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ISSUES IN SOUTH AFRICAN SOCIAL SECURITY

SERVAAS VAN DER BERG

Stellenbosch Economic Working Papers : 1 / 2002

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This paper was originally prepared in August 1994 as a background paper for the World Bank

"*The idea of 'social security' is that of using social means to prevent deprivation and vulnerability*."
[Dréze & Sen 1989:15]

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Servaas van der Berg
Department of Economics
University of Stellenbosch
E-Mail: svdb@sun.ac.za

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Abstract

This paper, originally written at the time of the political transition, provides an overview of social security issues at that time. A sustained improvement in the living standards of the poor requires economic growth and investment in human capital to allow the poor to benefit from that growth, but a social safety net is also necessary for those who do not yet share in those benefits and to safeguard those who do against contingencies such as unemployment, old age and illness. In South African, too little attention was paid by social scientists to social security issues before the political transition, with regard to both social assistance and social (occupational) insurance and the link between them.

JEL Classification: I38, H53,

Foreword

Early in 1994, on the eve South Africa's a new democratic dispensation, the author was invited to the World Bank to continue work on the South African social security system. This work revolved around documenting the state of the South African social security system and identifying some issues that required further work and thinking, in order to act as a framework for future work on and policy analysis of this system in a democratic South Africa. The results took the form of a background paper completed in August 1994, which fed into both World Bank thinking and South African policymaking. The report was, however, never officially made public, although it has been widely quoted.

Because of a number of requests for this paper from both foreign and South African researchers with an interest in South African social security and poverty issues, it is now made available as Working Paper to all who may benefit from it. Of course, the debate on and our knowledge of the functioning of the South African social security system have moved on, and the racial elements of the system have now largely been removed, but insofar as this paper may still be of historical interest, it is made available without any editing or reworking. The information contained therein may still be of interest to some, for most elements of the South African social security system remain largely unchanged. That is indeed the paradox: That the apartheid system could give birth to a social security system which is in terms of size and coverage unique amongst middle-income developing countries, a topic the author has dealt with in more detail elsewhere (see Van der Berg, Servaas. 1997. South African social security under apartheid and beyond. *Development Southern Africa* 14(4), October: 481-503).

Servaas van der Berg
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1 INTRODUCTION

1.1 The role of social security in poverty alleviation

In middle income countries such as South Africa, the combination of more resources, more pressure groups and greater institutional development than in low income countries creates an environment in which social security is often particularly important. But only in recent years did the social security systems of middle income countries start receiving the attention they deserve.[1]

In South African, too, little attention was paid by social scientists to social security issues, with the exception of some studies that concentrated on the racial discriminatory provisions of social assistance. While such a large part of the labour force did not get drawn into occupational insurance schemes of one sort or another, social (occupational) insurance was largely neglected as a field of study for social scientists. The link between social insurance and social assistance in particular has received far too little attention until the Mouton Committee report of 1992 drew attention to the articulation between these two systems.

Social security issues have for a number of reasons become increasingly important in South Africa:

- Firstly, the degree of inequality in South Africa and its racial basis are morally and politically unacceptable. The advanced occupational insurance system was until recently mainly confined to whites, while the means test and the level of benefits for the elderly or the disabled discriminated strongly against those who were not white. Opposition to this created one source of pressure for reform of social security.
- Secondly, poverty became more visible and even grew in recent years.
- Thirdly, social change and the growth in the number of the poor have reduced the ability of the traditional support networks - the extended family, the tribal system and even subsistence agriculture - to provide a safety net, thus strengthening the need for a social safety net to fulfil this function.[2]

In South Africa, inequality and differentials in vulnerability largely follow the lines of race, geography and gender, with whites, urban residents and males usually being best off. In addition, it is useful to think of the poor and vulnerable as falling in one of the following categories:

- infants and pre-school children
- children of school-going age
- the unemployed
- the disabled
- the temporarily ill who cannot continue their jobs while recuperating or undergoing medical treatment
- the elderly.[3]

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1 *In this regard, see especially the work of Mesa-Lago on Latin America. The former communist countries of central and eastern Europe are also now being studied from this perspective, partly because new economic circumstances place new demands on the social security system.*

2 *But Iliffe argues convincingly that these traditional networks were never completely successful in overcoming poverty in Africa, the poor being chiefly those incapacitated and therefore unable to work.*

3

This paper starts from the premise that a sustained improvement in the living standards of the poor requires economic growth and investment in human capital to allow the poor to benefit from that growth, but that a social safety net is also a necessary for those who do not yet share in those benefits and to safeguard those who do against contingencies such as unemployment, old age and illness. This is similar to the three-pronged strategy, against poverty set out in the World Development Report of 1990, entailing:

- **Labour intensive economic growth**. In South Africa, two decades of per capita economic decline have deepened poverty and accentuated that long term economic growth is essential for substantially reducing poverty. But the inequalities generated by the growth of the 1 960s showed that growth per se is not a sufficient condition to effectively combat poverty. Structures need to be created that would ensure both growth and an equitable distribution of the benefits thereof.
- **Improvement of the human capital of the poor**: This aims at increasing the ability of the poor to compete in the labour market and to earn incomes reflecting their productive capabilities. Since the 1970s, rising black wages have largely eliminated low wages as a source of South African poverty (except in commercial agriculture and in domestic service, where significant pockets of low wages still persist). Poverty is today mainly associated with the lack of formal sector jobs afflicting a large part of the South African labour force, particularly the less educated. Moreover, for many of the poor, especially in the rural areas, poverty is exacerbated by the lack of access to social services.
- **Creating a social safety net**: A social safety should include measures, including income transfers, to support the destitute and those experiencing more temporary income deficiencies. Although most elements of a welfare state are already in place in South Africa for most of the formally employed, including most whites, *"... the welfare system scarcely recognised that able-bodied and industrious country-people could be poor and in need of aid as a result of structural unemployment."*

Government interventions usually blend two motives for social security:

- To provide for those experiencing persistent poverty or malnutrition that cannot be eliminated within a realistic time frame by economic growth or other programmes ("promotion of entitlements" in Dréze and Sen's terminology , "redistribution" to the World Bank).
- To provide social insurance against loss of income or material means. ("Protection of entitlements" to Dréze and Sen, "insurance" to the World Bank).

A social security system should be judged by how well it succeeds in reducing poverty and vulnerability within the limited fiscal resources available for that task. To understand the structure of the present South African social security system, we first turn to a brief historical overview of the forces that shaped that system, before an overview of the South African social safety net itself is provided in Section 1.3. Then, in subsequent sections, we turn to a more detailed analysis of some important features of the social security system and issues that need to be addressed in this regard.

1.2 Evolution of the South African social security system

The South African social security system developed largely in response to the political system in which it had to operate. In an apartheid society, a welfare state was erected for whites with all the features required to protect them against various contingencies by way of social insurance and, where social insurance failed, social assistance (e.g. social old-age pensions protected elderly whites with inadequate private pension income from indigence). Job reservation and higher education and skill levels assured most whites of employment since the time of the Great Depression, with the consequence that protection against the contingency of unemployment remained comparatively underdeveloped. The one exception was the Unemployment Insurance Fund (UIF) that provided cover against cyclical unemployment, which was usually mild and of relatively short duration.[4] State welfare expenditure under apartheid came to represent *"an important economic and political stabiliser in government efforts to maintain white support."* (Patel 1992:42). Social assistance in particular was aimed at the white (relatively) poor, who were not always that poor in the wider South African context. In contrast, the safety net for other groups was very rudimentary until, over time, the eligibility rules of the social security measures set up for whites were relaxed to include other South Africans. Through this route the South African social security system came to be *"… an unusually comprehensive system compared with that found in other developing countries …"* (Lund 1993:22).

As the tension between incorporation and separation of blacks played out in the South African political arena, the distributional stance of government at the racial level evolved and had a strong impact on the social safety net. Following Bromberger (1982) and Kruger (1992), the following phases can be distinguished in this regard:

- 1934 to 1948: "limited progress towards incorporation and equality"
- 1948 to 1961: "an era of retrenchment"
- 1961 to 1971: "signs of a thaw"
- 1972 to 1980: "a trend towards re-incorporation and reduced inequality", which, according to Kruger (1992:178-179), continued until at least 1990.

A major impetus for social reform in this last period came from attempts to give political legitimacy to the homeland system and to the three-chamber parliament with its white, coloured and Indian chambers. Attempts at co-option led to a rapid increase in the funds flowing to the homelands and later (even before the three-chamber Parliament was instituted in 1983) even more so to the coloured and Indian communities, with the result that coloureds became the major recipients of social transfers. The fiscal costs of incorporation the relatively small coloured and Indian groups into a welfare society were not too great a burden on the budget, even though this coincided with other events that also increased fiscal stress. The far greater fiscal challenge was left for later, viz. incorporation blacks into the system and eliminating the racial barriers which had allowed the welfare state for whites to flourish.

The levels and types of social grants provided in South Africa were then a result of the peculiar nature of political patronage in the apartheid society. Added to that the government committed itself in the latter part of the 1980s to the elimination of racial differentials in benefit structures in all social programmes. However, fiscal constraints meant that his had to include a substantial reduction in white benefit levels.[5] This was most readily accomplished in areas where resistance to reducing white benefit levels was least. One notable example was means tested social old-age pensions, as relatively poor elderly whites were a small and politically marginal group whose benefits could be reduced with little fear of political backlash. Thus pension

4 In fact, higher income earners, who were less subject to job loss, were not even offered this protection; for many whites UIF's greatest benefit was as a form of maternity benefits.

5 I have discussed this issue in *previous work (e.g. Van der* Berg 1992b) and do not intend taking this matter further in the present paper.

equalisation and reduced discrimination in the application of the means test were made possible through a severe decline in the real value of pensions received by white pensioners, which preceded changes in many other social programmes where there was a greater likelihood of strong political opposition. In 1993 the pension gap was completely closed and discrimination in the application of the means test eliminated. Gaps in coverage of some other social grants remain, however (e.g. child maintenance grants); in these cases, improved coverage of blacks may put the fiscal viability of the system in jeopardy, as will be argued in Section 2.

1.3 The South African social safety net: an overview

Like Latin American countries such as Brazil and Argentina, South Africa's per capita income places it close to the border line between an upper and a lower middle-income country. As in Brazil, income inequality is extreme: the Gini coefficient of 0,68 for household income is the highest yet recorded for any country, and it rises to 0,71 if household per capita income is measured. This inequality largely but not purely follows the lines of race. Table 1.1 presents a recent estimate of per capita incomes and within-group inequality by race.

Table 1.1: Racial and within-group inequality in South Africa, 1991

	Personal income per capita (Rand per annum)	Gini coefficient
Whites	R21 121	0,46
Coloureds	R3 885	0,52
Indians	R6 945	0,49
Blacks	R1 710	0,62
Total	**R4 629**	**0,68**

Source: Whiteford & McGrath 1994: 36 & 56, Tables 5.3 & 6.9

Intergroup inequality is thus vast and the source of much social discontent.[6] But the Gini coefficient amongst black also reflects extreme within group inequality, substantially more than two decades ago, due to the combination of rapid wage increases and increased unemployment amongst blacks. In giving attention to improving the situation of blacks (three-quarters of the population), the new government will have to balance the needs of the better-off urban workers, who are generally more mobilized, against those of the voiceless poorer segments of the black population.

A major factor in both inter- and intra-group inequality is access to remunerative employment. Table 1.2 shows that only some 54 per cent of the labour force in formally employed, down 20 percentage points after two decades of poor economic growth. The other 46 per cent find themselves in subsistence agriculture (mainly in the homelands), in the informal sector or unemployed, although some overlaps (e.g. some are only engaged in informal activities on a part-time basis and may also be employed or in subsistence agriculture) indicate that care should be taken in interpreting these figures. Given the differentials in education and skills, blacks are affected most severely by the scarcity of formal employment.

6 Though these figures might slightly exaggerate inequality, inter alia through incomplete reporting of income in kind in the census.

Table 1.2: Employment situation of the South African labour force, 1993

Formally employed	8,1 million
Engaged in subsistence agriculture	0,8 million
Engaged in informal activities	3,1 million
Unemployed	3,1 million
Total labour force	**15,0 million**

In such a labour surplus situation, occupational insurance systems can at best reach about half the labour force. The rest, those most vulnerable, are dependent upon various forms of social assistance. But as the needs of those lacking formal employment played a minor role in the design of the social security system, occupationally-based insurance is best developed. Only in the past two decades did social assistance grow to its present size and coverage, partly as an outgrowth of the creation of the homelands and the three-chamber parliament and partly the result of the belated recognition that the social security system had to become non-racial.

The occupational insurance system relies chiefly on retirement insurance and health• insurance (the latter is not regarded as central to this paper), but also has some additional features, such as insurance against work-related disabilities and diseases, and unemployment insurance. These are contributory schemes in which employers, employees and in some cases the state contribute to a multiplicity of funds (in the case of retirement and health insurance) or into a central fund. Although there is still no compulsion in insuring for all contingencies across all sectors, coverage has been extended to most of the employed population, except in the case of health insurance.

Social assistance, on the other hand, covers a far larger population, but attracts less resources. It is funded from the central budget, but under apartheid a large number of administrations were created: 10 homelands of whom four (Transkei-Bophuthatswana-Venda-Ciskei, referred to as TBVC) were nominally independent, 4 provincial administrations that served blacks outside the homelands, and a separate administration under the three-chamber parliament for each of the other three groups). Each of these administrations had some leeway in setting rules and administrative procedures, but funding levels were essentially determined by the white government. The central ingredient in social assistance is means-testing, a procedure which by its very nature encourages a "poverty trap" and that can also in certain circumstances lead to perverse incentives through non-intended impacts on behaviour, e.g.:

- discouraging saving for retirement,
- discouraging people from earning (or declaring) any income in retirement or while receiving parent's grants or child maintenance grants,
- creating a preference for retirement benefits in capital asset rather than in pension form,
- encouraging the breaking of links with one's spouse, or even
- encouraging fertility.

The present deficiencies in combating South African poverty lie mainly in the inadequate provision of certain basic social services to specific groups; inappropriate targeting of social programmes at higher levels of service provision while more basic needs are often neglected; the under utilisation of the labour and human capital of the poor, inter alia due to large scale unemployment; inadequate safety nets to reduce vulnerability stemming from unemployment, illness or old age; and inadequate provision for the impact of drought and of economic restructuring.

Table 1.3 below summarises information obtained from the Department of National Health and Population Development on the number of beneficiaries of various social pensions and allowances. These are the first official consolidated information available,[7] but a note of caution is indicated here: Other sources show widely differing numbers in receipt of the various forms of pensions.[8] The multiplicity of administrations working with social transfers and the geographic carve up of South Africa under the homeland system made availability and dependability of data a major concern in South African social and economic analysis. Much of the figures presented here are subject to wide margins of error. All precautions have been taken to obtain as dependable figures as possible, but problems remain. A major task of a new government would be to reintegrate South African statistics, a task mainly left to academic researchers during the apartheid era.

As Table 1.3 shows, the numerically most important social transfers are social old-age pensions, involving perhaps three-fifths of all recipients or some one and a half million people, followed by disability pensions (another fifth) and child maintenance grants. Other categories are much smaller.

Although somewhat differently ordered, Table 1.4 gives a broad overview of the fiscal cost of social assistance transfers by main category. This confirms that the South African social security net is largely dependent upon transfers to the old and the disabled to get resources to the poor. (The growth of child maintenance grants may raise this to a third important way of income transfers.) As will be shown in Section 4, this may be a good way of targeting many of the poor, but certain target groups are not reached in this way, in particular households without any elderly or disabled members where adult members cannot find employment.

Table 1.3: Total number of social pensions and grants paid, 1993

PENSION/ GRANT TYPE	White	Col.	Ind.	Black				All
				TBVC	*Other home-lands*	*Rest of SA*	*Total*	
Old-age	122,9	129,6	34,3	300,9	464,9	453,5	1227,1	1513,6
War veterans	8,9	4,8	0,1	0,9	1,3	1,5	3,7	17,5
Disability	38,8	102,5	22,8	80,1	120,6	134,5	335,1	499,2
Blind	0,8	1,6	0,4	3,7	5,6	6,7	16,0	18,7
Special care	0,0	0,0	0,1	0,1	0,1	1,7	2,0	2,1
Parent allowances	9,6	64,2	14,9	5,4	8,1	16,0	29,4	118,2
Child maintenance	25,7	167,0	26,6	15,4	23,1	53,9	92,4	311,7
Foster parent	5,9	22,9	2,0	2,3	3,4	11,1	16,8	47,6
Single parent	3,2	0,8	0,0	0,0	0,0	0,0	0,0	4,0
Total	**215,5**	**493,3**	**101,3**	**416,4**	**627,3**	**678,3**	**1722,5**	**2532,7**

Source: Information obtained from the Department of National Health and population Development.

