NATIONAL ECONOMIC DEVELOPMENT AND LABOUR COUNCIL

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NEDLAC REPORT OF THE COMPREHENSIVE SOCIAL SECURITY AND RETIREMENT REFORM TASK TEAM

1. PURPOSE

1.1. The purpose of this Nedlac Report is to reflect the engagements between Constituencies at the Comprehensive Social Security and Retirement Reform (CSSRR) Task Team (herein referred to as the Task Team) on the further areas of research on the Comprehensive Social Security and Retirement Reforms (CSSRR) Green paper.

2. BACKGROUND

2.1. The Task Team was resuscitated on 30 June 2014, to engage on Comprehensive Social Security.

2.2. In 2016, Cabinet accepted the Comprehensive Report of the Review of the White Paper for Social Welfare 1997, prepared by Professor Vivienne Taylor.

2.3. The Minister of Social Development thereafter presented the Comprehensive Social Security and Retirement Reform discussion paper dated 2012, to Nedlac Exco on 25

November 2016. A Manco Task Team was consequently established to enable social partners to engage on the policy proposals.

2.4. The Task Team produced a draft Nedlac Report which was signed off by Exco on 28 March 2019. The report identified key areas of agreement and areas for further debate. It also identified further areas of research that needed to be conducted in order to produce a consolidated Comprehensive Social Security and Retirement Reform paper.

2.5. The areas of research specified were:

2.5.1.1. Constitutionality of the 2012 Discussion Document policy proposals.

2.5.1.2. The Feasibility of Basic Income Grant (BIG).

2.5.1.3. Impact on the investment environment and capital markets of the NSSF.

2.5.1.4. Economies of scale and costs within the occupational retirement system in South Africa.

2.5.1.5. Coverage of Informal Workers.

2.5.1.6. The Actuarial Sustainability of the National Social Security Fund (NSSF).

2.6. The Task Team commissioned the research and engaged on it. The research reports were finalised in February 2021. Thereafter, Government tabled an updated paper, "Green Paper on Comprehensive Social Security and Retirement Reform" on 06 May 2021, for engagement by social partners.

3. PROCESS AT NEDLAC

3.1. The CSSRR Task Team established a Research Reference Group (RRG) to appoint service providers and engage on the research areas identified in 2.5.1.1. – 2.5.1.4 above and recommend them to the Task Team for approval. Government commissioned its own research for 2.5.1.5 and 2.5.1.6. The results of this research were shared with the RRG. The reports are attached as **Annexure A.**

3.2. The RRG met with the service provider on the following dates:

3.2.1. 29 October 2019
3.2.2. 19 November 2019
3.2.3. 15 January 2020
3.2.4. 04 February 2020
3.2.5. 10 March 2020
3.2.6. 07 April 2020
3.2.7. 20 May 2020
3.2.8. 09 July 2020
3.2.9. 12 August 2020
3.2.10. 14 August 2020
3.2.11. 27 August 2020
3.2.12. 16 September 2020
3.2.13. 23 September 2020
3.2.14. 21 October 2020
3.2.15. 02 November 2020
3.2.16. 20 November 2020

3.3. Thereafter the research reports were tabled to the Task Team for adoption and sign-off, which was also engaging on the outstanding issues, such as the phasing out of the means test and annuitisation of provident funds.

3.4. The Task Team met on the following dates:

3.4.1. 12 March 2019
3.4.2. 04 April 2019
3.4.3. 14 May 2019
3.4.4. 24 October 2019
3.4.5. 06 November 2019
3.4.6. 03 December 2019
3.4.7. 27 January 2020
3.4.8. 21 February 2020
3.4.9. 15 April 2020
3.4.10. 13 May 2020
3.4.11. 03 June 2020
3.4.12. 17 June 2020
3.4.13. 23 July 2020
3.4.14. 13 August 2020
3.4.15. 18 September 2020
3.4.16. 09 October 2020
3.4.17. 29 October 2020
3.4.18. 26 January 2021
3.4.19. 27 January 2021
3.4.20. 12 February 2021
3.4.21. 11 March 2021
3.4.22. 06 May 2021
3.4.23. 03 June 2021
3.4.24. 10 June 2021
3.4.25. 23 June 2021
3.4.26. 23 July 2021

