed for the provident fund. Section one discusses the bottlenecks identified with the prevailing pension system, section two examines the submissions by COSATU in relation to pension policies and assesses the effectiveness of its submissions. The third section highlights what NUM has done in relation to extending pension coverage while the next section looks at CONSAWU's role in retirement provisions and pension policies as well as its position on the proposed changes to the provident fund. Section five examines what Solidarity has contributed to increasing pension coverage while the last section concludes the chapter.

5.1 What is wrong with the South Africa's pension system?

Several challenges facing the current pension arrangement system in South Africa were identified during the research. Amongst them, the most prominent one was the gap in the legislative framework. The law regulating pensions, Pension Fund Act of 1956, is said to be very old and has a number of loop holes. This law, which was enacted at the height of the apartheid regime, does not make the provision of pension mandatory. As such, there are a lot of people who are not covered by any form of pension. This includes people both in the formal and informal employment, in addition to the unemployed who are not old enough to qualify for the state old age pension.

Since saving for pension is not mandatory, the majority of South Africans do not save for their retirement. This problem is acute amongst the lowly paid as they find it difficult to save

money for the future while they are currently struggling to survive, moreover with no external force compelling them to do it. As a result, they reach retirement age with no pension savings, and turn to the state old age pension as pointed out by a government official.

> *'Many people are not covered, this thing (pension) is not mandatory. We went for an inspection and found people who have worked for over 30 years, but they do not have a pension. When these people are retrenched, they are sent to Department of Social Development to get the old age grant. So a lot of people, if they don't save, they would end up relying on the state pension'* (Pat 5, 2011).

There is another group that saves for pension but end up cashing their savings before retirement. This often occurs when they change jobs or are retrenched. This practice is rampant because many workers, other than retirement savings, do not have other savings due to low wages. To make matters worse, some of these workers find themselves supporting members of their extended families, especially because of high levels of unemployment in the country, as modern social protection arrangements are constructed around family relations. Pat 7 (2011) claimed that about 60% of black Africans earn less than R2500 per month. This claim was supported by the other respondent who explained:

> *'...the biggest problem regarding retirement provision in South Africa is that our working class does not provide for themselves. First of all, if they save, they do not save enough, and when they change from one work or they are retrenched or whatsoever, then leakage happen from your retirement provision, and when they get retired at the end of the day, they find that they did not make provision for retirement because what they had, they already used up'* (Pat 8, 2011).

Then there are other groups who work in sectors that are not covered in any way. They include those employed in the agricultural sector, domestic servants and those working for labour brokers. The three categories listed above usually work under precarious conditions such that it is difficult for them to make any retirement savings. In addition to low wages, their jobs are not secure and may lose them any time. One respondent wondered how such a category could be encouraged to save.

> *'...all of us would like to see our members with something at the end of their working time, but how do you tell someone who is earning a R1000 per month to put aside R20?'* (Pat 6, 2011).

The availability of several pension funds is also seen as another challenge with the current pension arrangement. Since funds are many, it has become increasingly difficult for the regulatory authorities to effectively monitor and control pension funds. As such, there have been cases whereby pension fund management institutions could be established 'overnight', attract unsuspecting investors and then the fund collapses within a short period resulting in losses of huge sums of money for the investors (Pat 5, 2011). Pension funds for some trade unions have fallen victim to these syndicates. Additionally, the liberalization of the pension fund industry has also led to the emergence of several small pension and provident fund administrators (ibid). This leads to poor benefits for their membership as a great percentage of pension contributions end up being utilised for administrative purposes.

> *'There are small pension and provident funds, where you have funds of about 50 people, but the administration there, you have a CEO (Chief Executive Officer) who earns millions, you also have the executive, so you will find that there are no economies of scale, and a large cost is going to administration instead of investment. So you invest in those funds and after a long period, you don't get money. We had a*

situation here with 'FIDENTIA'; it took a lot of people's pension money' (Pat 5, 2011).

The South African pension system is also marred by high administration costs. A study by the Department of Social Development revealed that the administration costs of retirement products are excessive by any standards, and this impacts directly on the quality of benefits. This was confirmed by one of the officials.

> *'High cost of savings, whether it is in a bank, provident fund or pension savings, it is very expensive by all standards. South Africa's administration costs are amongst the highest in the world, though others dispute that, and there is a study to back this. These factors contribute to low earnings for pensioners at the end of the day, and they end up relying on the social old age pension'* (Pat 1, 2011).

An appraisal of retirement fund administration costs of the private industry in South Africa by Rusconi in 2004 show that charges for many funds range from 26.7% to 43.2%, very high charge ratios by all standards (Department of Social Development, 2006, p. 10). Reasons for these high costs are attributed to poor transparency and a resulting lack of price competition, and it is suggested that in South Africa virtually all pension fund members pay charges way in excess of international norms (ibid).

