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South Africa's Retirement Reform: lessons from the Chilean reform enacted in 1981

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Abstract

"*Today's actions create tomorrow's legacy*." This was the theme of the annual convention of the Institute of Retirement Funds held in Durban in August of 2008.

The aim of this exploratory research is to gain an understanding of the steps that Chile went through in implementing its retirement reform and identify its strengths and weaknesses. Finally, the research will then draw lessons that will better inform, as well as assure the debate and discussion currently taking place regarding South Africa's retirement reform.

In-depth literature review of the Chilean retirement reform was done to tease out the propositions about its reform. Then eleven well-known experts in the fields of pension and retirement were interviewed face-to-face, following a semi-structured interview guide. Judgemental sampling, using the snowballing technique was utilised. The data was analysed using a combination of general analytical procedure principles, content analysis, and constant comparative analysis.

Taking unemployment, systematic inequity, and HIV into account, the research recommends a multipillar system with a universal non-contributory first pillar, and a mandatory defined contribution secondary pillar, with some caveats. It concludes with a matrix, drawn from lessons in the Chilean reform, and the expert interviews, with design concerns, design recommendations, as well as the expected outcome based on the recommendation.

Declarations

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

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Ayanda Somaguda-Nogantshi Date

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Glossary of Terms

Abbreviation	Meaning
SASI	South African Savings Insitute
SOAP	State Old Age Pension
PAYG	Pay-As-You-Go
AFP	*Administradoras de Fondos de Pensiones – Chilean pension fund managers*
NSSF	National Social Security Fund
GDP	Gross Domestic Product
SA	South Africa
DB	Defined Benefit
DC	Defined Contribution
FF	Fully Funded
FFDC	Fully Funded Defined Contribution
CF	Common Fund
NEDLAC	National Economic Development & Labour
SARS	South African Revenue Services
PPP	Public-Private Partnership
ER	Employer
EE	Employee
GV	Government
FM	Fund Managers

Chapter 1: Introduction to the Research Problem

1.1 Research Title

South Africa's Retirement Reform: lessons from the Chilean reform enacted in 1981.

1.2 Research Motivation

James (1998) estimated that by the year 2030, 80% of the elderly will live in what today are developing countries, and it is essential that policy makers start to plan for the care of their aging populations. In South Africa, two thirds of people reach retirement age without a funded pension benefit, and they rely on the state old age pension (SOAP) for support. This has led to entire families, not just individuals, relying on the SOAP or disability benefits for the support of the entire household (Finmark Trust and South African Savings Institute (SASI), 2008). Samson, Babson, Haarmann, Haarmann, Khathi, Quene and van Niekerk (2002, p.1) agree, arguing that "poor households that include pensioners are on average significantly less poor than poor households without pensioners".

South Africa is a country with a population of 47.9 million (Statistics SA, 2007) and 2.3 million of its elderly live off a SOAP of R870 a month (National Treasury, 2007). The number of total employed in the South African economy is 13.2 million (Statistics SA, 2007) and this number represents the number of potential contributors to pension funds. However, not all these people save for their pension as it is not mandatory (van Zyl, 2003), and therefore become dependent on the SOAP for sustenance in old age. According to Department of Social Development (2007), of the 13.2 million people employed, those that save for retirement will lose 50% or more of their income when they go into retirement. Therefore, even though they save, the retirement savings are not sufficient, leading to significantly reduced standards of living in retirement. According to Finmark Trust and SASI (2008), the SOAP plays a significant role in alleviating poverty amongst the elderly and many of their dependants in old age.

The current pension system in South Africa is a Pay-as-You-Go (PAYG) system, where today's workers are taxed to fund pension payouts of those that have retired (Gomez, Gunderson and Luchak, 2000). This prejudices active workers and is not sustainable in terms of the national budget (Fornero and Sestito, 2005). This is more so in a country like South Africa, ravaged by high levels of unemployment (van Zyl, 2003). Government has proposed a reform of the current social pension system, to replace it with a mandatory multipillar system in order to force people to save for old age, and not be entirely dependent on the SOAP. This is a road first travelled by Chile in 1981.

Chile is viewed as a pioneer in social security reform amongst the developing countries (de Mesa, Bravo, Behramn, Mitchell and Todd, 2006). Having implemented the reform over 25 years ago, Chile can offer lessons to developing countries from both their successes and failures. This research paper will assess Chile's failures and successes in the 27 years of their pension reform, applying those lessons to South Africa, and thus highlighting possible constraints for the South African government in implementing the retirement reform.

1.2.1 Why Chile is a Good Case Study

Chile adopted an individual-account defined contribution plan in 1981 (de Mesa *et al*, 2006), and it has now been in place for 27 years. Edwards and Edwards (2000) argue that Chile accumulated the most successful economic record among the reforming economies in the 1990s. Borzutzky (2005) argues that the impact of the Chilean reform is in no way limited to Chile, as it has been followed by countries in Latin America and other parts of the world; and even endorsed by international bodies such as the World Bank. McGillivray (2000) agrees with Borzutzky (2005), that the Chilean model, which has been publicised as a system, is held in the highest of regard in pension reform debates, and is deemed able to solve the different pension problems in different countries.

Chile and South Africa have much in common in terms of their political economy. They have both been under authoritarian rule, South African in the form of apartheid pre-1994, and Chile in the form of military dictatorship in the pre-1990s (Edwards in Williamson and Pampel, 1998; Calitz, 2002). The literature credits Chile's authoritarian rule to have been effective in getting things done regardless of lack support from the people (Edwards in Williamson and Pampel, 1998; Mesa-Lago and Müller, 2002). The South African government post apartheid has become a democracy.

Both countries are resource rich countries, with economies based on commodity exports. According to Anriquez and Lopez (2007), in both countries agriculture, as a sector, has a principal role in poverty alleviation. Chile, out of the four Latin American countries of Peru, Paraguay, Bolivia and itself has the strongest capital markets.

Dave McCarthy in Masie (2008) disputes Chile as a case. He argues that Peru, Paraguay, and Bolivia would have been better models for South Africa than Chile. His view is that Chile is more advanced than South Africa in that it is more developed, ranking 40th in the UN human development index, compared to South Africa's 121st. Calitz (2002) credits this high ranking in the UN human development index to the political transition that Chile went through post Pinochet. He argues that it was post the authoritarian rule that focused Chile on driving the social programme reform, to alleviate poverty for the poor. This is another point where similarities between the South Africa and Chile emerge. Post apartheid, South Africa's has been very strong in advocating the bill of human rights, which stands for the same standards of social assistance to the poorest groups of the population. The retirement reform currently in discussion is also a step in that direction.

Dave McCarthy in Masie (2008) also argues that Chile does not have a high unemployment rate at 7%, compared to South Africa. The countries that he identifies as better options, including Chile have been analysed in the table below. Peru, Paraguay, and Bolivia respectively have 6.9%, 5.6%, and 7.5% unemployment rates.

Table 1: Comparative analysis of South Africa, Chile, Peru, Paraguay, and Bolivia.

2007 Data	South Africa	Chile	Peru	Paraguay	Bolivia
Population size	47.6	16.6 mil	28.8 mil	6.1 mil	9.5 mil
Unemployment rate %	24.3	7.0	6.9	5.6	7.5
UN Human Development Index	121st	40th	87th	95th	117th
Economy base	Commodity Exports	Commodity Exports	Services & Mining	Agriculture	Commodity Exports
National Savings %	14.1	25.5	27.1	24.7	26.7
Total Debt/GDP	13.1	30.3	28.5	31.0	34.7
Capital Market	More developed	Strongest in Latin America	Under-developed	Under-developed	Under-developed

Source: Economist Intelligence Unit (https://www.cia.gov/)

Based on the data in Table 1, and the discussion above, there is credit for Chile as a good model for South Africa, without implying criticism of the other countries. The question for South Africa is what plan the government has, to ensure the support of the people in implementing this reform.

1.2.3 Chile's Retirement Reform

The Chilean pension reform is based on a substitutive model, where the public pension system is phased out for new members, and replaced by a private pension system (Mesa-Lago, 2001). Chile implemented a system that eventually eliminated the state run PAYG system, and required all workers to contribute to the private system (Kay and Kritzer, 2001).

Chile implemented a three-pillar public/private pension system as discussed in de Mesa *et al* (2006), which consisted of:

Pillar one, which consists of three components:

1. A non-contributory public system for the impoverished. This is a means tested system.
2. A state guaranteed, minimum pension for the contributors to the *Administradoras de Fondos de Pensiones* (AFPs), with 20 years of contributions. AFPs are private Pension Fund Management Corporations which were founded to administer the pension accounts, as well as provide retirement pensions.
3. A public defined benefit for those who chose to stay in the old PAYG defined benefit system in 1980.

Pillar two, which consists of the mandatory defined contribution to the AFP system. For all employed workers, contribution is mandatory, and only for the self-employed is it optional.

Pillar three, which consists of an individually funded defined contribution system. It is a voluntary program for those who wish to pay more than the mandated amount.

Kay and Kritzer (2001) and de Mesa *et al* (2006), define Chile's retirement age as 60 for women and 65 for men, although early retirement is permitted under certain conditions.

1.2.4 South Africa's Retirement Reform in discussion

According to Finmark Trust and SASI (2008), South Africans do not save enough for retirement. SASI in Finmark Trust and SASI (2008) agrees that at 13% of GDP, South African savings are low relative to other emerging markets. The result of this is South Africans retiring in poverty. Therefore, the South African government has proposed an overhaul of the country's retirement system, for a multipillar social security and retirement system to encourage more people to save, and to combat poverty in old age (National Treasury, 2007; Personal Finance, 2007; Department of Social Development, 2007).

Currently, two documents have been released from two separate government departments, to facilitate discussion on the social security and retirement reform design. The first paper was released by the National Treasury, and the second paper released by the Department of Social Development. There are fundamental differences in the proposals of these documents. Both papers were released in the same year, 2007, and the current debates and discussions around the retirement reform are based on these two documents. The structure of this multipillar system has four pillars.

Pillar zero, consists of social assistance grants funded by the state. This pillar is what currently exists, through the SOAP, which currently covers 90% of the target population (Department of Social Development, 2007). The means test threshold, currently applied, will either be raised or removed (National Treasury, 2007). If it is removed, a universal SOAP will be created, to provide a safety net against poverty in old age. Department of Social Development (2007) is proposing a universal pillar zero, which means elimination of means testing. The universal pension is expected to be easy to understand, promote equity, and reduce economic costs associated with means testing. Means testing requires constant verification of income and assets, to decide whether older people are eligible for the SOAP. Samson in Department of Social Development (2007) argues that this verification is a costly exercise since poverty is dynamic, with people moving in and out of poverty; and suggests that focusing on a universal system will address absolute old age poverty, instead of the means tested system which addresses relative poverty.

Pillar one, which consists of mandatory participation in a national social security fund (NSSF), up to an agreed earnings threshold, for basic retirement, unemployment, death and disability benefits. National Treasury (2007) is proposing that this pillar be a defined contribution, with a wage subsidy for low-income earners. Department of Social Development (2007) is proposing that this pillar be a combination of defined benefit and defined contribution, there not advocating the wage subsidy. The two government departments differ on whether the members of the NSSF should have an option to opt out of the fund.

Pillar two, which consists of additional mandatory participation in private pension funds for individuals with earnings above a certain threshold. This will ensure that individuals at all earnings levels make appropriate provision for insurance coverage and income replacement in retirement.

Pillar three, which consists of supplementary voluntary savings, permitting individuals to choose how they allocate income over their lifetime.

1.3 Research Scope

This paper analyses the social security reform in a narrow sense, assessing Chile's implemented reform, and South Africa's reform as discussed in National Treasury (2007) and Department of Social Development (2007). It only focuses on the provision of retirement for old age, and excludes healthcare, insurance, and disability. Early retirement as well as extended retirement is not part of this research. The research will focus on pension covering only pension age, defined as follows for South Africa:

- 60 years for women
- 65 years for men

The research scope is also limited to comparisons between South Africa and Chile, looking at Chile's pension reform that has been in place for 27 years, from 1981 onwards.

1.4 Research Aim

The matter of South Africa's pension reform is one that carries with it profound social, economic, political and personal implications (Department of Social Development, 2007). The South African government dedicates 4.6% of the gross domestic product (GDP) to social welfare (www.treasury.gov.za). Of this percentage, 1.4% is dedicated to the SOAP (Department of Social Development, 2007). This directly and indirectly affects the entire economy by influencing productivity, factor supplies, and therefore the size of the gross national product (James, 1997).

This paper aims to inform the current discussion between government, private sector, labour and other stakeholders on the design of the non-contributory first pillar, and the mandatory second pillar that is. According to Augusztinovics (2002), the World Bank's original three-pillar structure is generally accepted, with the first pillar being a minimum guarantee to alleviate poverty for the very poor, and the third pillar being for voluntary retirement savings. She suggests that it is the second pillar that raises debate, with regards to the type of management (private or public) and financing structure (PAYG or funded).

In South Africa the debate revolves around details of the first pillar, referred to as pillar zero, whether it should be universal or means tested, and the second mandatory pillar of the system; whether it should be privately or publicly managed, defined benefit or defined contribution, fully funded or unfunded. Effects of each of the design features have been discussed in seminars and forums, and the press has a lot of commentary about it. The research will aim to achieve the following:

- Analyse what has worked and what has failed in Chile, focusing mainly on the mandatory second pillar, through literature review.
- Construct and depict, based on the reviewed literature, facets of the Chilean social security reform that were instrumental in its implementation.
- Draw parallels from the Chilean reform for South Africa, based on the above facets, in an attempt to inform the retirement reform design for South Africa's first and second pillar.

The caveat is that this paper does not claim to know the answer to the correct design setting for South Africa's non-contributory first pillar and the mandatory second pillar, but draws parallels from Chile to identify possible opportunities and constraints that could be faced by S.A.

Chapter 2: Literature Review

Pension systems can be described by their combination of features. Some of these features are listed in table 2 below. These features are either defined benefit (DB) or defined contribution (DC), voluntary or mandatory, fully funded (FF) or pay-as-you-go, and privately managed or publicly managed (Ståhlberg, Kruse and Sundén, 2006).

According to Weller and Baker (2005) supported by Kemp and Overstreet (1988), under a DB system, employees are guaranteed a specific benefit upon retirement based on a number of factors, and none of which are a function of the investment earnings of the pension fund (Ståhlberg *et al*, 2006). Under a DC system, employees contribute a specific amount towards a pension fund, and the benefit of this contribution is a function of the level of contribution by the employee, as well as the investment earnings of the pension fund (Kemp and Overstreet, 1988; Ståhlberg *et al*, 2006).

In a FF scheme, workers contribute to their own retirement benefits. Brown (2008) argues that in a FF scheme, workers deny themselves current consumption and buy assets from the market place, preparing for retirement. The contributions are invested annually in capital markets, and these funds are used to cover the retirement benefit. Bosworth and Burtless (2004, p.705) argue that FF systems are believed to increase aggregate savings in a country, but warn that this may lead to a “reduced public or private saving outside of the pension system”. In a PAYG system, annual contributions of current workers are used to pay for benefits of currently retired workers. PAYG systems put a financial strain on countries during times of slow economic growth, and that reforms encourage moving away from this system to a funded system (Bosworth and Burtless, 2004; de Mesa *et al*, 2006).

Table 2: Combination of Characteristics in Pension System

Public	Private
Mandatory	Voluntary
Pay-as-you-go	Funded
Defined Benefit	Defined Contribution
Means-tested	
Fixed-benefit	
Minimum guarantee	Earnings-related
Redistributional	Actuarial
Non-actuarial pension age	Actuarial pension age
Indexing by	
Prices, growth rate and/or interest rate	
During earnings/ contribution period,	
During retirement/ receiving period	
Survivor’s pension	
Pension credits for child rearing	
Annuities	

Source: Ståhlberg, Kruse and Sundén, 2006

According to Ståhlberg *et al* (2006, p.9), the difference between public and private administration “is a question of efficiency” and that private sector is able to achieve efficiency due to competition in the market, at the cost of eroding the investment value for the investor.

Augusztinovics (2002) states that the pension system design boils down to the imperative of mandatory schemes, whether publicly or privately managed. He argues that pension systems are expected to provide social assistance as well as pension insurance. Social assistance is associated with the alleviation of poverty in old age, and pension insurance is associated with the replacement of income earned prior to retirement.

