

A photograph of a market scene. In the foreground, several large bundles of fresh green leafy vegetables are laid out on a brown tarp on the ground. In the background, several people are visible, some wearing blue face masks and head coverings. The setting appears to be an outdoor market area with simple structures and a dirt ground. The sky is overcast.

Summary of Report 5: Informal Economy, Retirement & Risk Benefits

Report 5: Informal Economy Retirement and Risk Benefits

South Africa has a highly-regarded framework of social grants and a large private and occupational based pension system covering millions of workers. The workers are not currently required to preserve their savings and many of them cash in their pension accumulation when they change jobs, undermining the security of their provision for old age. This research considers the needs of the millions of workers employed or self-employed in the informal economy. The purpose of this research was to prepare technical inputs into the draft policy paper on the inclusion of informal sector workers into the mandatory retirement system

*Findings of the study:**Findings on Constitutional considerations*

- Imperatives flowing from the South African Constitution, 1996, have a decisive impact on the design of a contributory arrangement for informal economy workers. It is in particular necessary to appreciate the implications flowing from constitutional values and the fundamental rights most relevant to both contributory and non-contributory social security provisioning for [informal economy workers](#), i.e. the right to access to social security, the right to equality, the right to human dignity and the right to fair labour practices. Given the vulnerable status of informal economy workers, in particular as a result of the insufficient social security support available to them, it could – in the light of the relevant constitutional provisions and developing jurisprudence – be constitutionally expected of government to roll out some kind of comprehensive programme to deal effectively with their plight. This matter is discussed in detail on Section [2.2](#).

Findings on International and regional standards

- The South African Constitution affirms the importance of heeding international and regional standards (such as those emanating from the International Labour Organization (ILO), United Nations (UN), African Union (AU) and Southern African Development Community (SADC) instruments), both in terms of the binding nature of instruments that have been ratified by South Africa (such as the UN *International Covenant on Economic, Social and Cultural Rights*) and the obligation to consider even those standards that have not (yet) been ratified by South Africa. [International and regional standards](#) confirm the right of all persons and all workers, including informal economy workers, to social security protection, also in relation to retirement. For more details refer to details in Section [2.3](#).

Findings on Comparative experiences

- The experiences of countries that have focused on successfully extending social security coverage to informal economy workers on a contributory basis, indicate the need for a conceptual understanding and an operational framework of social security which transcend traditional approaches and boundaries.
- Most of the comparative schemes provide coverage on the basis of defined contribution arrangements, on the assumption that for several reasons defined benefit arrangements entail too much risk to the scheme itself.

Findings on features of targeted membership

- Designing and operating a scheme for workers in the informal economy is rendered more challenging by the absence of a systematically-developed data set describing these workers. Information has been gathered from a combination of quantitative sources, notably the quarterly LFSs and annual GHSs, both published by Statistics South Africa (StatsSA), to put together a profile of the workers intended for the scheme. Even less

information is available concerning the earnings characteristics of the group. Section 4 describes the process of aggregating data from a number of sources. It is supported by the more detailed descriptions in three appendices, which describe the analysis of LFSs, GHS information ([Annexure 6:](#)) and a variety of sources combining qualitative and quantitative insights ([Annexure 7:](#)). Section 4.3 summarises by proposing a profile of the workers that form the targeted membership of the scheme.

Finding on benefit design, operations and financial modelling

- Designing a national pension arrangement from scratch is an intrinsically complex process. The variations available in the fundamental benefit structure, combined with a myriad of possibilities in the parameters utilised, renders the problem of optimisation fundamentally intractable. The uncertainty that characterises the demographic attributes of the targeted workers and the extraordinary volatility of their earnings from month to month only adds to the complexity. The benefit design itself is developed in Section 5 but its development is supported by the financial modelling that is described in Section 7. The proposed operational and governance framework is set out in Section 6. High-level results of the modelling describing the alternatives considered in the first part of the assessment are provided in [Annexure 13:](#) .

