AN INTENATIONAL COMPARISON ON THE IMPACT OF THE EXTENDED LIFE EXPECTANCY OF NATURAL PERSONS FOR TAXATION PURPOSES

by

NELL-MARI SMIT

Student number 21036919

Submitted in partial fulfilment of the requirements for the degree

Magister Commercii in Taxation

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

at the

UNIVERSITY OF PRETORIA

STUDY LEADER: Mrs. H. du Preez

Date of submission:
September 2012

ACKNOWLDGEMENT

I would like to extent my gratitude to the following people:

- My parents for their support, prayers and interest in my studies.

- My sister for her support and prayers.

- My study leader for her assistance and guidance throughout this study.

ABSTRACT

THE IMPACT OF THE EXTENDED LIFE EXPECTANCY OF NATURAL PERSONS FOR TAXATION PURPOSES

by

Nell-Mari Smit

STUDY LEADER: MRS. H. DU PREEZ

DEPARTMENT: TAXATION

DEGREE: MAGISTER COMMERCII

The increase in the life expectancy of natural persons has become a worldwide phenomenon. People live longer and need income for longer periods of time. Individuals need to start saving for their retirement early in life while still part of the workforce. Insufficient retirement savings lead to individuals not having sufficient income for their retirement. People become dependent on the government for assistance in paying for their day-to-day living expenses, leading to increases in social grants payable by the government. In South Africa the National Treasury needs to budget through taxation for the increase in the old age pension, which increases government expenditure. Additional income tax will therefore need to be raised to ensure that the national deficit does not increase further. Personal income taxes will directly be affected by the increase in the life expectancy.

Research has been done internationally on the increase in life expectancy and the possible effect on the governments of those countries. No research has, however, been done in such detail in South Africa. This study provided information on the increase in the life expectancy of the South African population and the effect on the increase of old age pension as a social grant expense paid by the Government to qualifying beneficiaries.

The aim of this study was to gain insight in the increase in the number of elderly people, those individuals aged 60 years and older, and the relation between this increase and the increase in the number of old age pension beneficiaries together with the increase in the

budgeted expenses by the Government for old age pension. From a theoretical perspective, this study aimed to identify the possibility of increasing the retirement age to help people receive an income from employment for longer and to provide for themselves during the longer years in retirement. Finally the study aimed to assess this impact on taxation.

A number of factors play a role in the increase of the number of old age pension beneficiaries and the resulting old age pension expense in the government budget. This study only focused on the role that the increase in life expectancy plays.

OPSOMMING

DIE IMPAK VAN DIE VERLENGDE LEWENSVERWAGTING VAN NATUURLIKE PERSONE VIR BELASTINGDOELEINDES

deur

Nell-Mari Smit

STUDIELEIER: MEV. H. DU PREEZ

DEPARTEMENT: BELASTING

GRAAD: MAGISTER COMMERCII

Die toename in die lewensverwagting van natuurlike persone het 'n wêreldwye verskynsel geword. Mense leef langer en moet 'n inkomste vir 'n baie langer tydperk hê. Individue moet reeds vroeg, terwyl hulle nog deel is van die werksmag, begin spaar vir hul aftrede. Onvoldoende aftreefondse lei daartoe dat pensioenarisse nie voldoende inkomste tydens hul aftrede verdien nie. Hierdie tekort lei daartoe dat individue afhanklik is van die regering om hulle by te staan vir die betaling van daaglikse uitgawes. Dit lei tot die verhoging in die maatskaplike toelaes wat deur die regering betaal word. In Suid-Afrika moet die Nasionale Tesourie in die begroting voorsiening maak vir die toename in die ouderdomspensioen wat tot 'n toename in regeringsuitgawes lei. Ekstra inkomste moet ook verkry word om te verseker dat die nasionale tekort nie verder toeneem nie. Persoonlike inkomstebelasting word regstreeks hierdeur beïnvloed.

Internasionale navorsing is gedoen op die toename in lewensverwagting en die moontlike invloed op die regerings van daardie lande. Soortgelyke navorsing is egter nog nie in Suid-Afrika gedoen nie. Dié studie bied meer inligting oor die toename in lewensverwagting van die Suid-Afrikaanse bevolking en die effek daarvan op die toename in die ouderdomspensioen as 'n maatskaplike toelaag wat deur die regering betaal word aan begunstigdes wat daarvoor kwalifiseer.

Die doel van hierdie studie was om insig te verkry in die toename in die aantal bejaardes, individue van 60 jaar en ouer, en die verwantskap tussen hierdie toename en die toename

in die aantal ouderdomspensioen begunstigdes asook die begrote regeringsuitgawe vir ouderdomspensioene. Die studie het gepoog om vanuit 'n teoretiese oogpunt te kyk na die moontlikheid om die aftreeouderdom te verhoog sodat mense langer inkomste kan verdien en vir hulleself kan sorg in die langer aftreetydperk. Die studie het ook gekyk na die invloed hiervan op belasting.

Verskeie faktore speel 'n rol in die groei van die aantal individue wat ouderdomspensioen ontvang en gepaardgaande toename in die ouderdomspensioenbegroting van die regering. Die studie het slegs gefokus op die rol wat die verhoging in lewensverwagting speel.

Sleutelwoorde:

Ouderdomspensioen; lewensverwagting; pensioenaris; aftree-ouderdom; aftrede; regeringsuitgawes, inkomstebelasting.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

Abbreviation	Meaning
Aids	Acquired immune deficiency syndrome
AU	African Union
GDP	Gross domestic product
HIV	Human immunodeficiency virus
OAS	Old age security
OECD	Organisation for Economic Co-operation and Development
QLFS	Quarterly Labour Force Survey
RSA	Republic of South Africa
SARS	South African Revenue Service
STATS SA	Statistics South Africa
UK	United Kingdom
USA	United States of America

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Hearing that a person has reached the age of 100 or even older is not at all unfamiliar. The oldest age that has been confirmed for any human being is 122 years (News Medical, 2012). People tend to become older with each passing generation. This means that the older people become, the longer they will rely on government grants, rebates, medical deductions and housing allowances, to name a few, to help them with their day-to-day expenses and the extra costs associated with old age. Together with old age come additional needs, for example, health care.

People becoming older will be retired for nearly the same number of years or even longer than the number of years they were part of the economic working population attributing their share to the tax net by paying taxes. After reaching retirement age they will either be relying on social grants from government or they will live from the income they receive from their retirement annuities.

In the Budget speech of 2012, the Minister of Finance, Pravin Gordhan. (National Treasury, 2012:22), announced that the old age pension grants will increase to R1 200 per month and R1 220 for individuals 75 years and older with effect from April 2012. The total expenditure growth for the Government will be from R105 billion in 2012/13 to R122 billion in 2014/15. Almost one third of the South African population, nearly 16 million South Africans, receive social grants in general at present. Social spending consisted of 49% the Government expenditure a decade ago. This percentage will increase to 58% in 2013.

The older people become, the longer they will make use of tax rebates in terms of section 6 of the Income Tax Act (58/1962), namely the primary rebate (R11 440) for people younger than 65, the secondary rebate (R6 390) for people older than 65 and the tertiary rebate (R2 130) for people older than 75 (South African Revenue Service, 2012*). People receiving housing allowances are assumed to receive it till their death. The older people

become, the longer the Government will have the expense of providing the housing allowance. People older than 65 years may deduct all qualifying medical expenses from their gross income. If they become older, they will have this privilege for a longer period of time. The taxable net amount of these individuals will be smaller and the Government will receive less income from individual's tax in cases where these individuals are liable to pay taxes.

The social assistance to households has been expanded by the Government over the past decade. The largest categories of expenditure in the National Budget remain education, health and social assistance (National Treasury, 2012:22).

People receiving old age pension are becoming older and this means that they will rely on the monthly old age pension from the Government for a longer period of time. Even the more wealthy people might at some stage run out of their pension savings if they live longer than was projected during their saving years. These individuals might at some stage also qualify for social grants and become part of the extra expenses government needs to budget for. The Government is also trying to resolve this by reforming the tax treatment of retirement fund contributions in terms of section 10(n) of the Income Tax Act (58/1962), which will become effective in 2014, in order to encourage voluntary savings (National Treasury, 2012:22).

Individuals who do not qualify for the old age pension from the Government because of the following reasons might also have extended expected ages:

- They receive an annual income above the limit (R44 880 for a single person or R89 760 for a married couple).

- They have an asset value of more than the limit (R752 400 for a single person or R1 054 800 for a married couple)

- They are in the position of receiving income from a pension fund or retirement annuity fund that they built up before their retirement age.

Even though they will not depend on the Government for the old age pension, they will still make use of the primary rebate (R11 440) for people younger than 65, the secondary rebate (R6 390) for people older than 65 and the tertiary rebate (R2 130) for people older

than 75. They will also receive the interest exemption in terms of section 10(i) of the Income Tax Act (58/1962), of R33 000 for individuals 65 years and older (in comparison with R22 800 for individuals younger than 65 years), in cases where they are still liable to pay taxes each year leading to the Government receiving less in income from tax-paying individuals. Older people will most probably also have more medical needs than younger people. People over the age of 65 may claim all qualifying medical expenditures in terms of section 18 of the Income Tax Act (58/1962), which will result in a bigger deduction from their gross income and therefore a smaller contribution to the tax net in cases where they are still liable to pay income tax. Individuals younger than 65 years may only claim all qualifying medical aid expenditures where the taxpayer or the spouse or child of that taxpayer is a person with a disability. Otherwise people younger than 65 years may only deduct the monthly contribution to a medical scheme in terms of section 18 of the Income Tax Act (58/1962), (a medical scheme fees tax credit) of R230 for the taxpayer and the first dependant and R154 for each additional dependant. People younger than 65 years can also claim a deduction for medical scheme contributions exceeding four times the amount of the medical scheme fees tax credits and any other medical expenses limited to the amount which exceeds 7,5% of taxable income (excluding retirement lump sums) (South African Revenue Service, 2012).

Life expectancy and time spent in retirement have been increasing across the world, while fertility rates and the number of workers paying into the social security system have been declining (Sahadi, 2010). Life expectancy is increasing and the retirement age decreasing, and therefore individuals have to fund their retirement years for a longer period of time (Rose, 2012). The average life expectancy for an adult male was 50 years about 100 years ago. Most people did not live long enough to retire. For those who did live longer, the retirement age was 74 years. Most of the people who did retire at age 74 years did not live long afterwards. Only 1% of the population was at retirement age in those years. (Rose, 2012).

In 2000, 15% of the population reached retirement age. The two factors contributing to this huge increase are the average life expectancy, which jumped to 73 years and the retirement age, which dropped to about 62 years. More people were living into retirement and, as a result, relied on social security.

Today life expectancy as well as retirement age is increasing. People need to start planning for their retirement much earlier than only a few decades ago (Rose, 2012).

1.2 PROBLEM STATEMENT

Individuals who can afford it contribute a percentage of their monthly income towards their retirement. These individuals have the opportunity to receive an income after their retirement. The income received in such a way is taxable and therefore still contributes to the income the Government receives. These individuals, however, might face the problem of not having sufficient retirement income if they live longer than was planned for.

Ageing populations is a topic of debate worldwide. Individuals are living longer than was planned for during the time they were actively part of the economic workforce. This can mean that they have not saved enough during their active working years. It might happen that their retirement income will not be sufficient to provide for them after retirement. These individuals will also need to be looked after and cared for by the Government. This will lead to additional expenses for the Government, which must be budgeted for and income which needs to be received from other sources.

The issues that arise from the above are:

- The liability on government expenses for those individuals relying on social grants due to the increase in the expected life.

- The difference between South Africa, being a developing country and another country such as Canada, being a developed country in the social grants and old age.

- The impact that the official retirement age has on individuals when planning for their retirement years as well as the impact on government expenditure in providing for these individuals all through their retirement.

- The impact of the fact that individuals live longer have on their personal income tax, relating to rebates, exemptions and deductions.

1.3   PURPOSE STATEMENT

The main purpose of this study is to identify the effect on the Government and the National Treasury of people living longer due to the worldwide phenomenon that the older-age people (people older than 65 years) are expected to live even longer. A further investigation will also be conducted on the impact this will have on these older individuals for additional needs and self-esteem. The international phenomenon will be investigated by drawing a comparison between South Africa and Canada. Canada is one of the healthiest countries in the world whereas South Africa is not, due the effect of Human immunodeficiency virus (HIV) and Acquired immune deficiency syndrome (Aids). The effect of the ageing populations is investigated between these two countries to show the difference of a healthy country and a less healthy country.

Individuals having extended life expectancies will have a practical implication on the Government. This is a very practical problem in the 21st century as the entire world faces the fact that natural persons are becoming older and therefore need income and care for a much longer period of time than a few years ago.

1.4   RESEARCH OBJECTIVES

The study was guided by the following specific research objectives:

- To identify the change in government expenditure in South Africa for social grants from the actual expenditure for 2004 to 2011 and the budgeted expenditure for 2012 up to 2015, taking into consideration that people are living longer.

- To compare government expenditure for social grants in South Africa to that of Canada, taking into consideration that people are living longer.

- To investigate the possibility of increasing the pensionable age of natural persons in South Africa in relation to international trends with an emphasis on Canada.

- To evaluate all information to assess the effect of the increase in the expected life of natural persons on the income (especially income tax) and expenditure of the South African Government.

1.5   DELIMITATIONS

This study has several delimitations related to the context, construct and theoretical perspective. The study will be limited to the information available regarding South Africans. There is limited information available from government associations and a limited number of research studies have been conducted previously on this theme.

The study will further focus on the age group older than 60 years, as these people are the individuals receiving specific old age pensions. Other social grants provided by the Government such as housing allowances and child welfare will not be included in its entirety in this study. The reason is because these grants are not only applicable to older people and the fact that their life expectancy might be longer than previously anticipated, but to other age groups as well.

1.6   ASSUMPTIONS

Due to the fact that limited information is available in South Africa regarding the subject, assumptions were made that South Africa will follow the same trend as Canada, being a developed country.

1.7   DEFINITION OF KEY TERMS

The most important key terms used in this study are defined below.

Age dependency ratio: The combined child population (0 to 14 years) and the aged population (65 years and older) ratio (the so-called dependent ages), to every 100 people of the intermediate population (15 to 59 years) (the so-called economically active ages) (Joubert & Bradshaw, 2003/2004:150).

Aged person: A person who is 65 years or older in the case of a male, and, in the case of a female, 60 years or older under section 1 of the Aged Persons Act (81/1967).

Ageing index: The ratio calculated as each one person, 60 years and older to every 100 children (0 to 14 years) (Joubert & Bradshaw, 2003/2004:150).

Average household size: The average number of people living in each household where a household is defined as a person, or a group of persons, who occupy a common dwelling, or a part of the common dwelling, for at least four days a week and who provide themselves jointly with food and other essentials for living (Statistics South Africa, n.d.).

Effective retirement age: The average age at which the retirement is declared by a population (Forbes, 2011).

Elderly dependency ratio: The number of retirement age individuals compared with the number of working-age individuals (15 to 59 years) (Gavrilov & Heuveline, 2003).

G8 countries: The G8 countries consist of Japan, Italy, France, the United Kingdom, Canada, the United States of America, Germany and Russia (Statistics Canada, 2011).

Gini coefficient: The international standard for measuring the distribution or dispersion of income and wealth in a country. It is a ratio between 0 and 1, where 0 implies that each individual receives the same income and 1 implies that only one individual receives all the income (Bosch, Rossouw, Claassens & Du Plessis, 2009).

Life expectancy: The number of years a person is expected to live from birth (life expectancy at birth) or at age 65 years (life expectancy at age 65), based on the mortality statistics for a given observation period (Statistics Canada, 2010b).

Median age: The age that divides a population in half (Statistics Canada, 2010a).

Official retirement age: The age the country in which an individual is residing finds that individual can legally retire. This age is dependent on the year of birth of an individual (Forbes, 2011).

Old age security pension: A monthly payment that is available to most Canadian citizens aged 65 years or older (Old age security pension, n.d.).

Older persons grant: Monetary assistance to see one through one's old age. This grant is paid to men and women age 60 years and older. This grant was previously called the old age pension (South African Government Services. n.d.).

Pensioner: A person receiving a pension in terms of section 1 of the Aged Persons Act.

Population ageing: The increase in the proportion of older people (aged 60 years and older) in a population coinciding with a decline in the proportion of the young (under age 15 years) in the same population. Population ageing is a by-product of a population's demographic transition, resulting in a changing age structure in the population and a higher median age (Joubert & Bradshaw, 2003/2004:150).

Poverty gap: The indication of how far a household falls below the poverty line. This is an indication of the depth or degree of poverty (Education and training unit, n.d.).

Poverty line: A measure of the money income required to attain a basic minimal standard of living (Statistics South Africa, 2007). Giving a monthly average on which a family can survive (Education and training unit, n.d.).

Social grants: Assistance available to adults 18 years and older. There are four different state social grants, namely Older Person's Grant, Disability Grant, War Veteran's Grant and Grant-in-Aid. Social grants are available to South African citizens and permanent residents (Paralegal advice, n.d.).

1.8   RESEARCH DESIGN AND METHODOLOGY

Most of the available information regarding the ageing population is related to the challenges that governments worldwide face because of the statistically proven fact that individuals become older and the population worldwide are ageing.

International studies and articles were used in conducting this study. Assumptions were made on what the effect will be on South Africans and the South African Government when using details based on South Africa and applying it to the information and calculations done by international studies.

Projections were made based on information in the available research studies. Most of the data are not based on actual figures as only time will tell the real effect.

1.9   OVERVIEW OF CHAPTERS

This study consists of six main chapters. Chapter 1 is an introduction to the main theme, being the impact of the extended life expectancy of natural persons on their tax.

Chapter 2 provides an overview of the welfare situation in South Africa, taking into account population estimates and labour force participation, life expectancy and retirement age. Chapter 3 discusses the effect of an ageing population. Chapter 4 discusses the South African perspective. Life expectancy, factors that influence life expectancy and life expectancy tables for South Africa are discussed. Population estimates, poverty, retirement and the assistance provided by the Government are discussed in this chapter. The social grants provided by the South African Government, the number of people according to statistics that currently receive grants from the Government and the amount set aside for the payment of social grants are also investigated in Chapter 4.