7 Although estimates for the four homelands Transkei, Bophuthatswana, Venda and Ciskei, who were nominally independent from South Africa, had to be estimated by the author. The assumption made was that they occurred in the same ratio to population as in the other homelands.

8 In the Mouton Committee report, for instance, in one table the number of recipients of social old-age pensions is shown to be only 1 082 000 in 1990 [1992:484 & 4877, Annexures D2.5 & D2.8], as against 1 370 000 in 1991 in another table [1992:501, Annexure D2.21], a discrepancy which cannot be explained by the growth in pensions alone. The clue may lie in page 77, where it is stated that the figures in D2.5 exclude the TBVC states, whereas the footnotes to D2.5 state the opposite. Thus the coverage of 58 per cent of the elderly by social old-age pensions in 1990 noted by the Mouton Committee is not necessarily contrary to the 69 per cent shown for 1993 in Table 1.3, despite the fact that the latter was also based on higher estimates of the elderly population.

Figures for the independent homelands Transkei, Bophuthatswana, Venda en Ciskei (TBVC) were obtained by assuming that there are equal numbers of recipients pro rata in TBVC as in the self-governing homelands.

The Table also shows that, already in 1990, before parity in pensions had been introduced, coloureds and Indians in fact benefited more in per capita terms from social transfers than did whites. As whites had by far the largest personal incomes per capita, social transfers were also to them far less important as an income source. Expressed relative to personal income, social transfers in 1990 were about 0,8 per cent of estimated white personal incomes, versus 6,5 per cent for coloureds and 5,3 per cent for blacks.

Table 1.4: Total social transfer payments to individuals by category, 1990 (R-million)

TYPE OF PENSION/ GRANT	White	Col.	Ind.	Black				Total
				TBVC	*Other homelands*	*Rest of SA*	*Total*	
Old-age*	490,8	289,9	69,0	425,7	703,4	624,0	1753,1	2602,8
Disability**	115,6	201,2	51,6	102,9	158,7	197,8	459,4	827,8
Family+	103,6	210,5	55,0	6,4	4,7	35,3	46,4	415,5
Relief++	7,8	23,2	1,3	4,3	1,1	,4	5,8	38,1
Total	717,8	724,8	176,9	539,3	867,9	857,5	857,5	3884,2
Population ('000s)	5 068	3 286	987	7 134	10 733	10 914	28 780	38 121
Per capita spending	R142	R221	R179	R76	R81	R79	R79	R102
% of per capita income	0,8%	6,6%	3,0%	..	..	..	5,3%	2,5%

** Old-age and war veterans pensions, attendants' allowances, supplementary allowance*
*** Disability grants, pensions to the blind, leprosy grants, single care grant*
+ Family allowances, child maintenance grants, parent and child allowances, foster parent grants
++ Poor relief, relief of distress, paupers' rations, assistance to unemployed persons
Source: Based on data in Lund [1993: 9, Table 1] and accompanying text; per capita income figures deflated to 1990 base from Table 1.1 above
Source: Based on data in Lund [1993: 9, Table 1] and accompanying text; per capita income figures deflated to 1990 base from Table 1.1 above.

1.4 Structure of this report

Social income transfers to individuals thus play a large role for the poorer groups, despite the fact that the system was not devised to be optimal for them. The absence of a vision of a safety net against poverty for the vulnerable has created a social security system which is in certain respects inappropriate for the really poor. Some features which require further discussion testify to that:

- There is a complete absence of a safety net for the major category of poor in South Africa, those who cannot find employment
- Extending child maintenance grants, so common amongst coloureds, to the more numerous and poorer black population may well be fiscally prohibitively expensive.
- The levels of state pensions are high when considering average wage levels in South Africa.
- The lack of a system for the preservation of occupational pensions reduces job mobility and is therefore not conducive to efficient labour markets.

It is appropriate at this juncture of South Africa's history to reconsider its social security system in the light of its immediate needs as a semi-industrial, middle-income developing country. The most immediate needs are those of the poor and other vulnerable groups, who are still very numerous and whose lack of income can often be related to the absence of remunerated employment. But the needs of the employed for social security also need consideration. The resources devoted from state general revenue (as opposed to enforced social security taxes) to social security are already generous and pressures on fiscal resources at a time of political transition leave little scope for additional resource to be devoted to social security. The challenge is to design a system which offers the best possibilities of providing a safety net for the poor, while insuring those in remunerated employment as well as is possible against major contingencies (loss of employment, old age, ill health).

This report cannot provide answers to all of the questions raised, but it will, as far as possible, attempt to point out some of the important choices which need to be made, as well as the implications thereof. The report follows the convention in the social security literature of concentrating on income and other material transfers of resources, though provision of welfare services is often crucial for the social health of poor individuals and communities.[9] Sections of this report draw on information this author gathered for another recent paper on social safety nets in South Africa [Van der Berg 19941 and on subsequent discussions. This survey can be neither exhaustive nor fully objective, but will attempt to illuminate some issues that require greater attention with regard to the design and functioning of as well as linkages between social assistance and social (occupational) insurance. The interactions between occupational pensions and social pensions requires especially careful consideration, and these two topics then are covered in Section 3 and Section 4 of this report respectively. The fiscal and incentive implications of the system of child maintenance grants make this an issue that needs separate attention (Section 2). Section 5 covers some of the remaining aspects of social security (for contingencies such as unemployment, disability and illness) and discusses the need for other possibilities of getting much needed funds to poor households or communities, such as poverty-directed public works programmes, nutrition interventions or other alternatives that have been used elsewhere in the world.

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9 In the past, discrimination has led to great differences in the level of welfare services provided. Though additional resources are required to bring welfare services for other groups up to a higher standard, evidence indicates that the level of services historically provided to whites is excessive. For the elderly, for instance, the proportion living in homes for the aged was 8-11 per cent for whites, 5 per cent for coloureds, 0,9 per cent for Indians and 0,6 per cent for blacks in the late 1980s, [Lawton 1989:14, quoting the South African National Council for the Aged] "By most countries' standards South African whites use institutions to a much higher degree... "[Lawton 1989:14] White use of welfare resources may not be as excessive in other fields and there may be a case for sharply increasing the capacity of public and private welfare organisations, the number of social workers and the institutions for caring (e.g. homes for the elderly, etc.) On the other hand, the major fiscal implications of this and the need for the elderly to remain in the community as long as possible make finding ways to avoid institution-based care desirable. Public funding going to institutions serving poor communities is often a better way of targeting than means-tested access to welfare services.

2 CHILD SUPPORT

2.1 Introduction: the extent of the problem

The prevalence of poverty amongst South African children is higher than among the general population due to higher fertility levels amongst the poor [Iliffe 1987:266] and to inequality within the household (women and children often do not get their fair share of resources). Child poverty is evident inter alia in high infant and child mortality rates for a middle-income country. Child mortality (aged 0-4 years) in the period 1985-91 was 12 per 1 000 for whites, 52 for coloureds, 18 for Indians, and 83 for blacks [Sadie 1993: Appendices], which gives a weighted average of 74 per 1 000, far above the 41 of upper-middle income countries. [World Development Report 1993: Table 32]. Infant mortality (0-1 year) was 60 amongst blacks. [Sadie 1993: 23] Some of this can be attributed to the poor nutritional status of mothers and children.

There is evidence that poor nutritional status as a manifestation of poverty continues among a large segment of the school-age population. In 1983 the Department of Health and Population Development found that 54 per cent of coloured, 48 per cent of Indian and 57 per cent of black children under the age of 12 suffered from chronic energy deficiencies, as against only 15 per cent of white children. [Kotzé et al. 1986] Even when poor nutrition does not lead to mortality, it may impair the physical and even mental faculties of survivors, thus reducing their ability to benefit from education and later to compete in the labour market. [Donaldson 1993:284] Moreover, pecuniary need forces many children to leave the school system at an early age, if they do not have money to pay school fees or have to seek employment to supplement family income.

At present, the social security system directly addresses the needs of infants and children in two
ways:

- Through nutritional support programmes (Discussed in Section 5.5)
- Through means-tested transfers of child maintenance grants, mainly to single mothers without other means of support.[10] Such grants apply at least until the child reaches the age of 16.

"Child maintenance allowances" is the most common term used to refer to various essentially similar systems which have developed in the various departments concerned with administering welfare transfers and services. More accurately, there are usually two types of grants: a parent's allowance, and a child allowance. The common system to be implemented in all of South Africa from 1994 will consist of a parent's allowance that will be set at maximum of R370 per month, and a child allowance that will be a maximum of R1 05 per month per child (adjustments to these figures were being considered in May 1994). [Data from the Department of National Health and Population Development] The exact value of the transfers will be determined according to formulae laid down in draft legislation recently gazetted for comment, but will essentially be a means-tested sliding scale whereby transfers decrease as the financial means of the parent (usually the mother) increase. The draft legislation is somewhat ambiguous regarding the formula for the new means test and is being reconsidered, but in essence the system of child maintenance grants is means

10 For an excellent coverage of the operation of the system of maintenance grants, see Burman & Barratt [1993].

tested as for social old-age pensions (see Section 4.4 below), with the difference that, in order to qualify, the income of the household must fall under the exclusion level.

Until very recently, maintenance grants were in practice not extended to blacks, though they are very common in poor coloured communities in rural areas. These grants are costly and partly account for the fact that it has been officially estimated that 9 per cent of the coloured population is in receipt of a grant of some sort. [Lund 1993:21, Footnote 2]

2.2 TARGETING OF MAINTENANCE GRANTS

Single mothers with children are often among the worst-off families. The means test nature of the child maintenance grants should in principle ensure a fair degree of targeting of child maintenance grants. However, because of lack of administrative consistency between the different departments and even within departments applying these measures [cf. Burman & Barratt 1993] and because access is thus largely determined by what department or what racial group one falls into, targeting has not been helpful in ensuring that this measure reaches the poor. Moreover, the construction of the means test, which does not consider family size, may lead to anomalies that families who are objectively worse off in terms of meeting their needs, cannot qualify or qualify for smaller amounts than less poor families.

2.3 INCENTIVE EFFECTS OF CHILD MAINTENANCE GRANTS

The magnitude of the financial benefits to assist especially single mothers is such as to create strong incentives, which may often be perverse incentives. A single mother with one child may qualify for the parent's grant of R370 plus a children's grant of R115 per child per month. This implies a subsidy of R5 800 per year, or R2 900 per capita, well above mean black per capita incomes of approximately R2 100 in 1993. For a mother with two children, the subsidy of R7 200 per year adds up to R115 200 in constant 1993 Rand over sixteen years. (The grant is payable up to age 16, but can be extended for another two years if a child is still at school.) All that is required to qualify is that the mother should not have (or admit to) any other earnings above the threshold level, and should not have within her family an individual (spouse) earning such income. The incentive to qualify for such a pension is thus extremely large in a poor community, especially in rural areas where few earning opportunities are available. That coverage of the black population is low is largely due to administrative discretion rather than eligibility criteria.

The incentives created by child maintenance allowances are thus large, but that does not necessarily make them perverse incentives. Whether these are perverse incentives depends on whether the incentives in combination with the conditions for eligibility might encourage changes in behaviour in unintended ways, rather than only. ensuring proper targeting of transfers. The conditions attached to the child maintenance grants are such as to potentially alter behaviour in the following ways:

- There is an incentive to become (or purport to be) a single mother, thus weakening rather than strengthening any link with the father or a new companion. Once in receipt of a social grant, a single mother is discouraged from entering into any stable relationship which may be construed by the social worker as marriage.
- There is a strong incentive for mothers to cut their links with the father of their child in order to receive state maintenance grants. This is particularly serious where family structures are already under stress, e.g. amongst some parts of the coloured community, especially in rural areas, and in migrant-origin rural communities in the homelands. The Poverty and Living Standards Survey found

that one-sixth of black households in rural areas had an absent head of household, i.e. some 600 000 households, while an even somewhat larger number had female-headed households, often due to the absence of a migrant worker father. In such cases, the rules determining eligibility for child maintenance grants could further strain the already tenuous links between rural mothers and migrant-worker fathers.

- The poverty trap nature of the benefits make it unattractive for the mother to seek a job, or a better-paying one if she already has one, unless its value considerably exceeds the parents' grant. The clawback mechanism in the means test (discussed in detail in Section 4.5 below under Social Pensions) would mean that her grant is reduced commensurably when her private income increases. In some poor rural communities, child maintenance grants may even offer a higher source of income than the very few job opportunities available. In such areas, young unwed mothers may, through child allowances, often be materially far better off than employed single women without children.
- There is an incentive to conceal information regarding household income and the presence of a male earner, even if the incentive does not lead to behavioural change.
- The cost of supporting children, one of the factors behind fertility reduction in urbanising societies, is effectively reduced.

2.4 COVERAGE OF MAINTENANCE GRANTS

Figures on coverage of child maintenance grants and parent's allowances should be interpreted with great caution. Apart from the usual difficulties when the figures from 17 departments have to be consolidated and they are not all able or willing to provide the figures, some definitional problems regarding beneficiaries also create confusion. The term beneficiaries may be construed as the number of parents (i.e. mothers) involved, or the number of children, or the two figures may just be added together. Different departments may also use different definitions in the counts they provide, which may then be added without ensuring consistency across departments. Moreover, foster parent grants, essentially similar in nature though they do not have a similar effect on behaviour, are often lumped together with child maintenance grants.

Even these possible sources of confusion cannot explain, however, why Tables 2.1 and 2.2 imply that on average almost 5 child maintenance grants are paid to non-homeland black for each parent that receives an allowance. Nevertheless, the figures are useful in providing growth rates and orders of magnitude across groups. Note that coloureds, though less than one-tenth the total population, receive more than half of both these types of grants (excluding TBVC).

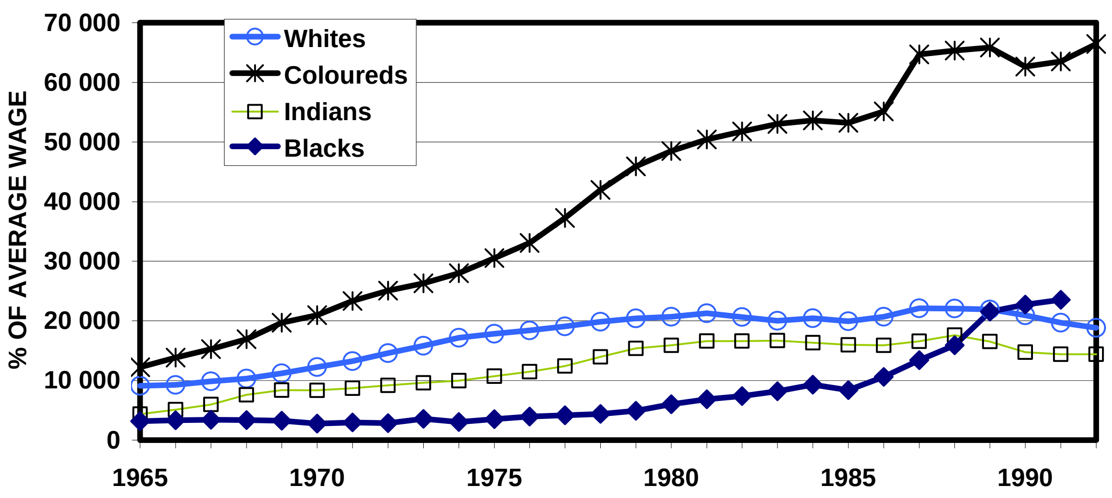
Table 2.1: Child maintenance grants by geographic area and race, 1992 and 1993

RACE, AREA	1992	1993	Growth (%)
Whites	25 740	25 745	0,0%
Coloureds	145 353	166 995	14,9%
Indians	24 984	26 556	6,3%
Blacks (excluding TBVC)	64 425	77 050	19,6%
Blacks outside homelands	43 644	53 903	23,5%
Transvaal	13 086	13 486	3,1%
Cape	21 631	29 668	37,2%
Natal	4 259	5 507	29,3%
Orange Free State	4 668	5 242	12,3%
Blacks in self-governing homelands	20 781	23 147	11,4%
Gazankulu	450	632	40,4%
Kangwane	321	303	-5,6%
Kwandebele	640	899	40,5%
Kwazulu	19 020	21 313	12,1%
Lebowa	350	0	-100,0%
Qwaqwa	0	0	..
Total	260 502	296 346	13,8%

Source: Unpublished information, Department of National Health and Population Development, 1994.

Like Table 2.2, Figure 2.1 shows parent grants, but it includes foster parent grants and excludes all the homelands. Note that here, too, coloureds dominate, but also that black parents' allowances are growing rapidly.

