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Ageing, public finance and social security in South Africa

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Abstract

South Africa has a relatively youthful population but ageing is nonetheless an important economic issue. The number of older persons is increasing rapidly, as the population starts the ageing process from a low base. The care of the white elderly in the past followed an expensive institution-based model that is now making way for a more affordable model based on greater integration of older people in the community. Both occupational/private pensions and means-tested social pensions for poor individuals are remarkably advanced for a middle-income developing country and the integration of these two modes of social security for retirement, in which the means test plays a crucial role, is problematic.

Introduction

As South African fertility levels until recently remained relatively high, the population has a youthful structure, though demographic change, including rising life expectancy, is causing a rapid increase in the number of older persons (cf. Kinsella & Ferreira, 1997). However, the number still remains relatively small compared to the overall population. The major economic issue flowing from ageing in South Africa is not that faced by developed market economies, i.e. an inordinate economic burden that has to be borne by a relatively small economically-active population, but rather how best to deal with the increasing number of old people in terms of the provision of care and retirement funding. Care for the elderly has evolved along a model of institution-based care for the section of the population, i.e. whites, that was most privileged under the system of apartheid. Unlike other developing countries, South Africa has a surprisingly developed social-security system (Van der Merwe, 1996: 296, 318; Alber, 1982: 64, Table 4).[1]

This paper addresses two major economic issues surrounding ageing in South Africa, namely care for the elderly and retirement provision. Discussion of the latter issue, which is treated more fully as it is least well known, is best undertaken by breaking the topic into three segments: occupational (and private) insurance for retirement; social old-age pensions – a form of social assistance targeted at poor older individuals; and the interaction between these two, particularly relating to the means test and the tax dispensation.

Social care for the elderly

Like all welfare services, care of the elderly receives relatively small allocations of budgetary resources from government, either as direct spending or as subsidies for private welfare organizations. Apartheid has left a legacy of welfare services that are highly discriminatory, inequitably distributed across provinces, not directed at communities, families or social integration, mainly rehabilitative rather than preventive, and often based on an inappropriate institution-based model. The White Paper on Social Welfare (1997) advocates addressing these problems by replacing the old welfare model with a family-centred developmental welfare model, with more attention given to generic welfare services.

Under apartheid, discrimination in spending on care of the elderly was greater than in any other sphere of social spending. Only R1.4 million of public resources was spent on social care of older blacks outside the homelands in 1991, as against R272 million spent on older whites. Of the 34 000 places in homes for the aged, only 1 200 were for blacks (cf. Race Relations Survey, 1992/93: 304). Table 1 and Figure 1 show that in 1993 – the last year before democratization and the last year for which racially differentiated data were available – expenditure outside the homelands on care of the elderly per member of the total population was some twenty times that for blacks. As more than half the black population resided in the homelands, and expenditure levels there were known to be much lower, racial differentials in spending on welfare services for the whole of South Africa were immense. Even allowing for a greater preponderance of older persons among whites (9.4 % of whites, as against only 3.5 % of blacks are 65 years or older), the remaining racial disparity ratio in spending per older person of seven to one was still greater than in any other area of social spending.

Table 1

Per capita spending by government on care of older persons, by race group, 1993 (excluding the homelands)

	Spending per member of	
	Total population	Population of pensionable age
Black	R 3,02	R 92,15
Coloureds	R 15,03	R 441,44
Indians	R 2,17	R 63,36
Whites	R 59,63	R 636,62
TOTAL	R 17,72	R 377,07

Source: Calculated from Race Relations Survey, 1994 and Sadie, 1993.