Chapter 5 provides the information as discussed in chapter four for South Africa on that of Canada. Life expectancy in Canada, the factors that influence life expectancy, the population estimates of Canada, the effect of poverty in Canada and the old age security provided by the Canadian government to their elderly are discussed.

The comparison between South Africa and Canada are drawn in Chapter 6.

Chapter 7 draws the conclusion from the study, providing a comparison between South Africa and Canada as well as the projected expenses for South Africa, the importance of the study and the tax implications.

CHAPTER 2

OVERVIEW OF THE WELFARE SITUATION IN SOUTH AFRICA

2.1   INTRODUCTION

More South Africans currently receive an income from welfare than from employment according economist Mike Schussler (2011b). There are 12.8 million working South Africans and 13.8 million people receiving welfare payments from the proceeds of only 5 million people (Creamer Media Reporter, 2010). This emphasises the extra burden on the expenses of the Government as people will rely longer on grants if they become older.

2.2 SOUTH AFRICAN POPULATION ESTIMATES

It is possible that the South African population figure of nearly 50 million is a very conservative figure and that the South African population to date might already be far above this figure. If one takes only old age pensions into consideration, even after adjusting for higher population growth than was previously thought, it turns out that grant numbers today make up more than 120% of the population that is aged 80 years and older. Those people over 65 years old that receive old age pension grants make up nearly 80% of the population and this number is still growing. This number excludes private pensions. The South African population number seems to be underestimated by approximately 10%. Furthermore, it appears that people over the age of 65 have been underestimated by about 30 to even 35%. This means that there are nearly 750 000 extra people in the country that might qualify for old age pension, who might become even older and therefore will be an additional expense for the Government. (Schussler, 2011a).

According to Joubert and Bradshaw (2003), the South African population is 48.7 million people. Approximately 3.5 million people (7%) of this total population are aged 60 years and older. The South African population is one of the most rapidly ageing populations in Africa. It is estimated that the number of older people will have increased to 5.3 million people by the year 2025. This increase in the number of older people will have implications for social, health and economic planning and services and therefore will also create

additional expense for the Government for the payment of old age pension (Joubert & Bradshaw, 2003/2004:150*).

2.3 QUALIFICATION CRITERIA FOR OLD AGE PENSION

A natural person must comply with the following criteria to be able to apply for old age pension (South African Government Services, n.d.):

- be a South African citizen or a permanent resident;

- live in South Africa;

- not receive any other social grant for him/herself;

- not be cared for in a state institution; and

- not earn more than R44 880 per year or own assets worth more than R752 400 for a single person. If married, the combined income must not be more than R89 760 or combined assets worth more than R1 504 800.

Means testing is used to evaluate if a person qualify for old age pension. This implies that an audit of the medical, social and economic circumstances of the applicant's household must be done. Arguments against means testing are that it discourages individuals from saving towards their own retirement and it increases the threat of deprivation for those older individuals who have little or no household income but are in possession of property. This corroborates the findings of Joubert and Bradshaw (2003/2004:150) that about 40% of the country's economically active population not covered by any contributory pension scheme, will rely on the state pension scheme and old age pensions in the long run. Section 1 of the Aged Persons Act states: "every aged person shall be entitled to receive an old age pension if he satisfies the Director-General" (the officer who is the head of the component which is charged with welfare matters in the provincial administration of that province).

The means test expects people to prove their worthiness of receiving an old age pension. This is in contradiction to the Bill of Rights as stipulated in section 27(1)(c) of the Constitution of the Republic of South Africa (1996). This section states that "every individual has the right to have access to social security, including, if they are unable to

support themselves and their dependents, appropriate social assistance". The study done by Raniga and Simpson (2011) in KwaZulu-Natal shows that more than half of the people forming part of their sampling in Bhambayi, are eligible for old age pensions but do not receive them. Bhambayi is situated in North central Durban and forms part of the eThekwini municipality. This shows that the Government may need to budget more for older people for the provision of the old age pension, not only because people are becoming older but also because there are probably more people that will rely on it.

2.4 LABOUR FORCE PARTICIPATION

2.4.1 The proportion of elderly people in the population

Taqi (2002:108-120), special advisor to the International Labour Office, states that the proportion of elderly people in the population is rising and their participation in the labour force is declining. He further states that people are living longer, becoming older and retiring sooner. The ratio of those individuals who are economically active to those who are no longer economically active is declining. This, in turn, has the implication that the number of people contributing to pension and other social security funds in relation to the number of those benefiting from them is also declining. If these trends persist, it may be argued that they will pose a threat to the financial viability of social security systems as governments will need more income to cover the expenditure for all these claims. If a person retires at age 60 and his/her life expectancy is 80 or more based on the fact that people tend to become older, this individual still has 20 years or more after he/she left employment. He/she is likely to remain physically and mentally vigorous during much of this period, not needing to stop working.

2.4.2 Quarterly labour force survey

Statistics South Africa (2012) released the Quarterly Labour Force Survey (QLFS) on Quarter 4 of 2011. This survey is a sample survey based on households and was conducted by Statistics South Africa. The survey collects data on the labour market activities of individuals aged 15 to 64 years who live in South Africa. The key findings of

the QLFS for the period October to December 2011 are presented in Table 1 (Statistics South Africa, 2012).

The labour force population decreased by 20 000 between quarter 3 and quarter 4 of 2011. Employment increased in quarter 4 of 2011 by 179 000 and the number of unemployed people decreased by 198 000 as shown in Table 1. The number of the economically inactive population increased by 134 000. The result is that the unemployment rate decreased by 1.1 percentage points to 23.9%.

Table 1 : Labour market indicators

	Oct-Dec 2010 Thousand	Jul-Sep 2011 Thousand	Oct-Dec 2011 Thousand	Qtr – Qtr change Thousand	Yr-on-yr change Thousand	Qtr – Qtr change %	Yr-on-yr change %
Population 15-64 years	**32 193**	**32 555**	**32 670**	**115**	**447**	**0.4**	**1.5**
Labour force	17 269	17 761	17 741	-20	472	-0.1	2.7
Employed	13 132	13 318	13 497	179	365	1.3	2.8
Unemployed	4 137	4 442	4 244	-198	107	-4.5	2.6
Not economically active	14 924	14 795	14 929	134	5	0.9	0.00
Discouraged work-seekers	2 150	2 204	2 315	111	165	5.0	7.7
Other (econo-mically inactive)	12 774	12 591	12 614	23	-160	0.2	-1.3
Rates (%)							
Unemployment	24.0	25.0	23.9	-1.1	-0.1	-	-
Employed/ Population ratio	40.8	40.9	41.3	0.4	0.5	-	-
Labour force participation rate	53.6	54.6	54.3	-0.3	0.7	-	-

Source: Statistics South Africa (2011:4)

South Africa has about 48.7 million people. As indicated in Table 1, 17.741 million people (36.4%) form part of the labour force, but only 13.497 million people (27.7%) are employed. Schussler (2011) says that the ratio of adults employed fell from 53% in 1991 to about 40.8% in 2010. The number of unemployed individuals increased with 227 000 between October 2010 and March 2011. Of these people, some might qualify for social grants from the Government. It is only the employed individuals that can add to the income of the Government and also only if their income is above the tax threshold of R63 556 per annum for people younger than 65. Unfortunately, Table 1 does not provide the figures for people 65 years and older who is still part of the labour force.

2.5 LIFE EXPECTANCY

Life expectancy can be defined as the number of years a person is expected to live, starting from birth or at age 65 years, based on the mortality statistics for a given period. The health of a population can be indicated by the life expectancy. The quantity of life, rather than the quality of life, is measured by life expectancy. The overall mortality of a population is indicated by the life expectancy of that population. It summarises the mortality pattern that prevails across all age groups. (Statistics Canada, 2010b).

Life expectancy is perhaps the most important measure of health. Life expectancy can be readily compared across countries and it asks the most fundamental and important question concerning the health of a population, being the question of how long the typical person can expect to live. Improvements such as the introduction of vaccines, the development of drugs or positive changes in behaviour such as the reduction in smoking or drinking rates can cause the life expectancy to increase. (Khalsa, 2011).

2.6 INCREASING THE RETIREMENT AGE

Taqi (2002:108-120) discusses the idea of increasing the working age of individuals beyond their retirement age.

The reasons behind the favourable attitudes towards increasing the working age are as follows (Taqi 2002:108-120):

- Older people are an asset to society. They should have the possibility of developing and using their potential to lead active, independent and fulfilling lives. One challenge is to promote a culture that values the experience and knowledge that come with age.

- Population ageing is a common feature for most of the industrialised world. The dependency ratio of elderly people to those of working age is increasing and is forecast to increase more substantially in the medium to long term. Also take into account that, despite longer life expectancy, people are retiring earlier.

- The rising ratio of elderly to working-age people will be associated with increased expenditure in areas such as pensions and health care. These expense increases might put pressure on government finances.

If this objective of promoting greater equality of opportunity for older people is to be pursued, progress will be required along three tracks according to Taqi (2002:108-120*):*

- strengthening the position of older people in the labour markets;

- intensifying educational, advisory and informational programmes to counter the perceptions, stereotypes and discrimination against older people; and

- making age discrimination unlawful.

To implement the above, will, however require initial expenses to companies and maybe also governments. On the one hand, governments will save on social grants payable to retired people as they are now working longer. But on the other hand governments will have to increase expense on other levels to implement programmes to keep the older people up to date on knowledge and skills. The implementation of these programmes will possibly only be a once-off expense for the implementation, and after that, only limited expenses to put older people on the programmes. It will probably be less than paying the old age pension. According to Taqi (2002:108-120), people will feel more worthy and useful for a longer period of time.

Implementing this idea of increasing the working age might be difficult as there is currently a mandatory retirement age. Increasing the working age is seen as an important tool to create employment opportunities for people that want to enter the market and younger people in the labour market. This will also open up promotion possibilities and enable organisations to rejuvenate. Older employees often receive high salaries, especially where salary scales are based on seniority. This is often provided as a reason why a mandatory retirement should be in place (Taqi, 2002:108-120).

Strong political resistance might be expected if the pensionable age is increased due to the increase in life expectancy (Bredt, 2008). The rising life expectancy poses a threat to the funding of public pension schemes in the Organisation for Economic Co-operation and Development (OECD) countries. This is also true for South Africa as the increase in life expectancy means that the Government will need to pay old age pensions to those individuals living longer for a longer period and therefore will need to find additional sources to obtain the income from which this expense needs to be paid. The average spending on old age and survivor's pensions by the OECD countries increased to 7.7% from 6.7% between 1990 and 2003. The increase in the pensionable age reflects the fact that people are living longer. In Germany, for instance, the life expectancy in 1960 for men aged 65 years was 12.36 years and for women aged 65 years, 14.6 years. In 2006, it was 16.77 years and 20.18 years for men and women respectively. The general life expectancy for the same period increased from 66.86 years to 76.64 years for men and 72.39 years to 82.08 years for women (Bredt, 2008).

Population ageing has economic implications. A way to cope with this is to increase the retirement age (Christensen, Doblhammer, Rau & Vaupel, 2009:1205). Most governments are moving in this direction, according to Christensen *et al. (*2009:1205). Employment from jobs requiring strength to jobs requiring knowledge as well as improvements in health, resulted in more people in their 60s and 70s still being able to work and contribute to the economy. Part-time work might become a possibility for people older than 65. This will give them the opportunity to still work, but not their normal hours, helping them in their older age and attributing to the economy. The 20th century was a century for the distribution of income. The 21st century might be the century for the distribution of work, according to Christensen *et al.* (2009:1205).

"The resultant shrinking workforce within an ageing population may have harmful economic consequences in the long term, notably an increasing burden of dependency on the economically active population," according to SA Institute of Race Relations researcher Thuthukani Ndebele (The Witness, 2012). Ndebele says that the social welfare system of the country will also be stretched. Economist Mike Schussler (Skade, 2012) states that the Government needs to start planning early for this slowing population, including shifting its focus to spending more on the elderly people that forms part of the growing proportion of the population, rather than on education.

2.7 SOUTH AFRICA'S DEPENDENCY RATIO

Schussler (2011b) maintains that South Africa's overall dependency ratio is the sixth highest in the world with a dependency ratio of 33.83. This means that one person out of every two and a quarter people have an income from a job. It can also be said that every one person with a job supports two and eight tenths other people without a job. In the world today, one job supports one and a quarter other people without a job (Schussler, 2011b). South Africa is the only country in the world where more people receive welfare cheques than pay cheques. Schussler (2011b) uses Winston Churchill's words, namely: 'Never have so many dependent on so few for so long'. This could be misquoted in the current situation in South Africa. South Africa has never had less than 2 million people on welfare grants in the past 30 years. In 2011, welfare payments made up 4% of gross domestic product (GDP). This figure will most probably be higher in terms of the discussion that the expected life of people is longer. In its first social security study ever, the International Labour Organisation found that of all the developing countries in the world, South Africa spends by far the most on social welfare (Schussler, 2011b).

To make matters worse, South Africa only has 5.3 million taxpayers and 1.2 million of these taxpayers pay 75% of all the personal and company tax received (Fin24, 2009). About 55% of the current labour force does not directly contribute to keeping this country going as these people do not pay any taxes because they fall below the tax threshold (Fin24, 2009). These people will have to produce an additional income of R210 billion to finance the Government's proposed social security fund, national health care and a basic

income for the unemployed. If people become older as is shown by the increase in life expectancy even more income will be needed. Who will be liable to provide this income and how is the Government going to fund the expenses? According to Schussler (2009), R84 billion was paid to old age pensions to 2.4 million beneficiaries in 2006. This figure might double within the social security fund.

Social Development Minister Molewa (2010) in defending the Government's welfare system says that the government grants were not intended to be permanent. The Government uses the grant programmes to empower people. Inequality of income and wealth between South Africans has an effect on the empowering of South Africans (Schussler, 2011b).

2.8 MEASUREMENT OF INEQUALITY – THE GINI COEFFICIENT

The Gini coefficient is a measure of inequality of a distribution. A value of zero shows total equality and a value of one total inequality. This value is commonly used as a measure of inequality of income or wealth (Schussler, 2011b). Stats SA (Bosch *et al.,* 2009) reported a Gini coefficient from income at 0.80 in 2005/6. This coefficient declined significantly to 0.73 if social grants were added to income (Bosch *et al.,* 2009).

The South African Gini coefficient is calculated at 0.70 if income from work, pensions from previous employment and annuities from own investments are included. This coefficient declined to 0.65 if social grants, for example, old age pensions, disability grants, family allowances and compensation funds were taken into account (Bosch *et al.,* 2009:10). The conclusion from the above is that South Africa is not really close to being in equality when it comes to the distribution of income and wealth. The Government obviously has a major problem on hand in currently providing all the social grants the citizens of this country are claiming. And this matter will get worse when one takes into consideration the fact that the life expectancy of people is increasing.

The additional income streams need to be explored from the Government's side to be able to obtain sufficient income in order to produce the total amount of expenses claimed by

individuals in the form of social grants especially for old age pensions. The Government will also need to do a forecast on the additional grants that will probably be claimed by individuals as a result of the increase in their life expectancy.

2.9 CONCLUSION

Given the background information, it can be seen that quite a few factors play a role in the expenses the Government budgets for every year to make South Africa a better place for all. Life expectancy, retirement ages and population ages are only some of the factors that were discussed in this chapter, playing a role in government expenses. The effect of an ageing population and the factors that contribute to the ageing of a population will be discussed in the next chapter.

CHAPTER 3

THE EFFECT OF AN AGEING POPULATION

3.1   INTRODUCTION

The population in South Africa is ageing and the older population, people 60 years and older, is expected to grow more rapidly than other age groups. This rapid growth is expected to continue for the next two to three decades and requires far-reaching social and economic planning and adjustments. Population ageing has the potential to become a major issue in developing countries with resource scarcities. (Joubert & Bradshaw, 2003/2004:147).

Health data on older persons are not readily available in South Africa. The scarcity of this data will have an effect on additional expenses for the Government for those people relying on social assistance (Joubert & Bradshaw, 2003/2004:147).

The South African population is ageing mainly through a combination of declining fertility rates and pre-Aids (acquired immune deficiency syndrome) increases in life expectancy (Joubert & Bradshaw, 2003/2004:147). In 2000, South Africa had an ageing index of 20 older persons for every 100 children aged 0 to 14 years. This ratio is projected to increase to 31:100 in 2015 even after taking HIV/Aids into account. Joubert and Bradshaw (2003/2004:147) further explain that HIV/Aids might have an influence on the younger generation but that older people are least affected.

Table 2 shows the percentage of persons 60 years and older per province and population group as well as the age dependency ratio per province and population group for 2001 (Joubert & Bradshaw, 2003/2004:152).

In 2001, the total percentage of people 60 years and older in South Africa was 7.32% as can be seen in Table 2. Of these 15.88% were white and only 6.37% were African. The age dependency ratio (combined number of people 0 to 14 years and 65 years and older to every 100 people 15 to 65 years) for South Africa were 58.7%.

Table 2: Socio-demographic profile of older persons (60 years and older), 2001

	% of total SA population 60 years and older	Age dependency ratio
Province		
Eastern Cape	9.18	75.7
Free State	7.31	55.4
Gauteng	6.16	38.1
KwaZulu-Natal	6.92	64.8
Limpopo	7.74	81.8
Mpumalanga	6.28	64.6
Northern Cape	8.24	56.4
North West	7.34	57.0
Western Cape	7.80	48.2
South Africa	7.32	58.7
Population Group		
African	6.37	62.2
Coloured	6.35	53.4
Indian/Asian	7.84	39.2
White	15.88	43.1
Total	7.32	58.7

Source: Joubert and Bradshaw, 2003/2004.

According to a survey by KPMG (News24, 2010), the ratio for working people to elderly in South Africa was 10 to one in 2010. This ratio is expected to move to five to one by 2050. Health care, housing and social services will all be affected by this ageing population trend (News24, 2010).