FIGURE 2.1: NUMBER OF CHILD MAINTENANCE AND FOSTER-CARE GRANTS BY RACE (EXCLUDING HOMELANDS)



Strict comparison is also not possible due to all the homelands being left out in Figure 2.1 and only the TBVC-homelands in Tables 2.1 and 2.2. This makes it very difficult to accurately interpret the take-up rate of maintenance grants. According to the different sets of figures, take up rates per thousand population were as presented in Table 2.3. The low take-up rate amongst whites is to be expected, given their relative affluence. The black take-up rate is also low (and this would have been even lower if figures for all the homelands were available), while it is extremely high amongst coloureds. The number of coloured child maintenance grants shown in Table 2.1 is greater than the 151 336 coloured female headed households estimated by the Poverty and Livings Standards Survey (though this may be an underestimate due to under representation of rural coloured households in the sample). Expressed relative to the number of female-headed households, coloured child maintenance grants are almost ten times the average for the whole population.

These figures indicate that blacks have been far less successful in taking up child maintenance or parents' allowances than other groups. Considering that black households are more likely to be female headed than for other groups, according to the Poverty and Living Standards Survey, the full extent of the backlog is not even apparent from these figures. The number of parents' allowances granted in 1993 expressed relative to the number of female headed household, was 49 per cent in the case of coloureds, 42 per cent for Indians, 4 per cent for whites, and less than one per cent for blacks.

Table 2.2: Parents' allowances by geographic area and race, 1992 and 1993

RACE, AREA	1992	1993	Growth (%)
Whites	9 801	9 646	-1,6%
Coloureds	55 905	64 229	14,9%
Indians	13 710	14 904	8,7%
Blacks (excluding TBVC)	19 958	24 078	20,6%
Blacks outside homelands	12 672	16 001	26,3%
Transvaal	1 438	508	-64,7%
Cape	8 876	12 728	43,4%
Natal	429	621	44,8%
Orange Free State	1 929	2 144	11,1%
Blacks in self-governing homelands	7 286	8 077	10,9%
Gazankulu	0	0	
Kangwane	0	0	
Kwandebele	120	184	53,3%
Kwazulu	7 166	7 893	10,1%
Lebowa	0	0	
Qwaqwa	0	0	
Total	99 374	112 857	13,6%

Source: Unpublished information, Department of National Health and Population Development, 1994.

Though maintenance grants have in practice not been extended to the majority of black -people, the taking up of such grants by blacks on a large scale is only a matter of time once discriminatory provisions and application of these grants are eliminated. This is already occurring, judged by the jump of 20 per cent in the number of blacks beneficiaries in 1993 (excluding the TBVC-homelands). Varying growth across different areas is ascribable to the differing application and promotion of the system by officials. In Transvaal, for instance, the number of black beneficiaries grew by only 3 per cent, compared to 37 per cent in the Cape Province and 29 per cent in Natal. (Table 2.1). But note that amongst coloureds, where child maintenance grants are most pervasive, the number of beneficiaries is still growing rapidly (15 per cent growth was recorded in 1993), indicating that there may still be some way to expand before saturation point is reached. Growth in Table 2.2 is quite similar to that in Table 2.1.

Table 2.3: Take-up rate of grants per 1000 population

	Child maintenance grants 1993	Parents' allowances 1993	Parents' allowances 1992
Whites	5,0	1,9	3,7
Coloureds	49,1	18,9	19,8
Indians	26,1	14,6	14,3
Blacks	3,5*	1,1*	2,2**
Ratio: coloured/black take-up	14*	17*	9**

* *Excluding TBVC-homelands*

** *Excluding all homelands*

Source: 1993 figures based on date obtained from Department of National Health and Population Development 1994; 1992 data obtained from Central Statistical Services and from South African Statistics 1992, Table 4. Sadie's population figures were used, with adjustments for the black population's geographic distribution based on census estimates.

2.5 Fiscal costs of maintenance grants

From the figures presented in Table 2.3, if the coloured take-up were to become the norm, black take-up rates of child maintenance grants may increase between nine and seventeen-fold (or even more, as the black take-up in the excluded homelands is considerably lower than in the rest of South Africa and as a larger proportion of black households are female headed). Applying the seventeen-fold increase to the whole black population, the take-up of child maintenance grants may then increase from approximately 34 000 to 578 000, and that of parents' allowances from 107 000 to 1 502 000. The full cost of the increase, if all the beneficiaries were to receive the maximum grant, would be R4,3 billion at 1993 rates. This is perhaps an extreme estimate of the cost increase which may arise. As the means test would reduce the actual average value of the grants, the cost increase is likely to be lower, perhaps somewhat above R3 billion.

An alternative approach to estimating the cost increase would be to translate the expenditure figures for "family support" in Table 1.4 to per capita terms. Extending the coloured per capita spending on child maintenance grants of R65 in 1990 to the full population, the cost increase would have been almost R1,6 billion. Benefit increases for coloureds that considerably outpaced the inflation rate (due to the move towards racial parity) and increased coverage would make this comparable to a R3 billion or greater cost increase in 1993 Rand terms.

This increase in cost presumes that black take-up rates would over time approach those of coloureds. Although this cannot be certain, there would certainly be forces working towards such an increase, particularly if official obstruction to people claiming this benefit diminishes in the new political circumstances. Although this cost increase clearly would not take place overnight, growth of the system in this direction seems to be on the cards, especially as female headed households are very pervasive amongst black South Africans. (The Poverty and Living Standards Survey found that one third of all black households where the household head was present were headed by females, while many more of those households with an absent household head would de facto be female-headed). Such a cost may not be affordable for a single social programme of this nature and would crowd out other social security programmes and the poverty relief that are so direly needed.

Accordingly, either this programme needs to be abandoned as being fiscally. unsustainable, or cost containment measures should be urgently introduced at the same time as greater equity in access to these benefits is ensured. Cost containment could take the form of a reduction in benefit levels, a lower exclusion level in - the means test (causing fewer beneficiaries to qualify) or a reduction in the sixteen year time span over which this grant applies), or a combination of these approaches. This would reduce the number of people covered (and therefore the administration of what could become a massive system), but also the incentive to try to qualify by manipulating information or changing behaviour. These possible policy measures will be again discussed in the concluding section.

3 RETIREMENT INSURANCE

3.1 Retirement insurance: background and history

An outstanding feature of the South African economy is the central role played by the insurance industry in mobilising contractual savings for investment. Retirement provision through occupational and private retirement insurance is an important form of such contractual savings. As the Mouton Committee [1992: 62] noted, the share of the elderly population in personal income is somewhat above their share in the population above 20 years of age, which is an indication that the elderly earn on average somewhat more than the rest of the adult population, which can in no small measure be ascribed to the system of occupational social pensions. In 1990, R9,7 billion was paid out to beneficiaries of retirement insurance schemes, as against only R2,8 billion paid by the state in the form of social old-age pensions. [Mouton Committee 1992: 481, D2.2 & 493, D2.14]

Though retirement insurance in South Africa dates back to when the South African (Transvaal) Republic introduced the first pension fund in 1882, occupational insurance for retirement only really became institutionalised after the 1 920s. The Pensions Funds Act of 1956 (still in operation) was the major milestone in regulating the financial responsibilities of pension funds. Occupational retirement insurance is not compulsory, but, aided by a series of industrial council agreements that are binding on all employers in a particular industry and by attempts by employers to offer competitive benefit packages to their employees, it has expanded its coverage to most industries (see Section 3.2 below on the coverage of such retirement provision).

Occupational retirement insurance is based on contributions paid into a fund by employers and employees, according to contractual agreement, which upon retirement gives the employee certain pre-defined benefits. Other benefits sometimes attached to membership are withdrawal benefits to employees who resign, retrenchment benefits, and insured benefits (paid to employees who have been disabled or to the dependants of employees who have died. [Sephton et al. 1990:] There are a large number of such pension funds in South Africa, with little involvement by the state. The Pension Funds Act mainly regulates the use of funds to ensure that they are not squandered, inter alia through laying down rules about the administration of funds by a board of trustees. The level of contributions and the value of benefits upon retirement or withdrawal are not covered by the legislation. The trustees usually best represent employer interests, though industrial bargaining has in the past decade ensured that employees have become better represented.

In as far as there is compulsion (in accordance with agreements entered into between employers and employees, for instance industrial council agreements) to make such provision for retirement, occupational insurance is a form of social security although, unlike in many other countries, contributions paid by employers and employees do not flow through the coffers of the state and are thus not included in social security taxes. For that reason, fiscal ratios on the extent of social security provision may understate South Africa's position in an international context.

A contentious issue in South African retirement insurance has been the withdrawal from funds for reasons other than retirement. South African pensions are generally not portable, i.e. they cannot be transferred from one fund to another when the worker changes employment. (This is discussed in more detail in Section 3.4 below). Consequently, many workers who change jobs or lose their jobs immediately use the benefits they can lay claim to. This matter of early leavers was the subject of a large number of investigations over the years, including the Cilliers Commission (1964), a committee of the Department of Social Welfare and Pensions (1976), the Louw Interdepartmental Committee (1980), the Meiring Committee (1976) and the Mouton Committee (1992). [Mouton Committee 1992:144, 152; Financial Mail 1987: 5] In 1980 the Louw Committee recommended compulsory preservation of pension rights upon withdrawal, which was written into the Preservation of Pension Interests Bill in 1981. But this bill met with fierce resistance from black trade unions:

> *"Two reasons, both pointing to problematic aspects of state social pensions and social insurance, have been advanced for this response. Firstly, 'premature' benefits from retirement funds might serve to tide workers over periods of unemployment in the absence of a broadly based and adequate unemployment insurance system. Resistance to the confiscation of such an important safety net, especially in the economic climate of the mid 1980s, was then perfectly understandable. Secondly, ... the means tested nature of the state social pension scheme and especially the low level of free income could place somebody with a small occupational pension squarely in a classical 'poverty trap'. Because of access to an occupational pension a person might be deprived of a state pension and end up with a retirement income below the level of the state social pension. These aspects again illustrate the complex interaction between state and private provision."* [Kruger 1992:213]

Black trade unions reacted to what they saw as an attempt to deny them access to their own money [Rumney 1988:3 5; Mouton Committee 1992:153], money which had previously played a particularly important role in tiding them over periods of unemployment (especially since blacks were effectively denied unemployment insurance until the late 1 970s). The reaction on the part of workers was so severe that the government first announced that the legislation would not apply to blacks, and later withdrew the bill altogether.

As the rules of most occupational retirement insurance funds were written by employer representatives with little or no input from workers or trade union, *"... most rules are heavily biased towards the employer's interests ..."* [Field 1991: 973] Benefit packages were usually aimed at attracting and retaining especially skilled staff and thus often emphasised retirement benefits, often to the detriment of withdrawal or other benefits. [Mouton Committee 1992:291] Only in recent years have the trade unions started concentrating on improving the wider benefit structures (as opposed to the take-home pay package) of their members. The 1981 industrial unrest about compulsory pension preservation was a turning point in this regard. Consequently, union representation on pension fund boards has increased and there is nowadays a greater emphasis on pension policy in industrial bargaining, for "the rules regulating social security schemes are surprisingly malleable" [Sephton et al. 1990: xi]

3.2 Coverage of occupational retirement insurance

In addition to occupational insurance for retirement, private insurance in the form of retirement annuity funds also exists and has grown rapidly in South Africa. As can be expected, private insurance is not particularly attractive to low income workers who would expect to fall back on social pensions in retirement, as the means test determining eligibility for and benefits from social old-age pensions would effectively apply a 100 per cent tax on private insurance benefits (see Section 4 below, especially Section 4.4). Amongst the higher income groups, however, some of the deficiencies of the occupational insurance system is addressed by a widespread reliance on private pensions, while self-employed professionals and others who are not part of a retirement fund usually make provision for their retirement through retirement annuities. Unfortunately, in much of the available statistics the distinction between these two types of provision for retirement cannot be clearly drawn, so that the statistics may reflect a high degree of overlap and double counting of retirement provision.

The membership of retirement funds (both occupational insurance and private provision) increased from under 923 000 in 1958 to 7 665 000 in 1990, excluding the few members of such funds in the TBVC-homelands. [Mouton Committee 1992: 483, Annexure D2.4] Though extensive double counting (some people are members of more than one fund) which may have varied over time should caution one against drawing too strong conclusions from these figures, the broad picture that emerges is of a very rapid increase in the coverage of occupational insurance in the 1960s and especially the 1970s, when many funds extended membership to semi-and unskilled workers. [Mouton Committee 1992:110.] The membership growth rate of 9 per cent in the 1960s and 12 per cent in the 1970s slowed to 2 per cent in the 1980s, partly as a result of saturation of the market, but the creation of the Mine Workers' Provident Fund in 1989 created the potential for expanding coverage to another half a million people. The main industries in which coverage is still low are agriculture, domestic service and trade/catering/accommodation (mainly employees of small traders and shopkeepers). Their combined employment was about 2,6 million in 1990, exceeding the 2,2 million employed workers estimated to be uncovered by occupational insurance. [Mouton Committee 1992:115-116]

Thus, coverage for retirement of the employed population by occupational insurance is extensive and has been growing rapidly, which can partly be explained by the increased incorporation of the black workforce into modern labour market institutions and partly *"... by the absence of a state social pension scheme providing significant benefits."* [Kruger 1992:2 15] Although coverage of the formally employed for retirement by occupational pension schemes seems high at about 73 per cent [Mouton Committee 1992:490], large-scale unemployment and informal sector participation means that only some 40 per cent of the labour force is covered. The number of uncovered people has been increasing as a result of an expanding labour force while employment remained stagnant. [Kruger 1992:215] But for the employed labour force, barring the three problematic industries (agriculture, domestic service and trade/catering/accommodation), the problem is by and large no longer the extent of coverage by such schemes, but the nature of that coverage.

3.3 Legal distinctions in occupational retirement insurance

The Pension Funds Act of 1956 is essentially a protective act, which lays down the rules for the registration and proper administration of retirement funds so as to safeguard the interests of the beneficiaries of the fund. [Sephton et al. 1990:1] Nevertheless, there are two distinctions crucial to understanding the functioning of the funds and the incidence of the costs. These distinctions will be discussed in sections 3.3.1 and 3.3.2 below.

3.3.1 Defined benefits vs. defined contributions funds

The distinction between defined benefit and defined contribution retirement funds rests on the differences in the determination of benefit levels and in funding.

In a defined contribution scheme (also called a money purchase fund), the value of the benefit is essentially determined by the value of all the contributions made over the years on behalf of the beneficiary, whether by himself or by his employer, plus the accumulated returns from investing this money. The value of the benefit so earned is upon retirement fully or partly converted into an annuity for the duration of the lifetime of the beneficiary. Naturally, what annuity a given sum of benefits can buy is determined by the life expectancy and the expected investment returns on the capital. The annuity is usually at a flat rate, i.e. its real value is reduced by the effects of inflation.

In a defined benefit scheme, the value of the final monthly benefit (pension) is usually expressed as the number of years membership of the fund times a certain percentage of final salary (in the last month, year or few years of work). For instance, where 2 per cent is earned for each year worked, a worker who has worked 40 years for the same firm will receive a pension upon retirement equal to 80 per cent of his final salary, to be paid for the rest of his life. However, this pension can remain constant in nominal terms at that level, and again the pensioner will become the victim of inflation. Therefore, many funds adjust pensions of existing pensioners from time to time, but this very seldom fully compensates for inflation. This was particularly the case in the period of high inflation from 1973 until recently, when inflation ran at about 14 per cent per annum.

In the case of a defined contributions pension, the contributions of both employer and employee are quite clear. Along with the returns on investment, this determines the final benefit. In the past, when the state created a captive market for government script by imposing prescribed investment requirements on pension funds, this return was considerably lower than could have been earned in other parts of the market. Today, however, that is no longer the case, but while in opposition the ANC has mooted the possibility of again returning to a prescribed assets regime: However, now that the trade unions are more cognisant of the costs involved in such a policy for their members, it is less likely that this would be allowed to again become a cheap source of funding for government loans at the expense of workers' retirement benefits.

In the case of a defined benefit pensions fund, the employer is responsible for full funding, i.e. to ensure that the value of the assets in the fund are adequate to cover the demands on the funds. Regular actuarial inspection is prescribed by law and the employer has to pay into the fund the difference between the obligations of the fund and its assets. Moreover, not only the return on investments, but also the life expectancy of employees will determine the strength of the fund, as would factors other factors that affect the financial health of a fund, e.g. early withdrawals of members (see Section 3.4 below).

In principle, then, the difference between these types of schemes is that in a defined contribution scheme, contribution levels are defined, but benefits will be determined by the returns on investment, while in a defined benefit scheme the benefit level is prescribed, but the contribution required by the employer will then be largely by benefit levels, returns on investments and the life expectancy of employees.