Looking at the provision of state old age pension, the major problem pointed out during the study relates to administration as well. A government official explained that it is quite difficult to administer the pension to some beneficiaries especially those in remote rural areas. He claimed that it is expensive to administer these pensions in areas where there are no banks or post offices and that it costs the government as 'much as R35 per person to pay a grant in rural areas as opposed to 66 cents when we pay through the bank' (Pat 4, 2011).

Errors of inclusion and exclusion were also mentioned to be part of the problems for delivering state old age pensions. Since complicated models are used in the process of identifying beneficiaries, sometimes these simulation models may not be accurate; as a result, people who do not deserve to receive these pensions are included while bonafide beneficiaries are excluded.

The other problem facing the state old age grant is the depth of the benefit. This, as expected drew mixed reactions even amongst the government departments, with those directly responsible for it claiming that it is adequate (R1, 140. per month), while officials from other departments and trade unions describing the current benefit as not enough for one to survive on.

> *'...even if one gets a state pension, it is not adequate and we've got a large number of households especially in rural areas which are being headed by pensioners by virtue of the fact that they may be the only person who gets an income; we have high unemployment, we have got high levels of poverty. So that pension instead of being used by the pensioner is being used by the entire household. The reality is that the amount is not even adequate for one person and now they have to use for the entire household*'' (Pat 2, 2011).

The provision of state old age pension seems to be contributing negatively to the saving culture especially amongst the low paid workers. It was pointed out during the study that there are some workers, who having realised that the little which they are saving may disqualify them from receiving the social pensions are left with no choice, but to squander everything so that they qualify. Thus the means test social pension, while introduced with a good intention has ended up doing the opposite as observed by the government official.

'But the social pension also creates the problems of its own. The fact that it is a means test, it disqualifies many people who have made some savings that they have accumulated, so when we say they don't qualify because of the money they have saved, many people just spend that money in order to qualify for the grant'(Pat 1, 2011).

The above notwithstanding, it is worth noting that recent research evidence on the effectiveness of social pensions show that old age pensions significantly alleviate poverty amongst the elderly and many of their dependants (Department of Social Development, 2006, p. 8).

5.2 Submissions by COSATU in relation to retirement provisions and pension policies

In post apartheid South Africa, COSATU has been actively involved in the policy formulation process of the ANC led government. It is important to remember that it is one of the partners in the ruling alliance. Though its involvement in the alliance has been met with mixed reactions, with other quarters questioning its independence and objectivity when fighting for the workers interests, COSATU has continued with the 'unholy matrimony' and has chosen to champion workers cause from within. Fear from those who do not support COSATU's strategy of being in the ruling alliance and its continued active participation through parliamentary structures stems from their radical belief that institutions such as parliament are there only to advance the interests of the ruling class at the expense of workers.

It is worth noting again that COSATU's involvement in policy formulation processes with ANC dates back to the drawing up of the RDP document, and being an active participant in

the process, it sought to advance the RDP agenda of providing the basic needs to the public. During the RDP era, COSATU championed the provision of a social wage to working people and the poor, as this would have addressed the most dire conditions of poverty in society, empower people to progressively improve their living standards, and reduce conditions of dependency and helplessness (COSATU, 2000). Whenever policy decisions and legislations were deviating from the RDP development framework, COSATU never held back from offering criticism to the ANC government, albeit being its partner. The fact that the RDP was perceived to be seemingly 'social democratic' in most of its approaches, capital and other forces constantly attacked it, leading to its abandonment even before the democratic government could settle down in 1996. What replaced it was the Growth, Employment and Redistribution Framework (GEAR) whose proponents justified its 'introduction on the basis that it gave effect to the realization of the RDP, as some leaders felt that the latter was not possible to implement despite its noble objectives and philosophy' (ANC, 1994, p. 7). The main reason that was put forward for GEAR was that the economy could not sufficiently generate sufficient resources to finance the programs outlined in the RDP unless more deep-rooted reforms were given attention (ibid).

Since then, COSATU has made many policy proposals and submissions in relation to social protection in general and improvement of retirement arrangement provisions in particular.

> *'COSATU has made extensive submissions regarding pension funds regulations, as well as the provident fund regulations, particularly for example, the apportionment of surpluses when there was a change in systems in pensions from defined benefit system to defined contribution. We have also made submissions previously with other unions on the aspects of retirement fund contributions. There is also an ongoing process*

around comprehensive social security and within that falls the policies on the state provided retirement fund, contributory scheme that's been proposed' (Pat 2, 2011).

Several channels and strategies are used by COSATU when trying to advance its policy proposals. They include a combination of advocacy and where necessary, the language which politicians could not ignore for long; mass struggle. Utilising the available structures and processes, COSATU has been using and continues to use the following fora for engagement in advancing is policy options;

- through structures of the tripartite Alliance of the ANC, COSATU, and the South African Communist Party (SACP),
- advocacy in Parliament through public submissions to parliamentary Committees;
- engagement with Government Departments and Ministries;
- discussions and negotiations in the National Economic Development and Labour Council (NEDLAC);
- national initiatives, such as the Presidential Jobs Summit, and the National Framework Agreement on State Owned Enterprises; and
- local and provincial engagements, including provincial development fora, and local government restructuring (COSATU 2000, p. 8).

