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Social security reform update

Introduction

Although no official document has been released, important announcements on social security reform have been made by government officials during the course of 2011. This note provides a summary of the latest social security reform developments.

No opt-out from the National Social Security Fund (NSSF)

It appears that there is consensus within government that no opting out of the NSSF will take place. During his speech at the launch of July Savings Month, Finance Minister Pravin Gordhan said that all workers will contribute to the NSSF. Likewise, at the Institute of Retirement Funds (IRF) Conference in September, Deputy Director General in the Department of Social Development Selwyn Jehoma said that the initial proposed opt-out option for the proposed NSSF is no longer on the cards.

Phasing in of the NSSF

According to an article that appeared in the New Age newspaper on 23 September 2011, Selwyn Jehoma stated that the NSSF will be phased in from 2013. He said that the Department of Social Development expects the NSSF to be fully operational in approximately 10 years' time.

Contributions to and benefits from the NSSF

In a presentation made to financial advisers in Durban in July, Selwyn Jehoma explained that the NSSF will collect compulsory contributions for retirement, death and disability benefits. These contributions will be from the first R157 000 of salary. To incorporate salary adjustments this figure is likely to be higher by the time the NSSF is implemented. The NSSF will be partially funded and defined benefit (DB) in nature. Unemployment insurance will be provided through the NSSF and should give sufficient cover to minimise withdrawals from retirement savings.

Role of the private sector

In the same presentation made to financial advisers in Durban in July, Selwyn Jehoma said that the private sector will have an important role to play in the proposed new system. Compulsory contributions from income above R157 000 up to R750 000 will be made to approved private funds. Discretionary savings will be made from income above R750 000. It is important to note that there is currently no information from government on what role the private sector could play in the management of NSSF assets. Given its expertise in this area, it is reasonable to expect that the private sector will be involved in providing asset management services to the NSSF.

Discussion document on preservation

On 21 August 2011 an article in the City Press quoted Chief Director at the National Treasury Olano Makhubela as saying that a discussion document paving the way for legislation aimed at enhancing preservation of pension savings was to be released in September 2011. According to Makhubela the legislation could arrive before June 2012 following public consultation. Restricted withdrawal is being proposed under exceptional circumstances. The discussion document is still to be released.

Consolidated government document

The latest NSSF proposals are contained in a consolidated government document. This document is expected to cover other proposals including universalising the State Old Age Pension (SOAP) and the criteria for approved private funds. The release of this document has been postponed for several years. According to Selwyn Jehoma the document has now been approved by the Inter-Ministerial Committee on Social Security and is awaiting Cabinet approval.

Looking ahead

The absence of official documents does not mean government is not making progress with the reforms. In particular, it appears that there is increasing agreement within government on what the reformed social security system will look like. These documents are essential in order for the private sector and other stakeholders to engage more meaningfully with government. Informal interactions will continue to form the basis of consultation until the latest proposals are officially available.

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