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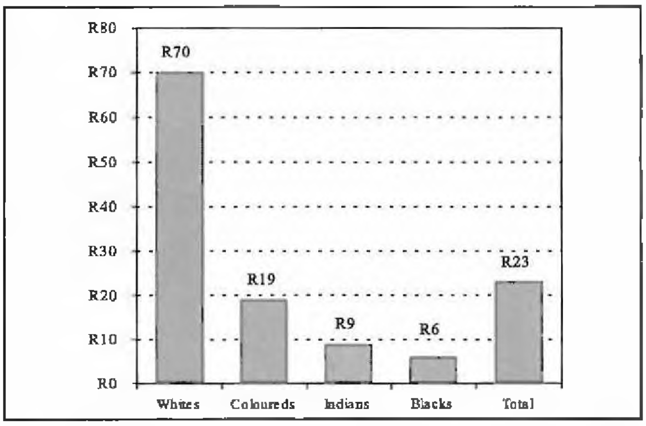
Figure 1

Public spending per person (all ages) on care of older persons, 1993

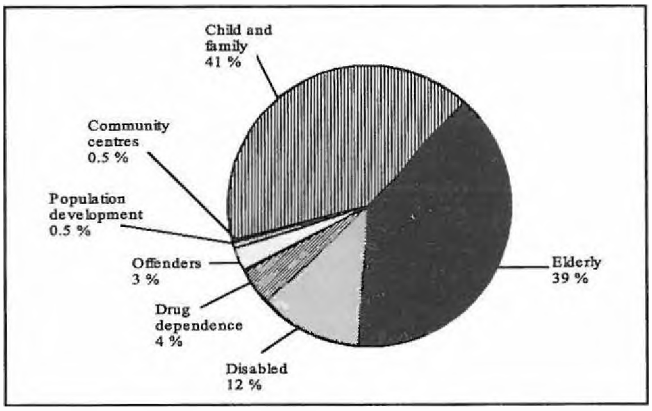


Source: Calculated from Race Relations Survey, 1994 and Sadie, 1993.

The level of institution-based care of older whites is excessive even for affluent societies. "By most countries' standards South African whites use institutions to a much higher degree ..." (Lawton, 1989:14). While only five per cent of older Americans are in residential care, in the late 1980s the percentage in South Africa was 8 to 11 % for whites, 5 % for coloureds, 0.9 % for Indians and 0.6 % for blacks (Lawton, 1989: 14, quoting the South African National Council for the Aged). Though more homes for the aged are needed to serve the neglected black population, the great cost and the need to keep older persons in the community for as long as possible should caution against too strong an emphasis on such an expensive model of caring for older persons (R11 000 to R22 000 per person per annum) – one that is inappropriate for a country with South Africa's limited resources. Already two out of every five Rand of public expenditure on social welfare services (including both government-provided services and subsidies to private welfare organizations) goes to the care of older persons (Figure 2). If expensive institutional care can largely be avoided, low administrative capacity and shortages of trained and experienced welfare workers may be more binding constraints in implementing the White Paper on Social Welfare. Issues here are how better to involve individuals, private service providers and the community, and how resources should be distributed amongst the provinces to equitably meet the needs of all older individuals.

Figure 2

Expenditure (including subsidies) for welfare services by field of service, 1995



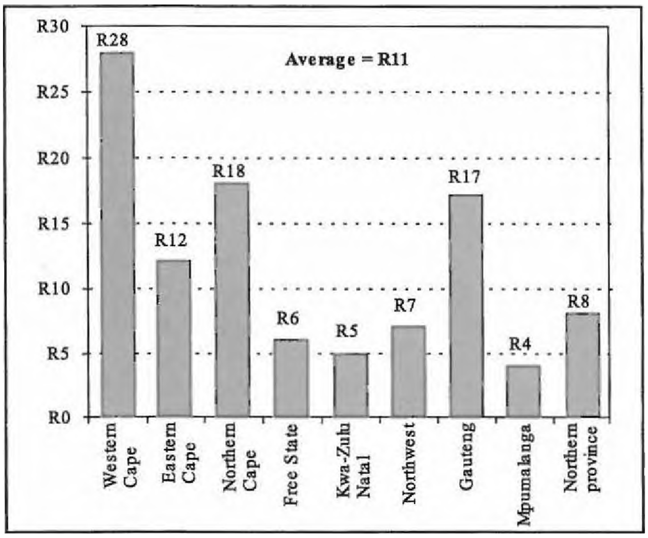
Source: Data obtained from the Department of Welfare and Population Development.