3.5. The abovementioned meetings included workshops held on the research work conducted by Government on Scheme Governance, Coverage of Informal Workers, and the Actuarial Modelling of the National Social Security Fund (NSSF)

3.6. The following RRG documents will accompany the report:

- Report on the Feasibility of BIG by Deloitte
- Report on Impact of the NSSF on the investment environment and capital markets by Deloitte.
- Report on Economies of Scale and value for money in respect of the retirement system in South Africa by Nervyia Pillay and Johannes Fedderke.

3.7. The following documents by Government will also accompany the report:

- Report on Coverage of Informal Workers by True South Actuaries and Consultants.
- Report on the Actuarial Sustainability of the National Social Security Fund (NSSF) by ILO.

3.8. The Constituencies position papers will also accompany the report as **Annexure B**

4. DESCRIPTION OF RESEARCH AREAS

4.1. The following areas of research and their objectives were identified as follows:

4.2.1 The Feasibility of a Basic Income Grant (BIG)

The objective of the study was to assess the fiscal feasibility of providing income support to individuals who are unemployed and between the ages of 18 to 59 in South Africa. This includes assessing the costs, macroeconomic impact, distributional impact and fiscal feasibility of a BIG within South Africa. The research report was prepared by Deloitte SA. The Nedlac RRG commissioned Deloitte to conduct this study and reports were reviewed by the RRG and Task Team.

4.2.2 Coverage of Informal/ atypical Workers

To provide design options to extend contributory risk and retirement benefits to informal sector workers. Critical research areas included the appropriate type of benefit scheme for eligible workers who have irregular incomes;

contribution collection and benefit payment mechanisms; flexibility provisions; benefit design; and an outline of the financial implications of such a scheme. Government commissioned a service provider, True South Actuaries and Consultants (TSAC) to produce the technical report that addresses these issues. Findings were presented and discussed with Social Partners and those informed the green paper tabled to the task team.

4.2.3 **The Actuarial Sustainability of the National Social Security Fund (NSSF)**

This research assignment required long-term (2020-2050) modelling of population trends, employment, earnings and claims on the NSSF, dependent on relevant qualifying criteria and associated benefits. The consultants were provided with a baseline demographic projection, based on official population estimates from StatsSA, which served as a point of departure for the model's population projections. The scheme benefits and design parameters were set by Government and it collaborated with the International Labour Organisation (ILO) to provide technical assistance and support in this Actuarial workstream. Several engagements with Social Partners were held, with reports presented and comments provided.

4.2.4 **Economies of scale and costs within the occupational retirement system in South Africa**

The objective of this research assignment is to quantify the administrative efficiencies and scale economies associated with retirement fund size, with a view to identifying optimal fund membership size, and associated relevant administrative and market structure considerations. Government commissioned Nervyria Pillay and Johannes Fedderke to conduct this research and final report was shared with Social Partners.

4.2.5 **Impact of the NSSF on the investment environment and capital markets**

4.2.5.1 The aim of this project was to assess the potential impact of the National Social Security Fund (NSSF) on savings and investment markets. These impacts include:

(a) Changes in the flow of funds between households, financial intermediaries and government;

(b) Changes in consumption, saving and investment behaviour of households and firms;

(c) Changes in the financing of business investment and in capital market flows; and

(d) Existing retirement funds.

4.2.5.2 The Nedlac RRG commissioned Deloitte to conduct this study and reports were reviewed by the RRG and Task Team.

4.2.6 **Constitutionality of the Policy Proposals**

The aim of the research was to determine the constitutional requirement of Government to set up a social protection and insurance mechanism for South Africa. The research report was prepared by Sibeko Attorneys and was found to be not satisfactory by the RRG.