Thus through the above listed strategies, COSATU has been engaging the government on policies aimed at increasing pension coverage at various stages since the dawn of democratic dispensation in South Africa. Following a thorough review of documents obtained from COSATU, the discussion below gives a highlight of policy submissions and positions by the federation in relation to pensions and retirement provisions.

One of the earlier submissions by COSATU in relation to pensions was made in 1996 towards the Pension Fund Amendment Bill. The federation successfully argued for the inclusion of not less than 50% representation of workers on boards of retirement funds as opposed to the one-third representation that was contained in the draft Bill and was being supported by the Financial Services Board (FSB) and business (COSATU, 1996a). This submission was included in the legislation and currently all pension and provident funds are mandated to have board of trustees, of which worker representatives must not be less than 50%. Though this submission is not directly involved in increasing pension coverage, it is clear that active worker participation in the running of pension funds could lead to decisions that would consider workers interests; thus increasing the depth of their benefits. Other suggestions contained in this submission such as making retirement fund provision compulsory were not included at the time but are still high on the agenda of reform of retirement provisions.

COSATU also made submissions to the Smith Committee in May 1996 that had issues to do with pension. Amongst other things, the federation, recognising that the State Old Age Pension is the most redistributive instrument available to the South African government, called for the total removal or amendment of the means test so that many more poor South Africans may have access to the income benefit that it provides (COSATU, 1996b). As of 2011, the State Old Age pension is still being subjected to the means test.

Other submission on the retirement funds was in relation to the restructuring of the tax system on the funds. While the status quo made it possible for the wealthy to avoid paying the required tax, the proposed system seemingly reduced the benefits for the low income earners. The proposals by the federation resulted in the formulation of a representative forum

by the Department of Finance to critically look into the raised issues; unfortunately, this forum stopped functioning before it could fulfil its mandate.

COSATU also made critical observations to the draft White Paper on Social Welfare which was released for discussion in 1996. The federation observed that the paper was not consistent with the RDP framework as it failed to address the 'commitment to a national social security system, designed to meet the needs of workers in both formal and informal sectors, and the unemployed' (ANC, 1994, p. 55). Overall, COSATU felt the draft White Paper contained some areas of serious weaknesses where policy was indecisive and lacked a clear vision of the role of government in the provision of social security (COSATU 2000). The federation then called for the drafting of the new White Paper, which could deviate from 'piece meal' approach to the reform process and focus on creating a comprehensive social security system. Their wish was granted and an amended White Paper incorporated a commitment which stated:

> *"[A] transformed social security system should be built on two pillars. Firstly, it will require comprehensive social assistance to those without other means of support, such as a general means tested social assistance scheme. Secondly, it will require the restructuring of social insurance, including the retirement industry, unemployment insurance and health insurance."* (ibid, p. 54).

Though the amended White Paper showed a commitment to the establishment of a comprehensive social security system, at the time of writing this report, a couple of years after the release of the paper, the South African government had not yet introduced it.

In 2002, COSATU made submissions to the Department of Social Development in relation to retirement coverage and benefits. In their response to the enquiry into a comprehensive social security system for South Africa, COSATU raised concerns about the compulsory contribution to retirement funds by all workers which was raised by the committee, due to high levels of poverty amongst workers who are in informal employment and those in part time. Instead, it proposed the introduction of a universal grant to be funded from income tax and supplemented by the fiscus. The proposal for a universal grant was based on the conviction that the prevailing system of grants is not adequate to push people out of poverty, was marred with poor targeting and low uptake especially for the people in rural areas (COSATU, 2002, p. 8).

In light of the proliferation of several small pension funds which have proved to be inefficient, costly and provide lower benefits to the members, the federation called for the establishment of sectoral retirement funds which it argued could provide more benefits and wider coverage (ibid). It further observed that the proposal by the committee did not provide any compulsion to the small funds to join the big ones, let alone discourage their formation (ibid). COSATU also called for the improvement of benefits for the retired as well as transferability of funds. As of 2011 though, South Africa's retirement industry is still littered with multitudes of retirement funds.

Together with its partners in the Basic Income Grant Coalition, COSATU in 2003 actively participated in the committee that submitted the proposal for the introduction of a Basic Income Grant (BIG) which would provide for a minimum acceptable standard of living for all South African citizens who are unable to provide for themselves. The coalition noted that:

> ‘*one of the most effective means of reducing destitution and poverty is to provide some minimum support in the form of a social assistance grant, the BIG which has the potential, more than any other possible social protection intervention, to reduce poverty and promote human development and sustainable livelihoods’* (BIG Coalition, 2003, p. 2).

