

International Conference on Social Protection for the Elderly

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BADAN KEBIJAKAN FISKAL
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Australian Government



Social Protection for the Elderly in South Africa

22 May 2018

Jakarta



Introduction

- ▶ South Africa is a middle income country.
- ▶ The population was estimated at 56.5 million in 2017.
- ▶ The GDP is around R4 trillion(\$333b) (R12- R13 :\$1).
- ▶ Total revenue around R1 trillion(\$83b).
- ▶ Relative young population.
- ▶ Elderly population 4,597,138 or 8.1%.
- ▶ Unemployment rate 26.7%.
- ▶ Poverty level on upper bound line 23.5% and 13,3% on the absolute measure. Poverty gap 23.6% (Statssa 2012).
- ▶ GDP growth quarter to quarter 1-3%.
- ▶ Between 27-30% of the population receive a non contributory benefits approximately 3.5% of GDP.
- ▶ Budget for social pensions is R70,5b(\$5.8b). Around 1.75% of GDP and comprise 43% of the total cash transfers budget.

Origins of Pensions in South Africa

- The contributory pension scheme was introduced around 1890 during the British colonization of South Africa. It was in line with development in Europe.
- After the first world war, South Africa experienced a severe economic depression and to assist poor white families, the government in 1921 introduced a social pension.
- It assisted extensively to alleviate poverty and help the white community in South Africa to develop economic resilience to hardship.
- Learning from the experiences of the impact of the pension on poor white households, the then apartheid government decided to extend pensions to other races, which it did in a discriminatory manner.
- In 1994 with the implementation of the new Constitutional and a new democratically elected government, the racially skewed social pension system was equalised for all races with access for women granted at 60 years and men 65 years.



Social Protections Provisions for the Elderly

- 1. Income Benefits(pension).
 - 2. Free Primary Health. Proposed national health insurance.
 - 3. Subsidised Accommodation. Reduced rental in public and welfare housing.
 - 4. Fully funded Frail Care.
 - 5. Subsidised social services, free meals at luncheon clubs and rehabilitative services.
 - 6. Quota of free water and electrical services.
 - 7. Free public transport in urban areas.
 - 8. Reduced rates on property.
 - 9. Reduced rentals and call costs for telephones.
 - 10. Subsidies for individuals and associations wanting to develop housing for the elderly.
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Income Support for the Elderly

- There are two types of income support for the elderly 1. Old Age Social Pension 2. Occupational Pension. Flat pension single tier pension regime.
- Social Grant:
- A social grant - a monthly income equivalent of \$141 per month for both man and woman 60 years and older. This programme is a non contributory scheme funded from tax revenues. The amount is based on basic needs. It is above the poverty line and is adjusted annually for inflation.
 - The grant is means tested. There is no asset means except if u have a second and more houses or properties. The exclusion level for single and married individuals are \$93500 and \$187000 respectively.
 - The income means exclusion threshold is approximately \$545 per month if you are single and \$1092 per month if you are married.
 - In 2007, 13 years later there was a challenge on the unconstitutionality of the unequal access to the social pension. Men wanted access at the same age as women.
 - From 2008 to 2010 men were progressively granted access to the social pension from the age of 60 yrs.
- Coverage: In March 2018, 75% or (3,423,337 elderly persons per month) of the elderly population in South Africa was in receipt of a social grant.