Augusztinovics (2002, p.21) describes the pension system to be the “major instrument to provide income security in old age”. The literature review will first explore the principles of pension system design and management, followed by the principles of pension funding. Then the two cultural ideologies that drive the state of social welfare of countries: individualism and collectivism, will be reviewed and discussed. The final stage of the review will explore the Chilean Pension Reform and the South African Pension reform documents currently in discussion, using a framework that will provide insights through the following lenses:

- The structure of the pension reform
- Shocks and Influences of the reform
- Intentions of the reform
- Implementation Process (followed and to be followed)
- Positive outcomes of the reform
- Negative outcomes of the reform

The framework will:

1. Analyse the structure of the pension reform implemented in Chile, as well as the structure in S.A. based on the two released discussion papers. Whenever the South African pension reform is referred to, the review will be based on the two released discussion documents. The structure will be analysed according to the general design of the pension reform, as well as the administration of mandatory pillar of the reform.
2. Assess the shocks and influences of the reform, in the case of Chile and South Africa. John (2003) argues that socioeconomic shocks and influences in the political system play a role in explaining policy changes, and Bonoli (2000) concurs, arguing that understanding the starting points for both countries is fundamental to understanding the course of the reform.
3. Assess the intention of the reform in both countries. The intention driving the reform is the precursor to the objective that each country will want to achieve.
4. Assess the implementation process followed by Chile in its pension reform, as well as review the implementation process in discussion in South Africa.
5. Assess the positive outcomes of the Chilean retirement reform.
6. Assess the negative outcomes of the Chilean retirement reform. It will analyse where the reform failed to achieve against its aims and objectives, to highlight possible pitfalls for S.A. Some concerns highlighted in the course of the South African discussion will also be discussed.

2.1 The Principles of Pension Design and Management

According to Perotti and Schwienbacher (2007), the creation of pension systems occurred after the Second World War. They credit Germany as the country where pension systems first emerged in the 1880s, under Bismarck. The pension age for retirement at the time was 70 years (Perotti and Schwienbacher, 2007).

A few ideologies exist when it comes to social security systems. One is argued for by Brown (2008), stating that social security should not be thought of as a big private pension plan, but rather as a wealth transfer scheme. He argues that both the FF system and the PAYG system yield exactly the same end result for retirees, and are both dependent on the next generation of workers to produce goods and services.

McGillivray (2000) agrees, arguing that regardless of how pension systems are funded, they are simply transfers of resources from active workers to retired workers at the time the pensions are paid. Brown (2008) and McGillivray (2000) are again in congruency, arguing that both systems have benefits and flaws, and that both suffer from political risk. The FF system depends on the rate of return on invested assets for stability, and the PAYG system depends on the demographic ratio – with the employed vs. the unemployed, which Ståhlberg *et al* (2006) refer to as demographic risk. In a PAYG system, the government could change the contribution formula or the defined benefit, thus denying the workers the assumed pension benefit (Ståhlberg *et al*, 2006; Brown, 2008).

Ståhlberg *et al* (2006, p.13) argues that a FF system also suffers from demographic risk because “return in the capital market, though to a lesser degree, is dependent on demographic structure”. In addition, in a FF system, the government can allow inflation to deplete the value of the individual funds, thus reneging on the set expectation (Brown, 2008).

Augusztinovics (2002) touches on the redistribution of pensions, arguing that lifetime benefits cannot equal lifetime contributions for any individual. She argues that the basic purpose of pension insurance is to share the mortality risk, which means that those who die early lose out, and those who live longer benefit. She goes on to argue that on average the rich and well educated live longer than the poor do. South Africa, a country described as having a first and second economy, riddled with high levels of inequality as seen in Table 1 (page 5), is a case where pension insurance would be biased against the poor.

According to Augusztinovics (2002), the poor in terms of pension distribution, actually lose out as they die early, and the rich benefit the most. This goes against what Brown (2008) describes as the number one priority of any well-designed social security pension system, which is, to transfer more wealth to the poor than to the wealthy. The poor benefit in the risk benefit of the social security system, as they are riskier than the rich are. Augusztinovics (2002), noting that it is the poor and the uneducated that die early, therefore subsidising the rich, vouches for a framework that is based upon the relation between lifetime contribution and lifetime benefit, while still allowing for the mortality risk.

2.2 The Principles of Pension Funding

Perotti and Schwienbacher (2007) state that the first pension system created was dependent on both worker contribution and employer contribution. Augusztinovics (2002) agrees, adding that in certain countries government gets involved, to finance the deficit, or absorb the surplus. He goes on to discuss how in some countries pension revenues and expenditures are simply included in the government budget. This is certainly the case for South Africa, with the government dedicating 4.6% of the GDP to social welfare (www.treasury.gov.za). Giertz (2003) argues that traditionally most government pensions systems are based on the DB principle.

2.3 Pension Cultural Ideologies

2.3.1 Collectivism

Collectivism inspired the view that the state has some obligations towards society (Hofstede, 1983). These principles were translated into the welfare state ideology, which led to the development of social policies throughout Western Europe (Borzutzky, 2005). In S.A. every person has basic rights, governed by the Bill of Human Rights, Chapter 2 of the South African Constitution and the highest law of the country. This chapter says, “This Bill of Rights is a cornerstone of democracy in South Africa. It enshrines the rights of all people in our country and affirms the democratic values of human dignity, equality and freedom” (www.info.gov.za). Number 27 of the bill of rights, point 1c, states that “everyone has a right to have access to social security, including, if they are unable to support themselves and their dependants, appropriate social assistance” (www.info.gov.za). Therefore, social security programs are seen as a right of citizenship, granted on a universal basis in South Africa.

2.3.2 Individualism or Anticollectivism

On the other side of collectivism is anticollectivism, which Dixon, Hyde and Drover in Borzutzky (2005) trace back to the early 1940s, and to being fully developed in the 1990s. This ideology argues that the welfare state undermines individual freedom and restricts people from identifying personal ambitions. The anticollectivists believe that public retirement income provision robs people of exercising their freedom of choice, by imposing uniformity. They believe that social security denies people the right to exercise personal responsibility through the ability to choose an alternative mode of income support. This assumes, therefore, that the resources are distributed efficiently and adequately for people to be able to exercise their freedom to choose.

There are neoclassical economic theories aligned to the anticollectivists’ school of thought. An example is the Life Cycle Theory, which suggests that people will logically plan for future needs, to protect themselves sufficiently from unexpected declines in their standard of living in retirement (Mitchell and Utkus, 2004). In South Africa, focus groups conducted by Finmark Trust and SASI (2008) found established contrary findings. They found that poor South Africans are myopic, discounting their future needs for current needs. They do not consider long-term needs and wants because of the basic current needs that they have. Finmark Trust and SASI (2008) suggest that this type of savings behaviour may be more prominent amongst the low-income earners.

Analysing the total population of South Africa also puts these theories into perspective. Out of the 13.2 million people employed in South Africa (Statistics SA, 2007), 8.7 million of them are in the formal sector (Statistics SA, 2007). The number of members covered through all pension funds out of the 13.2 employed is 9.8 million (Registrar of Pension Funds, 2004). These figures leave a substantial number of the employed uncovered for retirement. However, this coverage figure might represent a slight double count as some members belong to more than one pension fund. These low ratios support Finmark Trust and SASI (2008) and it seems the life Cycle Theory is not true for the majority in South Africa.

2.4 Differentiation of Pension Reforms

Social security reforms can be differentiated through whether they are structural (non-parametric) or non-structural (parametric) (Department of Social Development, 2007). Mesa-Lago (2001) states that the structural reforms completely replace a portion of the public pension system with a private system; and the non-structural systems focus on strengthening the financial standing of the public system, either through changing methods of calculation or raising the retirement age. Chile implemented a structural reform, which was substitutive as it replaced the public pension system. South Africa is proposing a structural reform, which is also substitutive for the employed, as it will replace the current quasi-mandatory tax-incentivised private pension sector (Department of Social Development, 2007).

2.5 Chile

2.5.1 The structure of the reform

Chile implemented a three-pillar public/private system during their reform (de Mesa *et al*, 2006). According to Hoskins (2007), most governments in the world would be keen to implement a multipillar system; because this system approach allows government to build a system that combines public programmes, to protect the poorest of the poor, with private programmes, thus allowing employers and employees to share the responsibility of insuring against social contingencies.

The Chilean reform entailed the establishment of a compulsory fully funded defined contribution (FFDC) system, founded on a rejection of the collectivism principles, promoting the view of individualism and competition (Borzutzky, 2005). Ståhlberg *et al* (2006) has a view, that compulsory systems pose a restriction on consumption, especially on low-income groups. “In low-income groups, such restrictions are likely to be binding, forcing people to a low level of consumption when young, which creates a reverse incentive to continue working under the prior informal system and might actually be a contributory cause as to why the informal economy is so important in these countries” (Ståhlberg *et al*, 2006, p.8).

Chile moved from a public system to a private system. The new social security system appointed AFPs to administer and provide retirement pensions. According to Borzutzky (2005, p.863), the AFPs, which were private, were created to "reduce the role of the state in the provision of pensions, enhance the role of the private sector, increase the savings rate and contribute to the development of a capital market". James (1997) argues that economic objectives, instead of political objectives can be better maximised if the mandatory system is privately managed instead of publicly managed. However, Ståhlberg *et al* (2006) warn against the view that political risk is smaller in a private system than a public system. Their view is that the risk is more about transparency, rather than whether it is handled publicly or privately. Government handled the regulation, inspection, and supervision of the management of the AFP system (de Mesa *et al*, 2006), and was still responsible for the administration of the old system as well the minimum pension guarantee under the AFP system.

Williamson and Pampel (1998) argue that there is strong competition between the AFPs. Ståhlberg *et al* (2006) says that competition between companies in the private sector improves efficiency; however, gains that should be achieved through the competitive environment are reduced by marketing costs. There are currently six AFPs and 69% of the insured are enrolled with the top three in terms of size. Entrance into the AFP market is free, but the AFPs are required to hold a reserve fund of 1% of the funds they manage. This is Chile's criteria for qualifying as an AFP.

Banks cannot own AFPs, however, there is no restriction on foreign owned AFPs. According to Borzutzky (2005), by the end of 2003, 27.7% of the funds were invested in public debt, securities and other public instruments, 28.17% were invested in the financial sector, 22.62% in shares and investment funds, and 21.83% were invested abroad.

Their pension system determines the value of the old age by the amount of money accumulated in the savings account, which is driven by the years of contribution, plus the interest generated by the accounts, minus the commissions charged to administer the account (Borzutzky, 2003; Borzutzky, 2005). The commission is the cost “made up of two elements: one part paid to the administrator for managing the individual account, the fund interest, and the old age pension. The other part is paid to a private insurance company against the risk of disability and death” (Mesa-Lago, 2001, p.79).

Only retirees with a pension that is at least 120% of the value of the minimum state pension are allowed to obtain the pension directly from the AFP. In case of depletion of the fund, or if the payout produced by the fund is smaller that the minimum pension, the insured, who have at least 20 years of contributions, are eligible for a minimum pension guaranteed by the government (Williamson and Pampel, 1998).

2.5.2 Shocks and Influences

Prior to the reform in the 1970s, Chile found itself with a discriminatory social security system, regarding the eligibility conditions for the benefit, the nature of the benefit, and the financing (Borzutzky, 2005). This was referred to as a common fund (CF) system.

The majority of the blue-collar workers were the worst affected by insufficient pensions, as a result of the combined effects of inflation as well as the system used to compute the value of the pension. The principal goal of the CF system was to achieve social solidarity, and instead it was found to encourage inequalities and inefficiencies (Borzutzky, 2005). The inequities of the system (Williamson and Pampel, 1998) which Kay and Kritzer (2001) claim were based on political influence, occupational influence, as well as the inefficient administration were a problem.

Mesa-Lago in Borzutzky (2005) argues that the PAYG system in Chile required constant state subsidies of almost 30% of total state revenues. It was an expensive and inefficient system to the needs of the people of Chile, as well as to the national economy. Borzutzky (2005, p.671) does not see the FF system as any better, arguing that it was a system based on an “individualistic approach that reinforced the economic disparities created by the market”.

2.5.3 Intentions of the reform

Rusconi in Department of Social Development (2007) argues that policy makers should have only two objectives when designing a retirement system. The first objective is to encourage its citizens to save. This objective has microeconomic as well as macroeconomic benefits for the state. The second objective is redistribution – by allocating resources to look after the poor.

The pension reform in Chile was part of a major economic restructuring, which included privatisation of state owned enterprises (Kay and Kritzer, 2001), and a number of labour reforms "which made it easier for employers to hire and fire" people (Rusconi, 2007). Williamson and Pampel (1998) argue that Chile's retirement reform shifted the risk and burden of providing pension from the government to individuals, and Chile wanted to free government from running the system.

The reform was designed to reduce the inequalities that existed in their PAYG system, reducing the costs of maintaining the PAYG system, as well as to generate funds to provide sufficient pensions (Borzutzky, 2005). The retirement benefit was linked to one's contribution to their retirement instead of years of service and *perseguidoras*. *Perseguidoras* means that a retiree is guaranteed a pension equivalent to the salary currently received by an individual actually performing the pre-retirement function of the retiree (Borzutzky, 2005). However, Ståhlberg *et al* (2006) argue that there is not much redistribution in pensions closely linked to contributions, and a mandatory DC system is linked to one's contribution.

2.5.4 Implementation Process

According to Borzutzky (2005), policy and politics are intertwined and part of the same process. Edwards in Williamson and Pampel (1998) agrees, alluding that President Pinochet's government drove the social security reform in Chile. According to him, Pinochet's authoritarian regime made possible the enactment of a reform that did not have the support of many interest groups. Borzutzky (2005, p.656) describes the regime of Pinochet as one that "eliminated political freedoms and severely violated human rights". For Pinochet to succeed in implementing the pension reform Mesa-Lago and Müller (2002, p.960) argue that he "dissolved the political parties, crushed trade unions, repressed the opposition and suspended political and civil rights". They, however, argue that the reform can no longer be attributed to the tyrannical character of Pinochet, because recent reforms have been accomplished in democratic governments.

The transition from a PAYG defined benefit to a mandatory defined contribution required financing from the government. In preparation for the transition, Chile accumulated a large budgetary surplus in order to reduce the burden of deficit finance (Kay and Kritzer, 2001). Some of the financing, however, was through deficit finance, and James (1997) suggests that because of this, there was a decrease in Chile's national saving following the reform.

Government passed a law that exempted the AFPs from paying pensions in the first five years, to allow them the accumulation of capital. Members of the FF system could keep track of their account balances as well as move their funds between AFPs four times a year. However, switching from one AFP to another, twice a year was free, (Kay and Kritzer, 2001), otherwise the members would have to pay a switching fee.

Those who were employed at the time of the reform had a choice to either stay in the common fund (CF) system, or join the new system (Borzutzky, 2005). The new scheme was mandatory for employed workers, and optional for the self-employed (Williamson and Pampel, 1998; de Mesa *et al*, 2006).

To encourage the employed to switch to the mandatory system, government together with the AFPs launched a propaganda campaign, where the old system was discredited, and the modernity of the FFDC system promoted. In addition to this, those who agreed to move to the FF system were promised an 18% wage increase, as well as recognition bonds that could be cashed in at retirement (Kretzer in Williamson and Pampel, 1998). The 18% was offered to cover the increase in the employees' contribution, since the employers no longer contributed (Kay and Kritzer, 2001).

Those who elected to stay were still covered under the old social-insurance based system (Williamson and Pampel, 1998). For those who were joining the employment sector for the first time after December of 1980, it was compulsory to enrol in the FFDC system.

2.5.5 Positive outcomes of the reform

Borzutzky (2005) says the major accomplishments in Chile that are as a result of the FF system have been the development of their capital markets and an increase in the value of retirement pensions of those with stable high paying jobs. Rusconi (2007) agrees, stating that the pension reform in Chile stimulated the "development of a robust investment market" for the AFPs that are still in operation, but warns that "we're too often inclined to ignore the warts". Williamson and Pampel (1998) argue that the privatisation of the FF system has made Chile attractive to foreign investors, and that employers do not have the burden of financing old age pension. Chile is one of the two countries that have had a mandatory saving plan long enough for the savings effects from the pension reform to be estimated, the other being Switzerland (James, 1997). Williamson and Pampel (1998) attribute the social security reform in Chile as the driver in increased rates of national savings of about 10%. Mesa-Lago (2001), however, warns that the net result of national savings in Chile was negative, for the first 16 years of the reform.