3.2 SOCIO-ECONOMIC CONDITIONS OF OLDER PERSONS

Elderly people are consistently among the poorest of the poor and their needs are often not recognised and acknowledged. They are systematically denied access to credit, employment, training and other services that could improve their income. This further confirms the assumption that older people might be more reliable on governments for survival. (Joubert & Bradshaw, 2003/2004:152).

Despite efforts to change the inequalities, a report published on poverty and older persons found that 30% of people aged 50 years and older were staying in households that earn less than R800 per month during 1999 (Joubert & Bradshaw, 2003/2004). These people were also least likely to feel the positive outcome of the development initiatives and growth.

3.3 DEFINING AND MEASURING POPULATION AGEING

3.3.1 The ageing of a population

The ageing of a population is often measured by an increase in the percentage of elderly people of retirement age (Gavrilov & Heuveline, 2003). Nowadays, a society is considered relatively old when the fraction of the population aged 65 years and older exceeds 8 to 10% of the total population. Using this measurement, the percentage of the elderly population in the United States of America stood at 12.6% in 2000, compared with only 4.1% in 1900. The increase is projected to be 20% by 2030 (Gavrilov & Heuveline, 2003). This will probably not only be true for the United States but also for other countries in the world.

The ratio of the elderly dependent population to the economically active (working) population is used to assess intergenerational transfers, taxation policies and saving behaviour (Gavrilov & Heuveline, 2003).

3.3.2 The world's elderly population

In 2000, the world's elderly population stood at 600 million. By 2050, this figure is projected to reach two billion (Makiwane, 2011:20-22). Makiwane (2011:20-22) further states that persons 60 years and older currently make up 10% of the world population, which is unequally distributed between the developed and the developing worlds. In Africa alone, there were about 40 million people over 60 years in 2002. This figure is projected to reach 103 million by 2050. Makiwane (2011:20-22) also concludes that households headed by older people have become a refuge for members of other generations who

have no income of their own. This has implications for social policy, as the basic social services and financial support for older people might need to be restructured to accommodate the additional caring role they play in society (Makiwane, 2011:20-22).

3.3.3 Other problems faced by an ageing population

Some other problems an ageing population faces are slow growth and low productivity in the marketplace, a rise in public spending and labour shortages. Labour forces are shrinking and the number of pensioners is increasing. More people retire and fewer younger ones take their place. The remaining workers will be older and might be less productive. In 1900, the average life expectancy at birth for the whole world was around 30 years, and under 50 years for those living in rich countries. The current figure is 67 years and 78 years respectively and is still increasing. The positive side to this is that it seems that elderly people today are staying healthier, fitter and more active for much longer (The Economist, 2009).

Ageing will also have an effect on the financial markets. According to the life-cycle savings theory of Franco Modigliani and Richard Brumberg put forward in the 1950s (The Economist, 2009), people try to evenly spread their personal consumption over the course of their lives, spending more in their youth and old age and saving more in their middle years. As populations age, economic savings will be exhausted and assets sold off.

For public finances, ageing is a huge headache (The Economist, 2009). Public pensions make up the majority of retirement income. Public pension will either take up a much larger portion of the Government's budget, or the Government will have to become a lot less generous, which will lead to political resistance. Health care needs will also grow much faster as people get older and become frailer (The Economist, 2009).

3.3.4 Health promotion efforts to save additional expenses after age 65

Promoting health among people aged 65 years and younger might improve the health and life expectancy of elderly people without the need to increase health expenditure (Christensen *et al.,* 2009). The longest-living individuals have health profiles that are, in

many respects, similar to those of individuals who are ten years or so younger. Even in South Africa it will be beneficial to look at these profiles as it might save the Government on additional medical expenses those people age 65 years and older might rely on, therefore saving on the government budget (Christensen *et al.,* 2009).

People worldwide will probably have to start facing the fact that as they are living longer, they will need to also work longer and receive a smaller pension (The Economist, 2009). This view is assumed to be just as accurate for South Africa.

3.3.5 Implications of ageing trends on state budgets

State budgets will need to be adjusted to be able to deal with the new demographic imbalance as a result of the ageing trend (Pelser, 2005). Populations that are growing older bring much pressure to bear on the state. Numerous developing countries already face the inability to meet the health, housing and financial needs of the elderly. Between a quarter and a third of the domestic product of countries such as Germany, Italy, France, Japan and Spain will have to be spent on pension and health care before the current generation, which means people who are 30 years old, reaches retirement age. In Germany, state expenditure on pensions will increase in 2040 to 15.4% of the gross national product, from an already high figure of 10.3%. The number of people that are economically active and have supported those people that have retired will drop to 1.4 from 2.6 (Pelser, 2005).

3.4 DISTINCTIVE NEEDS OF, AND PLANNING FOR, A PROGRESSIVE AGEING POPULATION

The rapid increase in the number of people 65 years and older is more than in any other age group of the population will exert a marked impact on state finances in decades to come. The following question can be asked: What must the level of benefits payable to retired people be and at which age will they qualify for state benefit in the future? This age group is proportionately making bigger claims on the health care system than any other age group. Therefore, this group has a big impact on the constitutional responsibility of the

state in respect of health. There is little doubt that there will be an increase in the future on the dependency burden in respect of the elderly, which will have to be borne by the economically active generation. Careful rethinking and fresh planning for the financial care of the elderly will be required for this increased burden (Pelser, 2005).

The economically active population is fighting a battle of its own and making equally strong demands on the limited government resources as a result of HIV/Aids. Exceptional expertise and insight will be required to allocate state funds equitably between these groups and to balance diverse interests. Future economic realities in South Africa might leave the Government with little room to provide financial support to the elderly on a large scale (Pelser, 2005).

Housing for the elderly, specifically facilities provided by the state for the caring of the elderly, is a second area that already poses particular challenges in respect of the care for the elderly (Pelser, 2005). By the end of 2002, there were only seven state homes for the elderly in South Africa with a total capacity of 794 places, according to the South African Department of Social Development 2002 (Pelser, 2005). When adding the private sector, the total number of subsidised homes for the elderly in South Africa came to 474. This is a steep decline from the 571 places in 1999 (Pelser, 2005). Most of the state-subsidised homes for the elderly are in the two most urbanised provinces in the country, namely Gauteng and the Western Cape. The situation of the ageing population already requires intervention and solution as this problem with its challenges will be part of South Africa for a few more decades to come (Pelser, 2005).

The time to death rather than ageing is possibly the main driver for escalating health care costs (Palangkaraya & Yong, 2009). Palangkaraya and Yong (2009) found population ageing to be negatively correlated with health expenditure once proximity to death is accounted for. For the US per capita health care expenditure after age 65 years is three times that of before age 65. On the other hand, a much lower labour participation rate of elderly persons implies a lower tax base for government revenue. Thus, population ageing can result in a double effect in public finance, increased health expenditures coupled with a reduction in tax revenue (Palangkaraya & Yong, 2009).

3.5 NOTABLE FEATURES OF POPULATION AGEING

The most rapid growth of the population occurs in the oldest age group (80 years and older) and those 100 years and older, leaving the biggest percentage of the population in retirement age. Most of the older people are also living in the lower-income group and a high percentage of them are living below the poverty line and therefore population ageing is associated with poverty, particularly in developing countries. For the world as a whole, the elderly population will grow from 6.9% in 2000 to a projected 19.3% in 2050. (Gavrilov & Heuveline, 2003).

Possible solutions to the crisis at hand because of ageing populations are cuts in benefits, tax increases, massive borrowings, lower cost-of-living adjustments, later retirement ages or a combination of these. These are just a few of the challenges governments are facing around the world. South Africa is not excluded from these challenges. The United Nations and other international organisations developed recommendations intended to mitigate the adverse consequences of population ageing. These include the reorganisation of social security systems, changes in labour, promotion of active and healthy lifestyles and more co-operation between governments in resolving socio-economic and political problems posed by population ageing. (Gavrilov & Heuveline, 2003).

Table 3 shows the observed and forecasted percentages of the elderly (65 years and older), in selected areas, regions and countries of the world for 1950, 2000 and 2050.

From Table 3, it can be seen that for the entire world, the people over 65 years, were 5.2% of the population in 1950. This number increased to 6.9% in 2000 and is projected to further increase to 19.3% by 2050.

For Africa, the figures were 3.2%, 3.3% and 6.9% for the year 1950, 2000 and 2050 respectively.

Table 3: Dynamics of population ageing in the modern world

Major area, region and country	1950 %	2000 %	2050 %
World	5.2	6.9	19.3
Africa	3.2	3.3	6.9
Latin America and the Caribbean	3.7	5.4	16.9
China	4.5	6.9	22.7
India	3.3	5.0	14.8
Japan	4.9	17.2	36.4
Europe	8.2	14.7	29.2
Italy	8.3	18.1	35.9
Germany	9.7	16.4	31.0
Sweden	10.3	17.4	30.4
United States of America (USA)	8.3	12.3	21.1

Source: Gavrilov and Heuveline (2003)

3.6 THE IMPACT OF HIV AND AIDS ON THE ROLE OF THE ELDERLY

In sub-Saharan Africa, where two million deaths are recorded annually among the working population, children and the elderly have to take up responsibilities that are normally not the responsibility of a youngster or an elderly person. The rapid growth of population ageing in Africa and the impact of HIV/Aids add another dimension to the role of the elderly. The elderly are themselves infected and the virus places a burden on them as carers as many have to care for their sick children or orphaned grandchildren. This makes them more vulnerable and also reliant on the government for assistance (Mokgele, 2011).

The elderly are in some instances being abused financially. Transport, medical costs of the ailing children, school fees for orphaned grandchildren and funeral expenses for family members are some of the expenses that they have to bear. The least economically productive in society, the elderly, bear the financial burden of caring for sick relatives and orphaned grandchildren. This again poses an additional burden on the government to assist in helping the elderly by providing financial assistance,.again a burden on the budget, additional expenses requiring additional income streams. (Mokgele, 2011).

3.7 FURTHER PROBLEMS OF AN AGEING POPULATION

3.7.1 Increasing elderly population supported by a shrinking workforce

Most European nations and Japan face the problem that an increasing elderly population will have to be supported by a stable or shrinking workforce. When state-based pension schemes were established, they were funded on a pay-as-you-go basis with pensioner benefits paid out of current taxation. At the time, this was not seen as a problem because life expectancy was limited and populations were growing. Now that things are changing, governments tried to restrict the generosity of state pensions and encourage the growth of private provisions (Coggan, 2002).

However, private provisions do not make the problem go away. A pension is a claim on the assets and income of a future generation. Whether funded by taxation or by equity bond ownership, that future generations will still have to create sufficient wealth to meet those pension obligations. At the end it is still the individual that has to pay for his/her own pension, whether through taxes or through the prices they pay to the corporate sector (Coggan, 2002).

In the modern welfare state, income is redistributed between the rich and the poor or between the young and the old (Razin, Sadka & Swagel, 2004). With the ageing of the population, the proportion of voters receiving social security has increased. These pensions are by far the largest component of the transfer in all industrial economies. Seven out of 10 pensions in Germany come from state schemes. This state scheme is financed mainly by a levy on wages. Half of it is paid by the worker and the other half by the employee. The benefits provided by the welfare state are financed to a large extent (but not entirely) by payroll (labour) taxes (Razin *et al.,* 2004).

As the workforce expands less rapidly, or even shrinks, it means that there will be less wealth available to pay pensions. Therefore, plans should be made to increase the workforce, or otherwise to increase the retirement age. This will, however, require an enormous cultural shift in the world, where anyone older than 50 has difficulty finding a

new job. A rapid improvement in productivity would generate enough wealth to allow countries with ageing populations to afford their pensions (Coggan, 2002).

3.7.2 Transition to an ageing population

The transition to an ageing population can be divided into three stages, namely rejuvenation, demographic dividend and ageing (Oxford analytica Daily Brief Services, 2007). *Rejuvenation* is the stage where the proportion of children increases as infant mortality drops. *Demographic dividend* occurs when the birth rate drops, marking the start of the decline in the proportion of children and the rise in the proportion of working-age adults. This stage typically lasts around 50 years but now appears to be shortening. With appropriate economic policies, a country can achieve an important increase in per capita income. The *ageing stage* is the stage which occurs after a period of sustained decline in fertility and increase in life expectancy, the proportion of both children and working-age adults drops and only that of older people rises. The ageing of the population will poses a challenge for economic growth as its 'demographic dividend' gradually disappear and the working-age group shrinks relatively to the total population (Oxford analytica Daily Brief Services, 2007).

3.7.3 Crucial measures for sustainable growth

A few crucial measures for sustainable growth were identified (Oxford analytica Daily Brief Services, 2007):

- Elimination of incentives for early retirement – the private pension system of some countries such as Chile, provides incentives for early retirement. It is, however, doubtful that the elimination of the incentives would have a significant impact because early retirement is confined mainly to high-income groups. In most countries, low pension coverage means that many people continue working well beyond the statutory retirement age.

- More attractive working conditions for older people – making adjustments for the different needs and preferences of older workers. This would imply combating prejudice and discrimination. According to opinion polls, up to 70% of the population

in some countries believes that older people suffer discrimination, suggesting that the region is culturally ill prepared for ageing.

- Increase labour productivity – international experience suggests that population ageing tends to reduce labour productivity. This is a phenomenon attributed partly to technological changes. This indicates a need to increase adult education and workplace training and this should not only focus on younger workers.

The Oxford analytica Daily Brief Services, (2007), however, suggests that productivity gains would have to be very significant in order to compensate both for a shrinking workforce and the impact of an ageing population on productivity. In Japan, where ageing has been particularly marked, it is estimated that out of the 2.6% annual increase in productivity required to sustain 2% per capita income growth over the next 50 years, more than four fifths would go to counteract the impact of population ageing (Oxford analytica Daily Brief Services, 2007).

Evidence about average health spans is contradictory' (Cookson, 1998). Life expectation in the UK has increased by up to 15 years since World War 2. This, however, has not been matched by any increase in health span. Up to 11 of the extra years are years of illness and disability. It is, therefore, assumed that these people are no longer productive and will rely on income from outside sources for daily expenses such as from the government (Cookson, 1998).

3.8 THE POSITIVE SIDE OF AN AGEING POPULATION

The ageing population of the Netherlands could show the path for economic growth (Holden, 2012). Ageing populations are the world's greatest untapped economic resource. In the Netherlands, 15% of the current population is aged 65 years and over. By 2050, this figure is projected to reach 26%. With a quarter of the population set to retire by mid-century, the Netherlands can save its national economy if it enables the ageing to grow the GDP (Holden, 2012).

The Netherlands also adopted a proposal to raise the official retirement age to 66 in 2020. The country projected that this will save the government roughly $1 billion. People in their 70s and 80s should continue to contribute to economic growth. The Netherlands also plans to raise the retirement age even further to 69 by 2040. Unfortunately, the ratio of workers to pensioners is still two to one. This is both unsustainable and anti-growth (Holden, 2012).

The positive outlook for the Netherlands can be applied to other countries. The whole world, facing the same problem of an ageing population, can take something from their idea of still using the ageing population to contribute to the national economy. Elderly people need to be encouraged and given incentives to remain in the workplace even after they have passed the state-established retirement ages. 'The crisis of an ageing population might also be an opportunity' (Holden, 2012).

3.9 OPPORTUNITIES AND CHALLENGES OF AN AGEING POPULATION FOR RETAIL BANKING

The increase in life expectancy, together with an increasing old age dependency ratio, has implications for the demand on financial services (Lindbergh, Nahum & Sandgren, 2007). The part of the population classified as the elderly is getting larger. Within 20 years close to 50% of the population from the fifty richest countries worldwide will be of working age. The other 50% will be part of the dependant population, those that are too young or too old to work. Labour markets, childcare, elderly care and health care as well as financial markets will be greatly impacted by this transition. (Lindbergh *et al.,* 2007).

The individuals working and paying taxes will be relatively few in future. Society will benefit if individuals that retire have sufficient funds to live through their retirement, without the need to obtain assistance from social welfare institutions. The accumulation of assets by individuals with retirement in mind is becoming even more important because of higher life expectancies and the increase of the population that are coming closer to retirement. (Lindbergh *et al.,* 2007).

The elderly rely on other aspects of the welfare system such as health care, apart from the pensions they receive in cash. In the future, individuals will be retired for longer if the retirement age is not changed and therefore they will need more income to see them through retirement. If they do not have sufficient savings to provide an income during their retirement years, they will need to alter their standard of living during retirement. The increased time in retirement results partly in the increased need for higher savings. However, the increased risk of health care spending, which follows increased longevity, also has an effect on the need for higher savings. This need for higher savings is most probably going to have an effect on the way people think about their retirement savings, and therefore also on the way in which they spend their money during the years they are working. The savings of society today will have important implications for the future welfare of the elderly population, economic growth and consumption. (Lindbergh *et al.,* 2007).

State-funded pensions and health care are only some of the publicly provided benefits that more countries are saving on. There will be a greater demand for financial products and services to compensate for the shift in liability to the individual. The fact that people live longer today creates worries that they might not have sufficient savings. This might happen if their savings are not enough or if people retire earlier than planned for and/or spend too much of their retirement savings too fast when retired (Lindbergh *et al.,* 2007).

Tax rules and tax incentives are ways to encourage long-term savings. However, studies have shown that overall savings are not really enhanced by tax incentives, but that tax incentives only reallocate savings. Many countries have realised that their population is not saving enough (under saving). A possible reason for this could be a lack of financial knowledge. Greater responsibility is placed on the individual to save and plan for retirement as governments have made changes to their pension plans, because of the ageing population crisis. Financial planning will therefore be of great importance to these individuals. (Lindbergh *et al.,* 2007).

3.10   CONCLUSION

Together with an ageing population, South Africa also faces an ageing elderly population, those individuals 60 years and older. An ageing population brings additional factors to the

table. They might have additional needs, for example, health care and socio-economic factors because the needs of older people are seldom acknowledged, and additional planning for old age is required, both by the individual and the Government. Only once all additional factors regarding old age have been taken into account, can these individuals be looked after to also be part of the better South Africa.