The BIG, the coalition argued, would enable the poor to participate and advance in social and economic life, hence reduces socio-economic constraints to sustainable growth in the country. Unlike the existing grants, the BIG proposes the abolition of a means test which is said to be responsible for the low uptake of some grants such as child care and disability due to its complex regulations and high relative cost of the application process; hence the latter would lead to ‘a larger number and wider range of people’ accessing the social assistance benefit (ibid, p. 10). Furthermore, the BIG proponents maintain that the grant would expand the existing social security net in such a way that ‘no individual would receive less in social assistance grants than before the introduction of the BIG (ibid, p. 19). Thus the BIG would be provided not as a substitute of the existing grants, but rather as a compliment. Such appealing was the BIG concept that delegates to the Presidential Job Summit had to concede:

> *“Parties to the Jobs Summit commit themselves to implementing a comprehensive social security system, aimed especially at those living in poverty and the unemployed. A basic income grant may be considered as part of such a system. The process to reach agreement on the elements of such a system should begin with an investigation.”* (COSATU, 2000, p. 55).

The BIG and several other policy proposals contained in this document which aimed at increasing the number of South Africans to benefit from state grants remained a 'pipe dream' as of 2011.

It is worth noting that since 2004, COSATU has not made any submission in relation to retirement provision in general and pension coverage in particular. It could be speculated that this is largely due to the fact that the retirement reform process towards which the submissions were made has not yet seen the light of the day. However, preliminary discussion documents have been released in relation to the process; starting with the National Treasury in 2004, then a response by the Department of Social Development in 2006 and then another counter by the National Treasury in 2007, during which a clear contestation between these two government departments have been exhibited, leaving other stakeholders, including labour confused in the process.

Nevertheless, COSATU has continued to engage the government on retirement benefits through other avenues other than submissions on policy and legislation since 2004:

> *'....there have been engagements on pension funds but not on policy legislation. There have been engagements outside them. You have people who are sitting on pension fund boards, retirement fund boards, and so there will be that ongoing process [sic] but there has been no engagement on policy and legislation, no'* (Pat 2, 2011).

The above notwithstanding, looking at the long period (about seven years) from when COSATU last made policy and legislative submissions on pensions, it could not be far from

the truth that the federation has not been very active on the issue. May be the issue is not amongst its top priorities on the to-do list.

5.3.1. Assessment of the submissions on retirement provision by COSATU

From the submissions made by COSATU on pension coverage so far, it is difficult to ascertain whether the federation has been successful as the reform process is still ongoing. Even an official from COSATU was non committal when asked whether the input by the federation is taken seriously and influences policies and legislation:

> *'...I think they have been taken into account, as to give you a proper assessment proportionately as to how much has been taken; I don't feel comfortable to express my opinion, but they definitely had an impact...And some things are actually going on as well at the moment like the proposed policies on the state funding mechanism for contributory retirement fund scheme'* (Pat 2, 2011).

But going through the 'Acceleration for Transformation' document released by COSATU's parliamentary office, a picture has been painted as to what extent the federation's input has been incorporated in policies and legislations. Though the document details what the federation has 'gained' in several policy submissions, this paper only focuses on those that are related to retirement provisions.

One of the prominent gains registered by COSATU was witnessed when their input led to legislation amendment which has resulted in the mandatory requirement of retirement funds to have a minimum of 50% representation of workers on their boards. Though it was a much contested proposal from employers and financial institutions, at the end COSATU emerged

victorious hence this requirement is in effect today. Of course, this is perceived to be a success in the administration of pensions and not in extending coverage, but the fact that trade unions now have equal representation with employers on pension boards has the potential of improving quality of pension, both in depth and coverage (where worker trustees are effective).

COSATU's pressure also contributed to the amendment of the social security policy. Today, the proposal of a universal income grant is high on the agenda of the retirement reform provision and this is credited to the initial proposals by COSATU which had been sustained through lobbying of groups with similar interests on the issue.

COSATU also succeeded in blocking legislation that was aimed at ripping workers of their retirement benefits which resulted when most pension funds changed from defined benefit to defined contribution schemes. When a bill was presented to let employers have access to the so called 'surplus' funds, the federation protested vehemently, reminding other stakeholders that pension funds are 'deferred wages' for the employees, as such employers had no legal basis of accessing the same. This protest resulted in the drafting of an alternative bill which subsequently did not allow employers to have a share of the surplus funds.

COSATU maintains that these gains and others which it has been able to achieve for the working class have been made possible due to its strategy of engaging with other stakeholders including the government other than taking an extremist route of absenteeism from engaging the other social partners (COSATU 2000).