2.5.6 Negative outcomes of the reform

The CF system covered 70% of the workforce before the implementation of the reform (Borzutzky, 2005). However, by 2003 only 55.2% of the workforce was covered for retirement, with 52.5% covered by the FFDC system and 2.7% covered by the CF system. Therefore, this FF system seems to have resulted in a step back (Williamson and Pampel, 1998). The issue of coverage could be attributed to something else. According to de Mesa *et al* (2006), the members of these AFPs do not seem to be financially aware about their retirement system and the financial literacy of a pension system is important as it may explain the level of participation.

Van Ginneken (2007) argues that in low-income countries, contributory systems for the formally employed struggle to extend to the informally employed, and this seems to have proven true in Chile. Borzutzky (2005) says that the self-employed, who were outside the CF system, remained mostly uncovered, with 4% covered in

2005. However, this decrease in coverage has co-existed with a large budget deficit in Chile; therefore, the reduction has not been necessarily a step to acquire financial solvency for the country.

Since the inception of the FFDC system, the commission costs have amounted to 2.14% of the taxable wages, and between 21.71% and 34.98% of the monthly contribution. Competition that was meant to be created through the AFPs did not produce a reduction in commissions, but instead increased marketing expenditures, which were passed on to the insured in terms of administrative costs. The reason for the high marketing costs is that workers are allowed to move between the AFPs, and with the AFPs offering similar products, much money must be spent on marketing to get them to move (Singh in Williamson and Pampel, 1998). Some experts argue that the fees are higher in the FF system than the CF system (Diamond in Williamson and Pampel, 1998), but others do not agree (Edwards in Williamson and Pampel, 1998).

These fees are not only 67% higher than those charged by banks to manage savings accounts, but are also regressive (Borzutzky, 2005). They infringe on the amount of the pension, as well as the standard of living of the retiree. They seem to favour the mid to high income earners more than the low-income earners (Williamson and Pampel, 1998). Borzutzky (2005) states that the low-income earners are charged between 25.6% and 37.9% of monthly contributions, whereas for the mid to high income earners, the charge is reduced to between 24.1% and 30.2% of the monthly contribution. Augusztinovics (2002) agrees, but warns that costs are not the only issue with the Chilean system, but that the AFPs have very low compliance rates with government regulation.

The effects of these high costs are not limited to just the retirees. The government provides the minimum pensions where the accumulated funds are not enough to provide a pension equal to the minimum pension (Borzutzky, 2005). Therefore, the high commission charges have a negative effect on the fiscal budget. Borzutzky (2005) states that in the short term, lack of preparedness of the government and the massive migration from the CF to the FF system caused the budget deficit.

The establishment of the FF system came with the promise of a reduction in state involvement, unlike the CF system. However, what happened was the removal of the government in the administration of the funds, but not the financial aspects of the system. The government continued spending money in the system, to cover the minimum guaranteed pension, to cover the military and the police. Government was also involved in paying recognition bonds to workers who had moved over to the new system, as well as to those who opted to stay in the system. Borzutzky (2005) states that Chile has spent more than $66 billion on benefits since 1981, despite initial suggestions that the FF system would be self-sustaining.

Rusconi (2007) also notes that the state of saving in Chile was found to be poorer than expected, after uncovering that almost half of the next generation of retirees was likely to fall short of the stipulation for receipt of the government minimum pension. This means that almost half of the next generation of retirees would live in poverty. Borzutzky (2005) agrees, stating that the deficit produced by the CF system, which covered 70% of the workers, was smaller than the deficit produced by the FFDC system, which covered 50% of the workers. Based on this she says that the reasons for the reform were not fiscal, but rather ideological.

2.6 South Africa

2.6.1 The structure of the reform

South Africa is looking to implement a multipillar social security and retirement system (National Treasury, 2007; Department of Social Development, 2007). The basic pillar suggested is a poverty alleviation pillar, which is non-contributory. The discussion involves either raising the threshold of the means test or completely removing the means test. McKinnon (2007, p.165) supports the view of universal coverage, arguing that the "continuing absence of universal coverage can only equate to more vulnerability and insecurity...it equates to fewer opportunities to make society more inclusive and economies more productive".

The suggested second pillar is mandatory, but there are discussions concerning its administration: whether it should be public or private, or a partnership of public and private. In addition, there are discussions on whether it should be a defined contribution or a hybrid of both defined contribution and defined benefit, whether there should be wage subsidies or not *etc*.

National Treasury (2007) favours a defined contribution structure, where the employee accumulates contributions towards retirement, and for the employee to purchase a pension at retirement. Ståhlberg *et al* (2006) say that a pension system with a tight connection between contributions and benefits encourages market work. National Treasury (2007) has identified two features that stand out for South Africa, which must be accommodated in the structure of the system: high levels of unemployment and South Africa's legacy of inequality.

When reviewing the discussion paper from the Department of Social Development, the mandatory pillar takes a different slant to the National Treasury paper. This paper advocates a defined benefit system, where employees fund their retirement with the benefit linked to the accumulation of the fund, as well as the number of years' contributing (Department of Social Development, 2007). In this design, the employees are guaranteed a pension at retirement.

2.6.2 Shocks and Influences of the reform

Samson *et al* (2002) support what others have argued, that South Africa is riddled with severe poverty and high unemployment, which threatens social stability and long term growth prospects. They argue that this drives the compelling need for social security reform.

The South African pension system is currently based on a quasi-mandatory tax-incentivised private pension sector (National Treasury, 2007), as well as a means tested SOAP to support the poor. The tax incentives, however, favour the higher income individuals as the tax benefit is based on taxable income, and the poor's earnings fall below the tax threshold. National Treasury (2007) and Department of Social Development argue that the poor are at risk of losing social benefits through the means test, and are not eligible for the tax incentive when they save because they fall below the tax bracket.

National Treasury (2007) mentions poor governance, high costs in the system, lack of effective competition, amongst other concerns, as issues that make the current system ineffective. They argue that most of these issues are intensified by the poor the financial literacy of the average South African. Stewart and Yermo (2008) agree, arguing that pension funds are riddled with bad governance. They cite lack of exclusive representation for fund members as one of the reasons why bad governance persists.

Goodspeed (2008) also states short sightedness of the young healthy workers as one of the drivers for the need for pension reforms. Those in employment do not think about saving for retirement until it is too late. The sustainability of the current system, where workers are not saving enough for retirement with the expectation that the government will take care of them (Department of social development, 2007) is a moral hazard. According to this paper, the current pension system environment has failed to provide adequate and quality coverage to the majority of South Africans.

2.6.3 Intentions of the reform

Rusconi in Department of Social Development (2007) argues that policy makers should have only two objectives when designing a retirement system. The first objective is to encourage its citizens to save. This objective has microeconomic as well as macroeconomic benefits for the state. The second objective is redistribution, by allocating resources to look after the poor.

Department of Social Development (2007) argues that even for employees that are currently covered, it is not clear that they have received value for money, with many people facing significantly reduced standards of living at retirement. The SOAP at its current level does not allow all low-income earners to maintain their pre-retirement level of consumption. Government is therefore getting involved to ensure consumption smoothing as well as poverty reduction for South Africans when they reach retirement (National Treasury, 2007).

National Treasury (2007) as well as Department of Social Development are looking for a system that will embody principles of Social Solidarity. Brown (2008) agrees, arguing that another priority of a well-designed system should be solidarity. Ramia, Davies and Nyland (2008) argue that the concept of solidarity suggests forgoing something for the betterment of society as a whole, particularly the poor and low-income earners.

2.6.4 Implementation Process

Brown (2008, p.61) argues that the responsibility of the design of any social security pension system lies with the “public policymakers”, which he says are usually politicians. South African policymakers have been consultative in their process of debating the design of South Africa’s retirement reform. Cole (2008) sums it up, saying, “government is consulting a wide spectrum of stakeholders in the public, and private sectors, with a significant part of the process taking place through the National Economic Development & Labour Council (NEDLAC) so that all citizens are represented, directly and indirectly”. The initial plan was to implement this reform by year 2010, however Masilela in West (2008) believes that this is unlikely.

Both papers are vouching for a single fund, the NSSF, that would pay out the pension at retirement (National Treasury, 2007; Department of Social Development, 2007). There are also suggestions about a government entity, possibly South African Revenue Service (SARS), to manage the administration and the management of the second pillar, regardless of how it is funded. There are also suggestions of a partnership between government and the private sector in terms of the management and administration of this fund. On this point, van Ginneken (2007) argues that public-private partnerships can be beneficial for the efficiency and effectiveness of social security, provided the relationship framework is designed and regulated by government. The two papers differ in terms of what the NSSF should target to pay out at retirement.

2.6.5 Concerns about the proposed reform

McGillivray (2000) argues that for reforms to be successful in democracies there must be public support as well as consensus among the social partners. But the final design structure of private/public is driven by the political regime in power (Mesa-Lago and Muller, 2002).

National Treasury's paper does not seem to explicitly target the informal sector, which makes up 16% of the employment statistics in S.A. (Statistics SA, 2007). They aim to encourage participation from the informal sector in the second pillar, but Goodspeed (2008) argues that it is difficult to collect contributions from workers who are in the informal sector.

According to Department of Social Development (2007), very high investment fees erode the value of retirement, as opposed to other savings options. Considering that government is making the contributions compulsory, this is important.

Finmark Trust and SASI (2008) argue that some of the poor workers are better off at retirement, receiving the SOAP than during the employment period. Government has also noted this concern, and has suggested a wage subsidy (National Treasury, 2007; Joffe, 2007). Another reviewed aspect is that of cost of employment, since current employers are not obligated to contribute towards employees' retirement funding. Government is considering employment subsidy to supplement this cost (National Treasury, 2007).

There are concerns about the proposal to pay out the wage subsidy to the employer. Joffe (2007) argues that this would be a controversial stance, as it opens up potential for abuse of the system.

Goodspeed (2008) considers the public administration of pension funds a huge political risk. The concern here is that the investing and use of funds may be used to drive political agendas, rather than what is best for the investment. According to National Treasury (2007), government is not considering private sector fund management and administration.

Government is also proposing a reduction in the current tax benefits for private sector retirement savings, and removing them altogether above a certain level. Joffe (2007) argues that it makes no sense to destroy the existing private industry, instead of drawing on its strengths for the success of the proposed reform.

Chapter 3. Research Propositions

The study will draw lessons from the analysis of the Chilean Pension reform case from 1981 onwards. Data will be obtained from two sources: the literature review – where the Chilean case will be reviewed to draw lessons for South Africa- and expert interviews, which will be conducted by the researcher. The data is imperative in order to guide the design and debate, in light of the retirement reform that the South African Minister of Finance Trevor Manuel hopes to implement from year 2010. To this end, six research propositions - each with subsections - have been based on the literature review explored in Chapter 2.

Research Proposition 1: The structure of the reform

Part a. A multipillar model is the right model for South Africa.

Part b. A mandatory defined contribution system for the second pillar is the right design for South Africa.

Part c. A mandatory pillar of the retirement reform will have a good chance of success if its administration is privatised.

Research Proposition 2: Shocks and influences

Part a. The current pension environment is discriminatory against the poor.

Part b. The current pension structure costs government a lot of money that could be better used elsewhere in the economy.

Part c. A multipillar retirement system, with a mandatory defined contribution pillar will save government money.

Research Proposition 3: Intentions of the reform

Part a. A mandatory defined contribution system will create social solidarity.

Part b. A mandatory defined contribution system will allow for better living standards for South Africans in retirement.

Research Proposition 4: Implementation process

Part a. A mandatory defined contribution pillar of the system must be privately managed without the interference of government, except through regulation.

Part b. Government must develop an independent entity to administer and manage the mandatory pillar of the system.

Part c. Government must force the retirement reform, even without the support of the people.

Research Proposition 5: Positive outcomes of the reform

Part a. A successful implementation of a mandatory defined contribution system will improve the capital markets' environment in South Africa.

Part b. Countries with successful retirement systems are attractive to foreign investors.

Research Proposition 6: Negative outcomes of the reform

Part a. A mandatory fully funded defined contribution system does not encourage participation from the self-employed, or those in the informal sector.

Part b. A privately run mandatory system has high costs that erode the potential returns of investment – to an extent that the insured are better off depositing their money in the bank.

Chapter 4. Research Methodology

This study reviewed what the successes and failures of the mandatory second pillar of the retirement reform in Chile were, abstracted those aspects, and proposed them as a solution to the mandatory second pillar in South Africa. The purpose of the study has been exploratory in nature, and was expected to provide insights to use in analysing a situation, and greater understanding of concepts Zikmund (2003).

Zikmund (2003, p.110) argues that “when a researcher has a limited amount of experience with or knowledge about a research issue, exploratory research is a useful preliminary step that helps ensure that a more rigorous, more conclusive future study will not begin with an inadequate understanding of the nature of the management problem”. Collins and Hussey (2003) agree, arguing that exploratory research aims to look for patterns, ideas or hypothesis, as well as gaining insights for more rigorous future research.

The methodology design followed for this paper was a two-phase qualitative approach. The first phase was secondary data analysis, through a review of the existing literature on Chile’s retirement reform. The second phase was primary data analysis, collected through interviews with subject matter experts.

4.1 Phase 1

4.1.1 Research Methodology

The research method used for phase one of the research was secondary data analysis, in the form of literature review. The purpose of a literature review was to study the current state of knowledge on the research subject, its limitations as well as how the research would add to the body of knowledge (Gill and Johnson, 2002). Leedy and Ormrod (2005) argue that literature review provides the researcher with previous findings regarding the current research, providing the researcher with an understanding of the topic. It also serves as a building block for future primary research (Zikmund, 2003).

The information sources included journal articles on Latin America and Chile's pension reform from the academic electronic databases, journal articles on the current and proposed South African retirement system, pension and retirement textbooks, working papers from the National Treasury and Department of Social Development, news papers, magazine articles, and relevant websites like the Bank of Chile website.

4.1.2 Population and Sample

Zikmund (2003, p.739) describes the population as "a complete group of entities sharing some common set of characteristics", to provide all the necessary information for "answering the original research question" (Gill and Johnson, 2002, p.101).

The population for this phase of research was all the published information on Chile's pension reform, all the published information on the current South African retirement environment, the discussion papers and material on the South African multipillar system currently on debate, and media sources that have been published on the topic. The sample for this study was all the journals and articles referenced in the research project.

4.1.3 Sampling Method

Collins and Hussey (2003) describe a sample as being a member of the population. Bouma (1996) argues that a carefully drawn sample makes the research possible, and produces more accurate results. Gill and Johnson (2002) agree, stating that selecting those who participate is crucial.

For exploratory research, a sample can be strategically selected, based on the judgement of the researcher about the population of interest (Gill and Johnson, 2002). Given the nature of this phase of the study, the population itself was limited to the information that is publicly available, and to the expertise of the researcher. Therefore, this sample was a judgemental sample, as the researcher used perception and judgement on which articles were relevant to form part of the secondary data analysis.

A non-probability sampling methodology was used, as there was no way of guaranteeing that each member of the population would be represented in the sample (Leedy and Ormrod, 2005). Zikmund (2003) argues that an inexperienced researcher can base the sample size on other researches' judgement of previous studies.

4.1.4 Unit of Analysis

The unit of analysis was Chile's retirement reform. The unit of analysis specifies where the level of data collection will focus (Zikmund, 2003).

4.1.5 Data Collection and Instrument

The data was collected through the review of literature of Chile's retirement reform.

4.1.6 Data Analysis

Secondary data analysis involved a review of literature publications, which according to Zikmund (2003) may be data compiled for some purpose other than the research at hand. Each reference was studied at hand, to identify failures and successes of the retirement reform that was enacted in Chile in 1981.