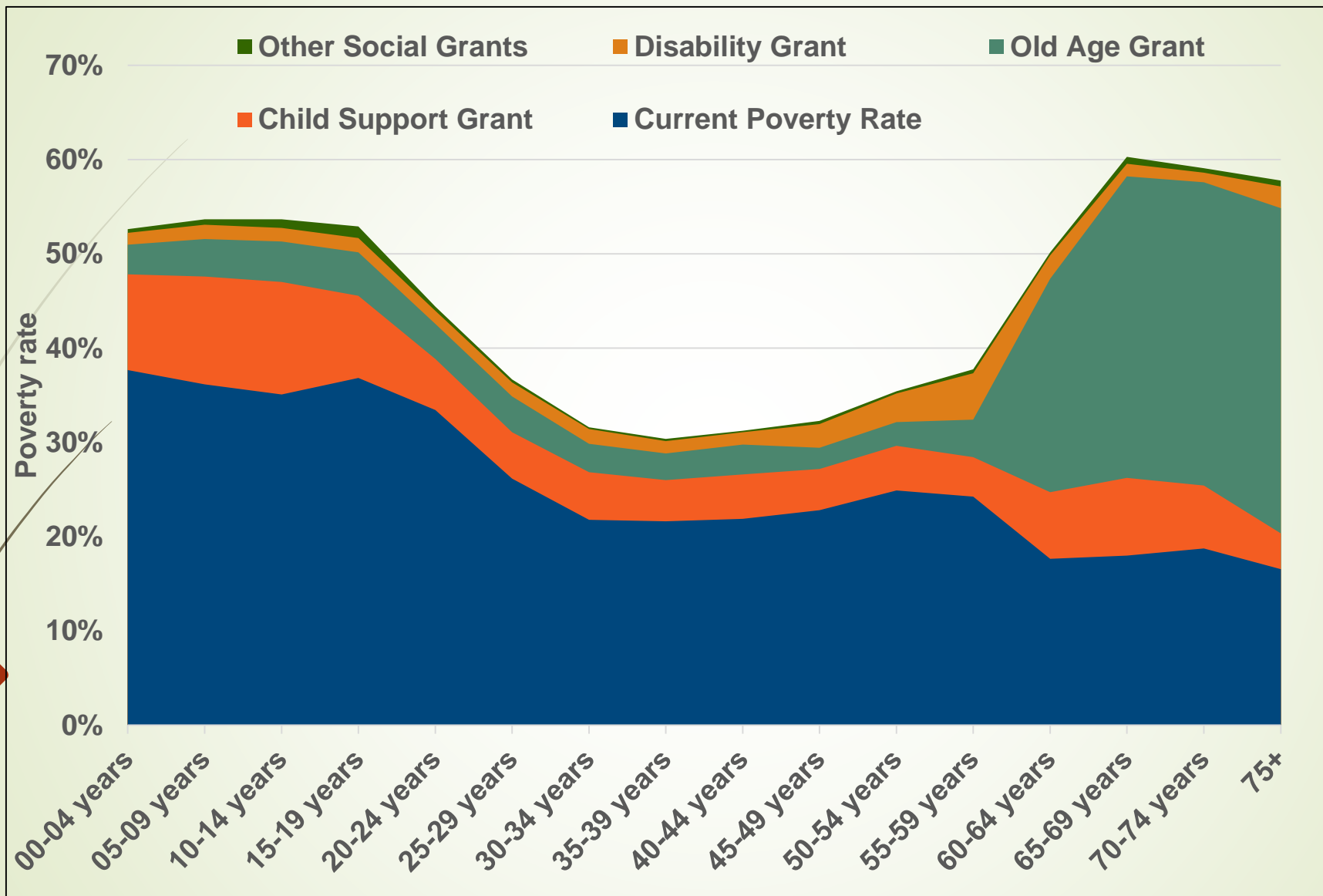
Increase in Numbers and Costs of Social Pensions over Five Years

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Numbers	3,086,851	3,194,087	3,302,202	3,423,337	3,550,000
% increase		3.47%	3.38%	3.67%	3.69(0,27%
Costs	R49b.	R53b	R58b	R64.4b	R70.5b
% increase		7.5%	9%	11%	9.5%(2%)



Poverty Level and the Social Pension

- South Africa has 3 poverty measures, the food or absolute poverty line, the lower bound and the upper bound poverty line. The upper bound measure is used for the determination of benefits.
- The amount of the social pension is \$141 per person per month and the upper bound poverty line at 2017 prices was \$95 per month. Hence poverty is low amongst the elderly.
- Poverty declined by 50% from 27% in 2002 to 13.5% in 2016. Result of cash transfers with the social pensions contributing to 50% of the decline.
- The exclusion error is estimated to be 5%. Social pensions is the residual programme. There is no spousal support for spouses younger than 60 years. There is support for dependents under 18 yrs in the form of the child support grant. Several reasons for exclusion:
 - Lack of information.
 - Hard to reach.
 - The income of one spouse is above means test exclusion level.