Social old-age pensions may well encourage poor families to retain older members in the household. Only twenty per cent of older whites live in multigenerational families, as opposed to about 60 per cent of both urban and rural blacks (Kinsella & Ferreira, 1997: 3). Pensioners have become the main income earners in many extended families. By enhancing their status, the pension may have slowed a trend of older blacks being cared for in homes for the aged (Case & Deaton, 1996: 11) – but in urban areas there is strong evidence that a lack of care facilities may be responsible for this. A large survey among urban blacks in Gauteng found strong support for the notion that care of the elderly should be the responsibility of welfare organizations, churches and the state rather than the family: "... the urban black family regards itself as having a minor role to play in caring and making provision for the aged" (Chinkanda, 1989: 152).

The large racial disparities in the provision of welfare services are also reflected in the provincial allocation of expenditure for welfare services. Provinces with a large share of white and coloured people (especially the Western Cape, the Northern Cape and Gauteng) are far better served with institutions for the elderly than other provinces – a legacy of the former racially-based allocations of funds. The Western Cape spends more than 2½ times as much per capita on care of the elderly than the country as a whole and more than seven times as much as Mpumalanga, the worst served province. (See Figure 3.) Differential welfare needs cannot account for such large disparities between provinces. Thus a down-scaling to more affordable levels of public funding of care for the elderly is necessary in the Western Cape, the Northern Cape and Gauteng, but care has to be taken not to cause the collapse of functioning institutions and services.

Figure 3

Spending per capita on care of older persons, by province, 1995



Source: Calculations based on data obtained from the Department of Welfare and Population Development.

South Africa is fortunate in having a vibrant network of private providers of welfare services, but providers are less active in rural areas and services function better in more affluent sections of society. Many private providers are presently under financial pressure. Greater funding to improve the salaries of social workers and to attract more people to enter this field may undermine the financial capacity to provide welfare services, which are personnel intensive. The desired shift in financial resources to reach parity between provinces may over-stretch the capacity of some of the provinces that are at present poorly resourced. However, reprioritization within welfare will not necessarily immediately realise gains and the process should thus be seen as an incremental one.

Occupational and private retirement insurance

Although the first pension fund was introduced in the old Transvaal (South African) Republic as early as 1882, occupational retirement insurance only expanded rapidly to skilled (mainly white) employees in the 1920s. After the 1956 Pensions Funds Act was passed to regulate retirement funds and to protect the interests of their members, occupational retirement insurance widened in the 1960s and the early 1970s to include less skilled workers, while rapid economic growth drew many more workers into formal employment. As a result retirement fund membership (including private provision) grew at 7 % per annum for three and a half decades, from 923 000 in 1958 to 9 309 000 in 1993 (Smith Committee, 1995: D2.4a), but slowed to a still rapid 3.7 % growth rate in the 1980s. However, these figures include extensive duplication where people belong to more than one fund.

Occupational retirement insurance plays a large role in contractual savings, which have made the South African insurance industry a giant. Assets of the 16 000 retirement funds alone amounted to 73 % of GDP in 1993 (Smith Committee, 1995: D2.16). In 1992, total benefits of R17.2 billion were paid out by occupational retirement funds (R3.3 of which were resignation and withdrawal benefits), compared to only R4.8 billion paid as social old-age pensions (Smith Committee, 1995: D2.1, 2.2, 2.6), though the latter target the poor.

Typically, workers and employers each contribute 7.5 % of the monthly wage to a fund from which workers can claim benefits upon retirement. Workers who change jobs often do not or cannot transfer benefits to another fund, and can then get a certain share of the accumulated benefit paid out to them.

