30 August 2021

Green Paper: National Social Security Fund

Let’s talk

For a deeper discussion of how this issue might affect your business, please contact:

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In brief

South Africa may in the coming years see the introduction of a National Social Security Fund which workers will be required to contribute 8% to 12% of their earnings to. Benefits will include a defined benefit pension fund for retirement; disability and survivor benefits; and a funeral benefit.

In detail

General

The Minister of Social Development gazetted a new Green Paper on 18 August 2021 addressing comprehensive social security and retirement reform.

The proposals set out in the paper contribute to the vision that by 2030, South African should “*have a comprehensive system of social protection that includes social security grants, mandatory retirement savings, risk benefits such as unemployment, death and disability benefits and voluntary retirement savings”.* This is in line with the National Development Plan.

The Green Paper essentially addresses what they perceive to be the following gaps:

- The absence of a mandatory system for social security pension provision for retirement, death and disability benefits for all workers;
- Systemic weaknesses in the private retirement system;
- The incomplete coverage of current social assistance;
- The lack of provisions to provide assistance to the 18 to 59 age group where individuals have no income and do not meet the means test to qualify for a social grant;

- A fragmented current social security system at both policymaking and implementation levels; and
- Governance and inconsistency weaknesses among the different social security institutions.

The proposal

The Green Paper proposes the introduction of a South African National Security Fund (“NSSF”) that will provide retirement, disability and death benefits to the workforce.

Employers and employees will be obligated to contribute between 8% and 12% of their earnings, subject to the current Unemployment Insurance Fund (“UIF”) ceiling (currently R276 000 per annum). Employees who earn less than R22 320 per year will not be required to contribute. However, they will still be required to contribute to UIF. A simplified contribution arrangement with self-employed and informal workers will be established.

While the Green Paper contains much detail, one of its many proposals is that the following benefits be provided to workers:

- Defined benefit pension fund for retirement –The worker will receive a pension based on a formula that considers the lifetime wages, length of service and accrual date to determine the proportion of average earnings (limited to the contribution ceiling) which the worker would receive for every year worked.
- Disability and survivor benefit – If the worker becomes permanently disabled, the worker will receive an income based on the salary at the time of the event or the last year of employment. If the worker dies before retirement, income support will be provided to each dependent based on the worker’s salary and the number of dependents. Each child will be paid out until they are 25 years old. The surviving spouse will be paid a benefit related to the salary of the worker.

  The benefits will be paid out as a monthly income stream and will not be based on the number of years for which a worker has been contributing to the NSSF.

- Unemployment insurance – This will continue to be credit based, but credits will accrue at a faster rate. The UIF has also extended the benefit for unemployed workers who remain unemployed after 238 credit days have been exhausted. This will be worth 20% of the worker’s income and last for a maximum of four months.

Funeral benefit - A flat-rate benefit will be available to workers.

A further proposal is that consideration be given to replacing the current tax deduction for retirement fund contributions with a tax credit to delink the value of the deduction to the contribution of the worker.

Takeaway

At this stage, the document has been released for discussion purposes only, and they have suggested a transition period of between five to ten years to align existing retirement funds with the NSSF. No immediate action is required other than to be aware of what the Department of Social Development’s thinking is on this matter. Our suggestion is that you take note and stay abreast of any further developments in this regard.