3.3.2 Pension funds vs. provident funds

Following the 1981 industrial unrest about compulsory preservation of pension rights, trade unions started taking a far more active interest in retirement benefits. They found that many of their members had a preference for receiving lump sum benefits rather than a monthly pension. Some reasons advanced for this was that black workers who retired in the homelands often preferred to have a capital sum to buy land or cattle rather than a monthly pension income. [Basson 1987:34]. In urban areas, on the other hand, there may be a preference for purchasing a house with the lump sum. The means test is, moreover, so constructed that the holding of assets (e.g. ownership of a house) has not had the same disqualifying effect on eligibility for a social old age pension as the equivalent pension income stream would have had. [Mouton Committee 1992:154; Sephton et al. 1990:45, 101] A further factor contributing to the preference for provident funds is that it obviates the need for the regular collection or payment of a pension, whereas a provident fund lump sum benefit is seen as *"a trouble-free way of getting hold of the entire benefit"*. [Sephton et al. 1990:46]

Consequently, trade unions became involved in negotiations to establish provident funds. These newly established funds generally better had the interests of workers at heart than previously established (mainly pension) funds had, due to the greater worker input into the rules of these new funds. This contributed to *"... a common misapprehension that pension funds cannot have rules ... that are as favourable as those of provident funds. This is not so."* [Sephton et al. 1990:45]. In fact, the distinction between pension and provident funds really rests on only two legal differences:

- Tax concessions: member contributions to a pension fund up to 7,5 per cent of salary are not taxed, but upon retirement, pension benefits are taxed as income. This implies that this tax benefit may be a deferral rather than a reduction in income tax.[11] For provident funds, however, earners pay the full income tax on their contributions, but receive a substantial tax free benefit when they retire.[12] Where black incomes were low, the tax aspect favouring pension funds were not particularly important, but with rising incomes, this is likely to become a greater factor. [Molewa 1987b: 31] For both provident and pension funds, at least 10 per cent, but usually 20 per cent, of earnings contributed by the employer are allowed without income tax being imposed upon the beneficiary. [Sephton et al. 1990:21-29] Up to that level, this makes enhanced pension benefits more attractive from an employee's standpoint than increases in salaries.
- Upon retirement, pension fund members can receive not more than one-third of their benefits in the form of a lump sum payout and the rest in the form of a monthly pension. Provident fund members, however, can take all their benefits in the form of a lump sum payment "*and their relationship with the fund is*

11 There may in fact be differences in the effective taxation paid by beneficiaries, as they are likely to fall in a lower tax bracket after retirement.

12 For full details on the formula, see Sephton et al. [1990: 26 et seq.]

effectively severed". [Mouton Committee 1992: 98] *"The fact that pensions are penalised more than lump sums at retirement in the 'means test 'for old age assistance, has also led some lower paid employees to prefer provident funds to pension funds."* [Mouton Committee 1992:154]

The effect of the various tax incentives cannot be calculated with certainty, partly because they are largely tax deferments rather than tax reductions. Though such estimates have to be treated with extreme caution, Kruger [1992:2 15] quotes estimates according to which the income foregone for the state ranges from R4 billion to R8 billion in 1990, which *"... by far exceeded the direct outlay of the state on social pensions ..."* [Kruger 1992:2 15].

It has been suggested that the distinction between pension and provident funds should be eliminated. The insurance giant Sanlam [Smit 1993:64] recommended that:

- Tax concessions of 7,5 per cent of the salary should be provided to all members of pension/provident funds, and
- Up to a certain level (R100 000 was suggested), beneficiaries should be allowed to receive all their benefits in a lump sum upon retirement, with one third the amount exceeding this limit also withdrawable in a lump sum.

An alternative suggestion was to separate all retirement schemes into a pension fund and a retirement fund component, with the contributions of members going into the provident fund, and that of employers into the pension fund. [Rumney 1988:3 5, quoting Wilsave]

3.4 The problem of withdrawals/early leavers

3.4.1 The nature and extent of the problem

Unlike in many other countries, South African legislation does not enforce the preservation of retirement benefits upon withdrawal from a pension fund for reasons other than retirement. Until recently, many funds had withdrawal benefits which only consisted of the contributions of the person involved, with none or little of the accumulated interest, and without the employer's share of the contribution. *"The employer's contributions are often withheld ... on the basis that unlike the employee 's contributions they are not a part of nor a deduction from, the employee's wages or salary."* [Field 1991:970] This effectively strengthened such funds. Who gains from this would depend on whether it is a defined benefit fund (in which case the employer would gain from having to contribute less to secure full funding of future benefits) or a defined contribution fund (in which case the remaining members would gain through improved benefits, i.e. higher returns on their contributions) (see above). Withdrawal benefits were often not an important part of the benefit structure that employers offered their staff, until trade unions started taking a more active interest in this field. In the older funds, set up with little employee involvement, the interests of the employer were dominant, and these were usually related to making it as attractive as possible for staff to remain until retirement with the least cost to themselves. Thus miserly withdrawal benefits were the rule.

This contributed to making the issue of the enforced preservation of pension rights upon withdrawal[13] even more contentious when the government introduced legislation

13 "Withdrawal benefits are considered here primarily in the context of the termination of the

to this effect in 1981, as discussed in the introduction to this section. The problem from the perspective of government was not the level of leakage, which fluctuated in a narrow band around 10 per cent of inflow of funds for the past three decades [Mouton Committee 1992:145], but the fact that the rules allowed many members to withdraw and consume their accumulated retirement benefits when leaving a job, which effectively increased the burden on the state to support them in retirement. Moreover, the non-transferability of pensions reduces job market mobility and is a source of rigidity in the labour market (for this reason, Munro [1991] refers to them as "golden handcuffs").[14] Despite the mobility-reducing nature of pension funds, it has been estimated that 90 per cent of pension fund members (probably mainly younger workers) can be expected to change jobs before retirement, thus forfeiting part of the benefits they would otherwise have been entitled to. [Munro 1991]

Because it is not so simple to calculate the share of a member in a retirement scheme based on defined or fixed benefit (i.e. where the employer has from time to time to contribute an actuarially determined sum of money to keep the fund healthy), some argue that the withdrawal benefit cannot be calculated. But *"There is ... no valid reason why the rules could not provide for a withdrawal benefit consisting of the member's contributions plus a sum ... deemed to be the employer 's contribution, plus full interest."* [Field 1991: 969]

The effect of withdrawal upon the retirement income of a person can be easily calculated for a defined benefit scheme, where a salary of the 2 per cent of final salary is earned for each year that the person has been a member of the retirement fund. An example will show that for the typical black worker in industry, such withdrawal makes considerable economic sense. The average black worker in the non-primary sector earns about R2 000 per month, which entitles him to R40 pension per month for every year worked. If he changes jobs and withdraws from the fund after 10 years, he would be forfeiting R400 per month of retirement pension per month, scarcely more than the social pension of R370 per month. Moreover, whereas the social old-age pension is likely to keep up with inflation (for black workers, the recent experience has even been one of a rapid real increase in social pensions), his occupational pension is not likely to do so, despite some inflation-adjustments from time to time. Upon withdrawal from the fund, the worker is entitled to his accumulated contribution, eroded by inflation but partly augmented by some interest payment. Even though he thus forfeits the employer's contribution and most of the interest, he still qualifies for the full social pension of R370 per month when he retires, and he is meanwhile enabled to use some of this accumulated savings, which typically may amount to about R14 000, i.e. about 7 months' salary. Even after tax, he is thus far better off.

Cronjé [1991:142] points out that just as a fairer withdrawal benefit would weaken the financial strength of the funds, which would have to be reflected in either smaller retirement benefits or a need for greater contributions, often by employers, excessive benefits provided to retirees (e.g. benefits linked to the last year's or even the last month's salary) would also weaken the funds. [Cronjé 1991:142]

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employment relationship, which may be by virtue of dismissal for misconduct, retrenchment or resignation prior to retirement age." [Field 1991:969] In certain cases, though, retrenchment benefits may be considerably better than general withdrawal benefits.

14 It is important to note that some funds (so-called Industrial Funds, including about 1,4 million members) cover whole industries rather than a particular employer. [Mouton Committee 1992:113] Changing jobs within such an industry would thus not be tantamount to early withdrawal.

3.4.2 Arguments advanced for the early leavers problem

A number of reasons have been advanced for the strong reaction on the side of black trade unions to the attempted enforced preservation of pension benefits, and also for their subsequent preference for provident rather than pension funds:

- A worker who has lost his job has a more immediate concern with getting access to such funds than waiting for retirement. [Basson 1987:34] Trade unions argued *"... that long-term benefits such as pensions were a luxury that poorly paid workers struggling to meet their immediate needs could not afford."* [Field 1991:966]
- Adler [1989:20] argued that the much lower life expectancy of blacks makes pensions less attractive [Adler 1989:20], as the actuarial calculation of the monthly pension is based on the average life expectancy rather than the life expectancy of blacks. Those with a shorter life span in retirement than the average would thus receive lower benefits over their retired lifespan. But this factor cannot be that large, for by the time workers reach retirement age, black life expectancy for males at 11 years is only two years shorter than for white males [Mouton Committee 1992:134].
- Workers with relatively low incomes fear that occupational pensions may disqualify them from receiving state old age pensions or reduce the amount of state old age pensions they would qualify for, as already discussed above. Adler [1989:20] interprets research done by Melter as implying that *"most Black people see the State as the legitimate source of old-age pensions"* and that they therefore do not believe that it should be necessary for them to provide for retirement.
- Part of the reaction of workers to the attempt to enforce pension preservation was an ideological one. Some in the labour movement contend that employers benefit more than workers from the investment role of the pension funds: *"Pension schemes provide much of the capital from which all capitalists in South Africa benefit, directly or indirectly."* [Adler 1989:22] On the other hand, unions also correctly argue that employers benefit from the withdrawal of workers from fixed benefit schemes and are keen not to extend withdrawal benefits [Adler 1989:22], as employers' financial obligations to the fund are then reduced (e.g. they experience what has come to be called a contribution holiday). "Whilst an employer has no definite 'ownership" in the surplus, such surplus materially affects and relieves the employer 's obligations in relation to current and future funding of the pension fund" [Trollip 1990:52]

3.5 Conclusion

Withdrawal versus the preservation of pension rights remains an important issue that needs further discussion. This will receive further attention in the concluding section, but it is first necessary to turn to the issue of social pensions and the means test, because this link between social and private pensions is of considerable importance in South African retirement provision. This will be addressed in the next section.

4 SOCIAL OLD-AGE PENSIONS

4.1 Background

After early Dutch relief to the poor had established a "reasonably formal system of provision" in South Africa, British rule in the nineteenth century brought with it Victorian views on poverty which were more racially based and far less sympathetic to the poor. [Kruger 1992: 109-117] Partly as a consequence, by the time of Union in

1910, South Africa had only a very limited poor relief system in which voluntary organisations played the dominant role. Poor relief was the major social security programme until the end of the 1920s. [Kruger 1992: 157] Later, social old-age pensions became the dominant mode of support of the poor, which warrants its separate treatment in this Section. Race became and remained the most important determinant of both access to and level of social transfers. Social old-age pensions were introduced primarily to provide a social safety net to whites, but their subsequent expansion to incorporate other groups as well was to have *"a profound effect on the subsequent history of poverty in South Africa."* [Iliffe 1987:141]. As argued in Section 1, though, the origin of the social security system as a safety net for relatively affluent whites has shaped both its nature and growth. Ironically, this safety net for whites has, through the abolition of discriminatory provision, become a powerful instrument of redistribution.

The South African retirement system, including both social old-age pensions and retirement insurance, was recently the subject of investigation of the Mouton Commission. Based on the fact that *"(m)ore than 9 million people between the ages of 15 and 64 are not members of any retirement fund and therefore not covered for their old age, as against 5.5 million who are"* [Le Roux 1991:5], at least 60 per cent of the present labour force would in old age have to fall back upon social old-age pensions. But even many beneficiaries of occupational insurance schemes also find ways of qualifying for social old-age pensions (see Section 3 above), thus the proportion who would eventually have to receive social pensions in old-age is probably much higher, perhaps even above the 69 per cent of the elderly population who presently receives such pensions. As discussed in Section 3, many workers changing jobs or becoming. unemployed convert retirement benefits into cash, reducing their provision for old age and becoming an effective burden on the state; others take their benefits upon retirement in the form of a lump sum payment, which in some cases allows them to qualify for social old-age pensions as well in accordance with the means test. This places a further burden on the state's financial resources. In 1985, less than 20 per cent of the age group eligible for social pensions were receiving benefits from private provision through pension or provident funds; double counting (some were receiving benefits from more than one private fund) may even make this an overstatement of the actual coverage. [Mouton 1991:27]

4.2 The impact of pensions on poverty

Social old-age pensions play a crucial role in combating poverty in South Africa, not only because many pensioners would otherwise be amongst the poorest, but also because pension money circulates widely in many poor rural communities. A major advantage of old-age pension system as a social security programme is that the administrative system for this already exists (despite major administrative problems), allowing many people to share in the benefits of these transfers. *"(A)s inadequate as it has been and still is, transport and communications infrastructures and procedures are in place which take resources out into the rural areas."* [Lund 1993:22] Whatever the share in total income, it should be kept in mind that *"(T)he old-age pension may be a blunt and badly targeted instrument of social welfare, but it is simpler and less costly to administer than more comprehensive schemes "* [Donaldson 1993:286]

Social pensions also make a substantial contribution to poverty relief: *"To obtain a pension ... was a matter of survival for many poor South Africans."* [Iliffe 1987:272] A large-scale household survey covering mainly non-urban areas of kwaZulu found that almost 30 per cent of households in deep rural areas received old-age pensions, most of them presumably social old-age pensions. [Ardington & Lund 1994: 13] More importantly, through its means-testing aspect, households receiving such pensions fall mainly in the middle of the per capita income distribution after receiving pensions. Without pensions, many households with pensioners would be amongst the poorest. Provisional results from the 1993 Poverty and Living Standards Survey indicates that as many as 19 per cent of rural households are headed by persons older than 65 years, and half of these households contain six or more members.

About half the households in the kwaZulu survey where no-one was employed contained elderly people.[15] Pensions thus do reach many households afflicted by unemployment, while other transfers (private pensions, disability and perhaps child maintenance grants) reach another one-sixth of such households. However, a cause of considerable concern is that this still leaves some 5 to 6 per cent of the population in a poor region with neither employment nor transfer incomes.

Table 4.1: Distribution of monthly income and income sources in a kwaZulu survey, 1992

Decile	Household income (Rand)	Per capita income (Rand)	% of income: Wages	Remittances	Pensions	Pensions per capita (Rand)
1	142	18	16,4%	23,9%	7,5%	1,35
2	347	46	27,2%	25,1%	19,3%	8,88
3	459	69	31,8%	22,5%	19,1%	13,18
4	611	93	39,6%	20,9%	14,8%	13,76
5	779	122	42,6%	15,8%	19,5%	23,79
6	927	157	52,5%	14,5%	13,5%	21,20
7	1 097	201	57,6%	11,8%	12,2%	24,52
8	1 429	272	68,5%	8,4%	8,0%	21,76
9	1 890	412	70,3%	8,7%	6,3%	25,96
10	3 315	920	76,8%	5,4%	2,6%	23,92
Total	**1 097**	**231**	**48,2%**	**15,7%**	**9,0%***	**20,77***

**Own calculations*

Source: Adapted from Ardington & Lund 1994: 10, Table 2

Table 4.1, based on the survey, illustrates that pensions contribute very little to the income of the poorest. In the bottom two deciles, per capita pension receipts per month are only R1 and R9 respectively. Only from the fifth decile upwards does pension income make a substantial contribution.[16]

4.3 Coverage of the elderly population

Social pensions are paid, subject to a means test, to men above the age of 65 and women above the age of 60.[17] In 1993, only 69 per cent of altogether 2 180 500 elderly people in the eligible age category (696 500 men, 1 484 000) actually received

15 It is unlikely that receipt of a pension in itself would substantially have contributed to other household members becoming less likely to seek employment.

16 It is not clear what proportion of the higher decile pension income is from private rather than social pensions, but this is unlikely to be substantial in a mainly rural homeland area.

17 Ardington & Lund [1994:2] make the interesting point that this distinction may soon be declared illegal in accordance with the new constitution, which disallows gender discrimination. The government had previously attempted to move towards a uniform 65 years, but strong opposition and the changing political situation probably prevented them from pushing through this measure.

social old-age pensions. [Calculations based on Sadie 1993] There are two major reasons for the exclusion of the other 31 per cent:

- the application of the means test, discussed in Section 4.5 below, and
- administrative problems that prevented some who did legally qualify for a pension from actually receiving it. Lund [1993:12 et seq.] addresses in detail the *"barriers between the eligible elderly person and the receipt of the pension"*. These include intentional underestimates by officials of the age of people whose age is uncertain, intentional misuse of the computer system to effect savings (taking people off the lists), overt abuse and corruption for personal gain, and discrepancies between and even within administrations in the administration of the means test. Recent attempts to address some of these problems, inter alia through computerisation, appear to have borne some fruit [Lund 1992] and also managed to reduce abuse of the system, e.g. through people receiving double pensions.