In the next chapter, the effect of the old age pensions in South Africa will be looked at. A discussion will follow on the number of individuals that receive the grants and the effect on the Government for the payment of these grants.

CHAPTER 4

A SOUTH AFRICAN PERSPECTIVE

4.1 INTRODUCTION

The life expectancy for South Africans gives a bit of a different picture than the life expectancy for people living in other countries in the world. The life expectancy in South Africa declined during 1990 and 2007, making South Africa one of only six countries among 37 developed and developing countries where life expectancy fell. Only Zimbabwe showed a steeper decline (Irin news, 2009).

The average life expectancy in South Africa declined from an average for men and women of 62 years to 50 years in 1990 and 2007 respectively. Projections were that the life expectancy will fall even further to 48 years for men and 51 years for women by 2011. HIV/Aids also play a part in the decline of life expectancy in South Africa. Those provinces in South Africa with the highest number of HIV cases have the lowest life expectancies. KwaZulu-Natal was at an average life expectancy for men and women of 43 years, followed by the Free State and Mpumalanga, both at an average life expectancy for men and women of 47 years (Irin news, 2009).

4.2 LIFE EXPECTANCY IN SOUTH AFRICA AND AFRICA

Europeans live on average 30 years longer than Africans (BBC News, 2002). The life expectancy of Africans dropped by 15 years during the period 1982 to 2002 because of the spread of HIV/Aids, together with the effect of continuing wars and poverty. The majority of Africans are expected to die before the age of 48 years. In contrast, the European average is 74.9 years for men and 81.2 years for women. In sub-Saharan African countries such as Botswana and Malawi, the picture is even more depressing, with the average life expectancy already below 40 years. (BBC News, 2002).

In 2004, life expectancy at birth for South African males was suggested to be 45.1 years while the life expectancy for women in the same year was reported as 50.7 years (Lehohla, 2004).

The impact of HIV/Aids is particularly notable in many African countries. Life expectancy at birth for 2010 to 2015 would have been much higher if it was not for HIV/Aids as shown below (News Medical, 2012):

- Botswana would have had a life expectancy of 70.7 years, but due to HIV/Aids infection, the affected life expectancy decreased to 31.6 years;
- South Africa would have had a life expectancy of 69.9 years, but due to HIV/Aids infection, the affected life expectancy decreased to 41.5 years; and
- Zimbabwe would have had a life expectancy of 70.5 years, but due to HIV/Aids infection, the affected life expectancy decreased to 31.8 years.

4.3 FACTORS THAT INFLUENCE LIFE EXPECTANCY

Factors that influence an individual's life expectancy are generic disorders, obesity, access to health care (medical care), diet (nutrition) and lifestyle, exercise, tobacco smoking, drug use, excessive alcohol use, climate, economic circumstances, occupation and gender. Life expectancy in wealthier areas is several years longer than in poorer areas. Life expectancy is also likely to be affected by exposure to high levels of highway air pollution or industrial pollution. This is one way in which occupation can have a major effect on life expectancy (News Medical, 2012).

4.3.1 Life expectancy variation over time

Table 4 represents the estimates of the life expectancy of the population as a whole over hundreds of years since the Upper Palaeolithic period up to the current world today (2010 onwards). In many instances, life expectancy varied considerably according to class and gender. In the past, life expectancy increased during the years of childhood, as the individual survived the high mortality rates then associated with childhood. (News Medical, 2012).

For instance, Table 4 lists the life expectancy at birth in Medieval Britain at 30 years. A male member of the English aristocracy at the same period could expect to live, that survived from birth until the age of 21 years:

- an additional 43 years – becoming 64 years of age between 1200 and 1300;
- an additional 24 years – becoming 45 years of age between 1300 and 1400 (due to the impact of the Black Death);
- an additional 48 years – becoming 69 years of age between 1400 and 1500; and
- an additional 50 years – becoming 71 years of age between 1500 and 1550.

Table 4: Life expectancy variation over time

Humans by era	Average lifespan at birth (years)
Upper Palaeolithic	33
Neolithic	20
Bronze Age and Iron Age	35+
Classical Greece	28
Pre-Columbian North America	25-30
Medieval Islamic Caliphate	35+
Medieval Britain	30
Early modern Britain	30-45
Current world average	67.2

Source: News Medical (2012)

4.3.2 Lifestyle-adjusted life expectancy

Securitas Financial Group (N.d), an authorised financial services provider, presented a calculator that calculates the Lifestyle-adjusted life expectancy. This calculator does not claim to be 100% accurate. It has been developed over more than 20 years and tested on approximately 5 000 mortalities in South Africa with an accuracy of 90% plus. Questions asked for this calculation are as follows (Securitas Financial Group, N.d.):

- present age;
- age of planned retirement;
- gender;
- daily activities;

- weekly exercise and intensity of exercise;

- lifestyle – stressful or relaxed;

- eating habits: eating fatty red meat and oily food five times or more per week;

- weight: being overweight or not;

- drinking habits: an individual's daily alcohol consumption;

- smoker or non-smoker;

- training and qualification: having a degree or professional training;

- medical history: going for a full medical consultation at least every 18 months;

- medical history: suffering from disease or serious illness; and

- family history.

The calculator therefore shows that there are multiple factors to take into account for an individual's life expectancy. The life expectancies used by governments and agencies therefore reflect an overall assumption of life expectancy (Securitas Financial Group, N.d.).

4.4 SOUTH AFRICAN LIFE EXPECTANCY TABLES

Life expectancy is important for a government to be able to anticipate and budget for the possible number of individuals that will rely on social grants, for instance, old age pensions. This section will provide information regarding the life expectancies of South Africans over a period of time.

4.4.1   Life expectancy tables for the period 1921 to 1985

Published life expectancy tables were obtained for South Africa since the 1920s (Bah, 2000:283-306). These life expectancies were tabled for white males and females, coloured males and females and Asian males and females. Table 5 shows the life expectancies at birth for the mentioned race groups for the period 1921 to 1985 (Bah, 2000:283-306).

The information regarding the life expectancies was only available for the coloured population from 1936, and for the Asian population from 1946 as shown in Table 5.

Table 5: Life expectancy at birth for the period 1921 to 1985

Year	White male	White female	Coloured male	Coloured female	Asian male	Asian female
1921	55.60	59.20	-	-	-	-
1936	59.00	63.06	40.18	40.86	-	-
1946	63.78	68.31	41.70	44.00	50.70	49.75
1951	64.57	70.08	44.82	47.77	55.77	54.75
1970	64.73	71.67	49.62	54.28	57.70	59.57
1980	66.59	74.24	54.34	62.55	62.26	68.39
1985	68.37	75.84	57.92	65.52	64.12	70.74

Source: Bah (2000:283-306)

In 1936, the life expectancies for white males and females were 19.18 years and 22.20 years more than for coloured males and females respectively. In 1946, the differences between white male and female and coloured male and female were 22.08 and 24.31 respectively. The differences between white male and female and Asian male and female for 1946 were 13.08 and 18.56 respectively. This shows that the difference in life expectancy between whites and Asians is less than the difference between whites and coloured. This shows that the average life expectancy for South Africa is in some or other way influenced by the different racial groups in South Africa (Bah, 2000:283-306).

4.4.2 Life expectancy tables for the period 2001 to 2011

In the mid-year population estimates for 2011 from Statistics South Africa (2011), the life expectancy for South Africans shows a decline between 2001 and 2005 as shown in Table 6. An increase has since then been seen partly due to the roll-out of antiretroviral medication for those individuals that contracted HIV/Aids.

Table 6 shows the life expectancy for a South African male for 2011 at 54.9 years and for females for the same period at 59.1 years. This includes all racial groups of South Africa. The increase in life expectancy at birth is expected to continue in future (Statistics South Africa, 2011).

Table 6: Assumptions about life expectancy at birth, 2001 to 2011

	Life expectancy at birth		
Year	Male	Female	Total
2001	52.1	57.8	55.1
2002	51.1	56.4	53.9
2003	50.3	55.2	52.9
2004	49.8	54.4	52.2
2005	49.6	53.8	51.8
2006	50.1	54.2	52.3
2007	50.9	54.9	53.0
2008	52.1	56.1	54.1
2009	53.3	57.5	55.5
2010	54.3	58.5	56.5
2011	54.9	59.1	57.1

Source: Statistics South Africa (2011)

Together with the life expectancy, the number of people in the country also plays a role for the calculations the Government needs to make in order to make the budget estimates for the social grants that individuals will rely on.

4.5 SOUTH AFRICAN POPULATION ESTIMATES

The population estimates cover all the residents of South Africa for the 2011 mid-year period as shown in Table 7. This is based on the latest available information from Statistics South Africa (2011).

4.5.1 Population estimates by race

The mid-year population for 2011 (Table 7) was estimated by Statistics South Africa, (2011) at 59.59 million. Approximately 52% (26.07 million) of the population is female. Nearly one third (31.3%) of the population is younger than 15 years and approximately 7.7% (3.96 million) is 60 years or older. This shows that nearly 4 million individuals qualify for old age pension if only age is taken into consideration (Statistics South Africa, 2011).

The census done in South Africa during 2011 shows that the African population in South Africa is in the majority and constitutes 79.5% (40.21 million) of the total population with the whites and coloureds at 9% each (4.57 million and 4.54 million respectively). The Indian/Asian population only makes up 2.5% (1.27 million) of the total South African population (Statistics South Africa, 2011).

Table 7: Mid-year population estimates by population group and gender, 2011

Population group	Male		Female		Total	
	Number	% of male population	Number	% of female population	Number	% of total population
African	19 472 038	79.4	20 734 237	79.5	40 206 275	79.5
Coloured	2 188 782	8.9	2 351 008	9.0	4 539 790	9.0
Indian/Asian	626 690	2.6	648 177	2.5	1 274 867	2.5
White	2 227 526	9.1	2 338 299	9.0	4 565 825	9.0
Total	**24 515 036**	**100.0**	**26 071 721**	**100.0**	**50 586 757**	**100.0**

Source: Statistics South Africa (2011)

4.5.2 Population estimates by province

The mid-year population estimates by province, as shown in Table 8, is important information needed by the Government. This is to establish how the budget figures should be spread per province to be able to assist in the needs of the individuals living in the provinces who rely on the Government for social grants such as old age pensions (Statistics South Africa, 2011).

Table 8: Mid-year population estimates by province, 2011

Province	Population estimate	% of total population
Eastern Cape	6 829 958	13.50
Free State	2 759 644	5.46
Gauteng	11 328 203	22.39
KwaZulu-Natal	10 819 130	21.39
Limpopo	5 554 657	10.98
Mpumalanga	3 657 181	7.23
Northern Cape	1 096 731	2.17
North West	3 253 390	6.43
Western Cape	5 287 863	10.45
Total	**50 586 757**	**100.0**

Source: Statistics South Africa (2011)

4.5.3 Estimate of population growth

The estimated annual population growth rate also needs to be taken into account to be able to make the necessary projections and assumptions for future calculations. Table 9 shows these growth rates for the period 2001 to 2011 (Statistics South Africa, 2011).

Table 9: Estimate of annual population growth rate, 2001 to 2011

Period	Male (number of people) (times the previous year's figures)	Female (number of people) (times the previous year's figures)	Total (number of people) (times the previous year's figures)
2001-2002	1.42	1.25	1.33
2002-2003	1.40	1.22	1.30
2003-2004	1.37	1.19	1.28
2004-2005	1.35	1.17	1.25
2005-2006	1.32	1.14	1.23
2006-2007	1.30	1.11	1.20
2007-2008	1.27	1.09	1.18
2008-2009	1.25	1.06	1.15
2009-2010	1.22	1.03	1.12
2010-2011	1.20	1.00	1.10

Source: Statistics South Africa (2011)

The implied rate of growth for the South African population declined between 2001 and 2011. The estimated overall growth rate declined from 1.33% in 2001 and 2002 to 1.1% in 2011. The growth rate for females is lower than that for males (Statistics South Africa, 2011).

4.5.4 Population estimates by age

Tables 10 to 14 present a more detailed breakdown of the South African population. Tables 10 to 14 give the mid-year population estimates by population group (African, coloured, Indian/Asian and white) for a better understanding of the combination of the total South African population (Statistics South Africa, 2011). For the purposes of this study and a combined figure for the age groups applicable in this study, the combined figures will be shown as a total for the age groups 0 to 14 years (child dependant age group), 15 to 59 years (working population) and 60 to 80+ years (elderly population), instead of increments of four years (Statistics South Africa, 2011).

Table 10: Mid-year population estimates for Africans by age and gender, 2011

Age	Africans		
	Male	Female	Total
0-14	6 774 162	6 672 480	13 446 642
15-59	11 731 401	12 552 914	24 284 315
60-80+	966 475	1 508 843	2 475 318
Total	**19 472 038**	**20 734 237**	**40 206 275**

Source: Statistics South Africa (2011)

Table 11: Mid-year population estimates for coloureds by age and gender, 2011

Age	Coloureds		
	Male	Female	Total
0-14	628 760	622 501	1 251 261
15-59	1 422 655	1 533 235	2 955 890
60-80+	137 367	195 272	332 639
Total	**2 188 782**	**2 351 008**	**4 539 790**

Source: Statistics South Africa (2011)

Table 12: Mid-year population estimates for Indians/Asians by age and gender, 2011

Age	Indians/Asians		
	Male	Female	Total
0-14	144 669	141 492	286 161
15-59	419 753	427 570	847 323
60-80+	62 268	79 115	141 383
Total	**626 690**	**648 177**	**1 274 867**

Source: Statistics South Africa (2011)

Table 13: Mid-year population estimates for whites by age and gender, 2011

Age	Whites		
	Male	Female	Total
0-14	422 289	405 915	828 204
15-59	1 382 324	1 414 379	2 796 703
60-80+	422 913	518 005	940 918
Total	**2 227 526**	**2 338 299**	**4 565 825**

Source: Statistics South Africa (2011)

Table 14: Mid-year population estimates for South Africa by age and gender, 2011

Age	South Africa		
	Male	Female	Total
0-14	7 969 880	7 842 388	15 812 268
15-59	14 956 133	15 928 098	30 884 231
60-80+	1 589 023	2 301 235	3 890 258
Total	**24 515 036**	**26 071 721**	**50 586 757**

Source: Statistics South Africa (2011)

A calculation from Tables 10 to 14 determines that 7.7% of the total population is aged 60 to 80+ years. This is 4.9% for Africans, 0.7% for coloureds, 0.3% for Indians/Asians and 1.9% for whites. This means that nearly 8% of the total population of South Africa qualifies for old age pension if only age is taken into consideration (Statistics South Africa, 2011).

4.6 POVERTY IN SOUTH AFRICA

In Chapter 2, the qualification criteria for old age pension as set out by the South African Government Services (n.d.) were discussed. To summarise: to be able to qualify for the old age pension an individual must earn less than R44 880 per year. This is less than R3 740 per month. For married couples, the combined income should be less than R89 760 (South African Government Services, n.d.).

Poor South Africans are the people relying on the Government for social grants, such as old age pension, to be able to have access to some kind of income for their daily basic needs such as food and other essential requirements such as health care (Education and training unit, n.d.).

4.6.1 The poverty line in South Africa

The *poverty line* is a monthly average on which a family can survive (Education and training unit, n.d.). This is also one of the most common ways of measuring poverty. If a family has an average income below this amount, the household and its members are said to be living in poverty. The poverty line is an amount that changes according to the size of the household, its age and composition. Poverty can also be measured by measuring the poverty gap. This shows how far a household fall below the poverty line, also showing the depth or degree of poverty of a household (Education and training unit, n.d.).

The weakness of these measures is that they only measure income and not any other state support or assets that the family can use. The poverty line in South Africa in 2003 was about R1 100 per average family (average household size) per month (Education and training unit, n.d.). The average household size for South Africa was given as 3.9 people by Statistics South Africa (n.d.). This is also shown in Table 16. A huge part of the population has less than R1 100 income per month and therefore the Government also provides free or subsidised water, electricity, schooling, health care and housing to many poor people. These are things that the poor people would otherwise have had to pay for out of their limited income (Education and training unit, n.d.).

Table 15 gives an indication of the percentage of the population per province that was living below the poverty line in 2002 (Education and training unit, n.d.).

Table 15: Percentage of people living below the poverty line per province, 2002

Province	Percentage of people living below the poverty line
Eastern Cape	68.3
Free State	59.9
Gauteng	20.0
KwaZulu-Natal	50.5
Limpopo	60.7
Mpumalanga	54.8
Northern Cape	54.4
North West	56.5
Western Cape	28.8
National	48.4

Source: Education and training unit (n.d.)

4.6.2 Average household size in South Africa

The average household size in 2003 for South Africa was 3.9 people per household. The average household size per province for the years 1990, 1994, 1996, 2001 and 2007 is shown in Table 16 (Statistics South Africa, n.d.).

Table 16: Average household size per province for 1990, 1994, 1996, 2001 and 2007

Year	EC	FS	GP	KZN	LP	MP	NC	NW	WC	SA
1990	5.2	3.9	3.5	5.7	5.2	4.6	4.3	3.8	3.9	4.5
1994	4.9	4.0	3.9	5.0	4.7	4.8	4.1	4.5	3.9	4.4
1996	4.6	4.1	3.7	5.0	4.9	4.6	4.3	4.6	3.9	4.4
2001	4.1	3.6	3.2	4.2	4.3	4.0	3.8	3.7	3.6	3.8
2007	4.1	3.5	3.3	4.6	4.3	3.9	4.0	3.7	3.8	3.9

Source: Statistics South Africa (n.d.)

EC=Eastern Cape, FS=Free State, GP=Gauteng, KZN=KwaZulu-Natal, LP=Limpopo, MP=Mpumalanga, NC=Northern Cape, NW=North West, WC=Western Cape, SA=South Africa.

Table 17 shows the different household sizes per race in South Africa (Statistics South Africa, n.d.).

Table 17: Average household size per race for 1990, 1996 and 2001

Year	African (number of people per household)	Coloured (number of people per household)	Indian/Asian (number of people per household)	White (number of people per household)	South Africa (number of people per household)
1990	4.8	4.7	4.4	3.0	4.5
1996	4.7	4.7	4.3	2.9	4.4
2001	3.9	4.3	4.0	2.8	3.8

Source: Statistics South Africa (n.d.)