Findings on key financial metrics

- The [financial modelling](#) preceded on the basis that it would be appropriate to devote 80% of all contributions (including government subsidy) to saving for retirement. Sensitivity tests to changes in the 80% allocation to retirement (see Section 5.2.2 and [Annexure 12:](#)) describe the significance of the expected impact on the projected retirement benefit of reducing this allocation to funding the retirement benefit.
- The [benefits available](#) on death and disability are relatively low but considered adequate for the purposes of the scheme, as described in Sections 7.2 and 7.3 (refer to Section 5.2.2 and [Annexure 12:](#) for disclosure of the financial impacts of extending these benefits).
- The costs of administration are recommended to be borne by government and are summarised, for the first few years of the scheme (longer-term projections are provided in [Annexure 11](#) and sensitivities to changes in assumptions in [Annexure 12](#).
- A key metric of the appropriateness of the benefits available on death and disability is the sustainability of the risk pool established for the purposes of providing for these benefits. This pool is funded by 20% of the contributions paid by members and the same proportion of the subsidy provided by government. The probability that this pool remains solvent through the period of the financial projection, 2020-2065, is calculated as 68%.
- An analysis of the costs and benefits associated with the scheme is rendered challenging by uncertainty regarding the number of workers in the informal economy, scheme take-up rates and the extent to which these workers already have saving in other arrangements, believed to be very low. Considerable support for the scheme nevertheless exists in the constitutional imperative that support for workers of all types need to be established on a basis that is fundamentally equitable.

- It is recommended that the cost is met by addressing the regressive system of tax incentives currently available to formally employed South Africans with high incomes. If a wholesale restructure of the system of tax incentives is not considered feasible at present, then parametric changes could be considered to address the skewed system of government incentives and direct sufficient resources to supporting the system proposed in this study (refer to in Section 5.5 of report 5).
- Of particular importance when devising appropriate coverage modalities in the South African context, is the need to consult properly with institutions representative of workers in the informal economy (refer to the list of institutions in Annexure 14: .
- A system of automatic adjustors is recommended if the pool proves inadequate for the benefits ear-marked or if the assets in the risk pool grow inordinately large
- The process of developing and refining the benefit structure is described in Section 5. The preliminary stages of identifying the criteria for assessment and analysing the four prototypes are described in the supporting material in Annexure 8 and Annexure 9 . The fundamentals of the financial modelling appear in Section 7. This is also supported by two further descriptions. Annexure 10 describes the methodology and assumptions utilised in the financial modelling, Annexure 11 provides supporting detail and Annexure 12 shows the sensitivity of results to changes in the key scheme parameters.
- It is recommended that the scheme under consideration be designed and operated as an extension of the National Social Security Fund (NSSF). There are several reasons for this but the most compelling of these are the economies of scale across two arrangements and the large number of workers likely to participate in and contribute to both parts of the intended holistic approach to pension provision. The principles of governance of social security entities that are described in Section 2.4 are reframed in the form of a concrete set of recommendations. These are set out in Section 6.2.
- Care should be taken to ensure the independence of the governance framework. As a minimum, and assuming that the Scheme shares a governance platform with the NSSF, this should be guaranteed by supervisory and directory powers granted to an autonomous Board, whose mandate, powers, functions, rights and obligations are derived from the legislation specifically designed for the NSSF context. The composition of the Board should be tripartite in nature, and with representation of informal economy workers specifically guaranteed, in addition to key experts representing core required professional skills.
- It is also recommended that the Board be supervised by and report to an appropriate institution with regulatory powers to direct the Scheme/NSSF on an ongoing basis. Reporting should also be done to Government and the relevant Parliamentary portfolio committees. The Board should delegate key functions to properly mandated and staffed sub-committees that have the required mandate to manage key functions on behalf of the Board (such as in relation to investments), and guided by well-designed policy frameworks.

- The Board should also have the power to outsource certain key functions to outside professional service providers where these functions cannot otherwise be adequately provided, for example, managing the assets and investments of the Scheme/NSSF. Furthermore, the Chief Executive Officer and key senior officials of the Scheme/NSSF should be appointed and supervised by the Board. Operations of the Board, its sub-committees as well as the management of the Scheme/NSSF should be underpinned by ongoing monitoring and evaluation and informed by a state-of-the-art underlying information technology platform. Attention should be paid to client service, communication, education and training, specifically with a view to ensure that informal economy workers are adequately sensitised and provided with ongoing communication, also in the form of regular member statements.