A mixture of convention and agreements between employers and workers has made occupational insurance for retirement the norm in the formal sector and mandatory for employees in many firms and industries. Occupational insurance may thus be regarded as social insurance, despite the absence of legal compulsion and mandatory preservation of benefits, but because contributions are not taxes that flow through state coffers, international fiscal comparisons usually understate social-security provision in South Africa. Coverage is still low in agriculture, in trade, in catering and accommodation services, and in domestic service. But although 73 % of the formally employed are covered by occupational pension schemes for retirement, even after allowing for some double counting (Mouton Committee, 1992: 490; Smith Committee, 1995: D2.11), high unemployment means that only some 40 % of the labour force is covered (Kruger, 1992a: 215; Smith Committee, 1995: D.2.11). In 1960, only 1.6 % of older persons received benefits from retirement funds, as against 39.4 % who received social old-age pensions. By 1993, however, these figures had risen to 44.5 and 78.7 %, respectively (Smith Committee, 1995: D2.8).

Although vital for many South Africans, occupational retirement insurance cannot cater to those outside paid employment, nor to those sections of the employed population presently uncovered, and the majority of black workers therefore remain outside this security net. Of particular concern is that the interaction with the means test for social old-age pensions discourages many low-income workers from preserving retirement benefits, an issue which I return to below.

A government attempt in 1980 to implement compulsory preservation of pension rights upon withdrawal from a fund was abandoned in the face of strong opposition, as black workers perceived this as an attempt to deny them access to their own money (Mouton Committee, 1992: 153; Rumney, 1988: 35). A typical unskilled worker in the secondary or tertiary sector accumulates a pension of about R40 per month (2 % of final salary) for every year that he/she belongs to a defined benefit retirement scheme. If he/she withdraws from the fund after ten years, the individual forfeits only R400 occupational pension a month, less than the full social pension of R470 per month which he/she would then qualify for, and gets at least his/her own accumulated contribution and some interest back. Moreover, it is relatively sure that the social pension, unlike the occupational pension, may be expected to roughly keep pace with inflation. Thus there is little incentive for such an unskilled worker to preserve benefits upon leaving a job.

Since the early 1980s trade unions have taken a more active interest in retirement benefits. Many provident rather than pension funds were established because low income workers who retire often prefer a lump-sum benefit to buy assets that are not penalised by the means test, such as land, cattle or a house (Basson, 1987:34). Pension fund members may receive at most a third of their benefits as a lump-sum pay-out on retirement and must take the rest as a monthly pension, whilst provident fund members may take their full benefit as a lump sum. Member contributions to a pension fund are untaxed but pensions are then taxed. For provident funds, however, earners pay the full income tax on their contributions but receive a substantial tax benefit when retiring. (Cf. Sephton, Cooper & Thomson, 1990: 26 *et seq.*)

Private retirement insurance in the form of retirement annuity funds has also grown rapidly in South Africa. Though the means test for social pensions makes private insurance unattractive for low-income earners, it often supplements or substitutes for occupational insurance amongst the affluent, particularly self-employed professionals.

Social old-age pensions

Social retirement assistance covers a larger population than occupational insurance. The different apartheid administrations – ten homelands, four provincial administrations that covered blacks outside the homelands, and a separate administration for each of the other three racial groups – had some leeway to set rules and administrative procedures, but funding levels were essentially determined by the white central government. Today social retirement assistance is only administered by the nine provinces, but a single set of regulations applies and it is funded through transfers from the central budget. Its central feature is means-testing, which encourages a poverty trap and can in some circumstances create perverse incentives, as will be discussed below.

Like other social-assistance programmes, South African social old-age pensions evolved in the period 1910 to 1933,

> *... during which there was significant innovation in the field of state provision of social security in South Africa in the sense that many new schemes, previously unknown in the country, were introduced. The process, if anything, was piecemeal and uncoordinated. In most instances Africans and Indians were excluded from benefits, and the unwillingness of white parliaments to use general government revenue in the financing of services to Africans became clear and found its way into legislative provisions* (Kruger, 1992a: 159).

Military pensions were instituted from 1919, followed in 1928 by social pensions for whites and coloureds that were subject to age criteria and a means test to ensure that mainly those uncovered by occupational retirement insurance were targeted. The exclusion of blacks was defended from the "civilized labour" perspective, that people accustomed to modern life-styles and consumption patterns had greater need of social protection than those in rural subsistence agriculture.