Despite the gains made by COSATU in fighting for the changes and improvements in the area of retirement provisions, the absence of a comprehensive social security system in South Africa as of 2011, albeit many years of engagement on the same remains a big setback for the federation. Again, the government failure to implement a pension's top-up agreement for the low income earners is something COSATU looks at as another setback on their efforts to improve the retirement provisions for the working class (ibid).

5.3.2. COSATU's position on lump sum withdrawal and proposed changes to provident fund

At the time of writing the report, COSATU had not yet made its official position known on whether it still supports the idea that workers be given total lump sum of their retirement savings when exiting employment or they be given one third while preserving the remaining two thirds for the purchasing of an annuity to be accessed as a pension for the remaining part of their lives.

Though the federations' position awaits the official discussion document from the government and what is contained therein as regards to the treatment of low earning employees, high levels of unemployment and the introduction of a comprehensive social security system amongst others, it is quite clear that its position will be influenced by past experiences. This was confirmed by a COSATU official:

> *'...We have not necessarily forwarded a formal official position, but obviously, a lot of what COSATU will say on that will fall within our general positions on what we said on times of the comprehensive social security network'* (Pat 2, 2011).

But also the fact that the provident fund came out of a struggle will definitely play a significant part on the response by COSATU. As one respondent pointed out:

> *'Clearly as labour, we understand the history of where the provident fund came from and we are looking at what currently is happening, for example, the issue of the low salaries that members are earning, viz avis what one has to preserve. The fact that there is no prospect of getting a job once a person has been retrenched...'* (Pat 3, 2011).

It is on record that historically, trade unions supported the idea of having the provident fund because it was difficult for members to access their funds after exiting employment before retirement because of the homeland system of the apartheid era. As such, if the money was to be preserved, due to the restrictions on movements of black people, members could never have their hands on their preserved pension when they reached the retirement age. But things have changed now. There are no longer restrictions on movement. But would the workers understand this? May be not because of the low wages most of them receive, hence consider the provident fund as the only source of capital which they could use to start up some income generating activities in their retirement. This is so because the majority of workers, other than the provident fund, do not have any other savings.

It is quite evident that the proposed changes to the treatment of the provident fund have put the labour movement in an unenviable position. While officials and the leadership may appreciate the advantages of preserving the retirement funds on the one hand, it will be an uphill task to convince the rank and file membership. Again, the fact that the proposal still has some gray areas on which labour needs clarification before making its official position

known is not helping matters either. But what is clear on the ground is that workers are not ready to be forced to preserve their savings when exiting employment.

From the onset of the retirement reform process, COSATU has always maintained the need for the introduction of a social protection system which focuses much on the redistribution of wealth amongst the citizenry. It is against this background that its call for the BIG is still on the agenda of its social protection initiative. In its discussion document released in 2010; 'A Growth Path Towards Full Employment', COSATU reiterates that the 'introduction of a BIG is an important component of social protection and that it has to be conceptualised as part of a redistributive, employment-creating and social protection that stands side-by-side with the Employer of Last Resort, Child support grant and Old age pensions' (COSATU, 2010, p. 98). It is this conviction that puts the BIG on top of COSATU's social protection agenda and that its response to the proposed changes would to a larger extent be influenced by governments' position regarding the introduction of the BIG. COSATU is of the view that a BIG is an important and progressive redistributive tool as it helps alleviate the 'poverty tax' (referring to the burden borne by the working class when they support the unemployed as the country does not have a comprehensive social security system) that is currently being levied on the working poor (ibid).

It is important to bear in mind that COSATU's insistence on the introduction of the BIG is driven by their ideological leaning, that of a social democratic orientation which rests on wealth redistribution other than individual accumulation.

5.4. Efforts at the industrial level to increase pension coverage: What is NUM doing?

The National Mineworkers' Union (NUM) has one of the oldest retirement arrangements for employees working in the gold mining industry. The fund was established in 1989 in the

aftermath of the 1987 industrial unrests which opposed the way retirement funds were being managed which excluded blacks in their administrative structures as well as the proposed law which aimed at preserving the retirement savings until one reached the retirement age. The fund is a defined contribution; that is member's retirement benefit is dependent on the contributions made and the investment growth on the contributions.

All permanent employees of the participating employers of the fund are mandated to join the fund. The Mine Workers Provident Fund mainly caters for those in gold mining industry, with other mining sectors having their own sectoral funds. Such other sectoral funds are found in Construction industry, Platinum mining, ESKOM amongst others. While different funds have different rules within NUM, coverage for those in permanent jobs is almost 100%. Generally every member of NUM is covered by a retirement arrangement of some kind.

On a policy level, NUM plays an active role in the retirement reform process which is currently under way. One of its senior officials has been part and parcel in the previous discussions at NEDLAC and was also part of the team when the three federations namely; COSATU, FEDUSA and NACTU met immediately after the announcement by the Finance Minister to strategise on the way forward regarding proposed reforms of the provident funds. Thus, major policy decisions as regards to retirement provisions from NUM are channelled through the COSATU machinery.