5. ADDITIONAL ISSUES ENGAGED

5.1. **Default Fund/ Auto Enrolment**:

Currently it is proposed that in Tier 3 of the retirement system, employers would be required to automatically enrol (Auto-Enrolment) employees into either the employer's occupational scheme or the proposed Default Fund unless the income earner actively opts out. It is proposed to create an NSSF run default fund to participate in Tier 3 alongside occupational schemes and would have to comply with an 'Approved Funds Framework'.

5.2. **Phasing out of the means test** - the 2013 Budget Review committed that Government would establish a universal old age grant by phasing out the means test by 2016. Government therefore proposed that adjustments to the secondary and tertiary rebates will be made to offset the costs of this change and while retaining the progressive tax table structure.

5.3. **Amendment to Regulation 28 -** Regulation 28 of the Pensions Fund Act 26 of 1956 was reviewed to allow for recognition of investment in infrastructure by retirement funds. Government published the draft gazette for public comments in March 2021.

5.4. **Commercial Umbrella funds**- Labour submitted a proposal on the Commercial Umbrella Funds. Its view was that the FSCA has been reducing the total number of stand-alone retirement funds to be able to "manage and regulate properly within limited resources". These efforts may have partially contributed to the reduction of stand-alone pension funds from 13 618 (in 2004), to 5144 (in 2016) as per the respective FSCA reporting periods. Engagements were therefore held in Nedlac and a way forward would be recorded on the sections below.

6. AREAS OF AGREEMENT

6.1. The following issues were engaged by the Task Team and were agreed. The agreed issues were accompanied by comments from Constituencies:

6.1.1. National Social Security Fund (NSSF)

6.1.1.1. Constituencies supported the establishment of the NSSF. However, Government needed to note the following:

(a) Business supported the establishment of the NSSF with the following qualifications (material qualifications are also noted under areas of disagreement below):

i. A basic contributory pension arrangement needs to take account of the changing world of work where informality was not a feature of sub-optimal employment, but a consequence of multiple earnings sources, flexible work arrangements and work life experience including time allocated to further education and/or setting up new business ventures.

ii. The current design of the NSSF, by excluding atypical and informal workers, excludes the flexibility required for the future world of work.

iii. A multi-pillar approach allows for tactical sequencing and strategic bundling, but the research did not demonstrate that everyone will generally be better off. The ILO modelling displayed significant escalation in contributions for the future, and the contribution ceiling was too high as a proportion of the existing working population's income.

iv. The proposed NSSF would absorb more of existing Tier 3 contributions to achieve a balance between the redistributive policy objectives associated with a basic contributory pension in Tier 2 and income adequacy planning in Tier 3. This could impair social buy-in for the NSSF and severely impact capital accumulation in Tier 3 associated with investment, financing infrastructure and government expenditure.

v. Redistribution policy objectives are not adequately clarified through the fund's proposed defined benefit or Pay-As-You-Go (PAYG) funding of benefits. This should therefore be at the center of the NSSF's policy function despite Business raising it with the Task Team and ILO actuaries.

vi. Primary focus should be on National Minimum Wage (NMW) earners and those earning up to the tax threshold. A strong social solidarity element and incentive structure would significantly improve outcomes for the most vulnerable workers. Gender disparity is not addressed.

vii. It doesn't support the introduction of PAYG funding as proposed. Structural unemployment, low economic growth and fiscal constraints cannot accommodate the implied implicit liabilities without significant risks and substantial future increases to future contributors and the fiscus.

viii. The Green Paper fails to provide any guidance on how the NSSF is to be phased in as a statutory contributory arrangement that replaces *a fraction* of the GEPF pension and life insurance benefit, or of similarly well-established private sector pension and group life plans.

ix. It noted that the Green Paper did not clarify the intended tax treatment of NSSF contributions and benefits or the cost of guarantees to be provided, underwritten by the fiscus.

(b) Community agreed that NSSF should be established and social security for women needed to be strengthened as they were affected the most by poverty.