The uptake of pensions expressed as a percentage of those of pensionable age is presented in Table 4.2 for 1980 and 1993. Though strict comparability of the data for the two different years may not apply, the broad trends are clear. Ardington & Lund [1994:18] found a take-up rate of more than 80 per cent for blacks in (mainly rural parts of) kwaZulu in 1992.

Table 4.2: Uptake of old-age pensions: number of pensioners relative to population of pensionable age by race group, 1980 and 1993

	1980	**1993**
Whites	38,6%	20,3%
Coloureds	82,5%	84,9%
Indians	66,6%	61,5%
Blacks	58,2%	89,5%
Total	..	69,4%

Sources: 1980 figures from Kruger [1992b:21]; 1993 figures calculated from data supplies by the Department of National Health and Population Development and Sadie's population data [1993].

The fact that blacks, the poorest group, in 1980 had an uptake considerably lower than that of coloureds or Indians, somewhat better-off groups, can be ascribed to both the strict application of the racially differentiated means test might and the administrative factors discussed above. The considerable rise since in the rate of uptake amongst blacks was mainly due to a higher exclusion level in the means test and improved administration of the system.

In 1980, a relatively large proportion of whites received old-age pensions, despite their relative affluence, due to the discriminatory means test that determined eligibility for old-age pensions (See Section 4.5 below) The white uptake has dropped considerably since then as the declining means test exclusion level for whites (in real terms) has disqualified increasing numbers of whites from receiving social pensions. In constant 1990 Rand terms, the exclusion level applied to whites dropped from R4 190 in 1986 to R3 037 in 1992, while that for blacks increased from R1 333 to R2 254. For coloureds and Indians it also increased, from R2 434 to R2 800, which explains the increased uptake of pensions amongst coloureds; that the Indian uptake nevertheless increased can probably be explained by rising income levels among elderly Indians that raised the income of many of them to above even this higher exclusion level.

In overall terms, then, the almost 70 per cent of the population who receives social pension reflects high coverage among the poorer population groups, i.e. fairly good targeting, and an improvement in this targeting over time as the means test for the different race groups moved towards a uniform level.

4.4 Pension levels

Old-age pension benefits were equalised over the past two decades both by reducing the real value of white pensions (by more than 40 per cent since their peak in 1978) and increasing that of blacks five-fold in real terms from 1970, as Table 4.3 and Figure 4.1 show with respect to the maximum pension benefit (i.e. full social pensions received by people with little or no other income). The increase in black pensions has had a considerable impact on especially rural poverty. Whole families and communities sometimes are dependent on pensioners, who *"... have become comparatively wealthy members of poor communities. This makes the presence of a pensioner a critical factor in many households' well-being... (It is) the principal source of cash income for about a quarter of homeland households. In rural areas, households with pensioners have higher average incomes than other households."* [Donaldson 1993:285]

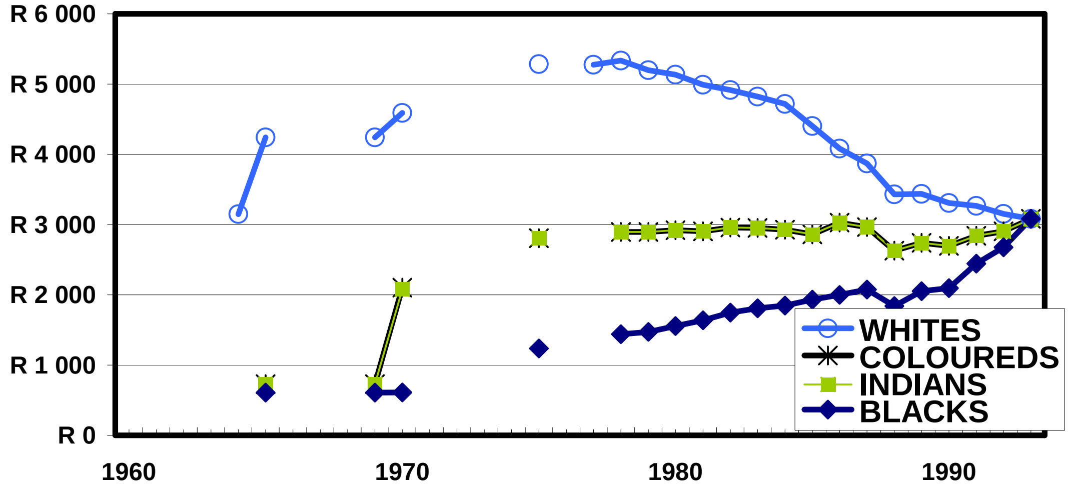
According to Ardington [1989:79, Fig. 1], pensions made up 32,0 per cent of all income sources in Nkandla (kwaZulu) in 1985, up from 23,4 per cent in 1982, as against only 3 per cent in the urban area of kwaZulu [Ardington 1989:67]. But the study of Ardington and Lund [1994], which undersampled urban areas, found a considerably lower pension share in income of only 12,3 per cent, despite sharp increases in pensions since the time the previous studies took place.

Table 4.3: Maximum pension payable by race by race in 1990-rand, various years

	Whites	Coloureds	Indians	Blacks
1964	3 148	..	..	..
1965	4 244	728	728	606
1970	4 592	2 103	2 079	609
1975	5 284	2 807	2 807	1 239
1977	5 274	..	..	..
1978	5 336	2 895	2 895	1 440
1979	5 198	2 894	2 894	1 474
1980	5 136	2 921	2 921	1 555
1981	4 991	2 905	2 905	1 636
1982	4 918	2 958	2 958	1 746
1983	4 822	2 950	2 950	1 808
1984	4 718	2 927	2 927	1 847
1985	4 403	2 862	2 862	1 932
1986	4 082	3 030	3 030	2 000
1987	3 871	2 965	2 965	2 077
1988	3 431	2 628	2 628	1 842
1989	3 429	2 740	2 740	2 054
1990	3 308	2 696	2 696	2 096
1991	3 266	2 840	2 840	2 444
1992	3 152	2 905	2 905	2 677
1993	3 081	3 081	3 081	3 081

Source: Race Relations Surveys (various years): Hansard (Debates of Parliament, various years).

FIGURE 4.1: MAXIMUM VALUE OF SOCIAL PENSION BY RACE IN 1990
RAND PER ANNUM



Compared to wage levels, the value of social old-age pensions is comparatively high. Figure 4.2 shows the displacement rate for each race group in South Africa, i.e. the full (maximum) pension benefit for each race group expressed as proportion of that group's average non-primary wage. In 1993, pensions displaced 25 per cent of the black wage, compared to only 17 per cent in 1980. So even in this period of economic stagnation, pensions for blacks outpaced the rapidly rising black wages that were driven upwards by the increased economic power of trade unions. The real value of the full pension received by blacks increased by 7,3 per cent per annum between 1970 and 1993.

FIGURE 4.2: DISPLACEMENT OF RACIALLY DIFFERENTIATED PENSIONS:
PENSIONS AS A PROPORTION OF AVERAGE WAGE BY RACE

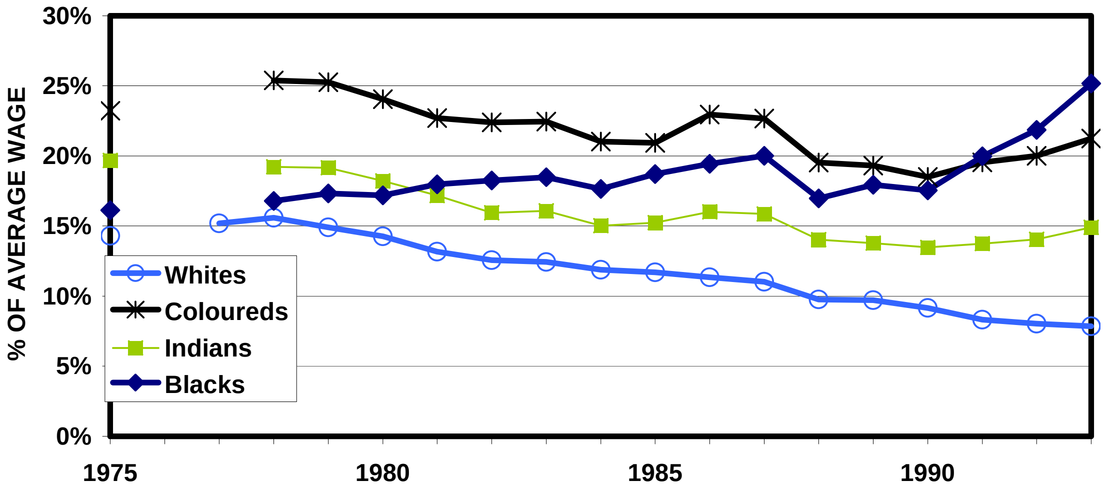
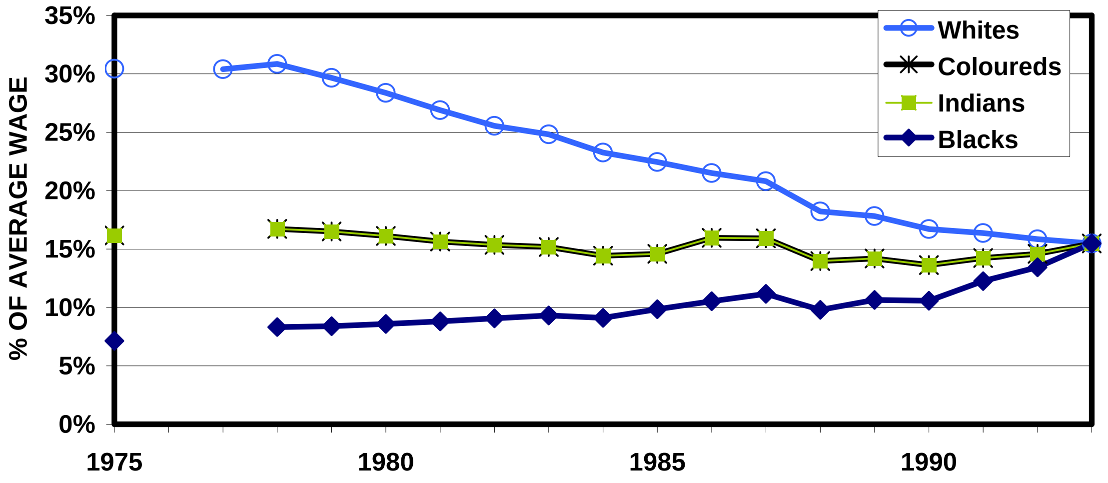


Figure 4.3, on the other hand, expresses the full pension benefit paid to the various races as proportion of the average non-primary wage for all workers. As can be seen, white pension levels in the late 1 970s were above 30 per cent of the average wage level, but by 1993, when pensions were equalised, they had been reduced to 15,5 per cent of the average wage. For blacks, on the other hand, this present level of 15,5 per cent compares well with the 8,6 per cent of 1980. Generally, a replacement rate of 15,5 per cent of non-primary wages is relatively high in a developing country context.

FIGURE 4.3: DISPLACEMENT OF RACIALLY DIFFERENTIATED PENSIONS: PENSIONS AS A PROPORTION OF AVERAGE WAGE



The social old-age pension system is essentially a pay-as-you-go system, funded annually from the budget. As James et al. [1994: 33] argue, developing countries are inclined to fall into the trap of providing too generous pension benefits or to provide such benefits from too low a starting age.

When demographic change leads to an ageing of the population, such systems come under intense fiscal pressure, as many industrial countries with such systems are now experiencing. Even countries such as China and Trinidad have fallen into a trap which it may be difficult to escape from. James et al. [1993: 44] argue that reform Of pay-as-you-go retirement plans in developing countries is required, inter alia by raising the retirement age, reducing opportunities and incentives for early retirement, and lowering average replacement rates.

A moderate reduction in the real level of the social old-age pension in South Africa to free resources for other forms of resource transfers to poor communities may thus not be out .of place. This would still leave the majority of pensioners in real terms far better off than in the recent past, in a country where per capita incomes have been declining. We shall return to this in the concluding part of this section.

4.5 Functioning of the means test

The means test for the receipt of social old-age pensions[18] needs some discussion. In order to prove eligibility for the receipt of the means test, elderly persons who wish to apply for social pensions have to provide a detailed account of all their sources of private income and their assets, and this needs to be *"confirmed by a person familiar with the applicant. In rural areas this may be the Induna (headman) or tribal elder, who must accompany the person to the district pension office."* [Legal Resources Centre 1987:14] If such income and assets fall below the exclusion level, such persons qualify to receive a pension. They only receive the full (maximum) pension, though, if their income and assets fall below an even lower threshold. Between these two levels, a formula applies whereby increases in income or deemed income (an income value is put on assets) lead to a reduction in the social pension paid. In practice, this marginal "tax" rate or clawback amounts to 100 per cent (only 80 per cent for blacks) of all increases in private income, versus 50 per cent in Australia and

18 A similar means test also applies to some other social transfers, such as child maintenance grants.

20 per cent in New Zealand. [Mouton Committee 1992:47] For married applicants, only half the income of the applicant and spouse are taken into consideration, which, unlike the means test for child maintenance grants, would tend to support rather than discourage marriage for those with some earnings.

In the past both the maximum pension and the means test itself differed between the race groups. For instance, in 1986 the situation was as presented in Table 4.4 and Figure 4.4 for the four race groups outside the homelands and for blacks in kwaZulu. Moreover, as recently as 1992 the Mouton Committee [1992: 85] noted that *"... the 'means test' continues to discriminate on racial grounds ... in other detailed applications of the rules as well."*

Table 4.4: Effect of the racially differentiated means test on incomes of recipients, 1986 and 1992

	Whites	Coloureds & Indians	Blacks(non-homeland)	Blacks (KwaZulu)
October 1986:				
Threshold Income	R1 080	R540	R271	..
Maximum pension	R2 376	R1 764	R948	R1 164
Effective marginal tax**				
Exclusion level: Assets	R42 000	R28 000	No test	No test
Exclusion level: Income	R2 376	R1 380	R756	R540
Income before drop-off	R3 456	R2 304	R1 435	R1 703
Drop-off+	R1 080	R924	R679	R1 163
Drop-off as percentage of income	33%	40%	47%	68%
April 1992:				
Threshold income	R1 080	R1 080	R900	..
Maximum pension	R4 140	R3 816	R3 516	..
Effective marginal tax**	100%	100%	80%	..
Exclusion level: Assets				
Exclusion level: Income	R4 140	R3 816	R3 072	..
Income before drop-off	R5 220	R4 896	R4 850	..
Drop-off+	R1 079	R1 068	R1 764	
Drop-off as percentage of income	21%	22%	37%	..

* Though separately administered, the same rates applied to Coloureds and Indians.

** Between threshold and exclusion level.

+ The drop-off is the loss in income associated with a R1 gain in private income which takes the recipients past the exclusion level.

Sources: Legal Resources Centre. 1987. Social pensions in South Africa. Durban: Legal Resources Centre: 6-7, Annexure 1; Mouton Committee. 1992. *Report of the Committee of Investigation into a Retirement Provision System for South Africa*. Johannesburg: 82-83.

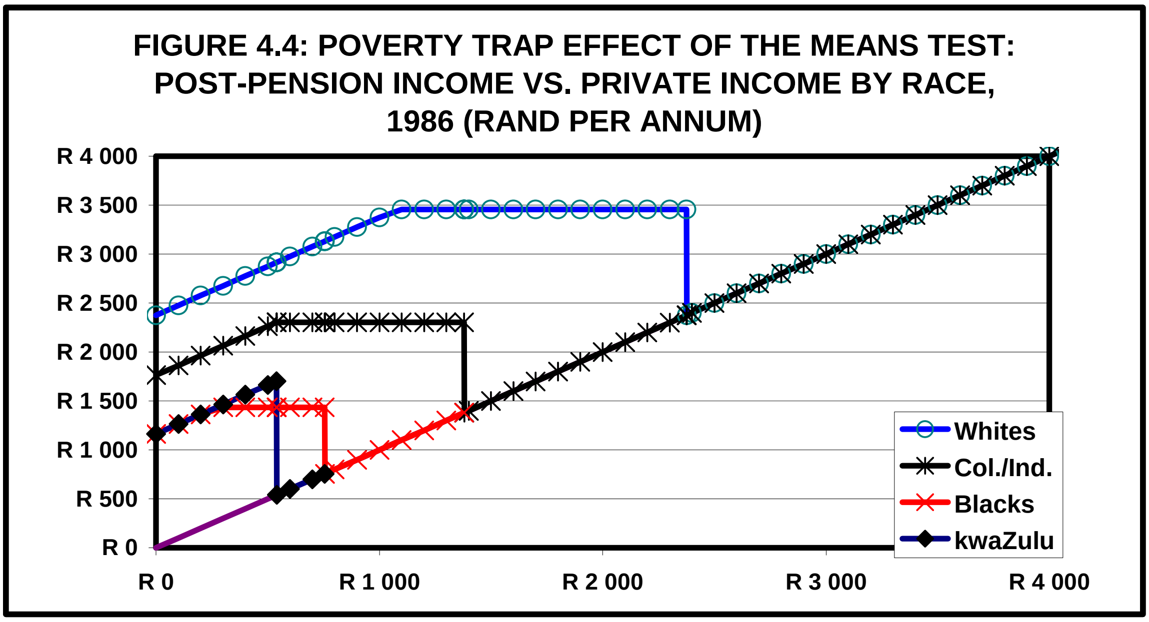


Table 4.4 and Figure 4.4 show that the blunt use of the means test creates a typical "poverty trap".[19] In both 1986 and 1992, black incomes dropped most sharply once their private incomes reached the cut-off point, even though their pension levels were less than those of other groups. Most of the homelands have for all practical purposes abolished the marginal "tax" rate, because they found the means test too difficult to implement and to explain to the elderly. [Lund 1993:16] Thus in the homelands, the full pension was payable up to the exclusion level, at which point there was a drop-off in income equivalent to the full amount of the pension. Consequently, this drop-off was the most severe in the homelands. Table 4.4 shows that kwaZulu pensioners in 1986 experienced a 68 per cent drop-off in their income once their private income exceeded the exclusion level. It is understandable that the homelands introduced the simplification of paying the full pension to all who qualify, but this deepened the poverty trap at the exclusion level. Though the poverty trap was not as deep for non-homeland pensioners, it was nevertheless a severe problem. Figure 4.4 graphically illustrates for 1986 how total income of the various groups behaved when private incomes increased. Up to the lower threshold, all increases in income accrued to the benefit of the individual, but once the lower threshold was reached, increases in private income purely led to an equivalent drop in the pension, thus maintaining aggregate income constant. Once the exclusion level is reached, however, the pension dropped away altogether, with the effect that the last Rand of income earned implied a large decline in the well-being of the individual.