In order to analyse the data in a meaningful way, a case study data analysis approach was used. Through this analysis, propositions for the second phase of the research were created, to extract what South Africa could take and leave from the second pillar of the Chilean reform. This approach, adapted from Leedy and Ormrod (2005) is:

1. Organisation of detail about the case.
2. Categorisation of data into meaningful groups.
3. Interpretation of single instances.
4. Identification of patterns
5. Synthesis and generalisations.

This literature was printed and filed for future references. Electronic copies of the data were also secured and saved on a hard drive memory device.

4.2 Phase 2

4.2.1 Research Method

The aim of phase two of the research was to validate the applicability of the successes and failures of the Chilean retirement reform, as identified through the secondary data analysis of literature on Chile, to South Africa. Experts in the field of pension and retirement were interviewed to validate these propositions. As Bouma (1996) explained, interviews are a good tool to find out what someone thinks or feels about various issues and situations.

The research method that was used for phase 2 of the research method was qualitative, in the form of face-to-face expert interviews, using an in-depth interview guide. Leedy and Ormrod (2005, p.184) argue that face-to-face interviews are advantageous in that they allow the researcher to "establish rapport" with the interviewee, therefore encouraging cooperation. The interview guide was pre-tested with a research professional, to ensure clarity in the wording of the statements, as well as to ensure that the interviewer was asking the right questions.

The interview process followed was two-phased. On the first phase, the interview guide with the propositions, as attached in Appendix 1, was sent to the respondent once an interview was secured. This allowed the respondents to go through the guide for adequate preparation. This also afforded the experts the opportunity to form their expert opinions on their responses based on facts. This also allowed for email communication between the interviewer and the respondents, to ensure clarity where required. Leedy and Ormrod (2005l) argue that if respondents have to consider past events or perspectives, the memory is subject to distortions and there may be errors in the response. The second phase was the actual interview, where the researcher went through the interview guide, probing the expert responses on each of the subsections of the propositions.

The data collection tool used was qualitative, with two sections. The section was a fixed-alternative statement, and the second part was an open-ended probing question to "provide qualitative insights and illuminations" (Collins and Hussey, 2003, p.77). This was valuable to the research as the researcher is not a subject expert.

4.2.2 Population and Sample

The population of relevance to this phase of the study consisted of pension and retirement policy experts in South Africa. The policy experts are individuals such as managers, consultants, journalists, researchers and academics. The policy experts needed to qualify one or both of these criteria:

- Have worked or be currently working in the pension and retirement field,
- Have been interviewed, presented, or published on the subject matter.

The sample for this phase of the research was pension and retirement policy experts in the Gauteng Province, in Pretoria and Johannesburg. The researcher attempted to interview at least one respondent from each of the following disciplines: government, consulting, research, academia as well as labour. Zikmund (2003) states that sampling units and sampling size may be selected based on the judgement of the researcher. The target sample size was ten to fifteen experts, however given the availability of the respondents, and time constraints, the researcher managed to secure interviews with eleven of the experts.

4.2.3 Sampling Method

Non-probability sampling was used, as there were no guarantees that each element of the population would be represented in the sample (Leedy and Ormrod, 2005). The use of a judgemental sample was employed, based on the strength of their experience as judged by the researcher (Collins and Hussey, 2003). Another methodology used was the snowballing technique was used to acquire credible respondents in a specialised pension and retirement policy reform, and Zikmund (2003) warns that this technique has likely bias because a person in the sample is likely to refer someone similar to them. The researcher was fortunate to be invited to a retirement reform seminar by one of the experts interviewed. It was through this seminar that the researcher met nine of the respondents.

4.2.4 Unit of Analysis

The unit of analysis was an expert in the field of pension and retirement.

4.2.5 Data Collection and Instrument

The data collection was through the face-to-face interviews with ten of the experts in the subject matter of the research, as well as the interview schedule with propositions. One of the interviews was telephonic because of time constraints for the expert.

A semi-structured interview guide was use to structure the interview process, although some respondents covered many points during the interview in no order. The interviews started with confirmation of the chosen fixed-alternative response, which had a Likert scale with four alternatives; strongly disagree, somewhat disagree, somewhat agree, and strongly agree.

Probing allowed for follow up questioning on each of the alternatives, suing neutral questions. The researcher used questioning techniques that followed on the response of the interviewee with questions that required clarity. This included the line of questioning that required the respondent to expound by being asked to explain their stance on particular points, in order to encourage the discussion. Zikmund (2003) argues that the probes must be neutral to eliminate leading the respondent's answers.

The interviews were recorded in order to capture accurately the interviews. Transcribing of the data took place within a week of the interviews. Bouma (1996) argues that a delay in writing up the notes immediately may jeopardize the accuracy and reliability of the record. The interviewer also made notes highlighting certain behaviour, changes in the tone of the voice, or body language changes whenever this occurred. Collins and Hussey (2003) state that the effect that the interviewer has on the interviewee will affect the research as this may lead to the interviewee giving the acceptable response rather than what they really think. The researcher was mindful of this during the interviews, and tried to maintain a neutral view and tone during the interviews.

Prior events happening before the interview may also have an effect on the interview (Zikmund, 2003). The respondents are all intimately involved in the retirement reform in their spheres of work, so general comments about the how the reform was going were posed, to get a general feel of state of mind.

4.2.6 Data Analysis

Morse in Collins and Hussey (2003) argues that there is a lot of literature for conducting a qualitative project, and yet the process of data analysis remains poorly defined. Leedy and Ormrod (2005) warn that no matter how one proceeds, analysing qualitative data is complex and time consuming. Zikmund (2003) states that interpreting and applying reasoning in a qualitative study is highly subjective, and thus exposed to researcher bias. Collins and Hussey (2003) argue that the main challenges to qualitative data analysis are reducing the data, structuring the data, and detextualising the data.

To analyse the data, aspects of the general analytical procedure from Miles and Huberman in Collins and Hussey (2003, p.264) as summarised below was used. Collins and Hussey (2003) argue that this procedure can be used with any methodology.

1. Convert any rough field notes made into some form of written record.
2. Ensure that any material collected from interviews, observations or original documents is properly referenced.
3. Start allocating a specific code to the data as early as possible.
4. When data is coded, start grouping the codes into smaller categories according to patterns or themes emerging.
5. At various stages, write summaries of the findings at that point.
6. Use the summaries to construct generalisations with which to confront existing theories and to construct new ones.

7. Continue the process until the generalisation emerging from the data is sufficiently robust to stand analysis of existing theories, or construction of new ones.

Constant comparative analysis was used, where the new set of data from an interview was compared to the previous interview data. This process continually refined the categories and their interconnectedness. Leedy and Ormrod (2005) argue that content analysis is not a standalone design. Therefore content analysis was incorporated will all the designs already mentioned.

The closed proposition statements were coded according to a Likert scale, with alternatives strongly disagree, somewhat disagree, somewhat agree, and strongly agree. Data was collated using a Microsoft Excel spreadsheet. Each respondent could only select one alternative, and the selected response was assigned a weighting of one. When all the responses were collated, the sum of the codes per statement was equal to the sum of the number of respondents. Therefore, for this research, the sum of each statement alternatives summed up was equal to eleven. This check was used to ensure accuracy in the coding of the results.

4.3 Potential Research Limitations

The first phase of the research methodology was dependant on secondary data analysis. Disadvantages to using secondary data were that the secondary data was not collected with this research in mind, and there was no guarantee of accuracy on the data (Zikmund, 2003). There was no scientific way of mitigating this limitation.

Access to the subject experts was a possible constraint to the research due to time constraints imposed by the interview. The interviewing process is time consuming (Leedy and Ormrod, 2005), and to mitigate against this limitation, the researcher was flexible with regards to interview time schedules. One of the interviews was telephonic to mitigate against this limitation.

The limited expertise on the subject matter was another constraint. The researcher realised that errors and biases might exist due to limited information with the researcher. The researcher will make an effort to eliminate errors and biases by asking further questions where clarity was needed.

The researcher had no control over the sample – although effort was made to cover all the specified disciplines: government, consulting, research, academia as well as labour. The sample did not have a representative from a general industry labour body.

It must be noted that the where the statements were not clear, researcher updated some of the research statements as the interviews progressed. Mitigation against this limitation is covered because the research is qualitative, and so as such misunderstandings in terms of the statements were cleared and explained during the interviews. The responses are therefore captured as the respondents intended.

Chapter 5: Results

This chapter will present the sample of the research, the data analysis process followed in analysing the results, as well as the results of the research grouped around the research propositions as stated in Chapter 3.

5.1 Sample Description

The interviewer held in-depth interviews with 11 respondents, who are experts in the field of social security, which encompasses retirement and pension systems. The interviews were the pillar of the research, as they provided the researcher with key insights into the direction of the reform discussion in of South Africa, as well as differences:

1. The structure of the reform
2. Shocks and influences of the reform
3. The intentions of the reform
4. The implementation process
5. Concerns about the reform

The researcher providentially received an invitation to a retirement reform seminar - held in Sandton, Johannesburg - by one of the respondents. Most of the South African experts and stakeholders in pension and retirement were present to debate and discuss the retirement reform - based on the two released discussion papers from the National Treasury and the Department of Social Development. It was through the seminar that the researcher managed to secure some of the interview meetings with the industry experts.

Eleven experts in the field of retirement, pension, as well as social security were interviewed. All the experts were based in the Gauteng Province– between Johannesburg and Pretoria. Three of the respondents also held offices in the Western Cape Province – in Cape Town.

Three of the eleven respondents are actuaries, two hold a PhD qualification, and others have Masters Qualifications from local as well as international institutions. The gender profile of the respondents was skewed towards males, as only two out of eleven respondents were female. Two respondents worked for government, one respondent worked for Chamber of Mines, four worked for privately owned small consulting companies, and four worked for well-known big corporate companies in pension and retirement. Table 3 in Appendix 2 details short resumes on all the respondents.

The majority of the respondents agreed that South Africa requires a multipillar system, and that on principle reforming social security benefits was good for the country. They supported this sentiment mostly by citing the high levels of income inequality in South Africa. The majority of the respondents argued that a country like South Africa, with inequality, required a system that would address and cater for the different income groups present. One of the respondents somewhat disagreed with any kind of a multipillar system for South Africa – stating that retirement systems are complicated as they currently are – even for well learned people, and that many tiers would only complicate it further, especially for an average South African.

The possible involvement of government in the administration and management of the fund was met with mixed feelings and views. What was consistent across all the respondents in terms of government involvement was the need for government to provide a regulatory as well as a governance framework for the retirement reform system.

The respondents who were against government involvement in the administration and management of the funds felt that “*government cannot be self-regulating*” and that “*governments are there to manage the country, and not to run retirement funds*”. Respondents who wanted government involvement in the management and administration of the fund felt that “*the private sector was not cost efficient*” and that this was an aspect government would be able to achieve through economies of scale.

The majority of the respondents were collectivists in their thinking and ideologies, however the issue of funding was a consistent thread.

5.2 Data Analysis

The interviewer sent the respondents the interview guide as soon as an interview was confirmed, ahead of the actual meeting. This was to ensure that they had time to consider and think about their responses to the statements posed, as well as to give them time to confirm on certain facts where necessary. The interviewer did not want their responses based on memory – which is subject to distortions – which may lead to errors in the response (Leedy and Ormrod, 2005).

All the respondents gave the interviewer permission to record the interview so a recorder was used. Notes were also taken, but only to record behaviour, tone of voice as well as body language changes in certain questions, as judged by the interviewer. After each interview, the recording was labelled with the name of the respondent and the date of the interview, and then copied over onto another storage device for back up.

The data was transcribed within a week of the interview, to minimise jeopardising the accuracy and reliability of the recording (Bouma, 1996). The average length of each recording was 50 minutes – so recordings of approximately 550 minutes were transcribed into a document of 70 pages and labelled accordingly, based on the respondent and the date of the interview. Back up copies of the transcripts were also made.

Microsoft Excel was used to collect the data for the statements where the respondents had to select a response based on whether they agreed or disagreed with the proposition. Four alternatives; strongly disagree, somewhat disagree, somewhat agree, and strongly agree were the options given. An Excel sheet was created for each of the respondents, with a code of one for each alternative chosen, and a consolidated Excel sheet with all the results was created. A mathematical add-function was used to create consolidated responses across all the respondents, and the consolidated result can be seen in Appendix 4.

Constant comparative analysis was used to extract insights and trends for each of the propositions in Chapter 3, by comparing new sets of data to the previous interview data transcribed. Some key aspects of the general analytical procedure, as described in Miles and Huberman in Collins and Hussey (2003, p.264), were used to construct generalisations from the interviews. The main challenge in analysing the data, as stated by Collins and Hussey (2003), was taking the 70-page document, summarising it, structuring it, and detextualising it into themes without losing the essence of each of the eleven responses.

5.3 Research Results

This section presents the coded Excel results first, where respondents were asked to rate their responses according to the four alternatives given: strongly disagree, somewhat disagree, somewhat agree, strongly agree. These results are presented for each of the propositions' subsections. Then the themes extracted for each the propositions are discussed within each proposition section.

5.3.1 Research Proposition 1: The Structure of the Reform

Part a. A multipillar model is the right model for South Africa.

Ten respondents agreed that a multipillar model is the right model for South Africa. Of the ten respondents, seven strongly agreed and three somewhat agreed. One respondent somewhat disagreed with this statement.

Reviewing the results of the discussion with the eleven experts, one sentiment is consistent across all of them, including the one who disagreed, and that is that the design of the retirement system must accommodate low-income earners who cannot and should not be forced to save through direct contributions. They acknowledged the low-income earners as being more concerned about survival and current consumption needs, and believe that the multipillar system must be built with this in mind. They all agreed that designing a system that forces these people to forego current needs for a future that they are least likely to reach is unreasonable.

"*One cannot talk of a social security system that reaches everyone, unless it has several pillars to comprehensively cover the whole population. Those not working need to be supported through the non-contributory pillar. Those who are working and can afford to, should contribute to their own retirement*."

"*The first pillar should be a defined benefit, funded from tax. For example if you are earning R12 000 a year, it is pointless saving for retirement because you will be more concerned with survival needs. People with higher income who can save for retirement must be compelled to save – and that pillar should be a defined contribution. It creates a stronger culture of saving*."

"*Others may not be able to save – those who live from hand to mouth - so they cannot contribute. Others can contribute towards their retirement, so they must contribute. So a multipillar system answers a multitude of questions for people reaching retirement*."

Some of the respondents saw a multipillar system as the best way of diversifying against risk, as well as "*spreading income security in old age*". This was echoed by all the respondents interviewed. Overall, there was a general feeling that a multipillar system allows for people to migrate from low levels of the retirement systems to higher levels, as their financial situations change.

The respondent that did not agree that a multipillar system is the right model for South Africa felt that the country has a very low rate of financial literacy. The respondent argued that this deficiency in financial understanding was not only a factor of socio-economic illiteracy, as astute clients also had no concept of how retirement funds work.

"*Understanding one retirement fund is tricky enough. Understanding four or five is a real problem. I am not sure that as a country we will be able to understand this. Secondly, years ago we had deferred pensioner's funds, so the pensioners could not take their money out of the system. They would leave it in whichever fund they were in, and were supposed to pick it up again in retirement. Ninety percent (90%) of them never did, because they had forgotten their funds. That is the practical reality, that if it is not sitting in one place, people will have difficulty tracking where their money sits, and the different rules governing it*."

Part b. A mandatory defined contribution system for the second pillar is the right design for South Africa.

Nine respondents agreed that a mandatory defined contribution system is the best design for South Africa. Of the nine, six somewhat agreed and 3 strongly agreed. Two somewhat disagreed with this statement.

All the respondents generally agreed that the second pillar had to be mandatory for the employed. The sentiment from these respondents was that this design was the only way to create the right savings culture, a sense of ownership, and a sense of togetherness in South Africa. They also communicated a concern about the affordability of a DB system for all employed.

The respondents mainly differed on the way the system should be financed, with some respondents arguing that there are plenty of people in South Africa who are formally employed but still do not earn enough to contribute monthly. The respondents that disagreed felt that those who can contribute must fully contribute to this pillar, but that government intervention was essential for those who cannot afford contributions.

The nine respondents who felt that a mandatory DB system was the best design for South Africa felt strongly about how myopic the average South African is, and that it is this culture that ends with people being a burden on government unnecessarily in old-age. One of the respondents said, "*It is time we compel people to save for retirement*". One of the respondents summed it up, saying, "*No social security system can benefit everyone equally, so it must be designed such that for the majority it will be good*".