(c) Labour supported the establishment of the NSSF. However, in order for the fund to function properly, consolidation of all Social Security funds needed to be under one Department. The issue of savings has to be clarified.

6.1.2. **Governance**

6.1.2.1. Business's comments:

(a) It supported the establishment of a Board. Governance arrangements within public entities needed to be enhanced as there were governance failures in the sector and the NSSF introduces systemic risks as proposed.

(b) The work being done by the Presidential Council on State Owned Entities on governance should assist regarding solutions on governance. It was concerned that Government was both a regulator and a participant in Tier 3 via the Default Fund. This therefore needs an oversight independent of Government.

6.1.2.2. Labour supported the establishment of the Board and stated that the Board members should be Nedlac social partners as they have been involved in the CSSRR engagements. The powers of the board must be clearly defined and the board should have powers to appoint and dismiss the CEO. In other words, it should be an executive Board.

6.1.2.3. Community supported the establishment of the Board. However, there is a need to clarify what ‘supervisory Board’ means in terms of power. Accountability, powers, authority and responsibility of an independent Chairperson needed to be clarified.

6.1.3. **Income support for people aged 18-59 (Basic Income Grant)**

6.1.3.1. Business’ comments:

(a) It supported the establishment of the BIG from a social security coverage perspective as part of the social protection floor. However, there were many ways of defining a benefit design for a BIG as well as how it relates to employment participation. These would therefore require further discussion and analysis.

(b) The funding of any income protection arrangement requires a significant fiscal commitment. It was however difficult to have a discussion on additional revenue commitments in isolation of other expenditures (such as health, education and security), including clarity on contingent liabilities within SOEs.

(c) It proposed that a broader national discussion should be initiated to consider the BIG and the NSSF alongside other important national social initiatives such as NHI and higher education funding, as a next step towards policy development on these subjects.

6.1.3.2. Labour supported the establishment of the BIG. When implemented Government needed to ensure that funds, such as the BIG, reached intended beneficiaries. The BIG should be universal and there must be clear timeframes for implementation of BIG.

6.1.3.3. Community's comments:

(a) It supported the legislated implementation of a universal BIG to be introduced at the Food Poverty Line (FPL) and increased incrementally to the Upper Bound Poverty Line (UBPL) and thereafter as a percentage of the Decent Standard of Living.

(b) The Green Paper must headline that social security (social insurance and social assistance) was a Constitutional right, and that this was subject to progressive realisation within maximum available resources. The dimensions for progressive realisation towards universal enjoyment would need to be monitored on the grounds of Access Adequacy and Quality as provided for with the SPII 3 step Socio Economic Right (SER) Monitoring Tool.

6.1.4. **Enhancing social security entities**

6.1.4.1. Business supported the enhancement of Social Security structures and entities. The alignment of the social security entities like Occupational Health and Safety (OHS), was needed. Surpluses and future contributions to specific social security benefits should not be used to try to fund huge deficits in specific benefit classes such as the Road Accident Fund (RAF). The switch from applying price inflation to wage inflation for indexing benefits has a significant long-term cost which was not properly quantified or motivated.

6.1.4.2. Labour supported the enhancement of Social Security entities. Fragmentation needed to be guarded against and ensure that there was one entity for social security issues. There should be closer policy coordination between Departments of Social Security and Labour. Stronger links between social security and labour would ensure that there is coordination and that no-one is left behind. The system of social security should be transparent and understood by all, under one department.

6.1.4.3. Community's comments:

(a) It supported the establishment of a Department of Social Security to oversee the policy and implementation of both lifelong income support and the labour market activation strategies. Furthermore, it was important that the oversight of employment and skills, matches with national sectoral development and future national development.

(b) There should be an appeals mechanism for social grants and it must be efficient, transparent, as well as cost effective. An independent and accessible Ombud is needed, to ensure that the public's rights to just administrative action are respected and promoted.

