

# South Africa's State Old Age Pension

Recent Developments in the Role and Design of Social Protection  
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# Outline

1. The socioeconomic context of the Old Age Pension (OAP)
2. The incidence of the Old Age Pension
3. The poverty and inequality impact of the Old Age Pension
4. The cost of the Old Age Pension
5. Conclusion



# 1. Socioeconomic context (1)

- Inequality a defining characteristic of SA
  - Legacy of colonial and apartheid history
  - Stark inequalities in educational quality persist
- Extends into labour market
  - Differentials in `employability`
  - Skills-biased economic growth
  - General insufficient level of labour demand
- Poverty high and unevenly distributed



# 1. Socioeconomic context (2)

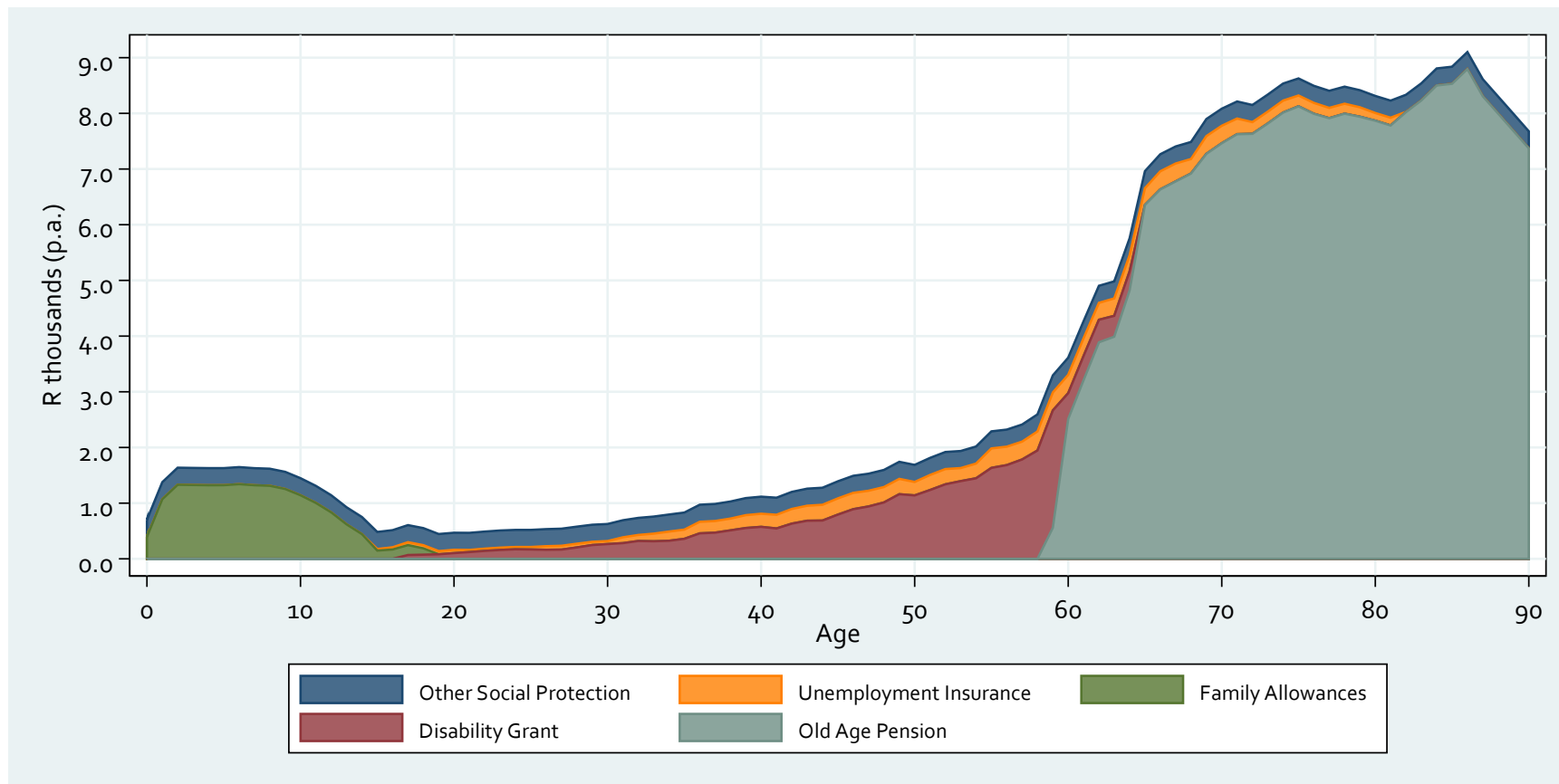
- OAP is a non-contributory means-tested grant paid to men and women from the age of 60
- Relatively old programme
  - Origins in 1928
  - Initially racially-discriminatory (access, amount)
- Current value is ZAR 1 200 per month
  - Roughly US\$ 135 per month; twice national upper bound poverty line; 75% above median income (2010)