Another respondent, who felt very strongly about a DC design said, "*The benefits to a DC system is that you are taking away the unfunded liability risk when it is time to pay out from the employer to the employees. And if you look internationally, there are very few examples where a DB system has gone smoothly over time. Anyway, one must be careful about the promise that government makes. It may be* *political instead of realistic, and we should not find ourselves in that situation with our retirement reform*".

However, they all agreed that a DC system would have to be designed with certain provisions, with one respondent saying, "*Preservation of life today is an issue to be considered*".

"*There is a caveat that says that in a country which is as diverse as South Africa is; people have short-term needs which are not being met. They do not have enough money for housing, schooling, or even food. I am cautious of the DC because I cannot condemn someone to living in starvation or a squatter camp, but take away money for something that may never ever happen, and that being retirement. However, there is a reason why many countries are moving away from a complete DB system. It puts a strain on the fiscus, and it does not help the very people that government wants to help*."

"*A DB system is biased towards the rich, and it discriminates against the very people that government wants to protect. The life expectancy of the poor is much lower than that of the rich, as the poor generally do not have access to good quality health care. So the poor subsidise the rich as the rich live longer. And not only that, the DB system is linked to your lifetime earnings. So those retiring with a high salary benefit more*."

"*Poor people are the ones who go in and out of jobs. A DC system can cope better with people going in and out of jobs. Well, this is provided they can find your record from the last time, every time you go in and out*."

The respondents who disagreed with the DC system felt that a DB system would be better for the country, arguing that it offered South Africans security in retirement. One of the respondents, in support of a DB system said, "*The only system that will benefit all the people is a DB system. It has proven to be the best guarantee*".

Another concern for a DC system was that it could lead to loss of jobs. Currently the pension system environment does not mandate employers to contribute towards retirement for their employees. The concern is that employers who do not currently contribute, if forced to contribute, will downsize in order to avoid paying for the staff, as well as to afford their contribution, which they may view as tax.

"*We have to be careful not to jeopardise jobs, particularly smaller employers who may have to retrench people so they do not have to come up with extra funds. How are we going to deal with compulsion without threatening jobs?*"

Part c. A mandatory pillar of the retirement system will have a good chance of success if its administration is privatised.

Seven respondents somewhat disagreed that a multipillar retirement system in South Africa will have a good chance of success it its administration is privatised. Four respondents agreed, with two of the four respondents somewhat agreeing to the statement.

Administration was clarified to mean record keeping and contribution collection. Seven of the respondents felt that there are competencies within government that are better aligned with government's objectives for the reform. One of the key advantages they sited for government administration was the centralisation of record keeping and the potential for economies of scale that would be achieved through that. Amongst many of these respondents, SARS was suggested as the institution of choice to run the administration. These respondents had this to say about looking to government for administration:

"*If you are looking for efficiency in terms of service delivery, the private sector is definitely your best bet. However if you are looking for efficiency in terms of cost, government is your best bet. Private sector is profit driven, and they do not care about the client. They are interested in their bottom line*."

"*There are elements of the system that would be better off run by the public sector in order to keep the costs down and to curb wasteful competition that serves the need of the provider but not the needs of the aggregate good*."

The four respondents who thought that the system administration should be privatised felt that the private sector already had the structures in place. Therefore, they saw the option of government doing administration as recreating the wheel. One of the respondents supported this sentiment, saying, "*The structure is there in the system already, so the government would not have to bear all those start-up costs if we looked at private sector for administration. Not to use them would be silly*".

"*The private sector has already borne these costs of creating administration systems. They already have the skills. Letting it go to waste to establish something new does not add any value*."

5.3.2 Research Proposition 2: Shocks and Influences

Part a. The current pension environment is discriminatory against the poor.

Six respondents somewhat disagreed that the current pension environment is discriminatory against the poor. Five respondents agreed that the current pension environment is discriminatory against the poor, with two of the five strongly agreeing with this statement.

The current pension environment was described as the SOAP, as well as the private sector pension environment. The respondents all agreed that the SOAP provides a significant benefit to the poor, for basic poverty eradication in old age. All the respondents felt that the SOAP is not meant to make people rich in retirement, but to minimise abject poverty and starvation, as well as to ensure that the elderly have some level of dignity at retirement.

The five respondents who felt that the current pension environment is discriminatory against the poor said that means testing was the discriminatory aspect of the SOAP, as it disincentivises savings by the low-income earners. One of the respondents stated, "*Means-testing is basically a poverty trap for the very poor*". Of the total respondents that were against means testing, some felt that it should be lifted to allow for a bigger band of low-income earners, and others felt that the SOAP should be made universal, arguing it will serve the country better.

All the respondents agreed that the private sector pension system is discriminatory against the poor, because it incentives the rich to save through the tax break they get, whereas the poor, because of their inability to save due to affordability, do not get this tax benefit. Other respondents felt that the current private pension system is not accessible to the poor, not only geographically but also in their product offering. They argued this as another form of discrimination.

"*The system is effective for the high income people. For low-income people, they do not reap any benefits because their careers are fragmented, and they tend to reach the end of a job and cash in their pension or surrender their insurance products, and therefore not get the full value. There is not much preservation. From that point of view, the present retirement funding arrangement is too fragmented to provide effective income security for low-income workers and this is discriminatory against the poor*."

The respondents that disagreed that the current pension environment is discriminatory against the poor felt that means testing was discriminatory, but that the SOAP generally was not discriminatory.

Part b. The current pension structure costs government a lot of money that could be better used elsewhere in the economy.

Ten of the respondents disagreed that the current pension structure costs government a lot of money that could be better used elsewhere in the economy, with six of the ten strongly disagreeing. One respondent somewhat agreed with this statement.

The current pension structure was described as the SOAP as well as the private sector. All the respondents strongly agreed that the government should not be looking to implement a mandatory system to save money.

One of the respondents said, "*It is not correct to even think that one of the priorities or objectives of the new system is to reduce the strain on the fiscus. It is a useful spin-off that it would reduce the cost of paying social old-age grant, but it should not be priority*".

They all echoed the same sentiment when it comes to the SOAP as captured in the statements below:

"*There is no value on social benefit. It is the moral question of putting value on human life*."

"*It is a good investment, just like education and health. The truth is that in the absence of the current social programme, South Africans would be in poverty*."

"*If possible government should be looking to spend more. The SOAP on average feeds five mouths. A country should take care of its citizens, and as a tax payer, I feel this is good use of taxes.*"

"*We cannot do away with the SOAP. Instead, we need to do more as business, and so should government. The question is how are we going to fund the increases*?"

"*That is not really the issue. The issue is better, more cost effective savings and administration of retirement funding and social security system. The intention is not to replace the current government funded old age pension system with a contributory system*."

Though these respondents did not think that government was spending a lot of money in the pension system, they felt strongly about the fact that if government wants more money, they would just raise taxes. So in essence, the burden really is on the taxpayer.

"*What is a lot of money for government, because they just up their taxes if they need more money*?"

"*It does not cost government anything in reality. It costs us tax payers*."

When looking at the private sector pension system, one respondent that somewhat agreed that government spends a lot of money on the current pension structure suggested that the tax incentive that government was paying annually was more than what government paid towards the SOAP, stating that this was costing government a lot of money. Explaining, the respondent said, "*It is a loss of revenue to the state, since the workers do not pay tax on this money*".

"*It is costly in rand terms, but the thrust of the argument is not to save money. People must not fall into poverty at retirement. That is the objective*."

However, none of the respondents wanted this incentive removed.

Part c. A multipillar retirement system, with a mandatory defined contribution pillar will save government money.

Ten of the respondents disagreed that a multipillar retirement system, with a mandatory DC pillar will save government money, with six strongly disagreeing. One respondent somewhat agreed with this statement.

Generally, the respondents agreed that a mandatory DC pillar might save government in the long run. Some of the comments expressed were:

"*Over time people are accumulating their own money, and can sustain their own retirement in old age. Therefore, the number of people government would have to support falls. So in totality the system will save government money*."

"*What could happen, a long way down the road, when you start saving as a nation for your pensions, the money gets invested in the country, which in turn grows the economy, which in turn means more people would be potentially employed. This therefore means that government collects more taxes, which means they have more money to pay for the grants. So it can cost them less, only from the economic growth driven by the pension system*."

Most of them however became agitated with this statement, some stating:

"*Government should not be looking to save money through implementation of retirement systems. The spirit is to ensure South Africans have a basic level of social security and to increase coverage, so that at retirement people have some level of dignity*."

"*The objective of going into the reform is not a fiscal concern currently, but a fiscal risk in the future*."

"*Initially it may cost government lots of money – putting up institutions to monitor the system, subsidies to incentivise the low income earners, making SOAP* *universal – there will be costs. Nevertheless, in the long-term, it builds a robust society for all*."

The six respondents that strongly disagreed with the statement that a mandatory DC system would save government money said this system would require government to support those people who are employed, but cannot afford to contribute, and this would be a big cost to the government. These respondents argued as follows:

"*Government would have to come up with ways to assist them in their contributions, maybe through subsidies or co-contributions. All this has to be funded, and probably through taxes*."

"*A wage subsidy will be necessary, and it has to be funded from somewhere. So government will spend money, but there will be saving for the country as a whole, from a humanitarian perspective*."

"*This system will require much higher levels of grants, new wage subsidies, new administration systems, etc. The burden on the tax payer will increase, and government will not save any money*."

5.3.3 Research Proposition 3: Intentions of the Reform

Part a. A mandatory defined contribution system will create social solidarity.

Six respondents somewhat agreed that a mandatory defined contribution system will create social solidarity of all. Five disagreed with this statement, with two of the five strongly disagreeing.

All the respondents expressed that a DC system does not create social solidarity in the retirement benefit, because it is built on the concept that, ”*what you put in is what you get out*”. However, the six respondents who somewhat agreed with this statement argued that if implemented, a mandatory DC system would create social solidarity in the risk benefit.

One of the respondents supported this argument, stating, “*The biggest space for social solidarity is in the risk benefits. The average life expectancy in South Africa is 42 years, so the average South African does not retire because they die. Therefore, most people only get the death benefit from their pension system – not the retirement benefit. So the high risk employees are subsidised by those of less risk, so it is in the risk benefit that there will be solidarity*.”

“*In South Africa there is a big sense of insider – outsider and this exists in our labour market, and in our social system. A mandatory DC system, where everyone feels a level of ownership for their contribution will create a sense of belonging, and a sense of ownership of the economy*.”

The respondents that disagreed with this statement argued that there is no solidarity in the retirement benefit of such a system as it excludes people in the informal sector, and the self-employed.

"*One of the strongest disadvantages of a DC system is that it fails to achieve solidarity, except through other means like explicit subsidies, etc*."

Part b. A mandatory defined contribution system will allow for better living standards for South Africans in retirement.

Eight respondents agreed that a mandatory defined contribution system will allow for better living standards for South Africans in retirement, with four of the eight strongly agreeing. Three respondents disagreed with this statement, with one of the three strongly disagreeing.

The respondents who agreed with this statement were concerned with preservation of life today, versus retirement needs. One respondent argued, "*If there are no subsidies, or any other support, the living standards of the poor may actually drop during their working life, and improve once retired*".

Other respondents, who also agreed stated that the system removes the dependency ratio. One of the respondents, talking about an aging population, said, "*There is a view that South Africa does not have this problem because we have a huge population. But if you take out the structurally unemployed, because they will never pay tax, and consider the AIDS pandemic, you are left with a Japan, if I may project forward. We cannot afford an unfunded system*".

"*Only if they are forced to leave the money untouched until retirement is reached, otherwise at retirement they will still be a burden to the state. Therefore preservation of the pension must be introduced in some form or manner*."

The respondents who disagreed with this statement argued that there are no guarantees, especially because a DC system would be exposed to the upturns, as well as the downturns of the market. One of the respondents who agreed with the statement acknowledged that not all is well with a DC system, saying, "*In some instances a mandatory DC system may decrease the living standards of the people, for example, those that reach retirement without saving enough because they were in and out of jobs, or mostly in the informal sector*".

"I strongly disagree, simply because not every South African can contribute. This is also one of the short comings of the Chilean system, with their individual account system."

"*The DC system is linked to maybe inflation, wage growth, or economic growth. All three have failed people*."

5.3.4 Research Proposition 4: Implementation Process

Part a. A mandatory defined contribution pillar of the system must be privately managed without the interference of government, except through regulation.

Eight respondents agreed that a mandatory fully funded portion of the system should be managed without the interference of government, except through regulation, with two of the eight strongly agreeing with this statement. Three respondents disagreed with this statement, with two of the three somewhat disagreeing.

Management of the system was explained as management of assets and payment of assets. The respondents that agreed that government should not be involvement in the management and administration of this pillar showed signs of irritability at the possibility of government getting involved beyond regulation. One respondent argued, "*Government should set regulatory framework and guidelines under which the investments will take place. They must ensure that the cost of investing remains low and investors understand the choice of investments available. That is the role that government should play, not pursuing value and managing assets*".

"*Government must keep out of it. They should set up the framework and regulation. They cannot do management as well, or else the system may be tainted with corruption if they go down that route*."

All the respondents generally agreed that government's involvement was necessary in setting up the framework and regulation. One respondent supported this view, saying, "*What is happening in the financial markets today is as a result of government absence. Without proper regulation, bad behaviour is built in the way of doing business. Government should regulate and set standards. The less the regulation and the participation of government, the higher the risk*".

Another trend that emerged as a reason for no government involvement in the management of the system, should it be a DC, was the issue of a self-regulating entity – and therefore having the power to abuse the rules. Two respondents, airing their concern on this matter said:

"*Provided government plays by the same rules set for the rest of the industry, such that there is competition and citizens have a choice, then government can get involved in the management. Government thinks they will achieve cost efficiency through economies of scale. They will achieve this if they do not cross-subsidize themselves with the taxpayers money*."

"*If government decides to go for a national scheme to manage this pillar, who will control the fees in that fund? Who will know what the fees are? There will be no counter-balance. Government must set up the regulation, but certain administrators must be appointed to do the rest*."

Another trend that emerged, mentioned by two respondents, is the matter of policy and politics. The concern from these respondents was that retirement funding is long-term focused, and its focus cannot be short-term. These respondents see politics on the other hand as relatively short-term, where every four years, the leadership can potentially change. There is therefore potential for a conflict between the retirement system policies changing with every changing government if its management is with government.

One respondent, commenting on this point said, "*This pillar is all about your money. If this pillar is managed by government, these long-term goals will be sacrificed and changed every time there is a government change, depending on the political objective. Whenever the regime changes, they want to change policies*".

Another respondent who shared the same view said, "*The realities and the essence of politics is that when they change, they will want to change the policies and tinker with pension fund provision, depending on who voted them into power. Government must govern the country, and that is it*".

One of the respondents who wanted government to get involved in the management had this to say:

"*Rent seeking will be ubiquitous, as it is now in many ways. If it is ubiquitous, it cannot be expected to be successful, just like mandatory systems around the world are without constraints. A lot of them are reasonably unconstrained with very high levels of aggregate expenses, which undermines what could potentially be a successful system*."

"*There is a discussion for government to offer a default fund arrangement - a national scheme - that people can opt out of into a private sector accredited fund. If* *the government fund is not well run, people can vote with their feet. That is a healthy way of structuring the industry*."

Part b. Government must develop an independent entity to administer and manage the mandatory pillar of the system.

Seven of the respondents somewhat disagreed that government must develop an independent entity to administer and manage the mandatory fully funded portion of the system. Four respondents agreed with this statement, with one of the four strongly agreeing.

The independent entity was explained as a similar structure to the AFP entities in Chile. One respondent who disagreed with the development of an independent entity responded, "*No entity should be set up. The private sector is equipped to administer and manage this pillar, but the model should be created by government*".

"*There is corruption where government is involved. This is pensioners' funds. My concern is levels of corruption, cost, and efficiency*."

A consistent argument that came out of this statement was that the capacity and capability already existed in the private sector. According to 63% of the respondents, not utilising this capability would be a waste of resources.