6.1.4.4. Government highlighted that a Department of Social Security which would include both the income and the labour aspects was included in the proposals. It agreed with the establishment of an Ombud, and that will be taken into consideration.

6.1.5. **Informal Workers Coverage**

6.1.5.1. Business Comments:

(a) It supported informal coverage as a first order priority under the Constitution and therefore the role that statutory insurance arrangements should perform.

(b) A key objective of a “universal pension plan” was to raise participation in contributory pension arrangements, so that a rising proportion of the population have funded incomes in retirement (or after disability) and are not solely reliant on social grants. The gap was large – less than half of the total employed population (approximately 16 million) were contributors to pension, provident fund or retirement annuity plans. Coverage of these groups should therefore be prioritized.

(c) Atypical and informal workers have been heavily affected over the pandemic.

6.1.5.2. Labour supported the coverage of informal workers as the Covid-19 pandemic has shown that the informal sector was severely affected. Focus should therefore be on retirement and risk benefits and unemployment insurance. It should be guarded that there should not be a separate fund for the vulnerable and atypical workers.

6.1.5.3. Community supported the Informal Coverage and believes that the inclusion of informal and atypical workers was necessary, with instruments for irregular contributions in place and contribution subsidisation by the state in times of need. Furthermore, a minimum floor of support should be made available which needed to be linked with skills and other Small Medium, and Micro Enterprises (SMMEs) support.

6.1.6. **Phasing out of the means test**

6.1.6.1. Business stated it was of the view that dropping the income means test was a step in the right direction and cautioned that the costs presented were overstated as this included those already in receipt of grants.

6.1.6.2. Labour stated that the paper needed to be clear regarding the phasing out of the means test with timeframes. The universalisation of the old age, child support and disability grant are supported.

6.1.6.3. Community has historically demanded the removal of the means test given the extra-ordinary high levels of poverty amongst children and older persons in South Africa. It was an unnecessary cost and administrative burden with no logical benefit.

6.1.7. **Contribution subsidy and contribution rate**

6.1.7.1. Business comments:

(a) Broadening contributory pension coverage is a long-standing policy objective. For over twenty years, commission reports and government policy statements have signaled the intention to establish a “comprehensive” social security system. The introduction of a statutory basic pension plan is a central element in this intent.

(b) The contribution rate should be designed to solve for coverage, preservation, liquidity and compliance.

(c) Therefore, participation and persistence were an appropriate stimulus for those earning above the tax threshold, where retirement fund contributions were deductible up to a maximum of the lesser of R350 000 or 27.5 per cent of remuneration or taxable income.

(d) Affordability and equity considerations suggest that the costs of an earnings-related pension plan would need to be subsidized for low-income contributors. The cost of a subsidized plan depends on its parameters and coverage.

(e) A contribution subsidy for those below the tax threshold would therefore be a meaningful way to create symmetry of incentives for workers. This however would need to be clarified on how it would be funded.

(f) Parameters for atypical workers earning up to the NMW and between the NMW and the tax threshold needed to be considered and costed.

(g) The macroeconomic and fiscal goal of a subsidy design should be to ensure that it was sufficient to offset the negative impact of mandatory saving on lower-income households' disposable income and consumption.

(h) Additionally, the resulting transfer to household accounts flows back to encounter government's additional financing requirements to fund the incentive. It was therefore prepared to table proposals to this effect.

(i) As currently conceived, atypical and informal workers would not enjoy a contribution subsidy (or social insurance) as they are excluded from Tier 2.

6.1.7.2. Labour supports a contribution subsidy for low-income earners, contributions must be affordable and not cause a member to undergo financial hardship. The contribution subsidy must apply irrespective of the nature of employment (formal or informal). There must be solidarity in the financing of the social security system. Social protection is in nature at the heart of solidarity.

6.1.7.3. Community stated that low-income earner contributions should be subsidised by a low-income superannuation contribution (LISC) and low to middle income earners should have a matched contribution by the state as per the Australian example.