Accessibility to the Social Pension

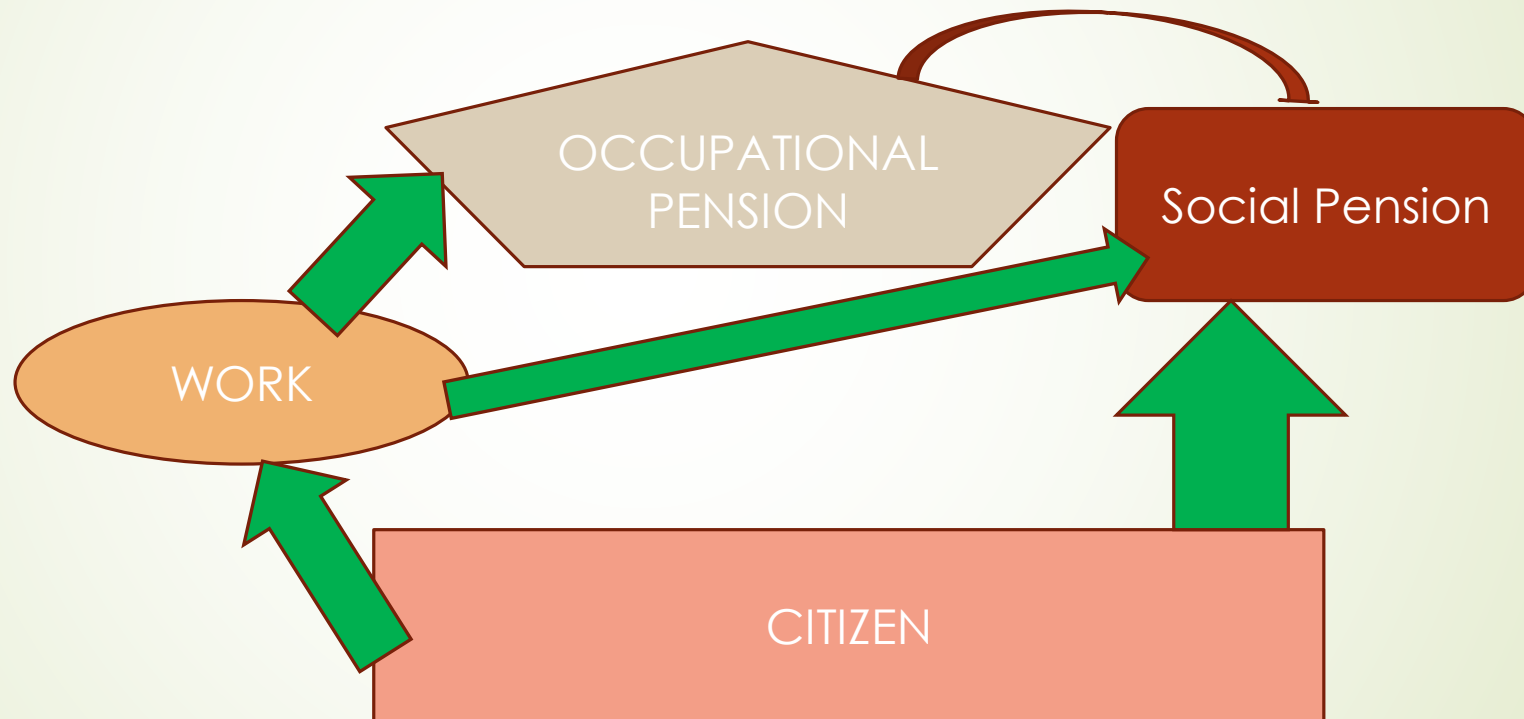
- Social pension is a **Constitutional** rights based programme.
- Its eligibility and application process is legislatively prescribed for uniformity and equal access for all citizens.
- If a person is a citizen, permanent resident or refugee attains the age of 60 and meets the means test - qualifies for a pension.
- All that is required is their identity document, marriage certificate if married, and a property rate certificate if they have property. If they have none of these documents, they provide an affidavit to this effect.
- If they declare income, proof of income. If no income an affidavit confirming no income.
- The identity number is the reference for the application. If no id- a system generated number is given as a reference.
- 90% of the applications are processed and approved the same time and payment is made in the same month if application is before the 25th of the month or the following month.