# 1. Socioeconomic context (3)

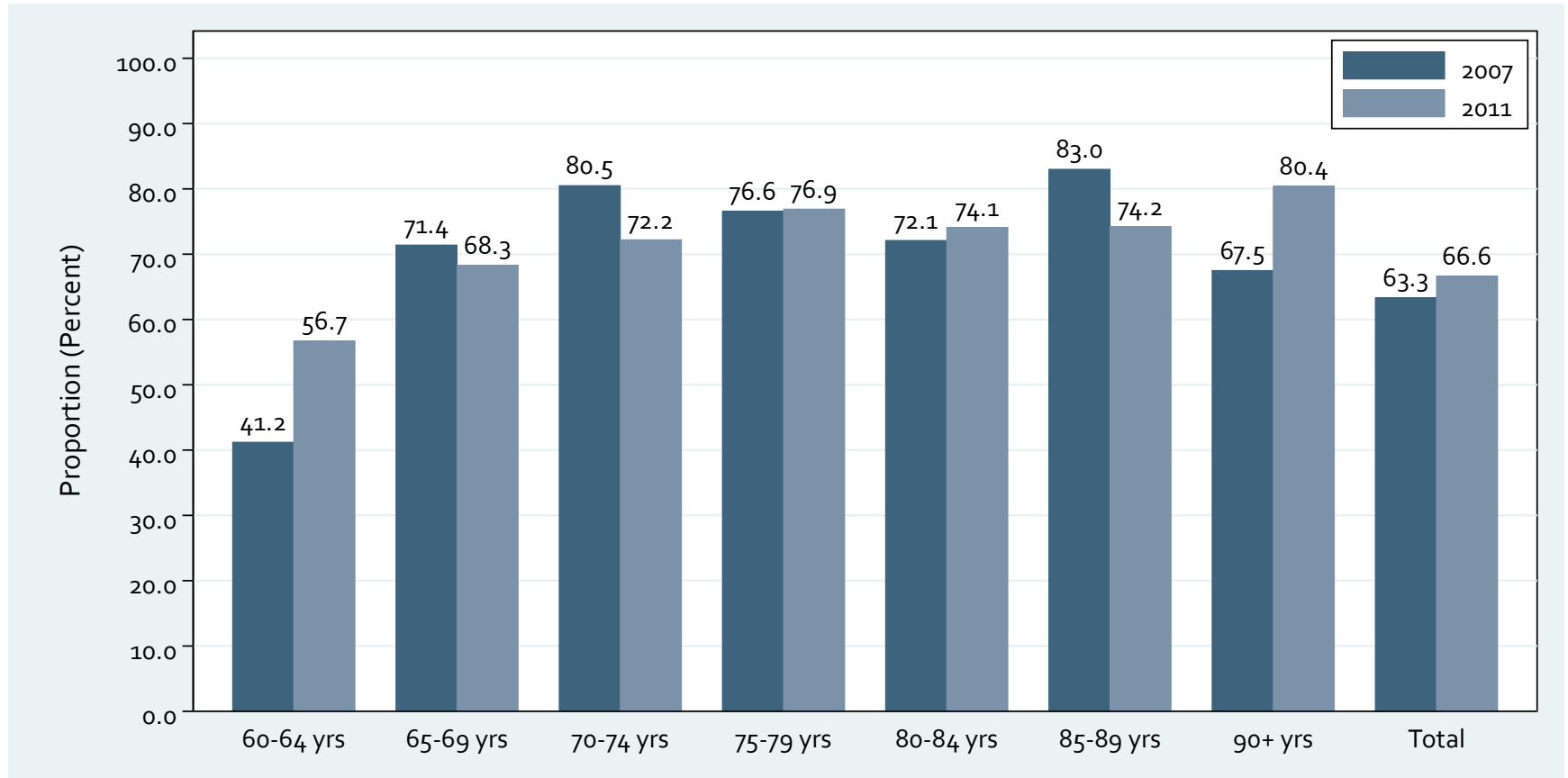
- OAP part of a broader social welfare system
- Coverage of the poor, the young and the old, the disabled
  - Child support grant: 11.3 million (ZAR 280)
  - Old age pension: 2.8 million (ZAR 1200)
  - Disability grant: 600 000 (ZAR 1200)
  - Various others: 190 000
- Almost 30% of population a recipient