5.5 Efforts by CONSAWU in relation to retirement provisions and pension policies

It is worth noting that CONSAWU, at the time of writing the report was not yet admitted into NEDLAC. As such the way they contribute to the policy debate was different from the one being followed by COSATU. CONSAWU's exclusion from the NEDLAC framework meant that they were not part and parcel of the formal policy engagements involving labour, business and government. This scenario greatly disadvantages CONSAWU as far as its

submissions for policy considerations are concerned. This frustration was evident from a senior CONSAWU official during the interview:

> *'...no...no...no...we are not yet admitted to NEDLAC, that's we raise issues in the form of making them public through adverts, through memorandums, through our own publications so that we can bring them into public discourse. We have not been such fortunate in fighting legal battle through the courts, but we are also looking at other options, and the other terrain is raising these issues when we meet with our affiliates and it becomes an issue of collective bargaining...'* (Pat 9, 2011).

Thus being outside the formal social dialogue engagement process, it has not been an easy road for the federation to put across its policy suggestions regarding the provision of social protection in general and increase in pension coverage in particular. It was found out during the study that sometimes when CONSAWU reaches out to other federations for their input on its policy suggestions, it is snubbed. This has also been the situation when CONSAWU sought the views of other federations on comprehensive social security proposal.

> *'... the core of our theme is comprehensive social security and if possible collapse all of them (different state grants) and bring a comprehensive one especially for the aged and those between 18-64 who are in want. We have so far sent our position to the other federations though we have not yet received feedback and we are not sure whether they have read them or not, but they have them...but we continue to struggle. As we believe that for us to succeed, it has to be a unified battle with other federations'* (Pat 9, 2011).

CONSAWU is not only just ignored by other trade union federations. It seems on several other occasions, the government does the same. In its 2010 publication of Workers' Voice, issue number two, CONSAWU writes that on three occasions during which it petitioned the

government on several issues including those related to the extension of social protection coverage to the majority, the federation did not receive any response, let alone an acknowledgement of receipt of the petition (CONSAWU, 2010 b, p. 4). This trend seem to have been going on for some because even in its first issue of Workers' Voice of 2010, the federation explains how its president was snubbed by the government during the G20 Summit in Pittsburg, refusing any contact with him until he returned to South Africa (CONSAWU, 2010 a, p. 11). This was after the government machinery had also ignored all the communications from CONSAWU in preparation of the same trip (ibid). One then wonders why the federation is being shut out this way.

Despite the cold treatment that CONSAWU receives from the 'would be partners', the federation is not discouraged and continues to fight for the improvement of social protection in South Africa. Since its 2006 congress, CONSAWU has been campaigning for the consolidation of the fragmented state grants into a one benefit. The federation's current proposal is that the government should consider providing a 'minimum of R2 500.00 per month per individual so that it can be able to keep the body and soul together' (CONSAWU, 2010 b, p. 11). CONSAWU's argument is that the several 'stand alone' grants have failed to alleviate poverty, but rather they are perpetuating it.

> *'The reason why poverty is perpetuated by these social grants is; one, there are too many pieces so that they are ineffective; two, they are too small...they are like life support machines when a person is about to die, they do not prevent death.'* (Pat 9, 2011).

To illustrate how small and ineffective social grants are, an example was used for a child support grant which as of 2011 was at R270 per month per child. By dividing this amount by

days in a month and taking 30 as an average, it was found out that R9 is allocated to a child per day, which, the participant described as 'ridiculous'.

This campaign, as mentioned above is mainly carried out through CONSAWU's publications, both print and electronic; placing adverts in popular news papers, through awareness marches as well as encouraging its affiliates to have social protection issues and retirement provisions at the centre of their collective bargaining agreements.

Actually, CONSAWU has managed to initiate a housing project to alleviate housing problems for its membership. Under this scheme, which is perceived as part and parcel of CONSAWU's holistic approach to social protection, the federation is said to have acquired land and developed houses which are then loaned to its members, with employers guaranteeing the loans and assisting with initial deposits for the loans.

> *'…we actually have created areas where tracts and tracts of land was bought and houses were developed and employers would provide surety for the initial deposits of the house such that people could get accommodation'* (Pat 9, 2011)

5.5.1 CONSAWU's position on lump sum withdrawal and proposed changes to provident fund

Just like COSATU, CONSAWU had not yet made its 'official' position known as to whether the federation would support the proposed changes to the provident fund at the time of writing this report. It has to be pointed out that the proposed changes implicitly suggest doing away with the provident fund. Bearing this in mind however, the respondent, a senior elected leader of CONSAWU indicated that though the leadership had not met to discuss the issue, the possibility was very slim for the federation to support the changes to the provident fund as proposed by the Finance Minister.

His argument was based on the fact that the majority of CONSAWU's membership is on provident fund and expected a lot of resistance if they were advised to convert to the pension arrangement. Provident funds, he continued, were established for a purpose, and unless conditions on the ground changed, it is the best retirement arrangement for the majority of South Africans.