One of the respondents argued, "*Government only needs to design the criteria that private sector must meet in order to be one of the service providers for a mandatory pillar in the retirement system*". This assumes that people would have a choice between any of the private sector accredited service providers to contribute to this pillar, and for this arrangement to meet government's arrangement, the cost of switching between the service providers would have to be regulated.

The respondents that agreed with this statement said that government does not have the skills to manage this fund. Building an independent entity that could work with the private sector to run this pillar would ensure access into the already available resources in the private sector. They suggested that the entity should not be completely independent of government. A Public-Private Partnership (PPP) arrangement was suggested, but the condition was that this PPP was "*autonomous in that the ministers cannot interfere and it is governed by law. It should not be part of interdepartmental business*".

Part c. Government must force the retirement reform, even without the support of the people.

All eleven respondents disagreed that government must force the retirement reform, under any circumstances, with ten of the eleven strongly disagreeing with this statement. All the respondents felt that government needs to get buy in from the people, and the people need to believe that the reform is going to work. The respondents all echoed the same feeling to this statement:

"*In a public policy you can never achieve complete consensus, but you cannot push things through without consultation with the people. A reform that does not do this cannot succeed*."

"*You need to get a broad consensus on the basic principles; otherwise people will find ways to evade it*."

"*Government has an obligation to bring people on board*."

"*We are a democracy. Should the government force this on the people, they will see a lot of people opting out somehow. People will find ways to evade it*."

5.3.5 Research Proposition 5: Possible Positive Outcomes of the Reform

Part a. A successful implementation of a mandatory defined contribution system will improve the capital markets' environment in South Africa.

Six of the respondents agreed that a successful implementation of a mandatory defined contribution system would improve the capital markets' environment in South Africa, with three strongly agreeing. Five of the respondents somewhat disagreed with this statement.

All respondents strongly felt that improving the capital markets was not the primary objective of implementing a social security reform, and that it is just a good spin off.

The respondents who disagreed with this statement argued that a successful implementation of a mandatory DC system could have long-term adverse effects to the South Africa's capital markets if "*the mandatory pillar is invested in a National*

Social Security Fund. There could be inappropriate investing driven by how it is invested".

A common trend that these respondents pointed out was that a successful implementation does not mean that savings increase. Speaking to this point, one of the respondents stated, "*People will stop saving in one form and start contributing in the mandatory form*".

The respondents who agreed that the capital markets would improve argue that the supply of capital will increase, which will lead to more robust financial markets.

"*Our capital markets are very strong, but a successful social security reform with a mandatory pillar could deepen them*."

"*We have to import capital from off shore as it is, so we need to generate capital. A successful mandatory pillar would provide supply of domestic capital*."

"*There will be more funds available for investment purposes, and it will be domestic investments, which we can have better control over. We can regulate them better than foreign investments because they are internally generated resources. These are definite benefits. Another great thing is that pension funds are long term funds, so all the benefits are long-term*."

"*A DC system creates a pool of long term savings, especially if the system is mandatory. So there are capital markets advantages - they will get bigger- because there is more savings in the economy. Therefore, the greater the savings,* *the greater the economic growths. So there are macro economic benefits to funded systems*."

"*What could happen is that our systems could finally fuel development in Africa, and stop the Chinese bleeding the place*."

Part b. Countries with successful retirement systems are attractive to foreign investors.

Seven of the respondents agreed that countries with successful retirement systems are attractive to foreign investors, with five of the seven somewhat agreeing. Four of the respondents somewhat disagreed with this statement.

All the respondents that agreed with this statement felt that there is a clear macro-economic link between countries that save for retirement and their attractiveness to foreign investors. One respondent summed it up saying, "S*uccessful economies are mostly economies that save, and these economies become attractive to foreign investors*".

"*An increase in the supply of capital will lead to a reduction in the price of money, so interest rates come down. The investment potential increases and the likelihood is that you will create more capital off shore*."

"*There is a link between productivity and what you are contributing to your pension. So whatever you get out is based on what you put it, therefore you will want to work harder since your productivity determines your income. Your income determines your pension. That is one link. Another link is that if people are getting* *out what they put in, they may tend to work longer. The longer you work, the more you get out. Therefore, from a productivity point of view, foreign investors will be attracted to this*".

"*Should the reform lead to consolidation of smaller funds, the regulator will have a better handle on the industry. The industry may therefore be more attractive to foreign investors*."

Two of the respondents who disagreed felt that investors would look at more than just a thriving retirement system before investing in a country, and that a good retirement system on its own was not enough. One of the key things they mentioned as a draw card, more than a retirement system was the policy environment, as well as the law enforcement in the country of interest. One of these respondents argued, "*There is a single premise that people obey the law for these systems to be successful. In South Africa we always go around it*".

5.3.6 Research Proposition 6: Possible Negative Outcomes of the Reform

Part a. A mandatory defined contribution system does not encourage participation from the self-employed, or those in the informal sector.

Six of the respondents agreed that a mandatory defined contribution system does not encourage participation from the self-employed, or those in the informal sector, with two of the six strongly agreeing. Five of the respondents disagreed with this statement, with one of the five strongly disagreeing.

The respondents who agreed as well as those who disagreed with this statement argued that should government not incentive the people in the informal sector, or the self-employed, there will be nothing enticing them into participation.

"*They should be incentivised to participate; otherwise they will see no value in it.*"

"*To facilitate this participation government must give them a reason to contribute*."

"*Government must find a way of encouraging the self-employed and the informally employed to contribute and participate in the system. There is a small business slow down in the country currently, and this will not encourage participation of any kind*."

Those who agreed with the statement indicate the difficulty of getting the self-employed and the informally employed into the system as a valid constraint. One respondent attesting to this said, "*A mandatory contributory environment normally operates through the employment system, using the employer as an agent. This does not work for the informally or self employed*".

Some of these respondents warn that if the system is not attractive enough, the self-employed and the informally employed will actually see the compulsory contribution as a tax, and avoid it.

Part b. A privately run mandatory system has high costs that erode the potential returns of investment – to an extent that the insured are better off depositing their money in the bank.

Eight of the respondents disagreed with this statement. Four of the eight respondents strongly disagreed with this statement. Three respondents somewhat agreed with this statement.

The respondents that somewhat agreed with this statement argued that investment costs in South Africa are too high, with one of the respondents adding, "*They do erode the returns that retirees can be enjoying*". However, they were not convinced that depositing your money in the bank would give the same result.

A general concern that was raised by all these respondents regarding the financial industry in South Africa, including the ones that disagreed with the statement, is the lack of transparency into the structuring of the fees.

"*The system must be designed in such a way that the fees are comparable*."

Most of the respondents who disagreed with the statement argued that both costs are high, but that the investment would still yield a better return, with one of the respondents saying, "*Bank deposits hardly beat inflation. Regardless of the costs, the returns make up for it*".

"*Asset management is not a simple deposit. Asset managers maximise your return. If you look at net-returns, some of the return is eroded by costs, but over time we know historically that equities have outperformed cash every time*."

5.4 Conclusion

The results above cover the key findings and trends extracted from the interviews held with retirement and pension system experts. The following chapter covers the analysis of these findings.

Chapter 6: Discussion of Results

6.1 Introduction

The results presented in Chapter 5 have quizzed and teased all the key aspects as tabled in the framework discussed in Chapter 2, to provide insights and guidance into the debate about the retirement reform intention in South Africa.

This chapter seeks to analyse and align the literature reviewed on the retirement reform of Chile with the data collected through South African experts in the retirement and pension fund industry, bringing in aspects of the discussion papers released by government on the subject matter. The propositions tested in Chapter 5 are based on certain aspects of the Chilean reform, and the study aims to extract that which South Africa can learn, based on the expert responses on these propositions as well as the literature.

The discussion of the results will focus on the six main research propositions:

1. The structure of the reform
2. The shocks and Influences of the reform
3. The intention of the reform
4. The implementation process of the reform
5. Positive outcomes of the reform
6. Negative outcomes of the reform

6.2 The Structure of the Reform

The data shows that ten of the South African experts out of eleven believe that a multipillar system is the right model for South Africa. These experts are conscious of the income inequities in South Africa, and feel that the right pension system is the one that accommodates the different income groups present. The ability of a system to allow for migration of the society from low affordable levels of the system to high contributory levels is the one key reason why these experts feel a multipillar system is the right model.

Chile implemented a three-pillar public/private system during their reform (de Mesa *et al*, 2006), with a non-contributory first pillar, a mandatory fully funded DC second pillar, and a voluntary fully funded DC third pillar. Confidence in a multipillar system is supported by Hoskins (2007, p.145), stating, “There is probably not a government in the world that would be against a multi-tiered approach to social protection issues”.

The one respondent who was against the multipillar system was concerned about the level of complexity that such a system would bring, leading to people not knowing exactly where their money is sitting when they retire, due to pensions being kept in multiple funds, possibly under multiple administrators. Arguing this point, this respondent said, “*Understanding one retirement fund is tricky enough. Understanding four or five is a real problem*”.

The literature shows that there is cause for concern, with de Mesa *et al* (2006) attesting to this fact through their research, which shows that most of the Chileans do not have critical financial knowledge about their pension system. National Treasury (2007) indicated the same issue as one of the reasons that the current private pension system is not effective.

All the respondents comfortably assumed that the first pillar of the system would be a non-contributory system, replacing the SOAP. When analysing the second pillar, the compulsion and the funding aspect were analysed. All the respondents agreed that the second pillar of the system had to be mandatory for all the employed. The main concern expressed over making it compulsory was affordability for an average South African. All the respondents shared a desire for a design that would be inclusive to the low-income earners, without depriving them a quality life in the present for a non-guaranteed future in retirement.

The literature attests to their concern, with Ståhlberg *et al* (2006) declaring that compulsory systems pose a restriction on consumption. The sentiment amongst the respondents was that there are employed people living "*from hand to mouth*", as described by one of the respondents, and these people must not be excluded from saving for their retirement. However, Chile did not consider this during their reform. A point to consider as a key difference is the fact that inequality in South Africa is much higher than in Chile, as depicted in Table 1. South Africa ranks 121st in the UN Human Development Index, which measures human development, compared to Chile at 40th.

Another issue raised concerning compulsion was the issue of cost of employment. The discussion papers include employers as compulsory contributors towards their employee pension funds, in contrast to the Chilean model (Kay and Kritzer, 2001). Currently in South Africa, employer contribution towards employee pension is not mandatory but voluntary. This brings a question of cost of employment, since employers who cannot afford to contribute may retrench people. One of the respondents, commenting on this point said, "*We have to be careful not to jeopardise jobs*". The Chilean reform removed the contribution requirement from the employer, and gave an 18% increase to employees who were switching from the CF system to the FFDC system, to subsidise them for the loss of employer's contribution (Kay and Kritzer, 2001).

A DC system was the preferred by nine of the respondents, with two preferring a DB system. The respondents favouring a DC system believed that a DB system is discriminatory against the poor, as it transfers wealth from the poor to the rich, contrary to what a well-designed system should do, which is to transfer more wealth to the poor than to the rich Brown (2008). This is also in line with the Chilean reform, because they moved from a common fund system, which was a public system, to a fully funded defined contribution system (Borzutzky, 2005), in order to address, amongst other issues, discrimination against those that were not politically connected. The two that were for a DB system believe that South Africans want a guarantee, and that a DB system offers that.

Seven of the pension and retirement experts were not keen on privatising the administration of the second pillar, and four of them were. The data suggests that these experts see government administration as the more cost effective option, admitting that it is a toss up between service efficiency and cost effectiveness. The data is in accordance with the literature, where Ståhlberg *et al* (2006) argues that the difference between private and public administration is a matter of efficiency, at the sacrifice of cost.

The Chilean system appointed AFPs, privately owned corporations, to administer the mandatory pillar. The issue of service efficiency is supported by Williamson and Pampel (1998), attributing it to the high levels of competition between the AFPs. However, Borzutzky (2005) disagrees, arguing that competition is minimal since the product offerings are basically the same. One expert that felt that a mandatory pillar of the system will be successful if its administration is privatised stated that these structures already exist in the private sector, saying, "*letting it go to waste to establish something new does not add any value*".

Conclusion

As Bonoli (2000) argues, one needs to go back to the starting points of both countries to understand where they are going. Chile did not have a private pension sector before implementing their reform, unlike South Africa. Some of the respondents speak to this point, arguing that the private sector has already borne the cost of administration, whereas in Chile, private pension sector grew out of their social security reform. South Africa has a relatively strong private pension sector, with no public pension system. Chile had a very strong public pension system, with no private pension system.

South Africa has high levels of inequality, which must be taken into account when designing any social security system. South Africa is a country based on collectivism principles (Hofstede, 1983), which means the collective is more important than the individual.

6.3 Shocks and Influences

Six of the respondents do not perceive the current pension environment as discriminatory against the poor, while five of the respondents do. All the respondents share the same opinion concerning the SOAP, that being that generally it is a generous system. They make a distinction between a system that alleviates poverty, and a system that affords extravagance, stating that the SOAP does and is designed to alleviate poverty. Some of these respondents even allude to the fact that the SOAP takes care of entire households, as supported by Finmark Trust and SASI (2008).

The five respondents who asserted that the current system is discriminatory against the poor singled out the means test as being discriminatory against the poor, though still proclaiming the SOAP system as generous. One of the respondents averred this point, saying, "*means-testing is basically a poverty-trap for the very poor*". Literature confirms this, suggesting that means testing results in exclusion of the very people that the social security reform looks to protect (McKinnon, 2007). There was no agreement between these respondents on the complete removal of the means test, or raising its threshold to allow more people to be eligible. Some of these respondents even supported both options, stating, "*it* *would be good for the country, but it has to be funded from somewhere*". These respondents identified cons against the means test as being expensive to administer, and that it opens the system up for corruption.

The respondents argued that the reform's objective was to bring in the low-income employees, as well as the self-employed into system. The respondents alluded to low-income earners and the self-employed as the target group of the South African retirement reform, stating that government would have to find a way to include them in this system. However, Chile was different in that they mandated individual accounts (de Mesa *et al*, 2006), with the employed fully responsible for their own retirement. The government intervened where necessary, in the regulation and supervision of the system (Mesa-Lago and Müller 2002), but according to the literature (Borzutzky, 2005), the system was build to rid the government of that burden. This is an individualistic ideology, as suggested by Borzutzky (2005), contrary to the collectivistic ideology.

Ten of the respondents disagreed that the current pension system costs government money that could be better allocated, referring to the SOAP, while one agreed, referring to the private pension system. Ten respondents proclaimed that it was the obligation of government to take care of its citizens, especially the poor. One of the respondents, asserting this point said, "*if possible government should be looking to pay more. The SOAP on average feeds five mouths. A country should take care of its citizens, and as a tax payer, I feel this is good use of taxes*". On this point, some respondents felt that business as well as government should be looking to do more when it comes to SOAP, while raising the question of funding.

The one respondent that believed that the current pension environment costs government a lot of money argued that government currently spends a lot of money on the tax incentive allocated to the private sector, saying that the amount of money government pays towards these incentives annually is much more than what government pays towards SOAP. Clarifying this point, this respondent said, "*It is a loss of revenue to the state, since the workers do not pay tax on this money*". The literature deviates from the data collected from experts on the main influences of the reform between Chile and South Africa. Borzutzky (2005), although believing that the Chilean reform was overhauled because it was expensive and inefficient, asserts that it was not premised on fiscal reasons, but ideological reasons, which is in line with what the respondents believe.

The results show that ten of the respondents did not believe that the government would save any money by implementing a defined contribution pillar in the short run. The literature states that this was the expectation of Chile in implementing their reform (Williamson and Pampel, 1998; de Mesa, 2006). One respondent that agreed that government would save money believed that this would be possible if cost were kept down, in the short-run as well as in the long run. However all the respondents felt that in the long run, this was possible, due to people sustaining themselves through retirement.

The 91% of respondents that disagreed that government would save money believed that wage subsidies and co-contributions would be a cost to government. There was a concern about funding these subsidies, with one respondent exclaiming, "*all this has to be funded, and probably through taxes*". Literature supports this, stating that Chile after the reform is running a higher deficit, with lower numbers of coverage, compared to Chile before the reform, where the coverage was even higher (Borzutzky, 2005).