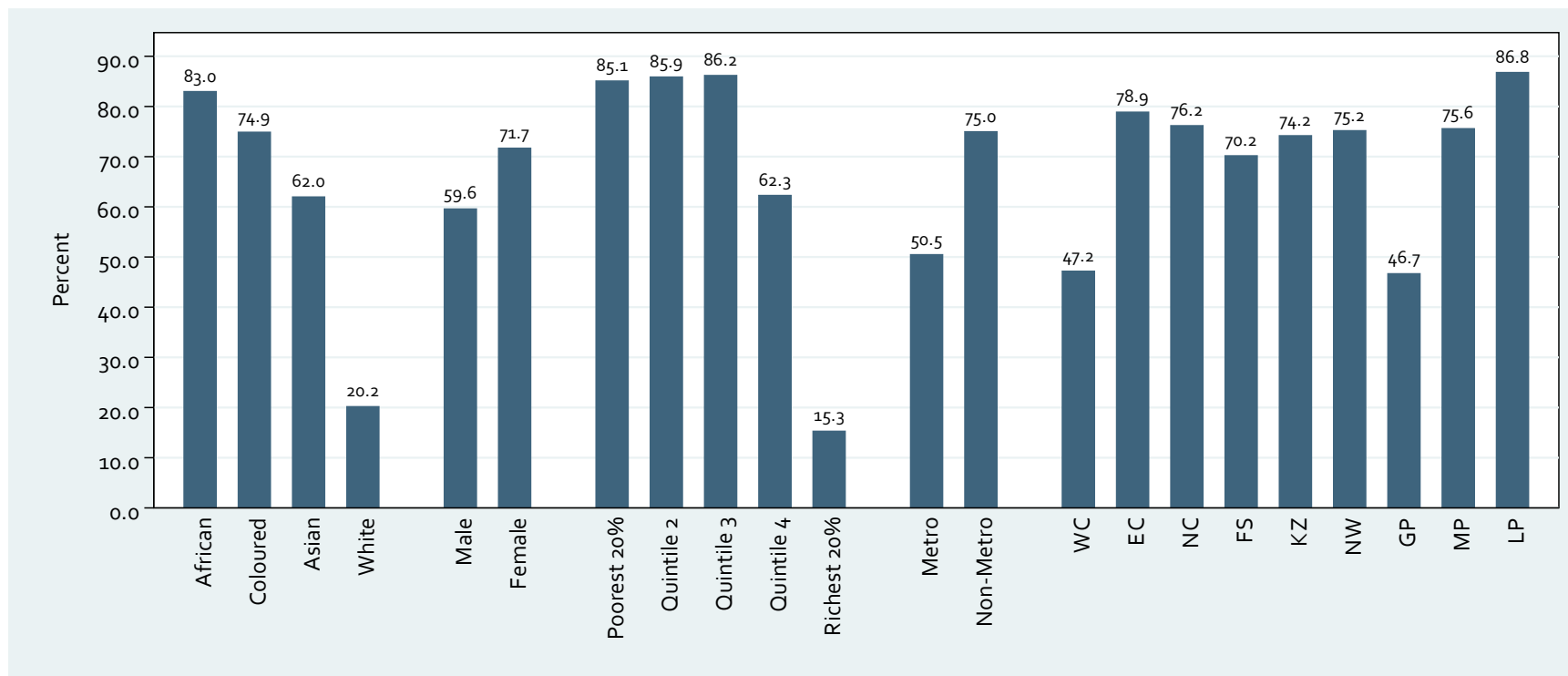
# 1. Socioeconomic context (4)