> *Rural natives were excluded from old-age pensions mainly on the assumption that Native custom makes provision for maintaining dependent persons. Urban Natives were excluded in consequence, regardless of their needs, owing 'to the difficulty of applying any statutory distinction between them and other Natives'* (South African Social Security Committee, 1944: 19).

By 1943, take-up rates of the pension were 40 % for whites and 56 % for coloureds (Social Security Committee, 1944: 43-4, 58); only 4 % of all social-assistance spending was on blacks – most of this targeted relief and pensions for the blind (Social Security Committee, 1944: 15). When the Smuts Government extended social old-age pensions to blacks in 1944 (Van der Merwe, 1996: 378), benefit levels were less than a tenth of those of whites and the means test was far more stringent. But the introduction of old-age pensions was "to have a profound effect on the subsequent history of poverty in South Africa" (Iliffe, 1987: 141) and to obtain a pension became "a matter of survival for many poor South Africans" (Iliffe, 1987: 272). By 1958, blacks already comprised 60 % of 347 000 social old-age pensioners but received only 19 % of the pensions paid out. After their number had grown by 5 % a year for two decades, blacks made up 70 % of the 770 000 pensioners in 1978 and received 43 % of pensions. This latter proportion grew to 67 % in 1990 as a result of both increases in the number of blacks covered and the benefit level paid to blacks. By 1993, 81 % of social old-age pensioners were blacks.

The piecemeal social reforms of the 1970s and 1980s faced fiscal constraints that largely precluded increasing black benefits from social spending to white levels. Equalization was thus most readily accomplished where political resistance to reducing white benefit levels was least. Social pensions fell into this category, because the small number of whites who qualified under the means test were poor and politically marginal. Sharply reducing real white pension levels along with some increases in fiscal allocations for social pensions allowed an increase in black pension benefit levels of 7.3 % per year in real terms from 1970 to 1993. In 1980, white pensions displaced more than 30 % of the average wage in the non-primary sectors, compared to only 8.6 % for black pensions. By 1993, when pension parity was achieved and discrimination in the application of the means test eliminated, the now unified pension displaced 15.5 % of the average wage (Van der Berg, 1994b). Moreover, partly due to tightening means-test criteria, progressively fewer whites qualified for social pensions. In 1996, the regulations of the apartheid period in the various administrations were replaced by a common set of non-discriminatory regulations.

Table 2 contains the last racial social-assistance data. It shows that social old-age pensions were by far the most important transfer in the early 1990s, reaching three-fifths of all recipients, or 1.5 million people, and that already benefits were widely spread, despite some discrimination that still applied. Relative to their total income, the poorer racial groups were most dependent on the social old-age pension.

Table 2

Social pensions and grants paid, by category and by race

	Race group				Total
	Black	Coloured	Indian	White	
Number of grants (1000s) (1993)					
Old-age	1 227	130	34	123	1 514
War veterans	4	5	0	9	18
Other	492	359	67	84	1 002
TOTAL	723	494	101	216	2 534
Value of grants (R'million) (1990)					
Old-age and war veterans	1 753	290	69	491	2 603
Other	512	435	108	227	1 281
TOTAL	2 265	725	177	718	3 884
Population (1000s)	28 780	3 286	987	5 068	38 121
Old-age and war veterans pensions					
Per member of population	R 61	R 88	R 70	R 97	R 68
As % of all income	4.1	2.6	1.2	0.5	1.7

Sources: Calculated from figures obtained from the Department of National Health and Population Development and from Lund, 1993: 9, Table 1 and accompanying text. For the TBVC homelands, equal numbers of recipients were assumed as in the other homelands. Income figures are own estimates.

