



A guide on measuring retirement reform

Willem Loots, Liberty Corporate



A PARTNERSHIP BETWEEN



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Agenda

Welfare



Scorecard for social security



Impact on Insurance market

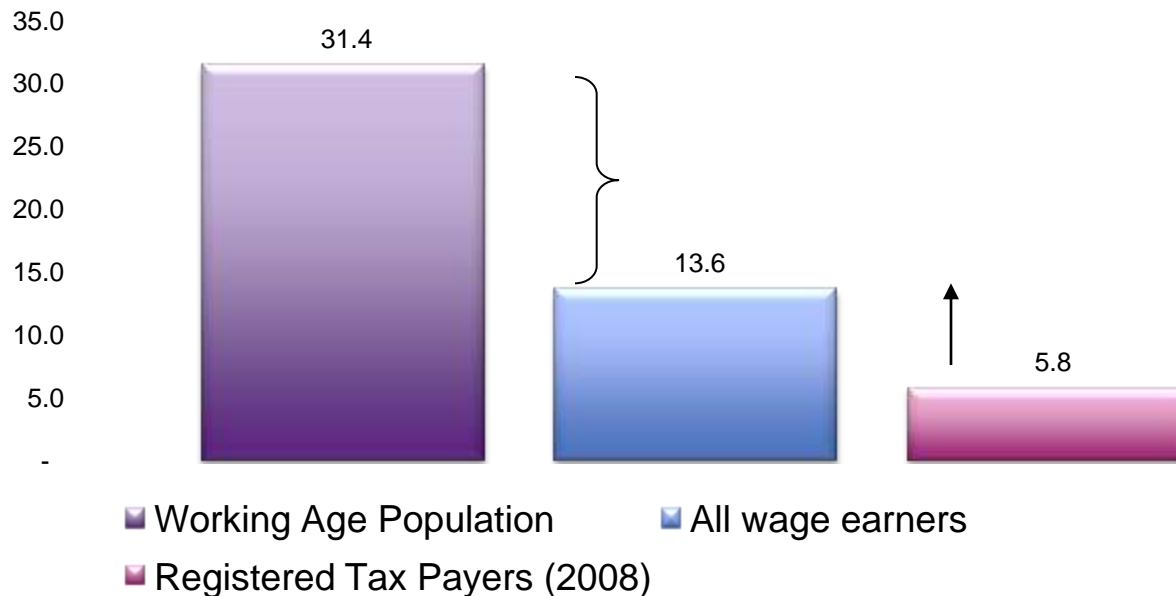
Scorecard for Social Security as a component in the overall welfare system

	Criteria	Current	Debate...	Future
1	Accessibility	?	?	?
2	Level of benefits	?	?	?
3	Sustainability	?	?	?
4	Minimum Safety net	?	?	?
5	Level of saving at all income levels	?	?	?
6	Government effective delivery	?	?	?

1. Accessibility to employed population

Does the employed population have access to the benefits provided by a retirement scheme, including risk benefits? Is such provision affordable, to individuals (or employers)?

Working Age population breakdown



Sources: Statistics South Africa Mid-year population estimates, 2009; 2009 Tax Statistics, Department National Treasury & SARS