6.1.8. **Annuitisation**

6.1.8.1. With effect from 01 March 2021, all provident fund members above the age of 55 would not be required to annuitise their benefit

6.1.8.2. However, for members younger than 55 all retirement fund contributions already made into the provident fund, plus investment growth on these contributions, accumulated after 28 February 2021, including any future investment growth on this accumulated amount from this date onwards will be annuitized at retirement. Contributions prior to 1 March 2021 will be accessible as a lump sum at retirement. These are referred to as vested benefits.

6.1.8.3. Furthermore, retirement fund contributions made into the provident fund after 01 March 2021, plus investment growth on these contributions until retirement will be treated differently and will align to how pension funds are treated. At retirement, members can only access up to one-third of this accumulated amount as a cash lump sum, and the balance must be used to purchase an income in retirement.

6.1.8.4. Constituencies therefore agreed on the proposal submitted by Government and this was implemented in March 2021.

6.1.9. **Default Fund/Auto Enrolment**

6.1.9.1. Business's comments

(a) The lack of distinction between the proposals for a separate fund to cater for informal workers in Tier 2 and a Default Fund as complimentary to private occupational arrangements to improve coverage in Tier 3 was confusing.

(b) Government participation and competition in Tier 3 creates conflict that is not motivated.

(c) The coverage objective needs to be considered as common across these three fund proposals (NSSF, Default and Informal Workers) and solved for accordingly. This is essential to policy sequencing.

(d) Failure to integrate will unfold as a worker benefit class struggle in time where the most vulnerable have weaker benefits (Tier 3) than workers in more formal employment (Tier 2). It is therefore proposed that one NSSF solution should be implemented for all worker types. It will also lead to anti selection undermining the social insurance principle.

(e) It supported auto enrolment as a significant means to improve participation and compliance for low income earners and vulnerable workers.

(f) It welcomed the objective to have infrequent member contributions catered for. Benefit design will need to consider funding for death and disability benefits. A savings component should be created which would later include the death and disability benefits. This saving component would thereafter feature as part of the design when established.

6.1.9.2. Labour stated that a simple formula, rather than a complex one, was required regarding the administration of the default fund/auto enrolment to minimise the work for those in the space of actuarial science as well as for general understanding by all. Its call for a compulsory provision of the fund remained i.e. there should not be any opting out of the fund. The choice of the fund should be by the member not the employer.

6.1.9.3. Community supported auto enrolment for all workers into a default fund, with highly transparent fund management and fee structures.

6.1.9.4. Government commented:

(a) The main challenge sought to be addressed with the default fund/auto enrolment was to have employers save including saving for retirement. The employers were meant to auto enrol their employees in the scheme, however, there was an option to opt out of the scheme.

(b) Pertaining to the wording of auto enrolment, there were two parts to it. There was the more immediate part which sought to cover people who were not currently covered. There was also the more long-term view, with the NSSF coming into play. In the long-term, those who could not be able to participate in Tier 2 could still be covered in Tier 3.

6.1.10. **Economies of Scale**

6.1.10.1. Business' comments:

(a) There have been significant changes in the SA retirement fund industry over the period 2006 to 2018 since the first study by Touna Mama et al. (2011). It believed that this was a recognition amongst asset owners and service providers that consolidation was a necessary and healthy evolution for the occupational system.

(b) Sharing costs where appropriate would make sense, if in the process for every rand contributed a lesser proportionate share of costs was incurred in the management of the member's contribution. This was what the abovementioned 2011 study illustrated and that those economies would be exhausted when on average fund size reached 220 000 members.

(c) Some funds had achieved optimal scale at lower membership levels. Further improvements would then depend on technological changes, regulatory efficiencies and other structural improvements.

(d) The average fund size is outlined as 5,000 members. The estimate of the optimal fund size using data spanning 23-year yields an optimal number of members per fund of 300,000. The previous study by the same authors estimated an optimal fund size as 220,000 members. This was a 36% difference, thus highlighting the temporal sensitivities of these highly dynamic estimations.