This poverty trap is a well known feature of all means tested benefit systems. [Cf. Atkinson 1975: 219 et seq. on the "rise and decline of means testing" in Britain]. Administration of the means test accordingly becomes a crucial aspect, for the means test determines both eligibility for and the value of benefits to be received. For officials, this creates an administrative nightmare, while for potential beneficiaries it creates a disincentive to provide for retirement or to earn income in retirement, or even encourages concealment of income. This affects behaviour regarding retirement insurance, for the system of means tested social old-age pensions *"... discriminates against those who do make provision for their own retirement needs. The impact is particularly acute at low income levels where it acts as a serious disincentive to saving or continuing to work"* [Mouton Committee 1992: 85]

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19 In this regard, see Le Roux [1991: Sections 1.2 and 2.2] and Sephton et al. [1990: Annexure]. Lund [1992] discusses in some detail the problems experienced with means testing in practice.

Changes to the means test since 1986 reduced and finally eliminated racial disparities and made the system somewhat more complex, but the structure of the means test has remained essentially unchanged. Mention has already been made of the changing exclusion levels which reduced white access and increased black access to social pensions. A further recent change was that the marginal "tax" rate for blacks was reduced to 80 per cent: for every R75 that private income exceeded the threshold level, the pension was reduced by only R60 (up to the exclusion level). An addition to the rule was that a certain percentage (6 per cent) of the value of assets above a certain level was deemed to be income; a value was attached for this purposes to housing, but for blacks this value was set quite low in order not to disqualify black homeowners with otherwise low private incomes. A summary of the provisions of the means test as operative in April 1992 [taken from Mouton Committee 1992: 6 15-622, Annexure G5] is provided in Annexure 1.

Overcoming the problems inherent in the means test could be attempted through extending the social pensions to all irrespective of income, or further smoothing the "sliding scale" of benefits received as incomes grow. Both alternatives would require more fiscal resources, but the latter also requires a more finely-tuned administration of the means test. Means-testing is already a difficult enough procedure; putting too much emphasis on it in order to reduce the poverty trap may increase the workload of officials and the paperwork required to a greater extent than is warranted and may open the system to greater abuse.

The Mouton Committee's concern with the poverty trap effect of the means test led them to investigate the cost of abolition of the means test and extending social pensions to all elderly persons irrespective of income, but they concluded that the paucity of fiscal resources would preclude the government from extending social pensions to all. This is particularly problematical at this time of political transition, with the attendant imperative to improve social conditions for a large proportion of the population. This will, however, receive greater attention in the conclusion.

As an alternative, the Mouton Committee [1992:15] recommended that the pension clawback should be only 50 per cent of private income between the threshold and the exclusion level. Moreover, they recommended that only 50 per cent of occupational and private pensions should be included in the calculation of private income, which over a certain range would imply a 25 per cent rather than a 100 per cent clawback on private and occupational pensions.

These recommendations were not incorporated into the new racially and geographically inclusive regulations gazetted for comment and intended to replace all previous regulations in all of South Africa upon re-incorporation of the homelands. There would in future be only one pension formula for all race groups. The published formula was approximately similar to the 1992 ones, except that more details were provided on the valuation of income and assets to somewhat lessen the bias in favour of assets, but there is still a 100 per cent clawback in operation. The problems associated with administration of the means test and its poverty trap effect on incentive structures will thus remain. Moreover, some of the homeland pensioners who automatically received the full maximum benefit will find themselves worse off under the new formula, while the return to a 100 per cent clawback will make blacks outside the homelands to whom an 80 per cent clawback had applied worse off.

4.6 Conclusion

From the above, it would appear that three aspects regarding social old-age pensions require particular attention. The first is the dominance of the social old-age pension as a form of income transfer, while programmes targeted at other vulnerable groups (e.g. unemployment provision) appear to be underprovided. A second aspect that requires attention is that social pension benefits are high in comparative terms and could be conceivably be lowered to free resources for other beneficiaries of social transfer programmes. Finally, through its unintended impact on retirement provision and post-retirement economic activity the means test does not fulfil its principle function of targeting resources to the poor. The abolition of the means test or its redesign should be considered, as will be argued in the concluding section.

5 OTHER SOCIAL SECURITY MEASURES

5.1 Introduction

In the previous sections one form of insurance against contingencies, viz. insurance for retirement, and two major forms of social transfers - social pensions to the elderly and child maintenance allowances - were discussed. Occupationally linked insurance also covers some workers against certain other risks (short term unemployment, disability sustained at work, health expenses), while other public works programmes and nutritional interventions of various sorts have also been used before as forms of social security. These aspects will receive brief attention in this section in order to complete the picture regarding the social security system. This discussion will not, however, be exhaustive.

5.2 The unemployed

As indicated in Section 1, formal job scarcity has become a central feature of the South African economy in the past two decades of sluggish economic growth and capital intensification, while the labour force has been growing at almost 3 per cent per year. Only some 54 per cent of the labour force today have formal sector jobs. Consequently, both cyclical unemployment and long term structural unemployment need attention in the social safety net. Unemployment insurance is a form of occupational insurance that addresses cyclical unemployment. (Section 5.2.1) But structural unemployment cannot be addressed by insurance-based measures. It requires rapid and job-creating economic growth, in the absence of which special employment programmes (Section 5.2.2) can fill a poverty-relief need.

5.2.1 Unemployment insurance

The Unemployment Insurance Fund (UIF), created in 1946, provides unemployment benefits against loss of earnings through unemployment to only those workers in the formal sector *"who have contributed to the fund, are capable of and available for work, who have not left the labour market and who have been registered as unemployed."* [Lawrence 1992:4] Agricultural and domestic workers, certain public sector employees, seasonal workers and those whose incomes exceed a certain level are excluded. [Kruger 1 992a: 198] Employers and employees contribute to this fund monthly, while the government makes an annual contribution whose magnitude partly depends on the financial strength of the fund. Until the late 1970s, the UIF usually did not cover black workers. [Mouton Committee 1992: 153-4]

While the UIF is important as occupational social insurance, it covers only a part of the employed labour force. As for most social insurance programmes, growth in the membership of the UIF has been very rapid in the past two decades through expanded coverage of the employed workforce. Growth of 6,4 per cent per annum increased membership from 1,7 million in 1970 to 6,1 million in 1991. [Mouton Committee 1992: 513, D3.5; SA Statistics 1992:6.6] But despite its rapid growth, UIF coverage was still less than 40 per cent of the labour force and 70 per cent of the formally employed in 1990. In 1993, legislation was enacted to extend coverage to agricultural workers.

Employees covered by the UIF, their 168 000 registered employers and the state in 1993 contributed just over R1,0 billion to the UIF, while some R812m was paid in benefits of various sorts. UIF benefits are 45 per cent of the normal wage and are paid for a period of one week for every six weeks worked, but not exceeding 26 weeks. Such benefits can thus be at best a way of sheltering the presently unemployed against temporary job loss of at most half a year's duration. The average payment per unemployed beneficiary amounted to only R1 270 in 1990, while the maternity benefit paid out was on average somewhat higher at R1 777 per annum. There were 538 000 unemployed beneficiaries of the UIF in 1991 [Mouton Committee 1992: 513, D3.5], i.e. only about 6 per cent of those without formal sector jobs. In 1990, when unemployed beneficiaries numbered 438 000, another 40 000 collected benefits due to illness, 76 000 maternity benefits, and 15 500 beneficiaries were dependants of deceased contributors.

Though the Unemployment Insurance Fund has broadened its coverage considerably in the past two decades and will continue to do so as more formal sector workers are brought into its scope, its financial position has been seriously eroded by large scale retrenchments in the past decade. This makes it very difficult to improve the level of benefits it offers. An improvement in the business cycle may allow the fund to build up some reserves (if the government does not correspondingly reduce its contribution), which would allow some improvement in benefits. Inadequate protection against unemployment contributes to the need for workers who lose their jobs to draw on their retirement benefits to assist them through the period of unemployment, as was discussed in Section 3 above.

As long as South Africa effectively remains a labour surplus country, unemployment insurance can cover only a part of the labour force for a short period against the scourge of unemployment. Other measures, such as special employment programmes (public works programmes), are thus also needed.

5.2.2 Public works programmes

Public works or special employment programmes, as they are often referred to in South Africa, provide one way to tap the labour power of the poor and to reduce the impact of unemployment. Public works programmes were of great importance in combating the poor white problem during the Great Depression of the 1930s - a problem seen as structural rather than cyclical by the government of the day. When the government again instituted public employment programmes on a relatively large scale in the mid-1980s, however, unemployment was perceived to be a cyclical rather than a structural phenomenon, with the consequence that the experiment had only a limited time span. It was only recently, with the escalation of unemployment, that the issue was again placed on the table in the National Economic Forum, despite initial opposition by both the government and the organised labour movement. Partly because of such opposition, present options under consideration pay more attention to training and to the creation of capital assets -both important ends of themselves - than to poverty relief. Public works programmes that are appropriately designed may well combine poverty relief, training and infrastructure creation, but this could lead to confusion about the nature of the programme and a dilution of its poverty relief content. If social security is the goals, *"(c)onsiderations of productivity are ... clearly of secondary importance in the short run ..."* [Dréze & Sen 1989:117] to getting funds to the poor.

Relieving the needs of the able-bodied unemployed who have no other sources of income to fall back on would fill a large gap in the social security system. Moreover, such programmes are *"particularly beneficial to women in so far as they often form a large part of the labour force on public works programmes. "* [Dréze & Sen 1989: 116]

5.3 The disabled and the ill

5.3.1 Occupational disabilities

Workmen's Compensation, instituted in 1941, requires employers to make risk-related contributions to the Accident Fund. [Kruger 1992a: 198] Benefits are paid to employed workers below a threshold income who are temporarily or permanently disabled as a result of injuries or industrial diseases sustained at work.[20] Growth of coverage was also fairly rapid in this case, from 3,9 million in 1971 to 5,2 million in 1988. [SA Statistics 192:6.8] In 1988, the last year for which published figures are available, a total of R320 million was paid from the Fund, of which R44 million was periodical payments, R114 million capitalised pensions, R32 million lump sum payments, and the bulk, R225 million, was medical treatment costs.

There is some concern amongst advocacy groups that the qualification levels for such compensation are sometimes too strictly applied, which disqualifies some from getting these benefits and sometimes makes them an effective burden on the state, once they draw disability pensions (see below).

Mineworkers fall under separate legislation (the Occupational Diseases in Mines and Works Act), which in addition to occupational injuries covers them against certain occupational diseases, mainly respiratory, prevalent in the industry. [Lund 1993:81 Beneficiaries receive lump sum payments rather than pensions.

5.3.2 Disability grants

The state also supports the disabled above the age of 16 years by providing means-tested disability grants that are essentially similar to old-age pensions and are, after old-age pensions, the major form of social transfer. Such grants only apply until beneficiaries reach the retirement age and become eligible for social old-age pensions. According to one source, some 263 000 disability grants were paid to disabled people outside the homelands in 1990; some 122 000 of these went to blacks. [SA Statistics 1992:6.3] Table 1.3, which shows somewhat higher figures for the same geographic area, also present figures for the homelands, where some 200 000 blacks were in receipt of disability grants. Disability grants have been extended to 13 in every thousand South Africans. While only 8 whites and 12 blacks per 1000 receive disability grants, the ratios for coloureds (31) and Indians (23) are extremely high and may indicate some anomalies in the system. This was particularly possible in the dispensation where different administrations applied similar rules differently to

20 Ehrlich [1992] provides a disturbing view of the deficiencies, including racial discrimination, inherent in the system of Workmen's Compensation in South Africa.

members of the different race groups. In a situation of large scale unemployment, there will be as great a take-up of such benefits as administrative leniency allows.

Apart from disability pensions, there are also separate pensions to blind people over the age of 16, subject to the same means test as the elderly and disabled who receive state grants. According to the figures in Table 1.4, the disabled (including the blind) received grants of R828 million in 1990, i.e. 0,35 per cent of GDP, a relatively large figure, of which only a small proportion could have been the numerically small pensions to the blind. (In 1993 pensions to the blind numbered only 18 700, against virtually half a million disabled (see Table 1.4).

5.3.3 The ill

Ill health has two social security dimensions, only one of which concerns us in this paper. There is the need for medical attention and to cover the costs thereof; this more properly comes under the rubric of health, although some payments occur under Workmen's Compensation, treated above. An associated problem is that the medically ill may also experience a loss in earning power that reduces their ability to sustain their families and may therefore plunge them into poverty. Though medical insurance sometimes covers many of the formally employed against such risks, such coverage is far from universal. It is impossible to put a number on such a social security need or even to target this group separately. Social assistance to the poor would, however, probably cover some households whose income declined as a result of illness of the main breadwinner.

Medical funds (involving health insurance) are widespread in South Africa and cover a large part of the employed labour force, especially in higher paid occupations. While these funds have recently increased their coverage of black workers, they do experience cost containment problems which are a source of considerable concern. This relates inter alia to the usual moral hazard problems associated with such insurance, as, virtually all medical expenses are covered. Appropriate solutions would appear to lie along the lines of reducing coverage so as to cover only the larger risks (e.g. not to cover all visits to a physician) and to include some minimum user cost. The latter route has largely been followed by the health insurance industry. Though this is an important area for further policy research, no further attempt will be made in this paper to cover this topic and the related one of availability of health services to the poor.

5.4 Nutritional intervention and support

Anthropometric surveys of the Department of National Health indicate that more than one quarter of children amongst groups other than whites are underweight or underdeveloped for their age, mainly due to malnutrition. This is part of a far wider problem of poor nutrition, but the prevalence amongst children is of most concern.

Food subsidies and lowered tax rates on food have long been used as food policy instruments in South Africa, but were largely eliminated in the late 1980s (partly in response to IMF advice) on the grounds that there were large leakages to the non-poor and that administrative costs and the scope for tax avoidance would be greater with differential VAT rates. A slightly differentiated VAT rate is now a reality (some products are zero-rated), but the subsidies on bread and "mealie meal" (ground maize), mainly consumed by blacks, no longer apply.

School feeding programmes were formerly widespread and are still operated by some NGOs, as are soup kitchens. Feeding supplementation for lactating mothers and infants has also been practised by the Department of National Health and Population Development and certain municipalities at some clinics, but did not cover the homelands. Upon the introduction of VAT, the government instituted a nutritional support programme, the National Nutrition and Social Development Programme, for which R455 million was allocated in 1993. It is administered by the Department of National Health and Population Development, who was asked also to provide• resources to NGOs working in this field. The programme included the extension of existing efforts as well as the provision of skimmed milk and a protein-vitamin-mineral mixture to children under six years of age. [McClachlan 1992:10] Though nutritional support can sometimes be an efficient form of targeted poverty relief [Donaldson 1993: 284], the South African programme has attracted much criticism for its patchwork nature, poor targeting and large leakages to the non-poor, the creation of a dependency syndrome, administrative delays, and inadequate coverage. Some also argue that food support is not generally the greatest need of South Africa's poor. There is also disagreement on whether South Africa has the capacity to implement such a programme on the required scale to have a major impact. The programme is presently being reassessed.