> *'except for workers in the public service (less than two million workers), the majority of workers in this country never work to retirement....and when one change jobs, do you know that to transfer the funds is done at a cost? or when retrenched do you expect one to leave his funds behind, accumulating interest to which he does not benefit up to retirement age while he is struggling to survive?'* (Pat 9, 2011).

He added that since provident fund is not 'tied up' when one loses employment, it helps those ejected from employment to provide for themselves up to next employment if they succeed in securing one. Otherwise, it provides capital with which one can start an income generating activity in the post employment life, after all the Unemployment Insurance Fund (UIF) is only given for a limited period (eight months) and the amount is not adequate for the low income earners as it is a percentage of one's earning. The provident fund is also said to be utilised for building houses as most people fail to build a house with a pension benefit in which they are only given one third of the money earned at retirement. Above all, workers have an option at the end of the day to buy a pension annuity after receiving a lump sum and it is only rational to give workers the 'right to choose' on how to use their retirement benefit other than forcibly locking it away from them. He is convinced that policy makers do not really understand these issues; their origins and implications.

> *'...I think people at this level have difficulties in understanding these issues...and our poor Minister is just ignorant. In the Pensions Fund Act of 1956 there is a section on*

annuity, provident funds and pension which gives a variety of options to workers....' (Pat 9, 2011)

The other reason Pat 9 felt CONSAWU would not support the proposed changes to the provident fund is the rationale behind the tax reforms being suggested. He just does not feel it makes sense. To him, no matter what the intention is, the fact that the proposed tax reform will result in the reduction of benefits for workers defies logic, and he described the proposal as being 'against all notions and traditions of ordinary man' (Pat 9, 2011).

From the interviews conducted with senior CONSAWU officials, it was established that the federation had not made any official submissions to either parliamentary or any other committee set up to deal with pension issues. It seems the federation's major outlet on issues related to retirement arrangements remains its publications and adverts as mentioned above. Efforts to access some of the documents and memoranda issued by the federation calling for an increase in pension coverage did not materialise as the interviewee did not forward the same to the researcher as promised despite several reminders. This then makes it difficult to come up with an objective analysis as to whether their efforts have been fruitful. Though the retirement reform process has not been yet concluded, it would be naive to assume that those at the reform process would consider inputs not formally submitted to them for their consideration. Lack of formal submissions on social protection and pension issues to the relevant institutions by CONSAWU could be likened to 'winking in the dark'; hoping that someone is taking note of what you are doing.

5.6 What role has Solidarity played so far towards increasing pension coverage?

According to a senior Solidarity official, the trade union is founded on the Christian Democratic ideology, is a free market labour organisation, and supports a capitalist economy

and limited government intervention (Pat 8, 2011). It is not surprising therefore that the trade union's interventions on social protection issues centres on the individual.

It was established during the research that Solidarity has not taken an active part in the policy debates surrounding the retirement reform process which aims at increasing the coverage of pensions; both occupational and social. This has been driven by the conviction that everything starts with the individual, and that the role of the state must be minimal. As an individual, one has to make sure that s/he is able to earn enough and save some for retirement and not rely on the hand outs.

> *'...not actively...we are not a socialist by nature although we are a trade union, so that is the big difference between us and others. We are in support of a free market and a stakeholder type of capitalism where as others are socialist or even communist and support nationalisation or those kind of issues. What we believe is that control lies within yourself. You as a person must make sure that you are successful'* (Pat 8, 2011).

The solution being suggested by Solidarity for increasing pension coverage lies with education and training. Every individual has to strive to get proper training which would enable them have access to a good job. With a good job, everyone will be able to save for retirement. To that effect, Solidarity does provide training and training opportunities in several technical fields to its membership so that the latter may be able to move up the employment ladder, earn enough and save for retirement.

> *'...We must look at what inputs must we provide to make sure that we can give those who are not employed fishing rods instead of fish, because by way of giving them a*

grant, we are giving them the fish, and with that they are not going to help themselves...' (Pat 8, 2011).

However, the union does not provide bursaries for these trainings. In addition, the union also has a provident fund which acts as a top up for savings made up by its members. It was pointed out during the interview that most Solidarity members do not save enough for retirement hence the need for a top up fund.

Solidarity is strongly against the redistribution policy as a way of increasing pension coverage. Redistribution, which is mainly financed by taxation, is viewed as placing more tax burden on the workers who are already overburdened. This is against a background of a narrow tax base in South Africa due to high levels of unemployment.

'...the majority are not working, so it is impossible to redistribute. We shall have a huge social problem; you cannot really burden tax payers too much to provide for those who do not work...which is now the case in the European Union; the Germans must work so that Greece can survive!' (Pat 8, 2011).