Old-age pensions today reach about 75-80 % of the population eligible by age (women from age 60 and men from age 65). The 1993 figure may slightly underestimate coverage, which has grown so rapidly since, that growth has exceeded budgetary provisions in some provinces. (See Table 3.) High coverage reflects the widespread acceptance which this programme enjoys, for today most non-recipients are excluded through eligibility criteria (the means test), rather than administrative obstruction or personal preference (stigma). The absence of such stigma in South Africa compared to Britain (Atkinson, 1983), for instance, may be due to the wide prevalence of the social old-age pension and the limited alternatives for poor older individuals. It should be noted that in 1980, the pension take-up rate of whites was similar to that of the 1940s, although the rate was reduced by almost half in the following decade.

Table 3

Take-up rates of old-age pensions: percentages of pensioners relative to population of pensionable age, by race group, 1980 and 1993

	1980	1993
Blacks	58.2	89.5
Coloureds	82.5	84.9
Indians	66.6	61.5
Whites	38.6	20.3
TOTAL		69.4

Sources: 1980 figures from Kruger, 1992b: 21. 1993 figures calculated from data supplied by the Department of National Health and Population Development and population data of Sadie, 1993.

In rural communities, pension income circulates widely and is crucial in combating poverty and reducing material insecurity. It is probably the most effective social programme in targeting and reaching economically-vulnerable groups

(Ardington & Lund, 1995; Case & Deaton, 1996). Higher black pension levels to achieve racial parity have reduced rural poverty substantially, and

> *... pensioners have become comparatively wealthy members of poor communities. This makes the presence of a pensioner a critical factor in many households' well-being, and the death of a pensioner is a potentially disastrous occurrence for some. ... pensioners are a 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).

Recent work on the fiscal cost of social assistance indicates that despite an increasing number of older persons and localised short-term fiscal crises (such as the recent one in the Eastern Cape), there is little danger of seriously escalating long-run fiscal burdens if the means test remains in place, eligibility criteria are enforced and benefit levels stabilize around present levels (Van der Berg & Kruger, 1995; International Monetary Fund, 1995, Chapter 4). There may even be room for mild fiscal optimism: proper application of the means test could reduce average pensions levels and the numbers covered; improved access to occupational pensions of newly-retired cohorts would reduce the proportion qualifying; and maladministration and corruption are receiving attention. Some of these issues are considered again below.

Articulation between occupational insurance and social pensions

The means test

An important social-security dilemma is the articulation between social insurance and social assistance for retirement. Central in this regard is the means test and how it interacts with occupational or private insurance and with the tax system. A means test is a set of rules that determines how the material means available to applicants determine both their eligibility for benefits and the level of benefits which they receive. But "means-tested schemes have been subject to two important criticisms: that they fail to reach all who are eligible, and that they involve high marginal rates of taxation" (Atkinson, 1983: 268). Applicants 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). Difficulties exist in the application of a means test in the South African context.

> *Forms of wealth are different in different situations. How can access to land, housing, cattle or other resources be evaluated when it is achieved by communal tenure at some times and by freehold or individual tenure at others? What is the relevance of a test based largely on income from employment in a society where the majority have never had formal employment, and only a small percentage of those who have had such employment receive occupational pensions? Who will make these valuations in a society in which the majority of the aged are illiterate, and their lives unrecorded in terms of assets, income, investments, employment or taxation? ... The moral and practical arguments against the means test are compelling, despite the financial implications of abolishing it* (Ardington & Lund, 1995: 22).

Means-tested social pensions are usually provided on a sliding scale. As income increases above a certain minimum level (the disregard or threshold income), the benefit level decreases (the clawback or effective marginal tax rate), until a point where no further pensions are paid (the exclusion or cut-off level). Moreover, an imputed income value is also applied to certain assets (8 % of the value of mainly financial assets) and added as "deemed income" to other income. Further, in the 1996 regulations, income from subsistence agriculture is also excluded for means test purposes. Similarly, residential assets are now also disregarded in means testing and imputing income. Below the lower threshold (60 % of annual benefit, though the intention was that it should have been 30 %), applicants qualify for the full pension. Above this level, every R2 increase in pre-pension income reduces the benefit by R1 until the benefit is zero. Thus the marginal "tax" rate, or clawback for those with incomes above the threshold level but below the exclusion level is 50%, as in Australia, versus only 20 % in New Zealand (Mouton Committee, 1992: 47). For married applicants, only half the combined income of the applicant and spouse is taken into consideration. Under apartheid, both the maximum grants and the means test differed between race groups. Lund (1992) discusses the problems experienced with means testing in practice.