In 2001, the average household size for Africans was 3.9 people per household, for coloureds, 4.3 people per household, for Indians/Asians, 4.0 people per household and for whites, 2.8 people per household as indicated in Table 17. In all three years, 1990, 1996 and 2001, the average household size for whites was the lowest.

4.6.3 Poverty and inequality in South Africa

Nearly half the South African population is defined as poor and living below the poverty line (Table 15). About two thirds of the country's poor people live in rural areas and more than two thirds of rural people are poor. In urban areas, only 28% of people are poor. Estimates are that about 56% of blacks are poor, compared with around 36% of coloureds, 15% of Indians/Asians and 7% of whites. Nearly 60% of female-headed households are poor. This is mainly because women historically had less access to education and paid jobs. Many women have always performed unpaid work as mothers and housewives and sometimes women are employed in poorly paid jobs such as domestic workers and farm labour (Education and training unit, n.d.).

Employment opportunities for young people are limited by poverty and lack of education. With the high unemployment rate in South Africa, many young people have no hope of finding work in the formal sector. These are the people that have to attribute towards the income received by the Government to be able to pay social grants such as old age

pensions. The number of people attributing to the income for the Government is therefore also becoming smaller (Education and training unit, n.d.).

Older people are usually not part of the working population anymore and have to be taken care of by the rest of society. In South Africa, most poor older people survive on the monthly old age pension paid by the state. They also have access to free health care, an additional expense for the Government. Household income in urban areas is always much higher than in rural areas. The average household income in the mostly urban Gauteng is six times higher than the average in Limpopo, which is mostly rural. (Education and training unit, n.d.).

Many older people are economically unproductive and they need more medical care, hospitals, pensions, old age homes and food support. Where older people are becoming even older, there are now a large group of pensioners who depend on the Government for support (Education and training unit, n.d.).

4.6.4 Causes of poverty and inequality

Poverty in South Africa is mostly rooted in unemployment and education. Unemployment rates rose steadily under the post-1994 government until 2002. In the beginning of the 2000s, more than 4 million South Africans were unemployed. The unemployment rates dropped marginally since 2002/2003, but unemployment rates are still much higher than they were in 1994 (Seeking, 2007).

Education or the lack thereof, is a second immediate cause of poverty and inequality. A lot of young South Africans leave school and enter the job market with limited skills. They are not equipped for semi-skilled or especially skilled employment. Given that the economy continues to restructure around skilled employment, there is a serious mismatch between the supply and demand for labour. This fuels unemployment among the unskilled workers, and low earnings among those unskilled workers who are lucky enough to find jobs (Seeking, 2007).

4.7 AN OVERVIEW OF INCOME TAX IN SOUTH AFRICA

Personal income tax represents 34% of the total budgeted income of the Government for the 2012/2013 financial year. Individuals who received an annual income of less than R59 750 for the 2012 tax year (R63 556 for 2013) do not pay taxes as they fall below the tax rebate. Therefore, no tax income will be received from these individuals. These are the category of income earners in which the individuals that qualify for the old age pension fall (Lester, 2012).

Table 18 shows the distribution of personal income tax and the total load of each income group.

Table 18: Distribution of personal income tax, 2012/2013

Income bracket (R)	Distribution of individuals (%)	Total load (%)
1 – 60 000	19	0
60 000 – 120 000	25	4
120 000 – 400 000	48	42
400 000 – 5 000 000+	9	54
Total	**100**	**100**

Source: Lester (2012)

Table 18 shows that the income group receiving less than R60 000 per annum represents 19% of the individuals that has to contribute to the 34% of government income. They, however, do not contribute anything to the total government income. The income group receiving R120 000 to R400 000 per annum makes up 48% of the individuals that have to contribute. They, however, only contribute 42% of the total income. The income group receiving more than R400 000 per annum only makes up 9% of the individuals that have to contribute but they carry a 54% load on the contribution to government income from personal income tax (Lester, 2012).

4.8 PROBLEMS ASSOCIATED WITH RETIREMENT IN SOUTH AFRICA

With life expectancy age continuing to increase and the retirement age decreasing, individuals have to fund for their retirement years longer than ever before. In 2000, nearly

15% of the population was already retired (Rose, 2012). The retirement age for South Africa, however, is not fixed as there is no general retirement age. Retirement age in the working environment is set by employers, and therefore can differ from company to company and institution to institution (Mudely, n.d.).

Only somewhere between 6 and 12% of employed people reach retirement age financially secure. In South Africa, if only wealth is taken into account, it will be much more sensible to keep those individuals that need to keep on working to build on their retirement savings, or the lack thereof, in the workforce. The question can be asked: why does retirement depend on age and not health or even wealth? It would make much more sense to keep those older people whose brains are still working and do not have any intention of being bored in retirement to keep on working (Cameron, 2012).

The problem is that most South Africans need to keep working because they do not have sufficient money saved to retire financially secure. The government monthly social old age pension of R1 200 is for minimum survival (Cameron, 2012).

Higher Education Minister Blade Nzimande (City Press, 2012), says that it is counterproductive to let university professors and lecturers retire at age 60 years (as an example), when they could still be part of the education for desperately needed skilled professionals. This will add to the possible reduction in unemployment in South Africa. South Africa is therefore looking into the possibility to increase the retirement age for university professors to 80 years (City Press, 2012).

4.9 A HELPING HAND FROM GOVERNMENT

The previous discussions gave the background on the poor as well as the population size of South Africa. This section will discuss the impact of all this on the Government as well as the expenses the Government budgets for every year to be able to assist individuals that rely on assistance from the Government to be able to survive.

In the early 2000s the Government substantially increased its total expenditure on social assistance to reach more people. Expenditure on social assistance almost doubled from

about 2% of GDP in 1994 (and 2000) to about 3.5% in 2005. In 2003/2004, old age pensions counted for less than half of all social assistance. The social assistance programmes have a major effect on poverty because they target the poor. Almost 60% of social assistance expenditure goes to households in the poorest income groups of South Africa (Seeking, 2007).

The decline in income in the early 2000s appears to be due, primarily, to the expansion of social assistance, for example, tax-financed, non-contributory programmes providing for the elderly, the disabled and poor parents with young children (Seeking, 2007)..

4.9.1 Social development

Income support payments such as old age pensions are administered and funded by provinces with actual payments taking place through agents such as the Post Office and private cash payment contractors. While social grant transfers denominate in all nine provinces, they absorb a much larger portion of available resources in the larger poor provinces such as the Eastern Cape (90.8% in 2002/2003), KwaZulu-Natal (88.4%) and Limpopo (91.8%). In these provinces, the social grants programme, including transfers and administration, absorbs around 95% of the total government budget allocated to these provinces. Poor provinces spend a larger portion of their budget on social development than wealthier provinces. Poor provinces also have more poor pensioners, disabled persons and young children. (National Treasury, 2003).

4.9.2 Old age pensions

The National Treasury communicates and publishes a national budget every year. Part of these budgets is the estimates on national expenditure for given periods published as such on its website. Table 19 shows the number of beneficiaries for the old age pension for the period 2002 to 2015 (depending on the specific year, those figures are either actual figures or projected figures).

Table 19: Beneficiary numbers for old age pension

Year	2007 Estimates of national expenditure	2008 Estimates of national expenditure	2009 Estimates of national expenditure	2010 Estimates of national expenditure	2011 Estimates of national expenditure	2012 Estimates of national expenditure
2002	1 942 000	-	-	-	-	-
2003	2 009 419	-	-	-	-	-
2004	2 060 421	2 060 421	-	-	-	-
2005	2 093 440	2 093 440	-	-	-	-
2006	2 114 117	2 114 117	2 114 117	-	-	-
2007	2 186 189	2 195 018	2 195 018	2 195 018	-	-
2008	-	2 225 354	2 218 993	2 218 993	2 218 993	-
2009	-	-	2 324 615	2 343 995	2 343 995	2 343 995
2010	-	-	2 498 312	2 534 082	2 489 637	2 489 637
2011	-	-	2 643 822	2 680 056	2 659 470	2 646 732
2012	-	-	2 678 191	2 714 896	2 729 359	2 727 404
2013	-	-	-	2 750 190	2 786 026	2 772 745
2014	-	-	-	-	2 844 243	2 835 018
2015	-	-	-	-	-	2 881 146

Source: National Treasury, (2007, 2008, 2009, 2010, 2011, 2012)

From the 2007 estimates it can be seen that 2 186 189 individuals received old age pensions. This figure is projected to be 2 881 146 individuals for 2015 in terms of the 2012 estimates. This is an increase of 694 957 individuals (32%) (National Treasury, 2007, 2008, 2009, 2010, 2011, 2012).

Table 20 shows the actual and projected monetary value of old age pensions.

The amount paid out to individuals as old age pension was R25.934 million in total for the 2008/09 period. This amount increased to R37.3186 million in 2012. This is an increase of R11.3846 million (44%). The projected figure for 2015 is R45 822 600. This is a projected increase of R8 504 000 (23%) from the 2012 figure (National Treasury, 2007, 2008, 2009, 2010, 2011, 2012).

Table 20: Monetary value of old age pension

Year	2007 Estimates of national expenditure	2008 Estimates of national expenditure	2009 Estimates of national expenditure	2010 Estimates of national expenditure	2011 Estimates of national expenditure	2012 Estimates of national expenditure
2004	17 146 000	-	-	-	-	-
2005	18 504 000	18 504 000	-	-	-	-
2006	19 527 000	19 527 000	19 470 000	-	-	-
2007	21 590 000	21 289 000	21 222 000	21 222 000	-	-
2008	22 782 000	22 564 000	22 801 000	22 801 000	22 803 000	-
2009	24 405 000	26 408 000	25 992 000	25 934 000	25 934 000	25 934 000
2010	26 106 000	30 143 000	28 500 000	29 991 000	29 826 400	29 826 400
2011	-	33 216 000	29 902 000	34 058 000	33 970 100	33 750 600
2012	-	-	31 067 000	37 521 000	36 573 600	37 318 600
2013	-	-	-	39 973 000	39 913 100	39 323 100
2014	-	-	-	-	42 975 800	42 526 200
2015	-	-	-	-	-	45 822 600
% Growth (annual average)	7.3	10.2	8.1	11.1	-	-

Source: National Treasury, (2007, 2008, 2009, 2010, 2011, 2012)

Table 21 provides the amounts that an individual who qualifies for old age pension received per month from 2005 to 2012.

The average annual increase over the seven-year period was R57.25 per month (6%). The total increase since 2001 up to 2012 was 111% (National Treasury, 2007, 2008, 2009, 2010, 2011, 2012). Since July 1997, social grants were increased on an annual basis, or more often when required, to take the effect of inflation into account. The decline in the real values of grants during the 1990s was compensated for inflation in full since then (National Treasury, 2003).

Table 21: Monthly old age pension per individual, 2005 to 2012

Year	Monthly rand value	Annual increase
2001	570	
2002	640	70
2003	700	60
2004	740	40
2005	780	40
2006	820	40
2007	870	50
2008	940	70
2009	1 010	70
2010	1 080	70
2011	1 140	66
2012	1 200 (1 220 older than 75 years)	60 (620)

Source: National Treasury. *Budget Information.* 2007, 2008, 2009, 2010, 2011, 2012.

In 2003, two million elderly men and women (aged 65 years and 60 years, the qualifying age for old age pensions then), received old age pensions. Coverage for old age pensions is usually high with nearly 76% of all elderly people in receiving of old age pensions. Nearly 100% of the eligible number of beneficiaries received old age pensions in 2003 (National Treasury, 2003).

In 2003, the National Treasury (2003) already realised a pattern of ageing in the South African society. Given the pattern of ageing in South Africa, the number of elderly is growing significantly faster than the rest of the population, at about 3.3% per year over the period 2003 to 2013. The number of people qualifying for old age pension will continue to increase because of this (National Treasury, 2003). Of all the social assistance grants, the highest spending in 2005/06 was on the old age pensions. For the periods 2007/08 and 2008/09, the old age pension was again the highest spending of all the grants. This was mainly due to inflation adjustments and the equalisation of the old age pension for men (National Treasury, 2007, 2008, 2009, 2010, 2011, 2012).

In the 2008 Budget speech (National Treasury, 2008), the Minister of Finance, Mr Trevor Manual, proposed that the qualifying age for men for old age pension should be reduced from 65 years to 63 years in 2008, 61 years in 2009 and 60 years in 2010. This decrease

in the qualifying age for old age pension artificially increased the old age pension payouts as the number of qualifying beneficiaries was getting higher.

The current trends in population demographics in 2012, which also indicate that the size of the elderly population is growing by about 3%, are still an important area of focus for the Government. The focus will be on active ageing, promoting and protecting the rights of older persons and promoting intergenerational solidarity, which enables society to rely increasingly on the skills, experience and wisdom of older persons (National Treasury, 2007, 2008, 2009, 2010, 2011, 2012).

4.10 CONCLUSION

As the South African population is steadily growing, the number of older people is also grows and more people reach retirement age. More people therefore enter the qualifying age of 60 years for old age pension. Due to the fact that unemployment and poverty are also still very much part of the South African society, more people will qualify for the old age grant in terms of the means testing. Therefore, it can be assumed that the amount budgeted by the Government for old age pensions every year is not going to decrease soon. The information provided in this chapter shows that it was expected that the population growth rate would be 1.10 times for the 2010 to 2011 period. The growth rate for old age pension beneficiaries for the same period was 1.11 times. Even more money needs to be budgeted for in greater percentage growths every year to assist older people with income.

CHAPTER 5

AN INTERNATIONAL COMPARISON WITH CANADA

5.1 INTRODUCTION

In Chapter 4, the statistics for South Africa were dealt with. In this chapter, the same statistics will be analysed for Canada, being a developed country whereas South Africa is a developing country. This is to show the differences if any, between developing and developed countries using South Africa and Canada as examples.

5.2 LIFE EXPECTANCY IN CANADA

The steady increase in the life expectancy of Canadians over the past century is due to improved nutrition, better hygiene, access to safe drinking water, effective birth control and immunisation and other medical interventions (Statistics Canada, 2010b).

At every stage of the life cycle, males are more likely than females to die. This difference, which has been evident since industrialisation, has created a gender gap in life expectancy. By 2031, the average life expectancy in Canada is projected to rise to 81.9 years for males and 86.0 years for females. The gap between the males and females is expected to decrease. People with lower income, those living in poorer neighbourhoods, and people residing in Inuit-inhabited areas tend to have shorter life expectancies than other Canadians. Increased life expectancy does not mean that those years will be spent in good health. On average, Canadians can expect to spend 70 to 80 years in good health (Statistics Canada, 2010b).

There has been a steady decline in fertility, together with a decrease in the death rate and an increase in life expectancy. These changes resulted in the ageing of Canada's population. Evidence of this demographic transition can be seen in the median age of Canadians. The median age is the age that divides the population in half. The median age in Canada was 27.2 years in 1956. It increased to 39.5 years in 2006 and is projected to reach 46.9 years by 2056 (Statistics Canada, 2010a).

Three indicators of the ageing of the Canadian population are: life expectancy, population composition (based on population estimates) and demographic dependency ratios. Life expectancy reflects mortality, and therefore, levels of health and disease in a population. The life expectancy in Canada has increased, as in other developed countries, and is projected to continue to rise. (Statistics Canada, 2010a).

In 2002, the average life expectancy at birth for Canadians was 79.7 years (77.2 years for men and 82.1 years for women). The life expectancy 50 years ago for men was 66.3 years and for women 70.8 years, about 11 years less for each sex (St-Arnaud, Beaudet & Tully, 2005:43). According to projections based on a medium mortality assumption, men born in 2031 will have an average life expectancy of 81.9 years and women 86.0 years (Statistics Canada, 2010a).

The increase in life expectancy continues to have an impact on many aspects of people's lives, especially health. Because Canadians are generally living longer than they did a century ago, they are more likely to be faced with chronic degenerative illnesses such as arthritis and diabetes, which develop over time and are more common at older ages. Many chronic illnesses are accompanied by pain and may result in activity limitations. People often live with these conditions well into their senior years, and therefore, the need for extended periods of informal care and health services grows (Statistics Canada, 2010a).

People becoming older have a tendency to also live longer. For example, in 2002, a one-year-old girl could expect to live to age 82.5 years, while a 50-year-old woman could expect to live to age 83.8 years (St-Arnaud *et al.,* 2005:45).

5.3 FACTORS THAT INFLUENCE LIFE EXPECTANCY IN CANADA

The rate of unemployment, level of education attained, male or female and demographic region are all factors that could be associated with high and low life expectancies, but this is not necessarily the cause (Gilmore & Wannell, 1999:9).

5.3.1 Demographic region

Remote regions have a tendency to be the regions with the lowest life expectancies. One specific cause of death in these regions does not seem to be the specific reason for the lower life expectancies; rather, the mortality rates are higher for most causes of death in these regions. Table 22 shows the life expectancy for Canada as a whole (men and women) as well as the life expectancy in health regions with low life expectancies and those with high life expectancies (Gilmore & Wannell, 1999:11).

Table 22: Life expectancy in Canada for high- and low-health regions

1996	Men	Women
Canada as a whole	75.7 years	81.4 years
Health regions with a low life expectancy	73.0 years	78.0 years
Health regions with a high life expectancy	76.5 years	82.3 years

Source: Gilmore and Wannell (1999:9)

Regions with high life expectancies normally have large populations and cover small geographic areas. Those regions with lower life expectancies tend to have small populations and cover larger geographic areas (Gilmore & Wannell, 1999:16).

5.3.2 Unemployment

Life expectancy at birth increases as the rate of unemployment decreases. The study by Gilmore and Wannell (1999:17) indicates that health regions with high life expectancy at birth all had overall unemployment rates that were either equal to or much lower than the Canadian rate of unemployment of 10.1%. The unemployment rate of the health regions with a low life expectancy was 1 to 10 percentage points higher than the Canadian rate.