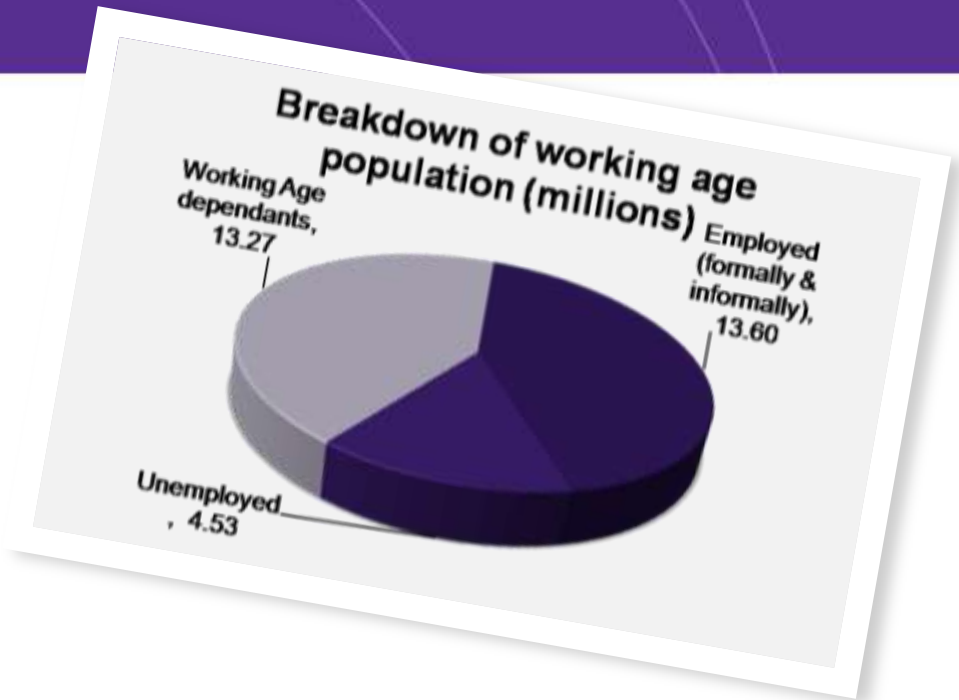
1. Accessibility to employed population

Unemployment problem

Interesting fact on Redistributive effect of tax collection:

8% Of all individuals that paid income tax in 2008 earned more than R400,000 p.a. taxable income.

This group contributed **51%** of the total income tax collected, and just under **16%** of all taxes collected from all sources in the same period.



Estimates based on data from Statistics South Africa Mid-year population estimates, 2009; 2009 Tax Statistics, Department National Treasury & SARS

1. Accessibility to employed population

Key issues...

- Should not make existing employment more costly
- Should not discourage foreign investment by affecting 'cost of doing business'
- No use we discuss a new social security system to be as inclusive as possible if employment levels do not improve

Proposed Wage subsidy for low income groups

An explicit wage subsidy for low income groups to cover costs will assist with accessibility:

- Form of redistribution of wealth ('help those that help themselves')
- Greater transparency
- Allows Funding (as opposed to PAYG)

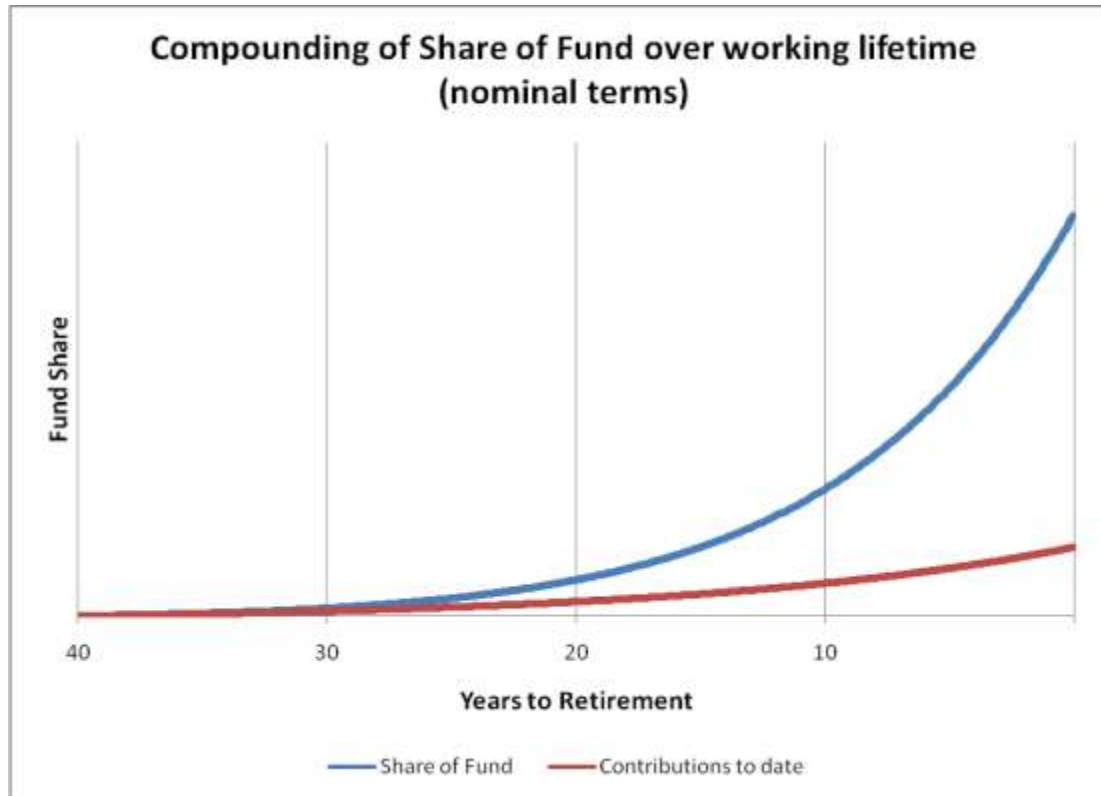
2. Level of Benefits

Do individuals have sufficient savings to retire? Is sufficient provision made on disability & death?