Poverty trap aspects of the means test

As with all means-tested benefit systems, the marginal "tax" rate creates a typical poverty trap (see Le Roux, 1991: Sections 1.2 and 2.2; Sephton *et al.*, 1990: Annexure) that has severe implications for low-income workers. The poverty trap refers to the fact that the clawback or marginal tax rate makes it unattractive to people in certain income bands to try to earn more private income as they would lose part of it through a reduced grant. Arguments usually brought against the means test are that it creates administrative nightmares, encourages concealment of sources of income, and may create disincentives to earn income or to provide for retirement, which is especially important in determining behaviour regarding occupational and other private pensions. Moreover, according to the Mouton Committee, the means-tested social old-age system "... 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).

The majority of older South Africans have very low incomes if social pensions are excluded.[2] Only among whites did more than a quarter of older persons have a per person income exceeding R900 per annum (expressed in 1996 figures) before social pensions in 1996. Only 38.4 % of older whites earned less than this amount, while a substantial proportion of these individuals have relatively high private incomes, e.g. almost 30 % earn more than R2 000 per pensioner per month. Presumably, most of this income comes from private pensions and accumulated savings.

As occupational retirement insurance had largely excluded previous generations of black workers, few formerly retired with any private retirement provision. Moreover, those with limited means would hardly have gained from such private provision. Thus few black people are independent of state means of support in old age. But income distribution amongst retirees is changing rapidly as more retire who have benefited from the expansion of occupational insurance coverage in the past three decades. Conversely, smaller proportions of new cohorts who retire qualify for the full or even a reduced social pension. This reduces fiscal cost, but increases the difficulty of administering the means test, and retains some poverty trap features.

Is abolishing the means test a viable option?[3]

The close to universal eligibility for the social old-age pension in conjunction with the poverty trap present strong grounds for abolishing the means test in favour of a universal grant. Both the Mouton Committee and later the Smith Committee seriously considered this option, and more recently, in 1997, the National Consultative Retirement Forum also expressed support in principle for a universal grant for older persons. This would simplify administration and remove the perverse incentives to withdraw retirement benefits before retirement, to neglect to take out private retirement insurance amongst informal sector participants and domestic servants where they have the resources to do so, to choose lump sum retirement benefits rather than pensions, or to hold assets in a form determined by the provisions of the means test. Abolishing the means test should further encourage private retirement provision for those who desire more resources in retirement than the social pension can offer.

But limited fiscal resources may preclude extending social pensions to all, especially at this time of political transition with the attendant need to provide greater social benefits for a large proportion of the population. The fiscal costs could be partly reduced by clawing back some spending through higher income tax, both by removing the old-age rebate and by the normal operation of the income tax scales, and some tax concessions presently enjoyed for private retirement provision may be reduced (cf. Vittas, 1994). Thus net fiscal costs may appear manageable. However, the South African population is now starting to age somewhat, therefore the numbers in the higher age categories are growing more rapidly than the aggregate population and economic growth presently can hardly keep pace with this. A universal grant may be fiscally unrealistic unless economic growth accelerates and the tax capacity with it.

Another argument is that a universal pension would be distributionally regressive, or rather less progressive than the present social pension. Those presently receiving the full pension (older individuals below the threshold where the clawback mechanism becomes operative) would be somewhat worse off if social pensions were lowered in order to give them to all older people. The quarter of older individuals not receiving a social pension, about equally split between those above the exclusion level and incomplete take-up by those eligible, would gain, including most retired white people, although such gains would be reduced through income tax. The distributory effect of reducing tax incentives for retirement provision would, on the other hand, be progressive and would imply, for the better-off, an inter-generational transfer of resources. The longer-term, dynamic effects on distribution could also perhaps be positive by removing the disincentive to provide for retirement for those in low-wage employment.