An alternative to direct food provision that has received little attention in South Africa in recent years is a food stamp programme. It is easier to administer and more likely to also gain the support of the farming lobby (a major factor in the survival of such a programme in the USA). Against that must be put the fact that such stamps are really a form of near-money - recipients can easily trade the stamps or the produce for other goods - and that money-transfers may be administratively even simpler. Public works programmes or other income transfers that are effective in improving the purchasing power of the poor would reduce unmet nutritional needs in a similar manner without the need to set up a special administration of another programme type.

5.5 The capacity to deliver services to the poor

The capacity of existing institutions to deliver social services to the poor, especially in rural areas, deserves special attention. One of the major constraints faced by the new government is that the resources for meeting high expectations are limited. Though in the longer term this particularly applies to fiscal resources, in the short to medium term there is also a constrained capacity to deliver. (A good case in point is education.) New social security forms in particular would require alternative or additional delivery systems.

The capacity of NGOs and CBOs (community based organisations) to deliver material resources to the poor is the topic of a separate investigation. Funding for this could perhaps flow through a Social Fund of some sort (*"a mechanism through which resources are channeled, according to pre-determined selection criteria, to demand-driven subprojects proposed by public, private, or voluntary (formal or informal) organizations"* [Carvalho 1994:1]). NGOs and CBOs were very important in mobilising aid resources in the apartheid era, but more recently they also came to use government resources in effecting social reform. The National Nutrition and Social Development Programme, for instance, already drew heavily on the resources of NGOs to deliver food to some of the poor, while the Independent Development Trust came into being to negotiate the setting up of major projects with communities. The World Bank has expressed itself in favour of increased used of NGOs as a means of cost-effectively reaching the poor.

But more fundamental in the long term is the capacity of government institutions to reach the poor. Programmes which place an undue burden on the creation of new administrative capacities at a time of fundamental political transition are likely to be less effective than those that build on existing capacities. This fundamentally limits the options for social security reform.

6 CONCLUSION AND RECOMMENDATIONS

6.1 Aspects of the South African social security system

From the discussion in the previous sections it should be apparent that the South African social security system is relatively developed for a middle income country. However, as in many other middle income countries, coverage against risks is somewhat patchy, both in terms of the types of risks covered and the population covered by such risks. Benefit levels are not low, but too few of the poor or vulnerable are reached. The apartheid history of the South African social security system has created a system with strong emphasis on the social security needs of the white population and with high benefit levels to serve their requirements. Though white benefit levels have already declined in real terms while those of others have risen in the move towards parity, the new uniform benefit levels are still high for a middle income country. Lower benefit levels may free resources so that more people could be reached, particularly through new social security programmes that target according to different criteria of vulnerability. In addition, where administrative discretion rather than eligibility criteria alone determined who benefited, as in child maintenance allowances, coverage of the black population under apartheid was minimal compared to that of the (less poor) coloured and Indian populations.

In terms of coverage and fiscal costs, the South African social security system is today dominated by social old age pensions, augmented by various forms of occupational insurance that covers a large part of the economically active against most contingencies. But as a consequence, social policy does not reach well into certain other population segments where need may be acute. Other forms of promotion of entitlements and protection for the vulnerable are clearly needed. *"Entitlement protection will almost always call for mixed systems, involving the use of different instruments to provide direct or indirect support to all vulnerable groups."* [Dréze & Sen 1989:121] Broadly speaking, coverage against income loss in old age is almost universal; assistance to single mothers exists in principle but reaches only a very small proportion of potential beneficiaries; medical insurance covers a significant minority of the employed; in principle, the poor have access to state health services, though in practice such access does not always reach well into rural areas; and assistance to the unemployed is limited mainly to short-term cyclical unemployment insurance for a part of the presently employed labour force. This leaves a large gap with regard to large scale unemployment that prevents many from obtaining sufficient income.

In the rest of this section, the major conclusions and recommendations flowing from that will be presented for each of the major programmes discussed, i.e. child support, occupational pensions and social old-age pensions. Finally, an overall assessment will be given of the priorities for social security reform and of further research that is required.

6.2 Child support

It was shown in Section 2 that child maintenance allowances (grants to certain parents, divided into parents' grants and child maintenance grants), more than any other social programme, still show very large diversity in the way they were implemented by different departments. More particularly, while most departments concerned with child maintenance allowances to blacks interpreted the conditions for such grants very strictly, the opposite was the case in the administration of such grants to coloureds and, to a lesser extent, Indians. As a consequence, almost half the female-headed coloured households receive parents' allowances, while fewer than one per cent of female headed black households do. These vast discrepancies in the administration of these allowances can largely be ascribed to administrative discretion and differences in the financial means of the various departments concerned. Though the take-up rate amongst coloureds is extremely high, even for a poor community, that amongst blacks is very low and would undoubtedly continue to increase at a very rapid rate if administrative regulations were to be applied more uniformly. This may have very considerable fiscal consequences, as discussed below.

It was also argued that the nature of the means test combined with the magnitude of the benefits may create considerable perverse incentives, i.e. alterations in behaviour that were not intended in designing these benefits.

Benefit levels are large for poor communities. A single mother without other means of support receives R370 per month as parent allowance, plus R115 per child for up to two children (1993 Rand). Over the sixteen years minimum that this allowance applies, a single mother with two children would thus receive R115 000 (in constant 1993 Rand), far more than the state spends on the education of these children. Such an allowances places such a household considerably above the black mean per capita income level.

This is where the means test enters into the picture. By making the receipt of benefits conditional upon the mother having no other means of support (including a working spouse), it may reduce the link between a mother and the father of her children or a new companion; it creates incentives not to work; it also creates incentives to conceal information about income or relationships which improve the material situation of the mother; and it may even create incentives to increase, or not to decrease, fertility. Of these possible perverse incentive effects, the major one is that on family structure. The Poverty and Living Standards Survey found that one-sixth of black households in rural areas had an absent head of household, i.e. some 600 000 households, while even more had female-headed households, often due to the absence of a migrant worker father. In a society where family structures have already been heavily strained by the migrant labour system, eligibility criteria for state benefits should not further strain the already tenuous links between rural mothers and migrant-worker fathers.

It was estimated in Section 2 that if the coloured take-up were to become the norm, black take-up rates of child maintenance grants may increase between nine and seventeen-fold, or even more. Applying the seventeen-fold increase, the number of black child maintenance grants may then increase from approximately 34 000 to 578 000, and that of parents' allowances from 107 000 to 1 502 000. If all beneficiaries were to receive the maximum grant, the cost increase would be R4,3 billion at 1993 rates. As the means test would reduce the average value of the grants, the actual cost increase is likely to be lower, perhaps somewhat above R3 billion. Other calculations lead to similar results. This cost increase is considerably more than was historically spent by the state on housing.

This presumes that black take up rates would soon approach those of coloureds. The potentially eligible include most of the one third of black households headed by females plus many more families of absent migrant workers that are de facto female-headed. With diminished official obstruction to people obtaining this benefit in the new political circumstances, coverage could increase ten fold or more. This may make this programme completely unaffordable or crowd out other social security programmes.

Accordingly, cost containment measures or the abolition of child maintenance allowances need serious consideration:

Cost containment could take the form of a reduction in benefit levels, a lower exclusion level in the means test (causing fewer beneficiaries to qualify) or a reduction in the sixteen year time span over which this grant applies. A combination of these approaches seems to be indicated, to reduce the number of people to be covered (and therefore administration of what could otherwise become a massive system) as well as perverse incentives to try to qualify by manipulating information or altering behaviour in undesired ways. Reducing monthly benefits would not reduce the overall administrative load, while reducing the number of years that this benefit is payable would reduce the number of beneficiaries at any single time (although, in this case, if a mother has children spaced over a large number of years, she would continue to receive benefits for a long period). Alternatively, a stricter means test would also reduce the number of beneficiaries, but as most beneficiaries are female headed households where the household head is unemployed, it seems inconceivable that reducing the exclusion level could have any but a minimal effect on numbers.

Abandoning the whole programme may also be considered. This could be accomplished by phasing the system out, e.g. paying allowances only to present beneficiaries until the last benefits are paid in sixteen years or perhaps less, if the benefit period is shortened. Abandoning the programme would remove incentives inherent in large child maintenance grants in poor communities, but would remove one potential instrument of targeting some of the poor. But only a small segment of the potentially eligible, perhaps less than 10 per cent, presently receives such allowances, due to the discretion allowed to officials, thus most potentially eligible mothers would remain unaffected if these grants were to be abolished. On the other hand, if the system were to be allowed to continue to expand its coverage very rapidly, the vested interests in retaining it would grow with the fiscal need to cut back. Consequently, it may become a politically far more sensitive issue than it is at present.

As single mothers and their children are often poor, other means would need to be found to assist the poorest amongst this group if such allowances were to be reduced or abolished. There are, however, no clear means available for doing so. This argues for cost containment rather than abolition of child maintenance grants, but equity demands that such cost containment should be accompanied by attempts by the state to ensure that coverage is rapidly expanded to all those in need of such benefits rather than only those having historically privileged access.

6.3 Retirement insurance through occupational pensions

Occupational pensions are based on the principles of insurance. Employers and employees contribute according to contractual agreement to privately administered pension or provident funds to fund retirement benefits. Such retirement funds are crucial in providing for retirement for some three-quarters of employed South Africans, but cannot protect those without employment. Even for parts of the employed population (mainly in agriculture, domestic service and trade/catering/accommodation services), there is presently no coverage and the level of coverage that could conceivably be afforded is limited. Thus the need remains for social old-age pensions or old-age assistance.

The legislation governing retirement provision makes two important distinctions:

i) In defined benefit funds, benefits are set by agreement and the employer is obliged to ensure that the fund is strong enough to ensure payment of all future benefits, after employee contributions have been made. Regular actuarial assessment of the strength of the fund and its future obligations are thus legally prescribed. In defined contribution funds, both parties contribute according to agreement, and the accumulated benefit along with all investment income is then available upon retirement (usually in the form of an annuity) to any member.

ii) Pension funds are distinguished from provident funds mainly in that the benefits after retirement of the former are largely provided in the form of a regular payment monthly payment (a pension) and that of the latter mainly as a lump sum obtainable immediately upon retirement. Accordingly, the tax regime largely regards an employee pension contribution as deferred income, to be taxed when received in the form of a pension, while a member's provident fund contribution is seen as a form of saved income that is largely taxed as income when the contribution is made rather than when the benefit (lump sum) is received.

The system of social old-age pensions often discourages private retirement provision. This is closely connected to two matters, viz, the **means test** determining access to social pensions (discussed below), and the question of **withdrawal** from a retirement fund. Most retirement funds discriminate against workers withdrawing from the fund when giving up a job or being dismissed by providing benefits that only include the member's own contribution plus some interest, usually far below the inflation rate or the return on investments. Such a withdrawing member therefore does not get the benefit of the employer's contribution made on his behalf. By reducing the present value of future claims by more than the benefit provided, this thereby strengthens the fund to the benefit of remaining members or the employer. (In the case of a fixed benefit scheme, the employer's required contribution to ensure future financial health of the fund would be commensurably reduced). The government legislated for the enforced preservation of withdrawal benefits in the early 1980s. This set off fierce industrial unrest, partly because the labour movement was not properly consulted but partly also because many workers regarded such funds as savings for periods of unemployment rather than as social security for retirement. Accordingly, the government was forced to abandon this legislation.

It is unlikely that the union movement would now more readily respond differently to the issue, as some believe [e.g. Field 1991:983]. A better alternative may be to approach the issue less directly. The Mouton Committee [1992:231] suggested that the way should be prepared for compulsory (provision and) preservation of retirement benefits, but that this should be the outcome of negotiations at a national forum in which both labour and business are presented.

It may also be possible to legislate for improvements in withdrawal benefits that would allow withdrawing members to obtain the full interest on their contribution in cash, while preserving at least the employer's contribution for them and, where appropriate, having this transferred to the fund of a new employer. As improved withdrawal benefits would increase the costs of retirement insurance, they would effectively be a tax on the use of labour. The incidence of such a tax would fall on the users of labour (employers), consumers and workers (through decreased labour absorption in the economy), but the cost would be small in comparison to the total wage bill, however, and the overall effect would be negligible and phased in over a period of years (as members change their jobs).

However, greater transferability would require greater uniformity in the levels and types of benefits provided. While three-quarters of the employed labour force is already covered by retirement provision, legislation may be opportune to ensure greater transparency and greater conformity, especially in terms of minimum benefits.

A second reason responsible for the reluctance of workers to preserve their retirement benefits remains, however, and also accounts for their preference for provident pension funds. This is the means test and the link it creates between occupational insurance for retirement and social old-age assistance (pensions).

The means test, again discussed in 6.4 below, sets out the conditions under which elderly people qualify to receive pensions from the state (so-called social old-age pensions or allowances). In principle, it is aimed at targeting such pensions only at the elderly poor, but exclusion levels have been set so high that seven out of every ten elderly people now receive these pensions. Because such social pensions levels are relatively large in poor communities, many low-income workers are quite satisfied with obtaining these pensions and do not see the need for retirement insurance. Consequently, many prefer to consume their accumulated withdrawal benefits upon leaving an employer, rather than preserving benefits for retirement. Occupational pensions paid in retirement would disqualify many from receiving social old-age pensions in retirement, or reduce the value of the social pension benefit they qualify for. In addition, many workers have opted for provident funds rather than pension funds, partly because the lump sum benefits obtained upon retirement do not as readily disqualify them from receiving old-age pensions than a regular pension would.

Thus in the final analysis, as long as social pension levels remain comparatively high and the means test effectively makes it unattractive to many low-income workers to provide for their retirement through preserving their accumulated benefits, changes in the conditions attached to withdrawal or retirement benefits would not always have the desired effect of encouraging pension preservation and own provision for retirement.

6.4 Social old-age pensions

In a society where almost 70 per cent of the elderly receive social old-age pensions and the benefit levels are relatively high, such pensions play a crucial role in the reduction of poverty. It is also by far the most costly income transfer programme and reaches the most people of all income transfer programmes. But the extreme dependence of the South African social safety net on this one form of social transfer should perhaps be questioned. Pensions should perhaps rather be complemented by other ways of transferring funds to poor households and communities. In particular, it may be psychologically deleterious for the able-bodied poor without employment to have to become dependent on the pensions of elderly relatives, rather than being enabled to earn money themselves. Pensioners have become the major earners in many rural families, where younger adults may be unemployed and unable to feed their children without their financial support. The survival of pensioners as the main breadwinners may then even become more important than that of infants and children. The five-fold real increase in social pensions since 1970 for the majority of social pensioners (blacks) has led to a situation where many pensioners receive an inordinate amount of money when compared to the incomes they may have earned in the rest of their lives. Perhaps more resources should be channelled to the poor when they bring up their children, not when they are already elderly.

Two factors determine the volume of social old-age pensions as fiscal transfers, viz, the **level of benefits** and the eligibility criteria (**means test**). These need further discussion.

The **level of the social pension** is high in the South African context. It displaces about 15 per cent of the average wage level outside the primary sector. Compared to only black wages, the displacement ratio is 25 per cent. The R4 440 that a pensioner receives in a year is more than double the black per capita income, and exceeds the per capita income in rural areas by an even greater factor. The lifetime subsidy to a pensioner with life expectancy at retirement of about 77 years ranges from R53 000 for men to R75 000 for women, who qualify for these benefits earlier (figures in 1993 Rand). In poor communities, these are massive consumption subsidies. Reducing this level could free more resources for other social safety net functions, but this should if the net impact on the poor would be positive. A few simple calculations based on the kwaZulu data provided by Ardington & Lund [1994] may be helpful in illustrating the possible (comparative static) distributional effect of reducing pensions and applying funds so freed to extending special employment programmes. (It should be noted, though, that kwaZulu is an already relatively poor population.)

Table 6.1: Possible effect of 30 per cent pension reduction and introduction of special employment programme on kwaZulu monthly income, 1992

Decile	Household income p.a. (Rand)	Pensions as % of income	Loss of 30% of pensions (Rand)	Income from SEP (Rand)	Household income after pension reduction and Sep (Rand)	Effect of pension reduction + SEP (% of income)
1	142	7,5%	3,20	29,59	168,39	+18,6
2	347	19,3%	20,09	29,59	356,49	+2,7
3	459	19,1%	26,30	29,59	462,28	+0,7
4	611	14,8%	0,00	29,59	613,46	+0,4
5	779	19,5%	0,00	29,59	763,01	-2,1
6	927	13,5%	0,00	0,00	889,46	-4,1
7	1 097	12,2%	40,15	0,00	1 056,85	-3,7
8	1 429	8,0%	34,30	0,00	1 394,70	-2,4
9	1 890	6,3%	35,72	0,00	1 854,28	-1,9
10	3 315	2,6%	25,86	0,00	3 289,14	-0,8
Total	1 097	9,0%	29,59	14,79	1 082,21	-1,4

Source: Adapted from data in Table 4.1

A reduction of 30 per cent in pension levels would hurt many of the poor, but not the poorest, for the bottom decile draw less than one-tenth of their income from pensions. Assuming that the money so freed were put to use for special employment programmes, that only half the funds reach those so employed (the other half being necessary to cover the costs of administration and capital goods), and that such funds were equally distributed across the bottom five deciles, the net effect of the pension reduction plus special employment programmes on the poorest would be strongly positive. As Table 6.1 shows, despite the 1,4 per cent loss in aggregate income of the sample population, the bottom decile would gain some 19 per cent in per capita income, thereby substantially improving both their absolute and relative position.[21]

This exercise illustrates that kwaZulu's poorest households are usually not those in receipt of pensions and that the poorest would generally gain from attempts to provide opportunities for presently idle labour power, at least for those families where unemployed members could benefit from special employment programmes.