Occupational Pension Scheme

- The second pension scheme is the occupational pension scheme that covers all workers.
- The occupational pension scheme in South Africa is a mature system and amongst the top 3 most financially solid schemes in the world.
- The scheme is contributory.
- Occupational Pension : received by approximately 20% of the elderly population (943,945) .
- With private occupational pensions the benefit is based on defined contribution. Contribution is 7.5% by the worker and 7.5% by the employer.
- The Government Occupational Pension is a defined benefit scheme, workers contribute 7.5% and the state 14.5%.
- All contributions to occupational pensions are tax exempted. Proceeds are taxed upon withdrawal.
- The occupational pension scheme in South Africa is a pre paid scheme with legislated rules.
- Occupational pensions cover 45% replacement income, spousal allowance and an allowance for dependents under 18ys.

Relationship Between Social and Occupational Pensions



Institutional Arrangements

- There are policy proposals under discussion to consolidate social assistance and social security programmes under a single Department with one national fund.
- Policy for the social pension scheme - Department of Social Development. Administration and payments - South African Social Security Agency, a public entity under the Department of Social Development.
- The policy and legislation for occupational pensions - Department of Labour and National Treasury.
- Administration of private pension funds: Financial Service Board.
- The State Pension Fund: Administration- The Government Employees Pension Fund. Investment by Public Investment Corporation.
- Social pension system is interfaced with government workers, govt. pensions, UIF and other systems to detect double dipping. The interface with some system is on line real time and others offline.

Impacts of the Social Pension

- The social pension being the oldest of all South Africa's cash transfer programmes has been the most researched over a long period of time.
- It is the most effective programme in reducing household poverty for the following reasons:
 - Social pension has no effect on the labour market disincentives. Given to people already in retirement.
 - Study by Social development in 2002 found that pensions assist younger members in the family to seek employment. Assist with transport costs etc.
 - The elderly tend to not use the money for personal consumption but on their families (Medical Research Council, 1996).
 - They use their money very prudently and on things that have a longer term return like education of children, medical care, food gardens, livelihoods, food etc in that order of priority (Dept. of Social Development, 2000).
 - In South Africa the social pension was found to support the elderly and 4 other household members (Medical Research Council, 2000)
 - Another study on Child Headed households found that the elderly use their pension to assist both related and unrelated orphaned children in their community (Department of Social Development 2002).



Contin. Impacts

- ▶ The elderly use their pension to assist their grandchildren with school fees, university fees and books.
- ▶ Most poor families tend to retain the elderly within the family because of their pension and their dependence on this income.
- ▶ They assist their children, relatives, neighbours and community members with child care.
- ▶ The greatest impact of the social pension is the independence, dignity and self worth instilled in the elderly themselves.
- ▶ In most African countries, the elderly use their pensions to supplement the household income by:
 - ▶ developing food gardens. They purchase seeds and often work on it themselves.
 - ▶ They purchase goods from the city and establish stalls in the villages to sell the items at a small profit.(World Bank).
- ▶ The retention of the elderly within the family tend to have the following economic benefits:

Retention of the Elderly within Families and Communities

- The demand for institutional care for the elderly in South Africa is low. There are significant state savings on the supply side.
- The demand for child care facilities is low. Less than 25% of South African children use child care facilities. Grandparents performed child minding and caring.
- The elderly within families tend to be healthier and happier and their dependence on health care is lower. The continuity in their lifestyle adds value to their wellbeing.
- There are very strong social networks of the elderly in South Africa because of the investment in social services, luncheon clubs and the social care model.
- The role of these elderly networks in social capital is quite significant.

Challenges and the Way Forward

- South Africa has a strong commitment to alleviating poverty, building strong social cohesion by getting every citizen to participate in its economy and share relatively in its wealth.
- Establishing a strong social protection floor. Has cash transfers for 65% of its children, 75% of the elderly and 50% of persons with disabilities. It is the process of making the social pension universal, covering spousal and survivor support.
- There was pronouncement on the minimum wage.
- It grapples with high inequality, issue of capping the ceiling.
- High unemployment rate. There are tensions on the investment of pensions funds offshore vs infrastructure development within the country to create employment and develop the country.
- Redistributive elements of contributory to non contributory pension by removing tax exemptions for workers contributions to fund universalization.
- Moving to banks and electronic modes of payments for all benefits.