Conclusion

The results suggest that government is not looking to reform the system to relieve the retirement burden in the future, but that the drive is to bring in the low income earners into the savings net. The conundrum for all stakeholders involved seems to be the issue of funding. The results indirectly show that government does not want to take complete responsibility for people's retirement; otherwise, they would be implementing a public system, and not suggesting a private system. True to the view shared by Borzutzky (2005), the data shows that government's premise for the reform is not purely to relieve the fiscal burden, but to encourage and create an inclusive culture of saving.

6.4 Intentions of the Reform

The data shows that six of the experts believe that a mandatory defined contribution system will create social solidarity in the country, with five opposing this statement. All the respondents explained that a DC system does not create social solidarity in retirement benefit, since it is built on the concept that says, "*what you put in is what you get out*". The six that agreed believed that a DC system creates social solidarity in the risk benefit, including death cover, with low risk employees subsidising high-risk employees.

The literature suggest that a well designed pension system is one that embodies the principles of solidarity, and all the respondents do not believe that a DC system will offer solidarity in the retirement benefit (Brown, 2008). However, the results do show that social solidarity that will be achieved in terms of creating a sense of belonging for all in South Africa. For social solidarity to be achieved in the retirement benefit, the data shows that the government has to commit to system structures like wage subsidies, co-contribution, *etc*, to create an inclusive system. This is supported by literature that says a well-designed system transfers more wealth to the poor than to the wealthy Brown (2008).

The data suggests that implementing a mandatory DC system will allow for better living standards for the retired in the long-term, based on eight of the respondents, but only if the funds are preserved. The other three disagreed, arguing that the DC system does not offer any guarantees. One respondent who felt very strongly about this explained, "*The DC system is linked to maybe inflation, wage growth, or economic growth. All three have failed people*". Literature supports this argument, stating that the DC system performance is dependent on the market performance, since the benefit is dependent on investment earnings of the pension fund (Kemp and Overstreet, 1988; Ståhlberg *et al*, 2006). Analysing Chile, Rusconi (2007) is of the same view, stating that savings in Chile were found to be poorer than expected, after uncovering that almost half of the retirees were retiring short of the state guaranteed minimum pension.

The data suggests that South Africa needs to consider other policy changes that would be complementary with the retirement reform to encourage the low-income earners, the self-employed, and the unemployed access into the system. The Chilean reform happened in conjunction with other reforms, which made the turnaround of the entire system possible (Rusconi, 2007).

There is a structural issue of inequality in South Africa, the issue of HIV, which increases pension risk, and the issue of unemployment, which increases poverty. For a system to achieve social solidarity, it must take cognisance of all these issues.

6.5 Implementation Process

Eight of the respondents feel that a mandatory defined contribution pillar of the system, if implemented, should be privately managed without the interference of the government, except through regulation. The literature suggests that this is what Chile did, appointing AFPs to manage and administer the mandatory pillar of their reform (de Mesa *et al*, 2006). Three of the respondents disagreed with this statement.

The respondents who agreed that management of the mandatory DC pillar should be private were even incensed with the idea that government could get involved in the management of the system. One respondent commented, "*They must ensure* *that the cost of investing remains low, investors understand the choice of investments available. That is the role that government should play – not pursuing value and managing assets*". National Treasury (2007) mentions poor governance in the current framework as one of the issues that make the current system unsuccessful.

Another respondent, who also believed that government should not be involved in the management stated, "*They should set the framework and regulation. They cannot do management as well, or else the system may be tainted with corruption if they go down that route*". All these respondents felt that these resources and skills exist in private sector, and that government lacked both capacity and the skills to take on this task. Literature agrees with the sentiment that these respondents shared, about the private sector offering efficiency (Ståhlberg *et al*, 2006). The respondents suggested that government could achieve cost effectiveness, which Ståhlberg *et al* (2006) considers an issue in privately managed systems as a result of marketing costs, through regulation.

The issue of self-regulation was raised as a potential problem to government managing this pillar. One respondent, speaking to this point said, "*if government decides to go for a national scheme to manage this pillar, who will control the fees in that fund*"*?* Literature agrees with this view; stating that some of the bad governance cases leading to fund underperformance are because of lack of exclusive representation for plan members in the regulatory body (Steward and Yermo, 2008).

Some of the respondents who preferred private management of a mandatory DC pillar were concerned about the political implications that government interference in the management of the mandatory pillar would have on the pension system long-term. One respondent said, "*If the pillar is managed by government, these long-term goals will be sacrificed and changed every time there is a government change, depending on the political objective. Whenever the regime changes, they want to change policies*". Ståhlberg *et al* (2006) cautions against this assumption, arguing that political risk should not be assumed to be smaller in a private system than in a public system, advocating that it is more a case of transparency than who is managing the system.

This is in line with the view of Borzutzky (2005), arguing that policy and politics are intertwined, and part of the same process. The same case could be made of Chile, according to the literature, where the reform took shape, with not much collaboration from the relevant stakeholders, through the dictatorial regime of Pinochet (Edwards in Williamson and Pampel, 1998).

Not all the respondents believe that private sector should be managing this pillar on their own. The three respondents that disagreed argued that there is no reason why public and private sector cannot manage the system together, giving employees a choice. One of the respondents, arguing this point said, "*If the government fund is not well run, people can vote with their feet. That is a healthy way of structuring the system*". This statement assumes that it would be easy to transfer between the managers.

Another one of these respondents, disputing the statement, said, "*rent-seeking will be ubiquitous, as it is now in many ways*", and that many mandatory systems are "*unconstrained with very high levels of aggregate expenses, which undermines what could potentially be a successful system*".

Seven out of eleven experts do not feel that government needs to develop an independent entity to administer and manage the mandatory pillar of the system, as was the case in Chile (de Mesa, 2006). Four of the experts think otherwise.

The experts that are against development of an independent entity regard this step as being wasteful and unnecessary. These respondents believe that the private sector already has capacity as well as capability to administer and manage a mandatory pillar. One of the respondents said, "*No entity should be set up. The private sector is equipped to administer and manage this pillar, but the model should be created by the government*".

Respondents who thought that government should develop an independent entity believed that government should consider collaborating with the private sector. The reason behind this decision was driven by their declaration that government does not have the skills to manage and administer the system on its own. Therefore, a public-private partnership would give government access into the already available private sector skills. One of these respondents cautioned that should such a partnership exist, this entity would have to be "*autonomous*", and not be a part of any governmental department.

All eleven experts believe that for successful implementation of policy change, people's buy-in is necessary, otherwise the system would not be successful long-term. McGillivray (2000) also believes that for reforms to be successful in democratic governments, governments need to rally public support. What is interesting is that even though literature suggests that a significant drive for the implementation of Chilean system was through Pinochet's authoritarian rule (Edwards in Williamson and Pampel, 1998; Mesa-Lago and Müller, 2002), it also suggests that privatisation has happened successfully in democracies (Mesa-Lago and Muller, 2002).

Conclusion

There is a case to be made about governance, politics, and policy, according to the data and the literature. The design of the reform must be able to withstand short-term political climates, without jeopardising the livelihood of the elderly at retirement.

South Africa is a democratic state, as argued by the respondent. Its constitution is based on democracy, human rights, and political rights (www.info.gov.za), and as such, no reform can be successful without consulting with the relevant stakeholders.

6.6 Positive Outcomes of the Reform

The data shows that six respondents out of eleven believe that implementing a mandatory DC system will improve the capital markets in South Africa. All eleven experts interviewed asserted strongly that the objective of the any reform is not to develop or improve capital markets, but that it could be a useful offshoot. The literature supports this observation, arguing that Chile developed strong capital markets due to its pension reform (Borzutzky, 2005).

The four respondents who were opposed to this view argue that a mandatory DC system may just cause crowding out of voluntary savings. One respondent, supporting this position said, "*People will stop saving in one form and start contributing in the mandatory form*". Literature confirms this view, arguing that there is potential for people to substitute one form of saving with another (Bosworth and Burtless, 2004). Should this happen, there could be critical consequences for capital markets, in particular if, as expressed by this respondent, "*The mandatory pillar is invested in the National Social Security Fund. There could be inappropriate investing driven by how it is invested*".

This issue touches on two matters, one of governance of the pension fund, as collaborated by Steward and Yermo (2008), arguing that lack of governance could lead to underperformance of pension funds; and the capability of public or private sector as argued by Borzutzky (2005).

The respondents that believed that a mandatory DC system would improve the capital markets' environment in South Africa argued that this system would create long-term savings, leading to deeper capital markets. One respondent suggested that this growth could even spill over onto Africa, fuelling growth throughout the continent. Mesa-Lago (2001) argues that in Chile, the reform led to accumulation of pension funds, reaching 53% of GDP. However, he argues that the net result, deducting fiscal cost of running the reform, was negative for the first 16 years of the reform. Therefore this is a long-term outcome, and not short-term.

The data shows that seven of the eleven respondents believe that countries with successful retirement system are attractive to foreign investors. One of the respondents explained that this system inspires a culture of hard work because "*your productivity determines your income*", and that "*the longer you work the more you get out*". This increases overall productivity, and foreign investors will be attracted to this. Interestingly, Williamson in Pampel (1998), argues that Chile became attractive to foreign investors after its reform. Part of this attractiveness was possibly from the ability for foreigners to own AFPs (Borzutzky, 2005).

Four of the respondents believe that retirement systems alone are not enough to attract foreign investors. Two of these respondents argued that foreign investors would be interested more in law enforcement policies of the country.

Conclusion

Generally, the data suggests that retirement reform cannot be implemented in order to attract foreign investors, or improve the capital markets in South Africa. The data also shows that South African capital markets could deepen or not, with the implementation of a mandatory DC system, depending on capability, governance, and regulation enforcement.

6.7 Proposition 6: Negative Outcomes of the Reform

The results show that six out of eleven respondents believe that a mandatory DC system does not encourage participation from the self-employed, or the people in the informal sector, and five of them disagree. Literature suggests that after Chile implemented its FFDC system, coverage reduced (Williamson and Pampel, 1998) from 70% in the CF system to about 58% in 2003 from both the CF system and the FFDC system. The self-employed who were outside the CF system remained mostly outside after the reform, with only 4% of them covered in 2005 (Borzutzky, 2005).

One of the respondents explained that accessing this group of workers would be difficult because "*A mandatory contributory environment normally operates through the employment system, using the employer as an agent*". Van Ginneken (2007) supports this observation, arguing that low-income countries struggle to extend contributory systems to the self-employed.

The five respondents who disagreed argued that incentives and co-contributions would entice the self-employed and those in the informal sector to participate in the mandatory DC system. One of the respondents said "*To facilitate this participation, government must give them a reason to contribute*".

Eight out of eleven respondents do not believe that a privately run mandatory system erodes investment returns to the extent that the insured is better off depositing their money in the bank. All respondents argued that the main issue is that there is not transparency when it comes to financial charges in South Africa. One of the respondents suggested, "*The system must be built in such a way that the fees are comparable*".

The literature on Chile contradicts this view, with Borzutzky (2005) arguing that AFP charges in Chile are not only 67% higher than bank management accounts - they are also regressive. Diamond in Williamson and Pampel (1998) even suggests that the costs of the FFDC are even higher than Chile's pre-reform system, the CF. However, Edwards in Williamson and Pampel (1998) disagrees. Three of the respondents believe that the insured, especially the poor, are sometimes better off with a savings account because investment costs are too high in South Africa. One of the respondents exclaimed, "*They do erode the returns that retirees can be enjoying*". However, they all disagreed that a deposit account would suffice in beating a managed fund.

Conclusion

All the respondents are convinced that government will have to find a way to attract and encourage the low-income earners, the self-employed, as well as those in the informal sector into the retirement reform. The challenge will be ensuring that government has the capacity to access and reach these employees.

The results show consensus for a concern on high investment costs across the financial industry in South Africa. The respondents are all vouching for a more transparent industry, especially on fees charged to the insured. They argue for government to fulfil this role through regulation.

Chapter 7: Conclusion

This chapter highlights the main findings of the research. It starts with a summary of findings drawn from the research. It follows with recommendations for the current discussion of South Africa's retirement reform. The chapter concludes with recommendations for future research.

7.1 Summary of Findings

South Africa is considered to have a thriving private pension sector that is ineffective in addressing all population groups of South Africa. This sentiment is borne out of the legacy of the country, apartheid, which has resulted in a vast number of unskilled and unemployable South Africans. Government has released two papers, one from National Treasury, and the other one from the Department of Social Development, for a discussion amongst all the relevant stakeholders, to decide on the design of the South African retirement reform. The data shows that this design is required to be inclusive of all income groups, as its main target is the low-income earner, as well as the self-employed.

The overall findings, based on the research are that a multipillar system is the right pension design for South Africa, to accommodate all income groups in the country (Hoskins, 2007). The limitation for this design will be financial literacy of South Africans. According to the data, the first pillar of the system should be a non-contributory pillar, to alleviate poverty at the basic level (National Treasury, 2007;

Department of Social Development, 2007). However, pensions in South Africa have become part of poverty alleviation, not only for recipients of the SOAP, but also for their entire households. Many dynamics have led to this point, including apartheid and HIV. The research also shows that means testing is a disincentive for the poor to save, and that its threshold should either lifted or removed. An aspect of concern that emerged with either of these options was that of funding, with respondents believing that government would just raise taxes to cover the funding. Chile's first pillar is means tested. However, their current system, the FFDC is in a deeper deficit than their old system, the CF, whilst covering less people. Therefore, this brings about issues of funding this pillar.

The consensus from the research regarding the second pillar of South Africa's retirement reform is that it should be mandatory defined contribution system. The research highlights complications in prescribing compulsion because of the restriction it poses on consumption (Ståhlberg *et al*, 2006). It became evident that prescribing one form of funding over another in the second pillar, for a country categorized by a big informal economy branded "the second economy", and ripe with high levels of inequality, was complicated.

This second economy is more pressed with current consumption needs than future retirement needs. According to the research, it is mainly this second economy that the reform aims to target, thus the challenge will be to access them, as well as to encourage them to participate. Chile neither mandated, nor encouraged the self-employed to contribute towards the mandatory second pillar. The literature suggests that as a result, there is low coverage of this group, at 4% in 2005 (Borzutzky, 2005). The research shows a need for government to come up with ways to encourage the second economy to contribute towards the mandatory pillar. Suggestions were made for co-contributions, subsidies *etc*, to bridge the gap between income and required contributions.

The research found that a mandatory DC system may have a negative impact on the cost of employment, since compulsion shifts to the employers as well. There is a concern of loss of jobs because of this, as it may raise the cost of employment.

The research found evidence that government is considered cost efficient, and private sector to be service efficient. However, there were questions of transparency for both public and private sector. The research showed evidence of political risk aligned with dependence on government for management of the second pillar, and less so for the administration. This risk was linked to the short-term focus of politics, and how quickly things can change, compared to the long-term focus of policy objectives. Support for private administration was based on efficiency, with the respondents arguing use of existing skills and resources.

The research shows that concerns of self-regulation and corruption are the main drivers for suggesting government exclusion in the running of the second pillar. However, governance and regulation frameworks were considered imperative in achieving government's objective for the retirement reform, which is to encourage people to save, and to be inclusive. The research illustrated no need for a private independent entity to run the second pillar. What emerged, as potential structures to manage and administer the mandatory pillar were either the existing corporate companies, selected according to a qualifying criteria by government, or a private-public partnership.

The research shows that reforms could be implemented successfully in democracies (McGillivray, 2000), and that all the stakeholders are involved in the debate and discussion on the reform.

The research shows a positive and a negative association between mandatory DC systems and growth in capital markets. Because pensions are long term, the research shows that lack of regulation could have perverse effects instead of positive effects on capital markets. There were also arguments that showed that there could be no effect due to the mandatory system crowding out other forms of investment.

The research also shows a positive link between countries with successful retirement systems and their attractiveness to foreign companies, due to the cultural change that a DC system instils, encouraging hard work on the premise that "*what you put in is what you get out*". This in turn will increase productivity, and therefore attract foreign investors.

The research also showed that the financial sector is not transparent in terms of their charges and fees, including the retirement sector. There was evidence that charges are too high, and that these charges erode potential returns from the insured, especially the poor. The suggested approach on this issue was for government to enforce transparency, through regulation, so that charges can be easily comparable.