5.3.3 Level of education

The life expectancy at birth increases as the number of Canadians (those between 25 and 54 years) who have a postgraduate degree increases. Those health regions with a low life expectancy had a lower proportion of high school graduates (those between the age of 25 and 29 years) (Gilmore & Wannell, 1999:17).

The comparison between low life expectancy, higher unemployment rates and lower educations levels shows that it all have an impact on the life expectancy of people and that the life expectancy is not only influenced by medical factors (Gilmore & Wannell, 1999:19).

5.4 CANADIAN LIFE EXPECTANCY TABLES

Life expectancy at birth is a representation of the social conditions (wealth, economic opportunity, health care and education) of a population. Disparities in life expectancy usually signal disparities in other social, economic and environmental conditions. Over the past 100 years, worldwide improvements in public health, medicine, working conditions and nutrition have led to a dramatic increase in life expectancy. In 1921, the life expectancy for Canadian men was 56.0 years and for Canadian women 58.2 years. This life expectancy increased with about 40% by 2003 (Fang & Millar, 2009:9). The life expectancy for Canadians (both sexes) at birth was 81.1 years in 2009 (78.8 years for men and 83.3 for women). At age 65 years, the life expectancy was 85.2 years for both sexes (83.5 years for men and 86.6 years for women) (Statistics Canada, 2012a).

5.4.1 Comparison of life expectancy of Canada with other healthy countries

Table 23 shows Canada's position in life expectancy in comparison with 13 selected healthiest countries. For the purposes of this study, the other countries were not noted in detail, however, Canada's ranking between the 13 countries is shown in Table 23. The 13 healthiest countries are Switzerland, Japan, France, Austria, Italy, Netherlands, Sweden, Australia, Norway, Spain, Germany, Finland and Greece (Fang & Millar, 2009:10).

Table 23 shows that Canada is among the healthiest nations in the world as measured by life expectancy. In 2003, Canadian women ranked eighth and men fifth in life expectancy. Rankings from Canadian women fell from third place in 1989 to eighth place, showing a loss compared with women from other top countries. In contrast, rankings from Canadian men were steady around fifth place for the same period (Fang & Millar, 2009:10).

Table 23: Life expectancy at birth for Canada and its ranking with other healthiest countries

Year	Male		Female	
	Life expectancy	Ranking	Life expectancy	Ranking
1989	74.0	5	80.6	3
1990	74.4	4	80.8	4
1991	74.6	4	80.9	4
1992	74.8	3	81.2	4
1993	74.8	6	80.9	5
1994	75.0	5	81.0	6
1995	75.1	4	81.1	7
1996	75.4	4	81.2	7
1997	75.7	4	81.3	7
1998	76.0	4	81.5	7
1999	76.2	4	81.7	8
2000	76.7	4	81.9	8
2001	77.0	4	82.1	7
2002	77.2	5	82.1	7
2003	77.4	5	82.4	8

Source: Fang and Millar (2009:10)

The average life expectancy in Canada increased significantly from 58.8 years for men and 60.6 years for women in 1921 to 78.0 years for men and 82.7 years for women in 2005. The gap between men and women was less than two years in 1921. It increased to more than seven years by 1976 and decreased again to less than five years by 2005 (Statistics Canada, 2010b).

5.4.2 Life expectancy of Canadians by age group and sex

Table 24 shows the life expectancy per age group for men and women for Canada (St-Arnaud *et al.,* 2005:45).

Table 24 shows a significant increase in life expectancy for all age groups between 1996 and 2002. In 1996, boys between the ages of 15 and 19 years could expect to live another 61.2 years. In 2002, the figure was 62.9 years. Girls between the ages of 15 and 19 years could expect to live another 66.8 years in 1996 and 67.7 years in 2002. Life expectancy for people aged 55 to 59 years increased from 24.0 years for men and 28.5 years for women in 1996 to 25.3 years for men and 29.2 for women in 2002. (St-Arnaud *et al.,* 2005:45).

Table 24: Life expectancy by age group and sex for Canada, 1996 and 2002

Age group	Men			Women		
	1996	2002	Difference	1996	2002	Difference
0	75.5	77.2	1.8	81.2	82.1	0.9
1-4	74.9	76.7	1.8	80.6	81.5	0.9
5-9	71.0	72.8	1.7	76.7	77.6	0.9
10-14	66.1	67.8	1.7	71.8	72.6	0.8
15-19	61.2	62.9	1.7	66.8	67.7	0.8
20-24	56.4	58.1	1.7	61.9	62.8	0.8
25-29	51.6	53.3	1.6	57.0	57.9	0.8
30-34	46.9	48.5	1.6	52.1	53.0	0.8
35-39	42.2	43.7	1.5	47.3	48.1	0.8
40-44	37.5	38.9	1.5	42.4	43.3	0.8
45-49	32.9	34.3	1.4	37.7	38.5	0.8
50-54	28.3	29.7	1.4	33.0	33.8	0.8
55-59	24.0	25.3	1.3	28.5	29.2	0.7
60-64	19.9	21.1	1.2	24.1	24.8	0.7
65-69	16.1	17.2	1.1	20.0	20.6	0.6
70-74	12.7	13.7	1.0	16.1	16.7	0.6
75-79	9.8	10.5	0.8	12.5	13.0	0.5
80-84	7.3	7.9	0.6	9.4	9.8	0.4
85-89	5.4	5.6	0.3	6.8	7.0	0.2
90+	3.9	4.1	0.2	4.8	5.0	0.1

Source: St-Arnaud *et al. (*2005:45)

In all age groups, the life expectancy for women was higher than for men. From 1996 to 2002, the increase in life expectancy for men was more than for women. For instance, in 2002, for a woman aged 60 years, the expected increase in life expectancy was 0.7 years, compared with a gain of 1.2 years for a man aged 60 years (St-Arnaud *et al.,* 2005:45).

The difference between men and women's life expectancy for every age group became smaller over this period. The gap between the life expectancies at birth for men and women decreased from 5.7 years in 1996 to 4.9 years in 2002. The gap narrowed from 3.9 years to 3.4 years for people aged 65 years (St-Arnaud *et al.,* 2005:45).

5.5 CANADIAN POPULATION ESTIMATES

5.5.1 Background information

The population of for Canada is estimated to be about 42 million and 50 million in 2031 and 2056 respectively. Estimations are that the population growth will continue to 2056 but will start slowing down gradually thereafter. The components that have the greatest impact on the population size are immigration and fertility. These have the greatest probability of slowing or accelerating the ageing of Canada's population between 2005 and 2056, according to Balenger, Martel and Caron-Malenfant (2005:14).

Although the Canadian population was younger than that of most other countries in 2005, expectation is that it will age faster in future. The median age for Canadians is still rising. In 2005, the median age was 39 years and it is expected that this age will increase to 43 years in 2031 and 45 in 2056. The projections are that people older than 65 years will range between 8.9 and 9.4 million and the number of children younger than 14 years will range between 4.8 and 6.6 million. By 2056, it is projected that one out of 10 Canadians will be older than 80 years. This is compared with one out of 30 Canadians in 2005 (Balenger *et al.,* 2005:14*).*

The working-age population in Canada in 2011 was 68.5%. In 2011, 42.2% of the working-age group was between 45 and 64 years. This is well above the proportion of 28.6% in 1991. Census data show that there is more people in the age group 55 to 64 years, where people typically are about to leave the workforce, than in the age group 15 to 24 years, where people are typically about to enter it. People aged 55 to 64 years were counted at 4 393 305. In contrast, there were 4 365 585 people aged 15 to 24 years. For every person leaving the working-age group in 2011, one person entered the working-age group (The Daily, 2012).

Canada's population will increase from 32.3 million in 2005 to about 39 million in 2031 and about 42.5 million in 2056. The Canadian population in 1981 was 24.8 million (Balenger *et al.,* 2005:39*).* The estimated Canadian population for the second quarter of 2012 was 34 755 634 people (Statistics Canada, 2012b).

5.5.2 Centenarians, one of Canada's fastest-growing age groups

The Canadian census counted 5 825 people aged 100 years or older during the 2011 census. This is up from 4 635 in 2006 and 3 795 in 2001, an increase of 53.49%. Between 2006 and 2011, the number of centenarians increased 25.7%, the second-highest growth rate of all age groups after the age group 60 to 64 years, which increased 29.1% in the same period. (The Daily, 2012).

Table 25 shows the number of centenarians per year from 2001 projected to 2061 (Statistics Canada, 2011).

Centenarians counted in the 2011 census were born in 1911 or earlier at a time when the Canadian population was five times smaller (7.2million) than in 2011 (33.5 million). Most of them retired during the 1970s. In 2011, about 40% of all centenarians were exactly 100 years and 6% were 105 years and older. Mortality rates above 100 years are quite high, therefore, among those aged exactly 100 years, about 60% will reach the age of 101 years. Estimations are that there will be 17 000 centenarians by 2031 and close to 80 000 by 2061. In addition, the life expectancy is likely to continue to rise in Canada over the next decade, increasing the chance for individuals to reach 100 years (Statistics Canada, 2011).

The number of centenarians depends on the life expectancy and the size of the total population. The United States, for example, had a population of about 10 times larger than Canada and the number of centenarians was also higher with 53 000 people in 2010. In 2011, Canada had a rate of 17.4 centenarians per 100 000 persons. This is slightly below the average of 19.7 among the G8 countries (Statistics Canada, 2011).

Table 25: Number of centenarians, Canada, 2001 to 2061

Year	Number of centenarians
2001	3 795
2006	4 635
2011	5 825
2016	7 900
2021	11 100
2026	14 800
2031	17 600
2036	20 300
2041	25 400
2046	35 400
2051	49 300
2056	63 700
2061	78 300

Source: Statistics Canada (2011)

5.5.3 Population ageing will accelerate

Between 1981 and 2005, the percentage of elderly persons in Canada grew from 10 to 13%. This will increase faster in the coming decades, reaching between 23 and 25% in 2031 and between 25 and 30% in 2056. The percentage of elderly in Canada is therefore going to almost double in the next 25 years. Half the Canadian population would be over 47 years of age in 2056. (Balenger *et al.,* 2005:47*).

5.5.4 Evolution of the working-age population

In 2005, approximately 70% (22.4 million) of the population was between the ages of 15 and 64 years (working-age population). The working-age population is expected to reach 24.2 million by 2021. Thereafter, a slight decline is expected between 2022 and 2029 of approximately 50 000 people over the period as the number of people entering the workforce will be temporarily less than the number of persons leaving it. From 2030, the working-age population will increase again to 25.2 million in 2054 (Balenger *et al.,* 2005:48*).

5.5.5 Canadians 80 years and older

In 2005, there were 1.1 million Canadians aged 80 years and older, representing 3.5% of the total Canadian population. This number would more than double by 2031 to 2.6 million. The older seniors will then account for close to 6.5% of the total Canadian population. The number of older seniors will be close to 10.8% of the total population by 2056, representing 4.6 million individuals (Balenger *et al.,* 2005:51*).*

5.5.6 Estimated Canadian population

Table 26 shows the estimated population for Canada by age group for 2005.

Table 26: Estimated population for Canada, 2005

Age group	Population number
0-4	1 698 400
5-9	1 882 300
10-14	2 104 800
15-19	2 145 800
20-24	2 243 300
25-29	2 194 300
30-34	2 224 800
35-39	2 365 800
40-44	2 745 900
45-49	2 619 500
50-54	2 301 800
55-59	2 011 500
60-64	1 514 600
65-69	1 193 500
70-74	1 042 600
75-79	864 300
80-84	625 300
85-89	322 500
90-94	132 900
95-99	31 800
100 and over	4 800
Total	**32 270 500**

Age group	Population number (thousands)
Median age of total population	38.5
Dependency ratios	
Aged 0 – 14 years	25.4
Aged 65 years and over	18.9
Total	**44.3**

Source: Balenger *et al. (*2005:119)

According to Table 26, 1.9816 million people are over the age of 60 years. This is 6.14% of the total Canadian population. The median age for Canadians is 38.5 years (Balenger *et al.,* 2005:119*).*

5.6 POVERTY IN CANADA

More than 3 million Canadians (one out of 10) are poor. Of these, 610 000 makes up children. Canadians that rely on food hand-outs make up 900 000 individuals, as reported by Food Banks Canada and other associations of charity. Many of these people are among the country's 300 000 homeless people. Only a third of the poor people are in jobs. Most poverty-reductions programmes at attempt to help people back into work. The best way to fight poverty in the long-term is to sustain the employment of Canadians. (The Economist, 2010).

5.7 OLD AGE SECURITY PENSION FOR THE ELDERLY

Old age security (OAS) is Canada's single largest federal programme. General government income is used to finance this programme and most Canadians 65 years and older benefit from this programme. Canadians are living longer and healthier lives. The number of seniors recorded in 2011 (5 million) is expected to double in 2030 (9.4 million). Much pressure will be put on the OAS programme because of this increase. The Canadian government introduced measures to gradually increase the eligibility age for OAS pension between 2023 and 2029, from 65 to 67 years (Service Canada, 2012).

5.7.1 Requirements to qualify for the old age security pension in Canada

Canadians that meet the following criteria will qualify for the old age security pension (Service Canada, n.d.b):

Scenario 1 – People living in Canada

- 65 year or older;
- live in Canada and be a Canadian citizen at the time the pension application is approved; and
- lived in Canada for at least 10 years after turning 18 years.

Scenario 2 – People living outside Canada

- 65 year or older;
- must have been a Canadian citizen or a legal resident of Canada the day before Canada was left; and
- lived in Canada for at least 20 years after turning 18 years.

The old age security pension is calculated in two different ways, namely (Service Canada, n.d.b):

- A full pension – when all the conditions outlined in category one or two are met:
  Category 1 – the individual lived in Canada for at least 40 years after the age of 18 years.
  Category 2 – the individual turned 25 before 1 July 1977 and at that time was living in Canada, or was not living in Canada but did have some kind of Canadian residency after the age of 18 years, or had a valid Canadian immigration visa and was living in Canada for the 10 years immediately preceding approval of the old age security pension. An individual may still qualify for the old age pension even though the person was not living in Canada for the 10 years preceding the approval of the pension if the individual lived in Canada for the entire year before the approval of the old age pension and lived in Canada since the age of 18 years for at least three years for every one year the individual was not living in Canada during these last 10 years.
- Partial pension – calculated at $1/40^{th}$ of the full pension for each completed year the individual was a resident of Canada since the age of 18 years.

When the cost-of-living expenses, as measured by die consumer price index, increase, the old age security pension is also increased. These adjustments are made every three months in January, April, June and October (Service Canada, n.d.b).

5.7.2 Old age security pension table

Table 27 provides the monthly old age security pension paid to qualifying Canadians for the period 1 October 2003 to 30 September 2012. The three months average US dollar to South African rand exchange rate was obtained from Oanda to calculate the South African rand equivalent of the old age security pensions paid by the Canadian government (Oanda, n.d.).

Table 27: Monthly old age security payments, Canada, 2003 to 2012

Date	Monthly rate (USD)	Number of benefits	Total amount paid (million)	Average exchange rate for the period	Equivalent monthly value (R)	Total amount paid (R)
Oct to Dec 2003	461.55	4 001 085	1,766.2	6.7629	3,121.42	11,944.63
Jan to Mar 2004	462.47	4 024 373	1,776.7	6.786	3,138.32	12,056.69
Apr to Jun 2004	463.39	4 037 452	1,780.9	6.6071	3,061.66	11,766.58
Jul to Sep 2004	466.63	4 050 365	1,789.4	6.3822	2,978.13	11,420.31
Oct to Dec 2004	471.76	4 080 719	1 816.7	6.0652	2 861.32	11 018.65
Jan to Mar 2005	471.76	4 105 650	1 848.0	6.0134	2 836.88	11 112.76
Apr to Jun 2005	473.65	4 120 571	1 853.8	6.4243	3 042.87	11 909.37
Jul to Sep 2005	476.97	4 133 382	1 858.2	6.5256	3 112.52	12 125.87
Oct to Dec 2005	479.83	4 163 970	1 891.0	6.5537	3 144.66	12 393.05
Jan to Mar 2006	484.63	4 193 190	1 914.9	6.1688	2 989.59	11 812.64
Apr to Jun 2006	484.63	4 216 117	1 942.9	6.4602	3 130.81	12 551.52
Jul to Sep 2006	487.54	4 228 014	1 948.8	7.163	3 492.25	13 959.25
Oct to Dec 2006	491.93	4 267 512	1 976.7	7.3435	3 612.49	14 515.90
Jan to Mar 2007	491.93	4 293 347	2 005.9	7.2546	3 568.76	14 552.00
Apr to Jun 2007	491.93	4 232 694	2 005.0	7.1138	3 499.49	14 263.17
Jul to Sep 2007	497.83	4 325 851	2 019 7	7.1223	3 545.69	14 384.91
Oct to Dec 2007	502.31	4 366 597	2 061 6	6.7909	3 411.14	14 000.12
Jan to Mar 2008	502.31	4 397 011	2 094 6	7.5459	3 790.38	15 805.64
Apr to Jun 2008	502.31	4 425 192	2 107 0	7.7977	3 916.86	16 429.75

Date	Monthly rate (USD)	Number of benefits	Total amount paid	Average exchange rate for the period	Equivalent monthly value (R)	Total amount paid (R)
Jul to Sep 2008	505.83	4 439 670	2 113 5	7.786	3 938.39	16 455.71
Oct to Dec 2008	516.96	4 481 393	2 146 9	9.9576	5 147.68	21 377.97
Jan to Mar 2009	516.96	4 644 042	2 272 9	9.9584	5 148.09	22 634.45
Apr to Jun 2009	516.96	4 546 074	2 225 6	8.5057	4 397.11	18 930.29
Jul to Sep 2009	516.96	4 561 094	2 232 8	7.827	4 046.25	17 476.13
Oct to Dec 2009	516.96	4 584 512	2 244 2	7.5212	3 888.16	16 879.08
Jan to Mar 2010	516.96	4 644 042	2 272 9	7.5359	3 895.76	17 128.35
Apr to Jun 2010	516.96	4 675 695	2 287 4	7.5598	3 908.11	17 292.29
Jul to Sep 2010	518.51	4 691 884	2 294 9	7.3577	3 815.04	16 885.19
Oct to Dec 2010	521.62	4 737 566	2 322 8	6.9296	3 614.62	16 096.07
Jan to Mar 2011	524.23	4 759 019	2 334 2	7.016	3 678.00	16 376.75
Apr to Jun 2011	526.85	4 795 668	2 365 9	6.8084	3 587.01	16 107.99
Jul to Sep 2011	533.70	4 822 096	2 390 2	7.1357	3 808.32	17 055.75
Oct to Dec 2011	537.97	4 866 237	2 424 5	8.1146	4 365.41	19 673.85
Jan to Mar 2012	540.12	4 934 728	2 508 6	7.7832	4 203.86	19 524.94
Apr to Jun 2012	540.12	4 980 729	2 541 2	8.1391	4 396.09	20 683.08
Jul to Sep 2012	544.98	5 011 977	2 556 9	8.2496	4 495.87	21 093.40

Source: Service Canada (n.d.a); Oanda (n.d.)