As may be seen in Table 4, which compares the mean income (before social pension) of older people with those of working age, older South Africans have very limited private means. By far the majority are dependent on the social pension. But a substantial proportion of whites have high enough private retirement income that disqualifies them from receiving the social pension under the present means test. Some who have relatively low incomes do not qualify for the full pension. For these two groups, abolishing the means test would increase their retirement income. The cost to the state is largely determined by the size and the distribution of these groups, and how changed incentives affect their earnings.

Table 4

Older persons and working-age persons: numbers and monthly net income before social grants: 1996 estimate based on 1993 data

	Numbers	Mean monthly income (single person equivalent)
Older persons		
(males 65+, females 60+)		
Black	1 679 183	R 54
Coloured	138 192	R 133
Indian	34 961	R 251
White	312 481	R1 414
TOTAL	2 164 818	R 259
Couples (per person)	694 997	R 500
Singles	1 469 822	R 144
Working-age persons		
(males 18-64, females 18-59)		
All	22 767 106	R 512
Of whom those earning an income	7 620 523	R1 529

Source: Own calculations based on Living Standards and Development Survey, 1993.

Considering the fiscal cost and the likely opposition due to reduced progressivity (less targeting), it may not yet be appropriate to abolish the means test in favour of a universal retirement pension. However, the focus of the means test should increasingly fall on "cutting down the tall poppies" – the way that the means test has been applied in Australia (where means-testing has been taken to its greatest lengths). This implies a focus on means of identifying and excluding the relatively wealthy, rather than on the clawback or sliding scale as a means of fine tuning benefits to means. This is particularly pertinent in the face of the almost impossible task of regularly reviewing eligibility and material means of millions of social grant holders, making adjustments for inflation, and ensuring accurate information.

Conclusion

Ageing indeed provides many economic challenges to South Africa. These challenges are not those of developed affluent societies, which are grappling with the economic burden of ageing on a scale never experienced before – and therefore have to make major adjustments to their social-security system to keep them solvent. Neither are they similar to those of most developing countries, who seldom have as sophisticated an occupational retirement insurance system, nor as large a social-assistance programme providing old-age pensions as South Africa has.

The uniqueness of the South African economic issues of ageing means that although we can learn much from other societies, there are respects in which we have to create our own system with its own characteristics. It is ironic that the legacies of our political past have left us in the field of social security more advanced than other middle-income countries, but with a backlog in terms of provision of social care to older people. Institutional changes are called for, rather than attempts to extend the institution-based model of care that evolved for whites to the whole population, which will not be affordable.

Acknowledgements

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Ageing, held in Durban on 19-23 October 1997. It draws heavily upon previous work, much of it unpublished, for the World Bank and for the National Department of Welfare and Population Development, and partly overlaps with a recent article by the author on the South African social-security system (Van der Berg, 1997). The author wishes to acknowledge the valuable comments of John Kruger, Francie Lund, Leila Patel and various World Bank staff members on previous versions of this work, although they bear no responsibility for the final product.

Notes

1. Much of this can be explained by the way that social security was instituted under apartheid and reluctantly gradually extended to other groups – a topic which I discuss in more detail in Van der Berg (1997), where the entire social-security system and not only retirement provision is the topic. Other overviews of the social-security system may be found in Kruger (1992b), Lund (1993) and Van der Merwe (1996).
2. Income distribution data were obtained from the 1993 Living Standards and Development Survey and adjusted to 1996 values by adjusting for inflation and racially-differentiated population growth. Per person income of couples was calculated (as in the means test) as the total income of the couple divided by two. Income includes all private sources of income (excluding social grants), excluding subsistence agriculture and informal sector income, net of deductions from wages for taxes, Unemployment Insurance Fund contributions, etc. Using gross rather than net remuneration has a negligible effect: mean income of the elderly increases by only 2 % and the distribution hardly changes.
3. This is a larger topic than can be done justice to here, as the arguments against the means test have to be weighed against both the immediate and future costs of abolishing it. The author plans to address this matter more thoroughly in a later article.

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