## 2. Incidence of the OAP (1)



## 2. Incidence of the OAP (2)





## 2. Incidence of the OAP (3)

- Coverage of eligible population is good
  - Evident in high access rates in bottom 3 quintiles
  - Little geographical variation (apart from that related to income differences)
  - Lower incidence rates amongst particular groups reflect higher mean incomes



### 3. Impact on Poverty & Inequality (1)

Poverty Line	Measure	Total Income	Total Income excluding OAP
<i>Old Age Poverty (60+ years)</i>			
Upper bound (ZAR 305 p.c.p.m)	P0	0.32	0.51
	P1	0.14	0.37
	P2	0.08	0.32
PPP \$1.25 (ZAR 193 p.c.p.m)	P0	0.10	0.38
	P1	0.05	0.28
	P2	0.04	0.24
PPP \$2.50 (ZAR 387 p.c.p.m)	P0	0.30	0.50
	P1	0.13	0.36
	P2	0.08	0.31

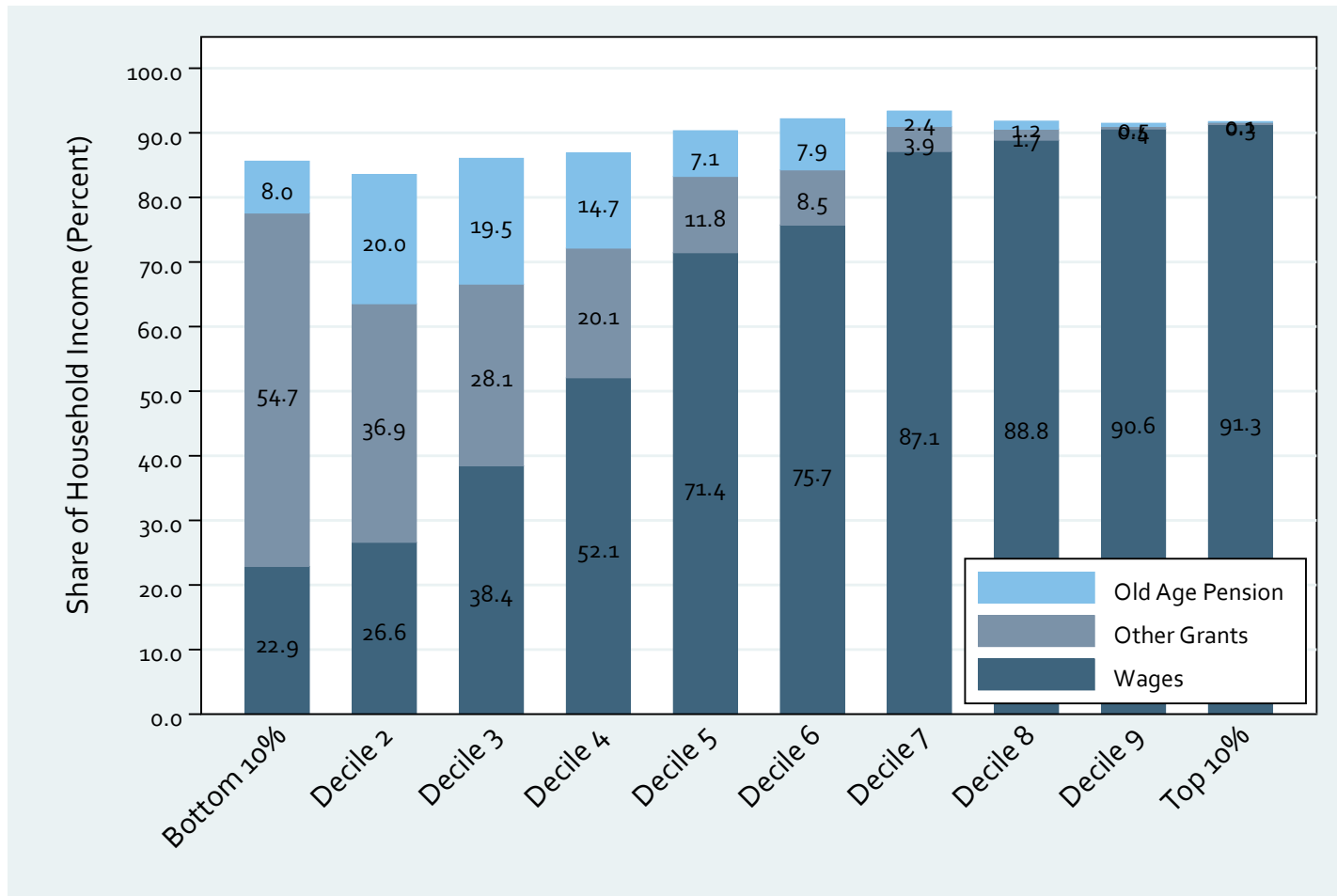


### 3. Impact on Poverty & Inequality (2)

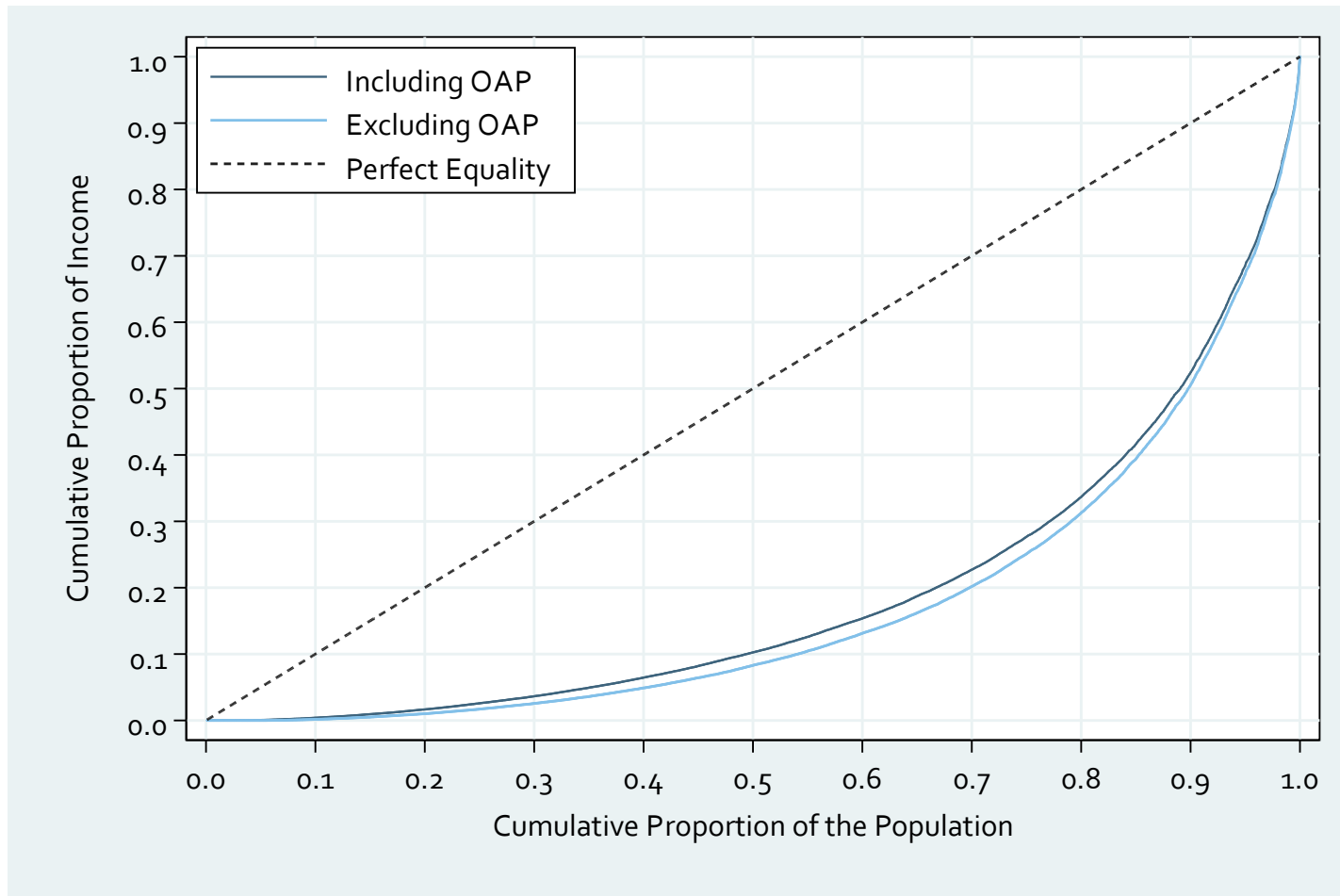
Poverty Line	Measure	Total Income	Total Income excluding OAP
<i>Total Population Poverty</i>			
Upper bound (ZAR 305 p.c.p.m)	P0	0.41	0.45
	P1	0.21	0.26
	P2	0.14	0.19
PPP \$1.25 (ZAR 193 p.c.p.m)	P0	0.19	0.26
	P1	0.09	0.14
	P2	0.06	0.11
PPP \$2.50 (ZAR 387 p.c.p.m)	P0	0.39	0.43
	P1	0.19	0.25
	P2	0.13	0.18