(e) This requires explanation, especially when considering the individual results for the two data periods (2011 study versus the 2021 study). However, referring to international literature both results are within range. A 2015 study by the World Bank arrived at an optimal scale equivalent in the public sector for administration expenses of 500 000 beneficiaries.

(f) An estimate of the administration costs for a proposed retirement system under the NSSF was provided. The authors caution the reader against the assumptions made and the fact that the structure of the NSSF was not yet finalised. Assumptions regarding the number of members, total assets per member, fund details and structure were detailed in the study. The previous modelling was only applicable to private retirement funds, and it is likely that the NSSF cost estimation may need to be modelled differently.

(g) It supported the view that consolidation will drive improved scale economies for workers;

(h) The scale effects in Tier 3 by consequence needed to be protected and balanced with scale optimality in Tier 2;

(i) Pre-membership costs for occupational funds would be dramatically reduced with the introduction of auto-enrollment and would benefit fund members;

(j) This study considered administration costs without isolating cross-subsidisation effects across fee structures which was substantial;

(k) The authors were unable to explore umbrella costs in any detail. It should be noted that members were free to elect between funds and providers based on comparative price and quality. This provides considerable flexibility;

(l) Digitisation, compulsion, preservation and consolidation would significantly drive down marginal costs for fund members post reform. This is especially so given the costs of convincing employers and workers to join retirement schemes and the cost of benefit administration in the absence of preservation.

(m) The concept of a clearinghouse and a central social security register of benefits proposed by Government to improve fluidity in the market was something that requires further discussion. It could improve portability, transparency, access and competition;

(n) It may be worthwhile considering regulating for a minimum fund size. If a member threshold is not reached within a specified time for a new scheme, registration could be withdrawn by the regulator.

7. AREAS OF CONCERN

7.1. Business expressed the concerns with the policy proposals:

7.1.1. The revised draft *Green Paper on Comprehensive Social Security and Retirement Reform* dated 31 March 2021 largely reproduces the text and recommendations of the 2012 Comprehensive Social Security Discussion Paper published in 2016 and under discussion at Nedlac since then.

7.1.2. It was concerned that its inputs that it made during the engagements have largely gone unheard and seemed to not be included in the updated paper. The research undertaken by the ILO and others on behalf of the Nedlac Task Team appeared to have been disregarded and that there has been no progress in building a quantified and costed evidence-based approach to this reform programme.

7.1.3. While it supported the development of a comprehensive social security system, a balance between social security costs and inhibiting employment creation needed to be found. This was a particularly acute challenge at present. The policy proposals advanced by Government in the draft Green Paper should by consequence represent a "whole of Government" perspective if it would be tabled in Cabinet. The paper does not include these perspectives.

7.1.4. The income security of the most vulnerable South Africans – those whose earnings were irregular and fall below the tax threshold should be prioritised in the social security reform path. Many years of capacity building for these workers have been lost in the absence of the steps required to implement a basic universal contributory pension which was the basis for the beginnings of the NSSF. Sequencing immediate and urgent reforms rather than trying to debate ultimate designs was needed.

7.1.5. While it supported the establishment of a NSSF, the qualifications listed in paragraph 6.1.1 are material and could be regarded as a disagreement should convergence not be found during further refinement of the design conceptualisation.

7.1.6. It does not support the introduction of a PAYG funding arrangement for the NSSF. Research undertaken for the NEDLAC task team indicated that this passes the burden of providing these benefits to future generations. The risk of a lower national savings rate and lower economic growth has also not been addressed.

7.1.7. The existing contractual savings and life insurance arrangements of both public and private sector employees generate the savings pools that finance much of South Africa's annual investment requirements, and supply Africa's deepest and most competitive capital market. The social security reform programme should build on, and not disrupt, this foundation of our economic and financial architecture.