“It is estimated that more than half of those who reach retirement age with a funded pension receive a retirement income that is less than 28% of their pre-retirement income.”

Social Security and Retirement Reform - Second Discussion Paper, National Treasury, 2007 (p5)

2. Level of Benefits – Preservation an issue



1. Percentage of total Investment return earned in last 10 years: **71.7%**
2. NRR at retirement : **90.5%**
3. NRR if contributions delayed by 10years (or accumulated sum withdrawn at year 10): **56.21%**

2. Level of Benefits – Preservation an issue

Treasury is proposing compulsory preservation throughout working lifetime.

System would still need to allow for narrowly defined access to benefits:

- Unemployment
- Divorce / Maintenance orders
- Housing provision

3. Sustainability

Is the Social Security System sustainable?

Greece provides an interesting example...

- Earnings related PAYG system
- Proposals to increase Retirement age
- Poor decisions over a long period of time
- Prime example: Jobs considered dangerous
 - 700,000 employees promised early retirement
 - Age 50 (Female) & 55 (Male)
 - Coal Mining, Bomb Disposal
 - **Radio & Television presenters? (Bacteria on Microphones!)**
 - **Musicians playing wind instruments? (Gastric Reflux from puffing & blowing!)**

3. Sustainability

Country	Official Debt to GDP level	Estimated Debt to GDP level including benefit promises
Greece	113%	875%
France	76%	549%
Germany	72%	418%
USA	60%	500%

- Ageing population
- Systems vulnerable to political influence
- Not caused by the global financial crisis

The designs of these retirement systems are not sustainable!



“A simple test for any retirement system is whether it can assure the availability of promised real resources to retirees without overly burdening the working age population.”

Alan Greenspan, *The Age of Turbulence*, 2008

4. Minimum Safety net

Is an appropriate minimum safety net in place?

- Current State Old Age Grant (SOAG), R1,080p.m.
- This minimum safety net equates to approximately 31% of GDP per Capita (conservative estimate)
- Covers 2/3rds of all people over 65

5. Level of savings at all income levels

Is there is a sufficient overall national savings level?

At present:

- Low savings rate among poor - Means test acts a disincentive to save
- Low savings rate among employed – Lack of private savings as well as lack of preservation

5. Level of savings at all income levels

Why is a savings culture a good thing?

- Secure retirement
- Reduce dependence on state
- Provides capital that fosters economic growth

“...the most effective way to boost future standards of living, and thereby accommodate the aspirations of *both* workers and retirees, is to increase the nation’s savings and productiveness of its uses.”

Dr. Alan Greenspan, *The Age of Turbulence* (2008), p413












Problem with Mandatory savings – Taxi Driver example

- Nearly impossible to verify earnings of taxi-drivers..
 - Mandatory system vulnerable to manipulation!

6. Government efficiency (service delivery and poverty relief)

1. What is the track record for cost & quality of government service? In particular, would it (e.g. Home Affairs) run a retirement system in a better way than private sector?
2. It is conceivable that central fund can possibly be administered more cost effectively than large number of small funds

Scorecard so far...

	Criteria	Current	Debate...	Future
1	Accessibility			?
2	Level of benefits			?
3	Sustainability		?	?
4	Minimum Safety net			?
5	Level of saving at all income levels		?	?
6	Government effective delivery		?	?

Potential impact on the insurance industry?

- **Fewer private funds, but more assets for individuals**
- **Compulsory insurance cover, but more gaps to be filled**
 - Minimum level of compulsory insurance cover offered - likely be much lower than what higher earning individuals currently enjoy.
 - Need to privately obtain risk cover to make up this shortfall on an individual basis.
 - Advice will be required on top-up cover.
- **The advice environment will likely be simplified, but the transition may be messy with individuals requiring assistance during this time**
- **The last thing individuals should be doing is cashing in on their retirement fund savings**

Questions?



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Alan Greenspan, *The Age of Turbulence*, 2008