Again the South Africa's regulatory frame work for labour is perceived to be too rigid by Solidarity such that it has become a barrier to creating more jobs to reduce the levels of unemployment hence decrease the number of people reliant on the government's welfare.

'...you will not believe what we are going through. We have very tight labour laws in South Africa that are not flexible enough to give more people work; it protects those who are in work forgetting those who are not employed' (Pat 8, 2011).

As already pointed out above, Solidarity's contributions towards policy debate on increasing pension coverage has been very limited. As an affiliate of CONSAWU which is not yet admitted into the NEDLAC framework as well as being influenced by an ideology that places

much value on the individual other than the society at large it remains uncertain if the union will contribute significantly towards policies that aim at increasing pensions' coverage.

5.7 Conclusion

This chapter has presented some of the challenges that are currently facing the pension arrangement in South Africa. They include limited coverage, multiplicity of pension funds and high administration costs. Participation of labour in the policy debates involving pension was found not to be uniform between COSATU and CONSAWU. While on one hand, COSATU was found to have made enormous submissions towards retirement provisions, on the other, CONSAWU's participation was noted to be very limited. It may be argued that the latter's limited participation on policy debates could to a larger extent be attributed to the fact that it is not yet admitted into the NEDLAC framework despite several efforts. At the time of writing this report, it was quite difficult to have a comprehensive assessment on the influence of labour towards increasing pension coverage as the retirement reform process was still ongoing.

Chapter Six: Summary and Conclusion

This study explored the extent to which the labour movement has contributed in the process of policy formulation that deals with retirement provision in post apartheid South Africa. It focused on the extent to which CONSAWU, COSATU and their affiliates Solidarity and NUM respectively have had an influence in the formulation of policies that deal with the extension of coverage and depth of pensions. The study also assessed the preparedness of these federations in responding to the proposed reforms to the retirement provision, especially the issue of pension preservation.

In the first place, the study found out that COSATU had made significant submissions to parliament, government departments and special committees which were instituted to solicit views with regards to the reform of the retirement process in South Africa prior to 2004. However, from 2004 to present (2011), despite huge gaps in both coverage and depth of social and occupational pensions, COSATU has not made any submission to either government or parliament which is aimed at increasing the coverage of pensions. It seems the federation has pushed the social protection agenda down its priority ladder and only becomes vigilant when proposals are being introduced by the government which affect the status quo. This was evidenced by the swiftness with which COSATU and its partners in NEDLAC converged a meeting to chart the way forward shortly after the Minister of Finance had announced the proposed reforms to the retirement provision arrangement. This action showed that the federation had become dilatory other than being reactive in issues dealing with pensions.

Secondly, the study revealed that the contestation amongst government departments which has resulted in the delay in producing a final document for discussion on the retirement reform process is being used as an excuse for labour's lukewarm approach in the fight for the

extension of pension coverage. In the absence of a final document to guide discussions on retirement reform process, it seems labour is comfortable with adopting a wait and see approach to the process, at the expense of both their members and society which have been excluded from the existing 'piece meal' social protection arrangements. Unfortunately, it is not known when the government will finally release the retirement reform document for discussion and for how long must labour keep on waiting.

Next, the study has also revealed that the influence of CONSAWU and Solidarity on pension coverage issues has been very limited. Apart from publishing few articles in their newsletters and websites on the topic, the federation and its affiliate had never formally engaged with the government on the issue of extending pension coverage by the time of writing this report. Thus their publications remain the major channel of communicating their proposals not only to their membership, but the government as well. It was not surprising therefore to learn that five months down the line after the Minister of Finance had announced the proposed changes to retirement arrangements, CONSAWU had not started to strategise on how to respond to the raised issues.

Lastly, it was discovered during the study that the central role in policy formulation relating to retirement provision so far has been played by government departments. Obviously, this has a direct impact on the final product of the process. Unfortunately, labour has been excluded in the initial process of the retirement reform which is currently underway, and its contributions at a later stage of the process may not be very effective. Chances are high that the government will try to bull doze its predetermined position on the issue which may be contrary to that of labour.

Thus basing on the results of this study, it is clear that CONSAWU and COSATU have not been active enough in contributing to policies and legislations that are aimed at increasing

pension depth and coverage in post apartheid South Africa. While COSATU was very much involved in policy formulation during the early years of democratic South Africa as evidenced by its full participation during development of the RDP framework, it became evident that its alliance partner, the ANC, before it could even 'settle on the levers of state power' started to sideline it in the policy processes as it happened during the formulation of the Growth, Employment and Redistribution (GEAR) framework (COSATU, 2010, p. 7). This marked a turning point whereby contributions not only from COSATU but also the entire labour community became severely limited in policy formulation processes, a situation which continues to date. Only and only if labour reasserts its power will it be able to have significant influence on policy and legislation processes which would contribute to the extension of pension coverage.

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Notes

Pat 1- Pat 12 refers to codes assigned to interviewees.