# 3. Impact on Poverty & Inequality (3)



# 3. Impact on Poverty & Inequality (4)



### 3. Impact on Poverty & Inequality (5)

- Relatively high value + high coverage = significant impact on poverty and inequality
- Poverty rate without OAP is significantly higher, irrespective of the poverty rate
  - Assuming no impact on household formation, OAP lifts 1.8 million out of poverty ('08, at upper bound poverty line)
- Gini coefficient for individuals without OAP is significantly higher: 0.724 vs 0.704 (income)

# 4. Cost of the Old Age Pension (1)

Year	Grants R mil	OAP R mil	Share of Grants (%)	Admin % of Soc.Assist.	Soc.Assist. as % of GDP
2006/07	57 032	21 443	37.6	6.8	3.3
2007/08	62 467	23 105	37.0	6.2	3.2
2008/09	70 715	25 934	36.7	6.2	3.3
2009/10	79 260	29 826	37.6	6.2	3.5
2010/11	87 493	33 751	38.6	6.2	3.4
2011/12*	96 703	37 318	38.6	6.1	3.4
2012/13**	104 888	39 323	37.5	5.7	3.4
2013/14**	113 208	42 526	37.6	5.5	3.3
2014/15**	121 982	45 823	37.6	5.4	3.2

## 4. Cost of the Old Age Pension (2)

- Cost of OAP is relatively stable as share of total grants, and social assistance (incl admin) as share of GDP has remained around 3.3%
  - OAP roughly 1.1%-1.3% of GDP
- Administrative costs generally relatively high, though falling
  - Although no data, OAP administrative costs likely to be relatively higher due to means-testing



# 4. Cost of the Old Age Pension (3)

- Concerns do exist regarding size of the tax base relative to social assistance recipients
  - Key to long term fiscal sustainability is certainly employment generation, particularly in context of introduction of national health insurance
  - Also, moves to institute compulsory contributory pension system
  - Current system not unsustainable insofar as demographic change is concerned



# 5. Conclusion (1)

- Coverage of OAP is broad
  - Two-thirds of age-eligible receive it
  - Little variation uncorrelated with income across groups
- OAP has significant and substantial impact on poverty and inequality
  - Poverty reduced across various poverty lines and poverty measures
  - Inequality reduced



## 5. Conclusion (2)

- Important other impacts on poverty and inequality beyond individual recipients, including facilitation of job search (but also locational disadvantages...)
- Cost of OAP is substantial, but in hand
  - 1.2% of GDP in 2012/13
  - Admin costs relatively high but are falling overall
  - Demographic pressures will raise absolute cost, but not a major concern for sustainability