The total amount that will be paid Canadians for old age security pension for the period 1 January 2012 to 30 September 2012 will be $10.0312 million (R80.97527 million). This total amount will be paid to 5 011 977 individuals (in the third quarter of 2012). The number of beneficiaries for the old age pension increased by 145 740 from December 2011 to September 2012, an increase of 2.99%. From December 2003 to September 2012, the number of beneficiaries increased by 1 010 891, an increase of 25.27%.

5.8 CONCLUSION

From the information discussed in this chapter it is evident that Canada's population is also growing as well as the ratio of the elderly population in relation to the total population. Canada also has the possible problem of individuals living longer after retirement and therefore being dependent on the government to assist them during retirement, putting an

additional expense on the Government. Canada is one of the countries in the world that is increasing the retirement age from 65 years to 67 years. This is to assist the country in raising more income from the working population in order to support the longer-living individuals from the elderly population in retirement. Canada's life expectancy is also increasing confirming the worldwide trend that individuals are living longer and becoming older.

CHAPTER 6

COMPARISON BETWEEN SOUTH AFRICA AND CANADA

6.1 INTRODUCTION

In Chapters 4 and 5 the individual detail for both South Africa and Canada was discussed. This chapter will provide a brief summary on the information provided in the previous two chapters to be able to draw a comparison between the two countries and to be able to see the differences between South Africa and Canada

6.2 LIFE EXPECTANCY IN SOUTH AFRICA AND CANADA

In South Africa there was a decline in the average life expectancy of individuals. This was caused by the spread of HIV/AIDS together with the effect of continuing wars and poverty. (Irin news, 2009). It is expected that the majority of South Africans will die before the age of 48 years. (BBC News, 2002). In Canada, however, there was a steady increase in the life expectancy of individuals due to improved nutrition, better hygiene, access to safe drinking water, effective birth control and immunisation and other medical interventions. (Statistics Canada, 2010b).

The life expectancy at birth for South African males and females in 2004 was suggested to be 45.1 years and 50.7 years respectively. (Lehohla, 2004). For Canadians in 2002 it was 79.7 years (77.2 years for men and 82.1 years for women). (St-Arnaud, Beaudet & Tully, 2005:43).

6.3 FACTORS THAT INFLUENCE LIFE EXPECTANCY IN SOUTH AFRICA AND CANADA RESPECTIVELY

In South Africa factors that have an influence on the life expectancy of individuals are generic disorders, obesity, access to health care (medical care), diet (nutrition) and

lifestyle, exercise, tobacco smoking, drug use, excessive alcohol use, climate, economic circumstances, occupation and gender. Life expectancy in wealthier areas is several years longer than in poorer areas. Life expectancy is also likely to be affected by exposure to high levels of highway air pollution or industrial pollution. (News Medical, 2012). The rate of unemployment, level of education attained, male or female and demographic region are all factors that could be associated with high and low life expectancies of the Canadian population, but this is not necessarily the cause. The remote regions in Canada have a tendency to be the regions with the lowest life expectancies. One specific cause of death in these Canadian regions does not seem to be the specific reason for the lower life expectancies; rather, the mortality rates are higher for most causes of death in these regions. Life expectancy of Canadians at birth increases as the rate of unemployment decreases and as the number of individuals (those between 25 and 54 years) who have a postgraduate degree increases (Gilmore & Wannell, 1999:9).

6.4   LIFE EXPECTANCIES IN SOUTH AFRICA AND CANADA

Life expectancy is important for a government to be able to anticipate and budget for the possible number of individuals that will rely on social grants, for instance, old age pensions (South Africa) or security pensions (Canada). Life expectancy at birth is a representation of the social conditions (wealth, economic opportunity, health care and education) of a population. Disparities in life expectancy usually signal disparities in other social, economic and environmental conditions. (Fang & Millar, 2009:9).

Table 28 shows the difference in the life expectancy of males and females for the period 2001 to 2003 for South Africa and Canada.

Table 28: Life expectancy for the period 2001 to 2003 for South Africa and Canada

	South Africa		Canada	
Year	**Male**	**Female**	**Male**	**Female**
2001	52.1	57.8	77.0	82.1
2002	51.1	56.4	77.2	82.1
2003	50.3	55.2	77.4	82.4

Source: Statistics South Africa (2011) and Fang and Millar (2009:10)

In 2003 the life expectancy for men in South Africa was 27.1 years less than that for Canadian men and for women the difference was 27.2 years. From this table it can be seen that the factors that influence the life expectancy discussed in paragraph 6.2 in South Africa and Canada do have a significant different impact on the two countries under review.

6.5   SOUTH AFRICAN AND CANADIAN POPULATION ESTIMATES

The South African population estimates for 2011 was 50 586 757 people. (Statistics South Africa, 2011). The estimated Canadian population for the second quarter of 2012 was 34 755 634 people (Statistics Canada, 2012b). With a one year difference in the figures between South Africa and Canada there is still 15 831 123 people more in South Africa than in Canada.

6.6   POVERTY IN SOUTH AFRICAN AND CANADIAN

Nearly half the South African population is defined as poor and living below the poverty line. (Education and training unit, n.d.). In Canada only about 10 per cent of the total population is deemed to be poor. (The Economist, 2010).

6.7   SOUTH AFRICA'S OLD AGE PENSION AND THE CANADIAN OLD AGE SECURITY PENSION

In 2003/2004, old age pensions in South Africa counted for less than half of all social assistance. The social assistance programmes have a major effect on poverty because they target the poor. Almost 60% of social assistance expenditure goes to households in the poorest income groups of South Africa (Seeking, 2007). Old age security (OAS) is Canada's single largest federal programme. (Service Canada, 2012). To qualify for the old age pension South Africans should comply with the following (South African Government Services, n.d.):

•   be a South African citizen or a permanent resident;

•   live in South Africa;

- not receive any other social grant for him/herself;

- not be cared for in a state institution; and

- not earn more than R44 880 per year or own assets worth more than R752 400 for a single person. If married, the combined income must not be more than R89 760 or combined assets worth more than R1 504 800.

Canadians that meet the following criteria will qualify for the old age security pension (Service Canada, n.d.b):

Scenario 1 – People living in Canada

- 65 year or older;

- live in Canada and be a Canadian citizen at the time the pension application is approved; and

- lived in Canada for at least 10 years after turning 18 years.

Scenario 2 – People living outside Canada

- 65 year or older;

- must have been a Canadian citizen or a legal resident of Canada the day before Canada was left; and

- lived in Canada for at least 20 years after turning 18 years.

Table 29 provides the number of beneficiaries as well as the monetary amount paid by the South African and Canadian governments to the old age pension and old age security respectively.

Table 29 shows that Canada has more beneficiaries that receive the old age security pension than the number of beneficiaries in South Africa that receives the old age pension. However, the monetary rand value for the grants paid to these beneficiaries is less in Canada than the amount paid in South Africa. It is estimated that in 2012 2 727 404 South African beneficiaries and 5 011 977 Canadian beneficiaries will receive the old age pension and old age security pension respectively. This represents an amount of R37.3186 million and R21.0934 million respectively

Table 29: Number of beneficiaries and monetary amount for the old age pension and old age security pension in South Africa and Canada

Year	South Africa		Canada	
	Number of beneficiaries	Monetary amount (R '000)	Number of beneficiaries	Monetary amount (R '000)
2003	2 009 419	17 146.0	4 001 085	11 944.63
2004	2 060 421	17 146.0	4 080 719	11 018.65
2005	2 093 440	18 504.0	4 163 970	12 393.05
2006	2 114 117	19 470.0	4 267 512	14 515.90
2007	2 195 018	21 222.0	4 366 597	14 000.12
2008	2 218 993	22 803.0	4 481 393	21 377.97
2009	2 343 995	25 934.0	4 584 512	16 879.08
2010	2 489 637	29 826.4	4 737 566	16 096.07
2011	2 646 732	33 750.6	4 866 237	19 673.85
2012	2 727 404	37 318.6	5 011 977	21 093.40

Source: National Treasury, (2007, 2008, 2009, 2010, 2011, 2012) and Service Canada (n.d.a); Oanda (n.d.)

6.8   CONCLUSION

The information provided this chapter showed the differences between South Africa and Canada. It showed a decline in the South African life expectancy and an increase in the Canadian life expectancy due to a number of factors that have an influence on the life expectancy of individuals. These factors were also stated to be different for South Africa and Canada. Table 28 provided the comparison between the life expectancy of South Africans and Canadians. The life expectancy in 2003 for South African males and females were 50.3 years and 55.2 years respectively. That for Canadians for the same period was 77.4 and 82.4 respectively. Poverty in South Africa has an effect on more South Africans than Canadians. The qualification criteria for the old age pension and old age security pension in South Africa and Canada is also different. Lastly a comparison was drawn between the number of beneficiaries receiving the old age pension and old age security pension and the monetary amount of these pensions for South Africa and Canada respectively.

CHAPTER 7

CONCLUSION

7.1   INTRODUCTION

This study provides a clearer insight into the old age pension grant poverty population growth and the working-age population. The relevant information for South Africa being a developing country was compared with that of Canada a developed country.

The qualification criteria for receiving old age pension in South Africa is that an individual must be a South African citizen or be a permanent resident live in South Africa not receive any other social grants not be cared for in a state institution not earn more than R44 880 per year or have assets to the value of more than R752 400 for a single person (income of R89 760 per year or an asset value of R1 504 800 for a couple) and be 60 years and older (South African Government Services, n.d.).

For people living in Canada they must be 65 years and older be a Canadian citizen at the time of the application and lived in Canada for at least 10 years after turning 18 years. If the individual is no longer living in Canada but was a Canadian citizen the day before Canada was left lived in Canada for at least 20 years after turning 18 years and is 65 years and older he/she will also qualify for the old age security pension (Service Canada n.d.b).

The total South African population is estimated to be 50 586 757. The working-age population those individuals between the ages of 15 and 59 years is estimated to be 30 884 230. This makes up 61% of the total South African population. The elderly population those individuals above 60 years of age is 3 890 258 or 7.7% of the total South African population. The life expectancy for South Africans at birth in 2011 was 57.1 years for both sexes (54.9 years for men and 59.1 years for women) (Statistics South Africa 2011).

In Canada the population estimate for the second quarter of 2012 is 34 755 634 people. This is 15 831 123 people less than the population estimate for South Africa. The working-age population for Canada being those individuals between 15 and 64 years of age (four years higher than that of the South African working-age population) is 22.4 million people (70%) of the total estimated Canadian population. The elderly population in Canada is estimated at about 2 million of the total population (about 6%) (Balenger *et al.* 2005:39). The life expectancy for Canadians is 85.2 years (83.5 years for men and 86.6 for women) (Statistics Canada, 2012).

Poverty has a huge impact on the number of old age pensions that are being paid out. To be able to qualify for receiving old age pension an individual or couple must earn less than a specific amount. Therefore it is the less fortunate people that qualify for the assistance from the government in the form of an old age pension. The elderly people are normally also the economically inactive people earning no income except those individuals that have provided for their retirement years who are receiving a monthly pension income. In Canada one out of 10 individuals are poor (The Economist, 2010). Poverty in Canada also plays a role in the number of beneficiaries that qualify for monetary assistance from the government.

The distribution of income and wealth in South Africa is not close to being equal. The Gini coefficient being the measure of equality or inequality in South Africa is at 0.65 (Bosch *et al.,* 2009:10). This shows clearly that the income and wealth of South Africans are not divided equally. A figure of zero provides total equality. A figure of 1 provides total inequality.

The individuals receiving old age pension from the Government are most likely not liable for income tax on their income as they receive too little income to be taxed. This means that these nearly 5.1 million beneficiaries of old age pension do not pay taxes and therefore they do not participate in the income stream that the South African Government needs in order to pay old age pensions. Nearly 17% of the working-age population of South Africa is unemployed. The total unemployment rate in South Africa is about 24% (Statistics South Africa, 2011:4). These unemployed individuals do not have an income and therefore they also do not contribute to the income stream for the government.

Individuals that earn less than R60 000 per year do not contribute to the total government income by way of paying personal taxes as they are below the tax threshold. These are however the individuals who are also the ones that will most probably qualify for old age pension as they do not have enough income. The total income received by the Government through personal income tax represents 34% of total budgeted income for the Government. The above-mentioned individuals will not be able to contribute to this percentage. Individuals earning more than R400 000 per annum only represent 9% of the people contributing to government income from personal income tax but they carry 54% of that income burden.

7.2   MEETING THE RESEARCH OBJECTIVES

Evaluation of all relevant information to assess the effect of the increase in the expected life of natural persons on the income (especially income tax) and expenditure of the South African Government was addressed as follows:

Nearly 76% of the total elderly population in South Africa is in receipt of old age pension. The estimated number of beneficiaries for old age pension for the 2012 financial period is 2 727 404 individuals. The number of beneficiaries has increased since 2004 from an actual number of beneficiaries of 2 060 421 individuals. The estimated number of beneficiaries by 2015 is 2 881 146 individuals. There has been an increase of 32.37% in the number of qualifying beneficiaries from 2004 to the estimate for 2012. This number is expected to increase by 5.64% by 2015 (own calculations).

The annual population growth rate for 2011 was at a rate of 1.1. This showed a decrease in the growth rate from 1.33 in 2002 (Statistics South Africa 2011). The increase in the population is not as much as earlier years but still the number of beneficiaries qualifying for old age pension becomes more. There are a number of factors that might influence this but it can be assumed that the fact that people are living longer and becoming older is one of the major reasons for this increase in the number of beneficiaries.

To identify the change in government expenditure in South Africa for social grants from the actual expenditure for 2004 to 2011 and the budgeted expenditure for 2012 up to 2015,

taking into consideration that people are living longer can be concluded as set out in the following paragraph.

The estimated government expenditure for old age pension for 2012 is R37.318 million. This amount increased from the actual government expenditure of R17 146 million in 2004. This represents an increase of 117.65% in government expenditure over the eight-year period. An amount of R45.883 million is estimated for government expenditure for 2015 which will be an increase of 22.79% in government expenditure from the 2012 value. This represents the changes in government expenditure for the old age pension grant being one of the social grants paid by the Government for the actual figures for the period 2004 to 2012 and the budgeted figures for the period 2012 to 2015.

The comparison of government expenditure for social grants in South Africa to that of Canada, taking into consideration that people are living longer can be summarised as follow:

The number of beneficiaries for the old age security pension in Canada is estimated to be 5 011 977 for the period July to September 2012. The monetary value of the old age security for the same period is estimated to be R21.093 million. It is clear from the information provided that South Africa has many more beneficiaries for the old age pension and therefore more of the annual budget is allocated to the old age pension social grant than in Canada.

The investigation into the possibility of increasing the pensionable age of natural persons in South Africa in relation to international trends with an emphasis on Canada can be concluded as follow:

A possible increase in the retirement age will give South Africans the change to stay in employment for a few more years being able to earn income and save for their retirement. This might also assist the Government in budgeting less for old age pension expenses. People are living longer but will be working longer. The number of years after retirement will then not be that many. The retirement age in South Africa is not fixed as there is no general retirement age. No specific information could be obtained to confirm that the South

African Government is currently actively looking at the possibility of increasing the retirement age.

Internationally however there are quite a number of countries that are currently actively investigating the possibility of increasing the retirement age. This cannot be done overnight and very easily as it comes with a lot of resistance from different parties. It will require initial expenses for companies and also possibly government and therefore it is a situation that needs careful planning and discussions with all relevant parties involved.

7.3   FINAL CONCLUSION

In South Africa the total social spending (which includes all social grants not only old age pensions) makes up 58% of government expenditure. The old age pension makes up the majority of this social spending (National Treasury 2012). This means that if people become older and they do not have sufficient retirement savings and they qualify for old age pension the Government will have an even bigger expense to budget for.

The problem foreseen from this is that more and more people become older and therefore live longer during their retirement years. They either have not saved up sufficiently during their time in employment or lived up their retirement savings, or they have not been able to save for their retirement for whichever reason (receiving too little income while in employment or not receiving any income at all).

The Government faces the problem that more people might rely on old age pension because of the increase in life expectancy. The Government will have to budget an even bigger percentage of the annual budget for social spending. This provides the additional problem that additional income must be received to be able to carry the bigger expense. The percentage of the elderly population is increasing and these people are becoming more than the people in the working-age population. The working age population is the individuals that are contributing to the income the Government budgets for. Therefore the people contributing to the income net are becoming less and the people that are depending on that income net for assistance are becoming more.

Poverty is also a big problem that the Government faces. Most individuals making up the large number of poor South Africans are poor because they do not have a job. Job creation will provide income to those individuals giving them the opportunity to provide for themselves without having to rely on the Government for survival. The Government will benefit from this as it will no longer need to pay social assistance to these individuals therefore saving on government expenses.

Individuals in the middle-income bracket and those in the high-income bracket (the so-called super tax) should be prepared that in future they might be liable for even higher taxes. There will be no tax implication for the individuals that live longer but receive old age pensions as these individuals are below the tax threshold. The individuals in the higher-income brackets that made sufficient provision for their retirement will most likely be liable for taxes till the day they pass away. They will need to assess their retirement savings to provide for the additional years that they will be living because of the increase in life expectancy as well as the additional tax that they will have to pay for the extra years they are living.