7.2 Recommendations

The research is aimed at identifying lessons for South Africa from the Chilean reform, in an attempt to inform retirement reform design for South Africa's first and second pillar. Recommendations are detailed below for the non-contributory first pillar, as well as for the mandatory secondary pillar.

7.2.1 Non-contributory 1st Pillar

It is recommended that this pillar be made universal, with no means testing, for all South African citizens. Here are the reasons why:

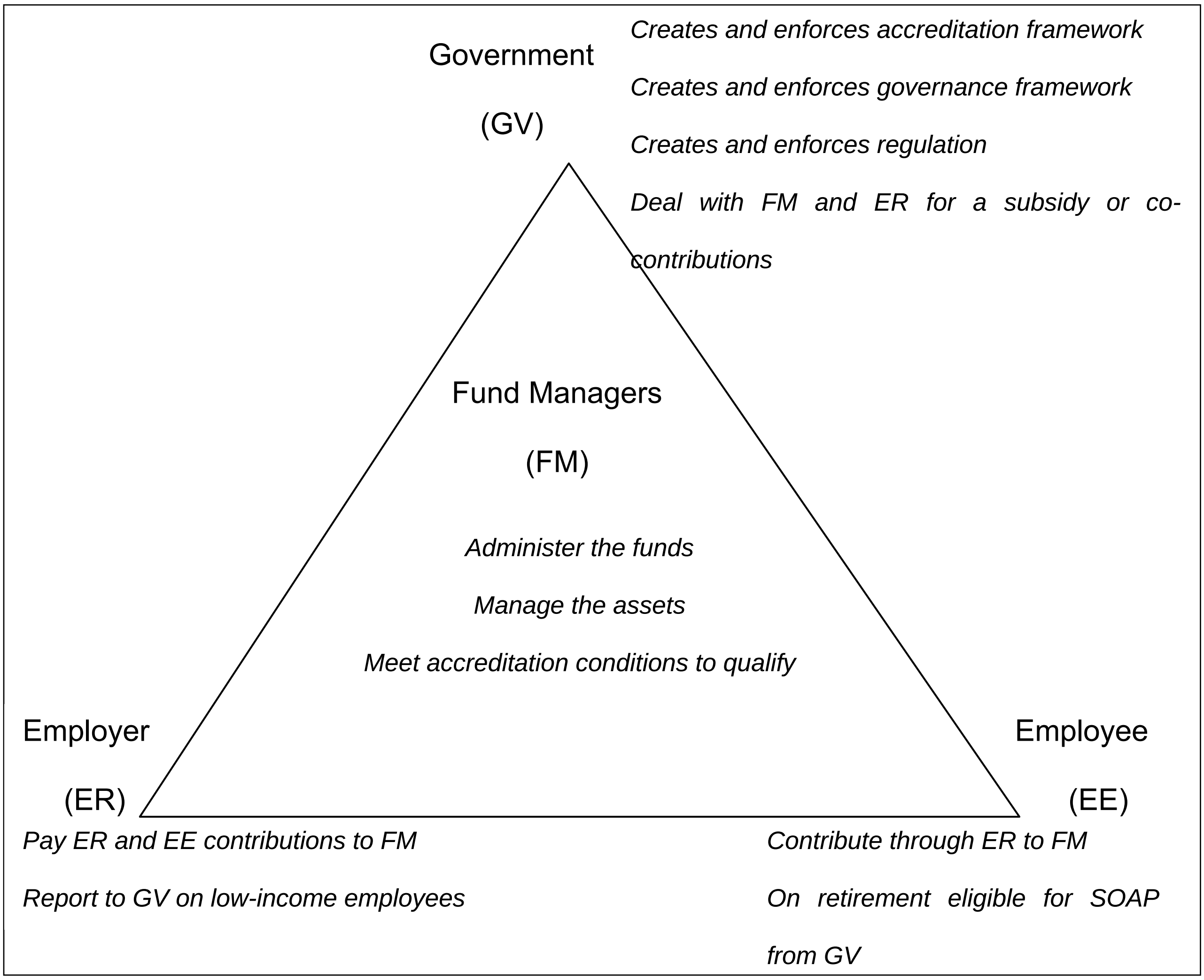
1. The research suggested that the SOAP has become a poverty relief structure for poor households. One of the key objectives of retirement reforms is to alleviate poverty in old age. Making it universal ensures that all old-age people have guaranteed access to it.
2. Government wants to encourage a culture of savings in South Africa. There is proof from the research that means testing disincentivises the poor from saving.
3. It currently costs government money to administer and maintain the means testing, and making it universal would eliminate this cost.
4. Eliminate possible corruption where people who are not eligible claim.
5. Government can budget properly, as the cost will be known.

There is still the issue of funding. South Africans are seen to be myopic with inertia. Therefore, there is a likelihood that those who can afford to take care of themselves will not actually claim this amount, and only those who need it will claim it.

7.2.1 Mandatory 2nd Pillar

A mandatory DC second pillar is recommended. Four key players of this system, together with how they are associated, are depicted in Figure 1 below.

Figure 1: Association of Key Players of the Mandatory Pillar



Government must:

- Create and enforce accreditation framework. The private sector must meet specific criteria to be accredited as a service provider.
- Create and enforce governance framework, e.g.
  - Number of times members can change in a year.
- Create and enforce regulation. Costs are high on the list of issues that must be regulated, e.g.
  - How much members must be charged for switching between service providers.
- Pay wage subsidies, not in cash, but through tax points or a tax break directly to the FMs managing the EEs funds, as per information submitted by the ERs.
- Pay subsidy according to EEs income.
- Enforce compulsion

Employers must:

- Pay ERs and EEs contributions to ER's FM of choice
- Incentivise employees for choosing ER's FM of choice
- Employees can opt out to an FM of choice – but must prove membership of another FM.

Employees must:

- Be mandated to contribute through ERs to FMs

Fund Managers must:

- Administer the funds

- Manage the assets
- Meet accreditation conditions to qualify

Through the research, dynamics that are particular to South Africa were identified, based on what worked and did not work in Chile. The matrix in Table 5 below illustrates the key design concerns, recommendations and the expected outcomes.

Table 5: Recommended Mandatory DC Design and Outcomes

Concerns	Design Recommendations	Expected Outcome
High unemployment rates	Compulsion only for the formally employed.	Most of the unemployment is structural. Therefore, most of these people will rely on SOAP.
Current survival needs	Wage subsidies not to compromise current life preservation.	Maintain living standards of low-income earners.
Labour Costs	Wage subsidy in terms of tax points or tax break through the FMs.	Maintain labour costs and not jeopardise jobs
Self-employed or informal sector	Give co-contribution to those who contribute to the pillar. Monitor their participation.	Encourage participation into the mandatory sector. Entry into the second economy.
Fragmented careers for the poor.	Allow for fragmented contribution into the mandatory pillar. Also, allow for lump sum contributions.	Removes the obstacles that prevent the poor from being active participants
Management of the mandatory pillar	The management of the mandatory pillar must be privatised.	Eliminate self-regulation. Afford the members recourse through an independent party in case of a grievance. Reduce political risk.
Preservation of funds	Set guidelines of maximum accumulation per year before withdrawals can be granted.	Some of the accumulation will be protected.
Transferability	Allow members to transfer between funds. Afford members at least one transfer a year at a minimal charge.	This will ensure that the fund managers do not become complacent.
Regulation	Regulate charges for transferring between fund, maximum charge must also be regulated, according to income and investment gains.	This will reduce complacency. It will also protect member investment from being eroded by costs.

	Force full disclosure and transparency of fees between all the service providers.	
Financial literacy	Government must drive educational programmes through the media and other means.	Empower people to make choices about their investments and retirement.
High Mortality Rates	The weighting of the social benefits must be heavily weighted towards risk benefits for the poor.	Solidarity in risk benefit will be achieved.

7.3 Future Research

These are the areas that have been identified for future research:

- The research was conducted with eleven pension and retirement experts in Gauteng, the economic hub of South Africa. It is recommended that the research be extended to include respondents from other provinces in order to draw out geographical differences that may exist.
- Do qualitative research to determine if the middle income and the high-income retired pensioners would draw from the SOAP if it was universal. The target for this research would have to be people already in retirement, that are considered middle to high income at retirement. This would quantify the amount of money government has to budget for a universal system.
- Do qualitative research to investigate when pension reforms are driven by fiscal motivation and when are they driven by ideological motivation.

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Appendix 1: Interview Propositions

Please state your level of agreement to the following statements, according to the following alternative; strongly disagree, somewhat disagree, somewhat agree, strongly agree.

Research Proposition 1: The structure of the reform

☐	☐	☐	☐
Strongly Disagree	**Somewhat Disagree**	**Somewhat Agree**	**Strongly Agree**

A multipillar model is the right model for South Africa.

Probing Questions.

☐	☐	☐	☐
Strongly Disagree	**Somewhat Disagree**	**Somewhat Agree**	**Strongly Agree**

A mandatory defined contribution system for the second pillar is the right design for South Africa.

Probing Questions.

☐	☐	☐	☐
Strongly Disagree	**Somewhat Disagree**	**Somewhat Agree**	**Strongly Agree**

A mandatory pillar of the retirement system will have a good chance of success if its administration is privatised.

Probing Questions.

Research Proposition 2: Shocks and influences

☐	☐	☐	☐
Strongly Disagree	**Somewhat Disagree**	**Somewhat Agree**	**Strongly Agree**

The current pension environment is discriminatory against the poor.

Probing Questions.

☐	☐	☐	☐
Strongly Disagree	**Somewhat Disagree**	**Somewhat Agree**	**Strongly Agree**

The current pension structure costs government a lot of money that could be better used elsewhere in the economy.

Probing Questions.

☐	☐	☐	☐
Strongly Disagree	**Somewhat Disagree**	**Somewhat Agree**	**Strongly Agree**

A multipillar retirement system, with a mandatory defined contribution pillar will save government money.

Probing Questions.

Research Proposition 3: Intentions of the reform

☐	☐	☐	☐
Strongly Disagree	**Somewhat Disagree**	**Somewhat Agree**	**Strongly Agree**

A mandatory defined contribution system will create social solidarity.

Probing Questions.

☐ ☐ ☐ ☐

Strongly Disagree **Somewhat Disagree** **Somewhat Agree** **Strongly Agree**

A mandatory defined contribution system will allow for better living standards for South Africans in retirement.

Probing Questions.

Research Proposition 4: Implementation process

☐ ☐ ☐ ☐

Strongly Disagree **Somewhat Disagree** **Somewhat Agree** **Strongly Agree**

A mandatory defined contribution pillar of the system must be privately managed without the interference of government, except through regulation.

Probing Questions.

☐ ☐ ☐ ☐

Strongly Disagree **Somewhat Disagree** **Somewhat Agree** **Strongly Agree**

Government must develop an independent entity to administer and manage the mandatory pillar of the system.

Probing Questions.

☐ ☐ ☐ ☐

Strongly Disagree **Somewhat Disagree** **Somewhat Agree** **Strongly Agree**

Government must force the retirement reform, even without the support of the people.

Probing Questions.

Research Proposition 5: Success of the reform

☐ ☐ ☐ ☐

Strongly Disagree **Somewhat Disagree** **Somewhat Agree** **Strongly Agree**

A successful implementation of a mandatory defined contribution system will improve the capital markets' environment in South Africa.

Probing Questions.

☐ ☐ ☐ ☐

Strongly Disagree **Somewhat Disagree** **Somewhat Agree** **Strongly Agree**

Countries with successful retirement systems are attractive to foreign investors.

Probing Questions.

Research Proposition 6: Failures of the reform

☐ ☐ ☐ ☐

Strongly Disagree **Somewhat Disagree** **Somewhat Agree** **Strongly Agree**

A mandatory defined contribution system does not encourage participation from the self-employed, or those in the informal sector.

Probing Questions.

☐ ☐ ☐ ☐

Strongly Disagree **Somewhat Disagree** **Somewhat Agree** **Strongly Agree**

A privately run mandatory system has high costs that erode the potential returns of investment – to an extent that the insured are better off depositing their money in the bank.

Probing Questions.

Thank you!

Appendix 2: Interview Participants

Table 3: Resumes of the research respondents

Name of Respondent	Company/Role	Brief Resume
Andrew Donaldson	National Treasury	Deputy Director General of Public Finance. A well-known figure in the debate on South Africa's retirement Reform. He headed up the team that put together both papers on behalf of Treasury. A Rhodes University and Cambridge graduate.
Baron Furstenberg	Liberty Life	Head: Pension Reform Strategy. He was part of the team that drafter the first retirement reform paper released by National Treasury in 2004. He held a position as the National Treasury Director in charge of financial markets.
David O'Brien	Old Mutual	Head of Retirement Reform. Looking at the impact of retirement reform – working closely with all stakeholders in the environment, including government. An Actuary by training. Worked in pensions as an actuary for five over years.
Dr. Elize Strydom	Chamber of Mines	A member of the retirement task team – representing. A lawyer by training. Represents a number of business as a member of Business Unity South Africa (BUSA). A co-author of a book called Social Security Law.
Dr. Sheshi Kaniki	Momentum	A senior researcher on social security reform. Co-ordinates a forum of different business units to engage Momentum stakeholders to be up-to-date for the reform. Senior researcher for Economic Policy Research Institute.
Elias Masilela	Sanlam	Executive Head of Stakeholder Strategy. Worked for National Treasury as Chief Director for Macroeconomic Policy. Headed up the team that is behind South Africa's pension reform programme at Treasury, in his capacity as the Acting DDG Economic Policy.
Gary Hughes	Southern X	Director and co-founder of Southern X. 25 years experience in pension fund industry, in administration and consulting. He is the past president of The Institute of Pension Consultants & Administrators (IPCA).

Jennifer Grefen	NMG Consultants and Actuaries	Director of Retirement Funds – heading up consulting and administration. She has worked in retirement funding for over eight years. She is also a member of a number of industry bodies.
Riaan Botha	Jacques Malan Consultants & Actuaries	Chief Operating Officer responsible for the Group's Gauteng, Kwazulu Natal and Botswana regions. Pension Fund consultant – mainly focused in employee benefits.
Rob Rusconi	Tres Consulting	He owns and operates Tres Consulting. He is well published in retirement reform and other areas of economics. He consults to both public and private sector clients on issues around pension and long-term saving systems.
Selwyn Jehoma	Department of Social Development	Deputy Director-General. He was the Chief Director of Social Insurance for the Department of Social Development. Was part of the team that drafted the Social Development Paper on Retirement reform.

Appendix 3: Consolidated Expert Results

Table 4: Consolidated expert results based on a distributed interview schedule.

	Statements	Please mark your level of agreement or disagreement to the following statements, according to the following alternatives; Strongly Agree, Somewhat Agree, Somewhat Disagree, Strongly Disagree.			
		Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
The structure of the reform	A multipillar model is the right model for South Africa.	0	1	3	7
	A mandatory defined contribution system for the second pillar is the best design for South Africa.	0	2	6	3
	A mandatory pillar of the retirement system in South Africa will have a good chance of success if its administration is privatised.	0	7	2	2
Shocks and influences	The current pension environment is discriminatory against the poor.	0	6	3	2
	The current pension structure costs government a lot of money, that could be better used elsewhere in the economy.	6	4	1	0
	A multipillar retirement system, with a mandatory defined contribution pillar will save government money.	6	4	1	0
Intentions of the reform	A mandatory defined contribution system will create social solidarity.	2	3	6	0
	A mandatory defined contribution system will allow for better living standards for South Africans in retirement.	1	2	4	4
Implementation Process	A mandatory defined contribution pillar of the system must be privately managed without the interference of government, except through regulation.	1	2	6	2
	Government must develop an independent entity to administer and manage the mandatory pillar of the system.	0	7	3	1
	Government must force the retirement reform, even without the support of the people.	10	1	0	0
Positive outcomes of the reform	A successful implementation of a mandatory defined contribution system will improve the capital markets' environment in South Africa.	0	5	3	3
	Countries with successful retirement systems are attractive to foreign investors.	0	4	5	2

Negative outcomes of the reform	A mandatory fully funded system does not encourage participation from the self-employed, or those in the informal sector.	1	4	4	2
	A privately run mandatory system has high costs that erode the potential returns of investment – to an extent that the insured are better off depositing their money in the bank.	4	4	3	0