7.1.8. The envisaged mandatory Tier 2 NSSF, with contributions at a rate of 10-12 per cent of earnings up to a level of R276 000 per annum, will replace or overlap with almost all existing retirement and life fund contribution flows, terminating or reducing the associated investment of funds in the capital market. The risks to the economy and the income security of South Africa's work force are large and the benefits were unclear.

7.2. Business in its written submission on the Green Paper made the following points that were not discussed in plenary:

7.2.1. A proportionality consideration must also be raised in respect of the envisaged earnings threshold of R276 000. The social old age pension is currently set at a level of R1890 a month, or R1910 a month for pensioners over the age of 75. The NSSF will create a statutory benefit that supplements this tier 1 benefit. The earnings threshold determines the maximum size of this supplement.

7.2.2. Above that level, the tax system would continue to encourage occupational and discretionary savings. The proportionality question is: to what maximum level should the statutory contributory pension arrangement raise pension incomes, relative to the social old age grant? It was therefore important to explore alternative perspectives.

7.2.3. A reasonable approach, in the context of a major social security reform, would be to establish a moderate initial target and aim to improve benefit levels over time, as growth and wider economic participation generate the required resources. In 2020 prices, *median* earnings in the South African labour market were approximately R6000 a month, or just over three times the current social old age grant. This was therefore a useful benchmark against which careful analysis of options for the design and phasing in of the NSSF and its associated benefits might be evaluated.

7.2.4. If an economy-wide NSSF would be introduced, it should be fully funded, and should be designed to complement occupational and voluntary savings plans incentivised by the tax system, at earnings levels above the tax threshold.

The earnings threshold for NSSF contributions should be set at, or near, the tax threshold.

7.2.5. The Green Paper therefore, does not show how NSSF costs and benefits will compare with existing pension, provident fund and group life arrangements, or how the transition to a consolidated statutory fund will avoid disrupting these arrangements. It further does not consider the encashment of existing benefits and costs of transitioning to any new arrangement.

7.2.6. South Africa's existing social security funds (Unemployment Insurance Fund (UIF), the compensation funds and the RAF) are institutionally fragmented and administratively in difficulties. Their reform intentions were noted in the Green Paper, but no clear institutional realignment or rationalisation was proposed. Demonstrated progress in the modernisation and governance of existing social security funds is a precondition for further expansion of the social insurance framework.

7.2.7. It was concerned that the Green Paper did not provide any guidance on how the NSSF was supposed to be phased in as a statutory contributory arrangement that replaces a fraction of the GEPF pension and life insurance benefit, or of similarly well-established private sector pension and group life plans.

8. CONCLUSION

8.1. Constituencies are permitted to further promote their views on this matter through any channels they deem appropriate.

8.2. This report, therefore, concludes considerations at Nedlac on the CSSRR paper. The Report is submitted to the relevant Ministers in terms of Section 8 of the Nedlac Act. No 35 of 1994.

8.3. Furthermore, this report must accompany the Green paper on Comprehensive Social Security tabled at Nedlac on 06 May 2021 through the Cabinet process.

ANNEXURE 1

LIST OF TASK TEAM MEMBERS

BUSINESS:	LABOUR	GOVERNMENT	COMMUNITY	SECRETARIAT
J. Goldberg	J. Mahlangu	B. Sibeko	I. Frye	B. Milisi-Mngese
S. Smith	L. Mulaisi	B. van Vrede	T. Zwane	N. Hlwatika
R. Burger	M. Parks	A. Makwiramiti	M. Nzimande	C. Zulu
M. Acton	F. Nxumalo	I. Momoniat	G. Ntingane	
S. Jantjies	J. Hugo	A. Thela	L. Kganyago	
S. Leyden	S. Mbhele	B. Maseko	L. Bale	
I. Ramputa	H. Diatile	V. Mafata	C. Matlakala	
R. Rajcoomar	J. Hugo	M. Moloko	N. Majozi	
L. Nel	N. Baloyi	D. Ratau		
S. Moabalobelo	S. Ndlhovu	T. Maruping		
	(alternate)	D. Khumalo		

		P. Maleka T Mkalipi		