Individuals that are currently still part of the working population will also have to take note of the worldwide trend that people are becoming older as they will have to plan carefully for their retirement. They need to take into account the longer years of living as well as the taxes payable during those years so that they will not be caught off-guard once they enter retirement.

The South African Government and all South Africans need to work together to face the increase in life expectancy and to help each other in dealing with this phenomenon to avoid being caught off-guard.

7.4   RECOMMENDATION

The importance of this study is to show that the South African Government faces increases in national expenditure and possible decreases in national income. The Government should look at possible solutions for receiving income to still be able to assist the elderly by way of old age pensions and not be caught in a downfall for having to assist

even more people in old age because of the trend that people are living longer. A close eye should be kept on the number of individuals that are entering retirement and their life expectancy after retirement.

The Government will need to assist the South African population in proper financial planning. If individuals have proper knowledge regarding financial planning they will be able to save towards their retirement and their old age and might not rely on the Government for assistance during their old age. This will save the Government money on the old age pension expense.

7.5   FUTURE RESEARCH

This study might provide a basis for future research in this area. Investigations can be done on exactly what the Government is doing or planning to do in future to obtain additional income in order to provide for all the additional expenses without increasing the government deficit. A study can be conducted on individuals, investigating the actual effect and impact that the extended life expectancy has on their lives and also personal income tax. Also more detailed investigations can be conducted on the problem of retirement age and the effect on government income and expenses and national taxation. Additional studies can also be performed in more detail on how international countries are dealing with the same problems of retirement age, extended life expectancy, the impact on individual's personal income tax and the impact on governments in dealing with these issues.

LIST OF REFERENCES

Bah S. 2000. A critical review of South African life tables. *Canadian Studies in Population* 27(1):283 - 305. [Online] Available from: ejournals.library.ualberta.ca/index.php/csp/article/ download/.../12664 [Downloaded:2012-07-26].

BBC News. 2002. Life expectancy still falling in Africa. *BBC News 11 February.* [Online] Available from: http://news.bbc.co.uk/2/hi/africa/1814609.stm#map [Downloaded: 2012/07/14].

Balenger A. Martel L. & Caron-Malenfant E. 2005. *Population projection for Canada provinces and territories 2005 – 2031.* Statistics Canada Demography division 91(520:1-216).

Bosch A. Rossouw J. Claassens T. & Du Plessis B. 2009. *A Second look at measuring inequality in South Africa: a modified Gini coefficient.* [Online] Available from: http://0-web.ebscohost.com [Downloaded: 2012-03-23].

Bredt S. 2008. Between labour market and retirement pension – flexible transition as a new paradigm for ageing societies? *International Social Security Review* 61(4):95-112. [Online] Availble from: EBSCOHost: http://0-web.ebscohost.com.innopac.up.ac.za/ehost [Downloaded: 2012-03-28].

Cameron   B. 2012. *Retirement age shouldn't be fixed.* [Online] Available from: http://www.iol.co.za/business/personal-finance/columnists/bruce-cameron/retirement-age-shouldn-t-be-fixed-1.1253336#.UBPmLtXcjKo [Downloaded: 2012-07-14].

Christensen K. Doblhammer G. Rau R. & Vaupel J.W. 2009. Ageing populations: the challenges ahead. *Danish Ageing Research Centre University of Southern Denmark* 374:1196-1208. [Online] Available from: http://0-search.proquest.com.innopac.up.ac.za/ docview/199047721/fulltextPDF/136723A9F3E3E1A1605/1?accountid=14717 [Downloaded: 2012-04-27].

City Press. 2012. *Academics' retirement age may be upped to 80* 3 March. [Online] Available from: http://www.citypress.co.za/SouthAfrica/News/Academics-retirement-age-may-be-upped-to-80-20120303 [Downloaded: 2012-07-14].

Coggan P. 2002. Pension dreams turn to nightmares. A country with an ageing population will see slower economic growth as the workforce expands less rapidly. *Financial Times* 9 March. [Online] Available from: http://0-search.proquest.com.innopac.up.ac.za/docview/ 249291375/fulltext/136736873F377B1F616/1?accountid=14717 [Downloaded: 2012-04-28].

Cookson C. 1998. Old and grey but still in good shape: Science ageing: Clive Cookson looks at research into how an ageing population can maintain a good quality of life. *Financial Times* 16 September. [Online] Available from: http://0-search. proquest.com.innopac.up.ac.za/docview/248616103/fulltext/13673A531533C889CFF/1?ac countid=14717 [Downloaded: 2012-04-28].

Creamer Media Reporter. 2010. *SA has lowest employment ratio in Africa – report* 01 July. [Online] Available from: http://www.polity.org.za/article/sa-has-lowest-employment-ratio-in-africa-report-2010-07-01 [Downloaded: 2012-03-23].

The Daily. 2012. *2011 Census: Age and sex* 29 May. [Online] Available from: http:// www.statcan.gc.ca/daily-quotidien/120529/dq120529a-eng.pdf [Downloaded: 2012-08-04].

The Economist. 2009. *World economy: Ageing population – a slow burning fuse*. The Economist Intelligence unit. [Online] Available from: http://0-search.proquest.com. innopac.up.ac.za/docview/466426847/fulltext/1365977FB8A6094B81E/6?accountid=1471 7 [Downloaded: 2012-04-27].

The Economist. 2010. *Poverty in Canada* 25 November. [Online] Available from: http://www.economist.com/node/17581844 [Downloaded: 2012-08-04].

Education and training unit. N.d. *Understanding poverty and development*. [Online] Available from: http://www.etu.org.za/toolbox/docs/development/poverty.html [Downloaded: 2012-07-25].

Fang R. & Millar J.S. 2009. *Canada's global position in life expectancy: A longitudinal comparison with the healthiest countries in the world. Canadian Journal of Public Health* 100(1):9-13.

Fin24. 2009. *Tax hikes coming* 17 August. [Online] Available from: http://www.fin24. com/Budget/Budget-and-Business/Tax-hikes-coming-20090816 [Downloaded: 2012-03-28].

Forbes. 2011. *Effective retirement age vs. Official retirement age*. 22 March. [Online] Available from: http://www.forbes.com/sites/jasonoberholtzer/2011/03/22/effective-retire-ment-age-vs-official-retirement-age/ [Downloaded: 2012-07-13].

Gavrilov L.A. & Heuveline P. 2003. *Ageing of population. The Encyclopaedia of Population.* New York: Macmillan Reference USA. [Online] Available from: http://longevity-science.org/Population_Aging.htm [Downloaded: 2012-04-27].

Gilmore J. & Wannell B. 1999. *Statistics Canada catalogue 82-003. Health report* 11(3):9-24.

Holden M. 2012. A new fiscal challenge for the Dutch. *The Fiscal Times* 26 April. [Online] Available from: http://www.thefiscaltimes.com/Blogs/Age-and-Reason/2012/04/26/A-New-Fiscal-Challenge-for-the-Dutch.aspx#page1 [Downloaded: 2012-04-27].

Irin news. 2009. *South Africa: Life expectancy drops*. Humanitarian news and analysis. A service of the UN office of the Coordination of Humanitarian Affairs. [Online] Available from: http://www.irinnews.org/Report/87144/SOUTH-AFRICA-Life-expectancy-drops [Downloaded on 2012-07-14].

Joubert J. & Bradshaw D. 2003/2004. *Health of older persons.* South African Medical Research Council. [Online] Available from: http://0-www.sabinet.co.za.innopac.up.ac.za/ [Downloaded: 2012-04-27].

Khalsa D. 2011. Life expectancy: the most important measure of health. *Alzheimer's research & prevention. Word Press* 2 August. [Online] Available from: http://alzprevention. wordpress.com/2011/08/02/life-expectancy-the-most-important-measure-of-health/ [Downloaded: 2012-07-14].

Lehohla P. 2004. State of the world population: 2004. *Statistics South Africa.* [Online] Available from http://www.statssa.gov.za/news_archive/17sep2004_1.asp [Downloaded: 2012-07-14].

Lester M. 2012. *Budget speech analysis 2012 Part 1.* [Video presentation]. [Online] Available from: https://elearning.saica.co.za/mod/mflow/view.php?id=923 [Downloaded: 2012-08-26].

Lindbergh J. Nahum R. & Sandgren S. 2007. Population ageing: opportunities and challenges for retail banking. *Centre for Banking and Finance Royal Institute of Technology (KTH) Stockholm Sweden* 26(1):6 (18p). [Online] Available from: http://0-search.proquest.com.innopac.up.ac.za/docview/231345999/fulltextPDF/13673BB87AA6E C28C86/1?accountid=14717 [Downloaded: 2012-04-28].

Makiwane M. 2011. The burden of ageing in South Africa. *Economic and Social rights in South Africa* 12(1):20-22.

Mokgele E.L. 2011. A literature review of the impact of HIV and AIDS on the role of the elderly in the sub-Saharan African community. *School of Health Care Sciences University of Limpopo* 16(1):1-6.

Molewa E. 2010. Minister defend welfare system. *News24* 23 February. [Online] Available from: http://www.news24.com/SouthAfrica/News [Downloaded: 2012-03-28].

Mudely E. N.d. *Retirement age: advice for employers.* [Online] Available from: http://www.humancapitalreview.org/content/default.asp?Article_ID=546 [Downloaded: 2012-07-13].

News24. 2010. *SA plans for ageing population* 14 January. [Online] Available from: http://www.news24.com/SouthAfrica/News/SA-plans-for-ageing-population-20100114 [Downloaded: 2012-03-28].

News Medical. 2012. *Life expectancy – What is life expectancy?* 26 July 2012. [Online] Available from: http://www.news-medical.net/health/Life-Expectancy-What-is-Life-Expectancy.aspx. [Downloaded: 2012-07-26].

Oanda. N.d. [Online] Available from: http://www.oanda.com/currency/historical-rates/ [Downloaded: 2012-08-05].

Oxford analytica Daily Brief Services. 2007. *Latin America: ageing population poses economic issues. 2007* 25 June*. [Online] Available from: http://0-search.proquest.com.innopac.up.ac.za/docview/192447270?accountid=14717 [Downloaded: 2012-04-28].

Palangkaraya A. & Yong J. 2009. Population ageing and its implications on aggregate health care demand: empirical evidence from 22 OECD countries*. International Journal of Health Care Finance and Economics* 9:391-402.

Paralegal advice. N.d. *Chapter 7 Social Welfare*. [Online] Available from: http://www.paralegaladvice.org.za/docs/chap07/02.html [Downloaded: 2012-07-10].

Pelser A. 2005. *Trends and changes in the South African population structure: Some implications for planning and policy making*. Town and regional planning 2005(49:17-25).

Raniga T. & Simpson B. 2011. Poverty. HIV / Aids and the old age pension in Bhambayi KwaZulu-Natal South Africa. *Development Southern Africa* 28(1):75-87.

Razin A. Sadka E. & Swagel P. 2004. Capital income taxation under majority voting with ageing population*. Review of World Economics* 140(3):476-495.

Rose J. 2012. What's happening to the average age of retirement? *Equifax* 7 February. [Online] Available from: http://blog.equifax.com/retirement/whats-happening-to-the-average-age-of-retirement/ [Downloaded: 2012-07-14].

Sahadi J. 2010. When will you get to retire? *CNNMoney.com* 25 June. [Online] Available from: http://money.cnn.com/2010/06/25/news/economy/pension_reform_europe_us/index.htm?postversion=2010062511 [Downloaded: 2012-07-14].

Schussler M. 2011a. Exactly how big is our population. *FoodStuff South Africa* 27 March. [Online] Available from: http://www.foodstuffsa.co.za/news-stuff/latest-sa-news/924-exactly-how-big-is-our-population.html [Downloaded: 2012-03-28].

Schussler M. 2011b. *W*elfare dependency threatens SA's social ideals*. Business Live* 18 July. [Online] Available from: http:www.businesslive.co.za/expertsection/2011/07/18/welfare-dependency-threatens-sa-s-social-ideals [Accessed: 2012-03-28].

Securitas Financial Group. N.d. *How does your lifestyle influence your life expectancy?* [Online] Available from: http://www.securitas.co.za/lifeexpectancy.asp [Downloaded: 2012-07-26].

Seeking J. 2007. *Poverty and inequality after Apartheid.* [Online] Available from: http://mg.co.za/article/2011-09-16-poverty-and-inequality-in-south-africa/ [Downloaded: 2012-07-26].

Service Canada. 2012. *Changes to old age security*. [Online] Available from: http://www.servicecanada.gc.ca/eng/isp/oas/changes/index.shtml [Downloaded: 2012-08-04].

Service Canada. N.d.a *Income security programme information card*. [Online] Available from: http://www.servicecanada.gc.ca/eng/isp/statistics/rates/infocard.shtml [Downloaded: 2012-08-04].

Service Canada. N.d.b *Old age security pension.* [Online] Available from: http://www. servicecanada.gc.ca/eng/isp/pub/oas/oas.shtml [Downloaded: 2012-08-04].

Skade T. 2012. SA's fertility rate is dropping and we need to plan for change. *Independent Online* 17 January. [Online] Available from: http://www.iol.co.za/ lifestyle/parenting/sa-s-fertility-rate-is-dropping-1.1220021?ot=inmsa.ArticlePrintPage Layout.ot [Downloaded: 2012-03-28].

South Africa. 1962. Income Tax Act No. 58 of 1962. [Online] Available from: http://www.sars.gov.za/lnb/mylnb.asp?/jilc/kilc/alrg/ulrg/vlrg/8zk0a#27y.   [Downloaded: 2012-10-24].

South Africa. 1967. Aged Persons Act   No. 81 of 1967. [Online] Available from: http://search.sabinet.co.za/netlawpdf/netlaw/AGED_PERSONS_ACT.html.   [Downloaded: 2012-04-27].

South Africa: Constitution of the Republic of South Africa. 1996. [Online] Available from: http://www.constitutionalcourt.org.za/site/theconstitution/english-09.pdf [Accessed: 2012-04-01].

South African Government Services. N.d. *Old age pension.* [Online] Available from: http://www.services.gov.za/services/content/Home/ServicesForPeople/Socialbenefits/olda gegrant/en_ZA [Downloaded: 2012-07-06].

South Africa National Treasury. 2003. Social Development Vote 6*. 2003 Intergovernmental Fiscal review*. [Online] Available from: http://www.treasury.gov.za/publications/igfr/2003/ chp06.pdf [Downloaded: 2012-07-25].

South Africa National Treasury. 2007 2008 2009 2010 2011 2012. *Budget information.* National Budget. [Online] Available from: http://www.treasury.gov.za/documents/national% 20budget/default.aspx [Downloaded: 201-07-13].

South Africa National Treasury. 2008. *Budget speech.* [Online] Available from: http://www.treasury.gov.za/documents/national%20budget/2008/speech/speech.pdf [Downloaded: 2012-07-13].

South Africa National Treasury. 2012. *2012 Budget Speech.* [Online] Available from: http://www.treasury.gov.za/documents/national_budget/2012/default.aspx [Downloaded 2012-03-21].

South African Revenue Service. 2012. *Pocket Tax Guide Budget 2012.* [Online] Available from: http://www.sars.gov.za [Accessed: 2012-03-21].

St-Arnaud J. Beaudet M.P. & Tully P. 2005. Life expectancy. *Statistics Canada Catalogue 82-003. Health reports* 17(1):43-47.

Statistics Canada. 2010a. *Demographic changes.* [Online] Available from: http://www.statcan.gc.ca/pub/82-229-x/2009001/demo/int1-eng.htm [Downloaded: 2012-07-24].

Statistics Canada. 2010b. *Life expectancy.* [Online] Available from: www.statcan.gc.ca - http://www.statcan.gc.ca/pub/82-229-x/2009001/demo/lif-eng.html [Downloaded: 2012-07-14].

Statistics Canada. 2011. *Centenarians in Canada. Age and sex 2011 census.* [Online] Available from: http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-311-x/98-311-x2011003_1-eng.pdf [Downloaded: 2012-08-04].

Statistics Canada. 2012a. *Life expectancy at birth and at age 65 by sex and by province and territory 2007/2009.* [Online] Available from: http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/health72a-eng.htm [Downloaded: 2012-08-25].

Statistics Canada. 2012b. *Quarterly population estimates Canada provinces and territories 1971 to 2012. Statistics Canada Demography Division.* [Online] Available from:

http://www.stats.gov.nl.ca/statistics/population/pdf/quarterly_pop_prov.pdf [Downloaded: 2012-08-25].

Statistics South Africa. 2007. *A national poverty line for South Africa*. National Treasury. [Online] Available from: http://www.treasury.gov.za/publications/other/povertyline/Treasury %20StatsSA%20poverty%20line%20discussion%20paper.pdf [Downloaded: 2012-07-26].

Statistics South Africa. 2011. *Mid-year population estimates.* Statistical release P0302. [Online] Available from: http://www.statssa.gov.za/publications/P0302/P03022010.pdf [Downloaded: 2012-07-26].

Statistics South Africa. 2012. *Quarterly Labour Force Survey Quarter 4 2011.* [Online] Available from: http://www.statssa.gov.za [Downloaded: 2012-03-31].

Statistics South Africa. N.d. *Average household size.* [Online] Available from: http://indicators.hst.org.za/healthstats/6/data [Downloaded: 2012-07-27].

Taqi A. 2002. Older people work and equal opportunity*. International Social Security Review* 55(1):107-130**.** [Online] Available from: EBSCOHost: http://0-web.ebscohost.com. innopac.up.ac.za/ehost [Downloaded: 2012-03-28].

The Witness. 2012. *SA's population to start shrinking* 17 January. [Online] Available from: http://www.witness.co.za/index.php?showcontent&global[_id]=75118 [Downloaded: 2012-07-09].

Wordpress. 2011 (Part 2). State of the nation. *Musings of a madman* 10 June. [Online] Available from: http://hs67090.wordpress.com/2011/06/10/state-of-the-nation-2011-part-2-2/ [Down-loaded: 2012-07-09].