Presently, almost seventy per cent of the elderly population, including almost all blacks, receive old-age pensions. Those not receiving social pensions are usually excluded by the provisions of the means test which attempts to target the poor (though there is evidence that administrative obstruction may still prevent some people from receiving social pensions they are eligible for).

21 This is based on the assumption that redistribution takes place with a leaking bucket, i.e. that the other half of the Special Employment Programme expenditures does not reach anyone. In fact, it is quite likely that it will end up as factor incomes within South Africa, but this cannot be modelled here without much more information.

As is usual with such a test, the South African means test creates a classical poverty trap and concomitant incentives for suppressing information about income sources. The poverty trap results from a 100 per cent clawback on pension income between the threshold and exclusion levels and the complete cut-off of pensions at the exclusion level, causing a drop-off of about one-third in combined pension and private income. The application of the means test then becomes highly problematical, as both eligibility and benefit levels are determined by the level of a difficult to determine private income. Where such a large proportion of the population receives social pensions, administratively policing this becomes very burdensome.

A further problematical aspect relating to the means test is its impact on behaviour regarding retirement provision, as mentioned above. The clawback mechanism reduces incentives to qualify for such benefits. Many low-income workers would gain little from own retirement provision, as their social pensions are reduced commensurably. They are thus encouraged to gain access to their accumulated retirement savings before retirement, as they are not penalised for this by a reduction in their social pension. They also prefer their occupational retirement benefits in the form of a lump sum (as is possible in a provident fund) rather than as pensions, because the value attached to accumulated assets in the means test acts as less of a disqualification for receiving social pensions than pensions income does.

Given wide coverage of the population by social pensions and all the problems associated with the means test, it would appear logical to consider introducing universal coverage of the elderly through abolishing the means test. This would transform the presently means-tested social old-age pension into a categorical income transfer, thereby removing at one stroke all the perverse incentives relating to its poverty trap aspects. An alternative would be to simplify the means test and to reduce some of its negative implications for occupational insurance. The focus should then be on who should be excluded from receiving such pensions rather than who should be included. These two alternatives need some discussion.

The following may illustrate the fiscal order of magnitude of the cost of abolishing the means test. In 1993, 69 per cent of the elderly population, i.e. 1 513 600 people, received an average of perhaps R320, giving a total pension payout of R5,8 billion. Applying this average pension (rather than the maximum value of R370) to the full elderly population of 2 180 500 people gives a cost of R8,4 billion, i.e. an additional R2,6 billion or 0,7 per cent of GDP. After supporting abolition of the means test in its Draft Situation Analysis of 1990, the Mouton Committee finally concluded two years later that it was not fiscally affordable. But though high, this cost is considerably smaller than the tax deferments on occupational insurance contributions, estimated at R4 to R8 billion [cf. Villas 1994 for a more complete treatment of the tax aspects]. Reducing this tax concession, which disproportionately favours the better-off, may go some way towards financing universal social pensions and the abolition of the means test and seems preferable to the higher rate of value added taxes considered by the Mouton Committee. But care would have to be taken that it does not go so far as to make private occupational retirement provision unattractive, for that would have serious economic implications, inter alia through its affect on aggregate savings.

In comparative static terms, the distributional implications of abolishing the means test would be regressive. Those presently earning full pensions (virtually all social pensioners in the homelands and elderly persons elsewhere below the threshold for the clawback mechanism to become operative) would be somewhat worse off than in.

the immediate past, but still far better off than before pension parity was introduced.[22] The elderly not receiving social pensions because they are above the exclusion level would gain, including most elderly whites, although income tax would reduce such gains. The effect of (partly) taxing retirement contributions as income would, on the other hand, be progressive and would also imply an inter-generational transfer of resources from present contributors to the elderly. But the aggregate static effect is likely to be regressive.

The longer term, dynamic effects on distribution could be more progressive through encouraging those presently in low-wage employment to provide for their retirement and to preserve their pension benefits, which implies a tax on employers or other pension members.

Abolition of the means test cannot take place overnight, as this would create too great a fiscal shock and would perhaps also run up against serious administrative difficulties. The present means test can perhaps be phased out by annually raising the exclusion level, while the reduction of. tax benefits for private retirement provision could also be phased in.

An alternative to abolishing it would be to simplify and redesign the means test, even if social pensions may in the process less accurately target the poor. It may be wise to concentrate on visible and formal forms of income or of assets, such as investment income and fixed assets, and to clearly identify a group of relatively well to do elderly persons to be excluded from social pensions. Criteria according to which persons may be excluded from receiving the pension for instance, be the following:

- receiving investment income exceeding twice the social pension
- receiving occupational or personal insurance exceeding twice the social pension
- owning or occupying a house valued at more than R150 000.

These are just examples of the types of criteria to be applied; the precise regulations would require some research into present income and wealth patterns among the elderly. But it is conceivable that such criteria would reduce the need for ordinary low-income pensioners to prove that they are eligible. It is relatively easy to apply such criteria and obtain the necessary information. Moreover, if a strict penalty is imposed for deliberate attempts to conceal information in order to obtain the pension, the administrative burden of policing these measures would be small. It would, in addition, provide more certainty and reduce disincentives to providing for retirement for any but the well-to-do, for whom a social pension would in any case not suffice. Without a clawback mechanism, only a small proportion of relatively wealthy people would be affected by the poverty trap. Although it would be horizontally inequitable to differentiate between different forms of income in this manner, this negative effect on equity and on the choice of assets or investments should be relatively small and would be outweighed by the gain in administrative ease of applying the social pension. Simplifying the means test in this manner would presumably have cost consequences, but these would be determined by the height of the exclusion levels set.

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22 But higher income pensioners in the homelands would in any case no longer receive the maximum benefit once the unified means-tested formula comes into effect this year.

6.5 Conclusion

In the view of this author, the immediate priorities for South African social security are the following:

- that the means test for social pensions should be redesigned or abolished, inter alia in order to make private occupational provision for retirement more attractive;
- that minimum requirements for occupational retirement schemes should be determined and regulated in order to introduce more uniformity and transparency;
- that the possibility should be created for preserving pensions when changing jobs, which would have a positive impact on labour market flexibility, especially amongst the better remunerated, but that this should not be compulsory;
- that the system of child maintenance grants should be reassessed in the light of the fact that less than 10 per cent of potential beneficiaries presently obtain such benefits, and that these beneficiaries are not necessarily those that should be targeted from the perspective of poverty; and
- that ways should be investigated of targeting the unemployed, a major category of poor who do not presently directly benefit from social security measures.

There are a number of areas that require immediate further research with regard to options for South African social security. These include:

- the extent to which public works programmes can be used as a major way of channelling resources to the able-bodied poor;
- the scope for and alternatives regarding nutrition intervention, including food subsidies;
- an assessment of income and other resource transfers programmes in developing countries and the possible alternatives for South Africa, in order to design a more finely meshed safety net based targeting various categories of the vulnerable; and
- the capacity of NGOs and CBOs to act as channels for transferring resources to the poor.

South Africa now is experiencing both a political transformation and the transformation of its economic structures in the industrialisation process. This requires that its social security system, so closely related to both politics and economics, should also be redesigned in order to become more appropriate for the phase of development the country is now entering. This paper has attempted to show that a fairly good basis exists, but that much needs to be done to reduce some historical anomalies and build an equitable and functioning system without perverse incentives affecting economic and social behaviour.

ANNEXURE 1: OLD AGE ASSISTANCE PROGRAM: REGULATIONS AS OF 1992

Source: Mouton Committee, Annexure G5

1. INTRODUCTION

The regulations relating to old age assistance differ for the different race groups, but the summary below which relates to non black persons is illustrative of the complexity involved.

2. REQUIREMENTS

To qualify for old age assistance an applicant must:

(a) be a South African citizen or a non-South African citizen resident in the Republic for *5* years preceding the date of application and registered for permanent residence in the Republic; and
(b) be resident in the Republic at the time of application; and
(c) have attained age *65* (males) or 60 (females); and
(d) not be in receipt of a pension from certain State sources; and
(e) except for priests and nuns, not have voluntarily worked without remuneration during the 5 years preceding the date of making application.

3. AMOUNT OF OLD AGE PENSION

The maximum basic old age assistance payment in terms of the regulations is set out in the Data Sheets.

It should be kept in mind that old age assistance payments:

(a) are subject to regular adjustments in an endeavour to minimise the effect of inflation; and
(b) are not necessarily applicable, in respect of persons who are maintained at the State's expense in a State Institution.

The maximum basic payment is granted only if the other means of the applicant do not exceed the maxima set out in B on the Data Sheets.

4. SUPPLEMENTARY ALLOWANCES

An applicant who qualifies for a basic payment equal to or in excess of the minimum is entitled to the following supplementary allowances

Attendant's Allowance - see Data Sheets.

As from 1 January 1989 people in all age groups must apply for this allowance. (This allowance is not payable if the person is housed in an institution which receives a State subsidy for the care of the aged).

5. THE MEANS TEST (ETHNIC GROUPS OTHER THAN BLACK)

This test is an analysis of the applicant's financial resources, i.e. earnings, pensions and annuities, rents, usufructs, investments, fixed property, etc. Centenarians are exempted from the test.

MEANS = "Income" + "Income value" of assets

6. INCOME

What is "Income"	What is not "Income"
Remuneration in cash or in kind for services rendered by males under 70 and females under 65 (after deducting compulsory deductions such as medical aid)	Remuneration paid to males aged 70 or over and females aged *65* or over.
The yearly net profit accruing from any business of which an applicant (or spouse) is the owner	
Letting of rooms - when there are 3 or more lodgers, *25%* of gross fees received is regarded as m income	Fees paid by applicant's unmarried children; also fees received from not more than 2 lodgers.
Sub-letting of property by applicant or spouse - when there are 3 or more lessees of a property, 25% of gross rent is regarded as income.	Assistance from own children. Rents from letting of own property.
Profit from agriculture on own farm assessed as per F of Data Sheet.	Profit from agriculture on rented farm (see item 7 below).
Benefits from funds, i.e. from pension, provident and retirement annuity funds. Increases in pensions paid are not regarded as "income", i.e. once an old age pension has been granted to a pensioner, subsequent increases in the pension are ignored for means test purposes	Interest and dividends accruing from investments.
Income from any source not mentioned elsewhere in this summary	Unemployment benefits. Certain charitable donations (not in recognition of services rendered) (See 7). Usufructs.
Purchased annuities.	
In assessing the means of a married applicant, the joint income is halved in determining "income" of each spouse, except where the annual personal income of a married male applicant is less than 50% of his wife's annual salary, in which case his income is assessed as the sum of: 1/4 of his wife's salary his annual personal income (if any) his and his wife's other means, and 1/2 of his wife's annual income (other than salary).	

7. "DEFINITION" OF ASSETS

For the purposes of the means test, "Assets" mean - immovable property, cash investments, mortgage bonds or loans or any outstanding debts in favour of an applicant or his spouse, interest in the shares, share capital or assets of a company, capital invested in any business concern, cash in hand or in a current account, and is deemed to include:-

- usufructs of any of the aforegoing. Where a usufruct has been inherited prior to 1.4.1986 this amount may be ignored after a period of *5* years;
- immovable property rented by the applicant or his spouse for agricultural purposes;
- donations made prior to 1 April 1986 and within 5 years prior to the date of application for pension are taken into account when determining the pension payable. All donations made after 1 April 1986 must be taken into account and will not be ignored after a period of five years has expired. In terms of the amended regulations a maximum of R42 000 can be ignored after a period of five years but the balance, if any, must be taken into account permanently.

Furniture, household effects and motor cars do not constitute assets for the purpose of the test.

Assets donated (and usufructs relinquished) prior to the date of application for a social pension will be regarded as still being held by the applicant. The difference between the selling price of an immovable property and the amount on which transfer duties were paid where the selling price is less will be taken into account.

8. VALUATION OF ASSETS

(a) Fixed property
   i. outside the municipal area - the unencumbered value (Local Authority/Land Bank Value) of any property is assessed.
   ii. If property is within a municipal area and applicant occupies the premises, the property valuation is assessed at the maximum rate, irrespective of value. If applicant does not occupy the property the full amount (municipal valuation) less bond owing is assessed.

(b) Usufruct - the value of the asset(s) underlying the usufruct.

(c) Property rented for farming purposes - determined as for fixed property.

9. CONVERSION TO "INCOME VALUE"

Where the aggregate of the asset value in (7) above exceeds the "free" limit, the excess is converted to a notional annual "income value" - see G on Data sheets.

In assessing the means of a married applicant, the income value of the combined assets is not halved.

DATA SHEET AS AT APRIL 1992: WHITES

A. Pension Range -

Maximum	R4 140 (R345 p.m.)
Minimum	R1 080 (R90 p.m.)

B. "Means" Range -

Threshold	R1 080 (R 90 p.m.)
Cut-off	R4 140 (R345 p.m.)

Where an applicant's means (assessed per the means test) equals or falls short of the threshold, the maximum Old Age Pension is payable.

Where the means falls between the threshold and the cutt-off, the pension payable is calculated by reducing the maximum OAP by units of R24 p.a. for every equivalent unit (or part thereof) of means in excess of the threshold.

Where the assessed means exceeds the cut-off, no OAP is payable.

C. Attendant's Allowance: R600 p.a. (R50 p.m.).
D. Deferment Allowance: Abolished in 1986.
E. Valuation of immovable property: R15 200.
F. Profits from farming assessed at R144 p.a.
G. Conversion of assets to income values:

Deemed annual income 6% of aggregate value of assets.
The first R10 000 of the applicant's assets is disregarded.
Assets in excess of R42 000 exclude the applicant from a social pension or grant.

DATA SHEETS AS AT APRIL 1992: COLOUREDS AND INDIANS

A. Pension Range -

Maximum	R3 816 (R318 p.m.)
Minimum	R1 080 (R 90 p.m.)

B. "Means" Range -

Threshold R1 080 (R 90 p.m.)
Cut-off R3 816 (R318 p.m.)

Where an applicant's means (assessed per the means test - see text) equals or falls short of the threshold, the maximum Old Age Pension is payable.

Where the means falls between the threshold and the cut-off, the pension payable is calculated by reducing the maximum OAP by units of R24 p.a. (Indians) or R12 p.a. (Coloureds) for every equivalent unit (or part thereof) of means in excess of the threshold.

Where the assessed means exceeds the cut-off, no OAP is payable.

C. Attendant's Allowance: R60.0 p.a. (R50 p.m.).

D. Deferment Allowance:

Period of postponement of application	Allowance per annum
1 year	R30
2 years	R42
3 years	R54
4 years	R66
5 years	R78

Allowances are always payable in full, irrespective of whether the maximum or a reduced OAP is awarded.

E. Valuation of immovable property: R9 800 for Indians, for Coloureds this figure was not obtained.

F. Profits from farming assessed at R72 p.a.

G. Conversion of assets to income values:

Deemed annual income = 6% of aggregate value of assets.

The first R9 800 for Indians, R10 000 for Coloureds of the applicant's assets is disregarded.

Assets in excess of R42 000 exclude the applicant from a social pension or grant.

DATA SHEET AS AT APRIL 1992: BLACKS

A. Pension Range -

Maximum	R3 516 (R293 p.m.)
Minimum	R1 776 (R148 p.m.)

B. "Means" Range -

Threshold	R 900 (R75p.m.)
Cut-off	R3 072 (R256 p.m.)

Where an applicant's means (assessed per the means test - see text) equals or falls short of the threshold, the maximum Old Age Pension is payable.

Where the means falls between the threshold and the cut-off, the pension payable is calculated by reducing the maximum OAP by units of R60 p.a. for every R75 per annum (or part thereof) of means in excess of the threshold.

Where the assessed means exceeds the cut-off, no OAP is payable.

C. Attendant's Allowance: R192 p.a. (R16 p.m.).
D. Deferment Allowance: Abolished.
E. Valuation of immovable property: R2 450.
F. Income from crops and livestock is assessed as per Department guidelines.
G. Conversion of assets to income values:

Declared annual income = 6% of aggregate value of assets.
The first R2 500 of the applicant's assets is disregarded.
Assets in excess of R39 000 exclude the applicant from a social pension or grant.

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