South Africa ranks 31st out of 43 in the Global Pension Index

SA has received a C-grade, ranking 31st out of the 43 retirement income systems in the 13th annual Mercer CFA Institute Global Pension Index (MCGPI). The country's grade indicates that the system has some good features, but also has major risks and/or shortcomings that should be addressed.

Source: ©rawpixel 123rf

President of CFA Society South Africa, Jennifer Henry, CFA says the MCGPI benchmarking and insights provide South Africa with tangible objectives that will help improve the pension system.

“Key being that increasing coverage of employees, particularly self-employed or entrepreneurs into private pensions will positively contribute to the system’s sustainability,” she says.

“Pension funds should aim to improve governance and increase transparency so that members’ knowledge and confidence in their retirement savings improves,” she notes.

The MCGPI is a comprehensive study of global pension systems, accounting for two-thirds (65%) of the world’s population.

It benchmarks retirement income systems around the world highlighting some shortcomings in each system and suggests possible areas of reform that would provide more adequate and sustainable retirement benefits.

The top three systems, all receiving an A-grade, were sustainable and well-governed systems, providing strong benefits to individuals. The Index uses the weighted average of the sub-indices of adequacy, sustainability and integrity.

SouthAfrica

South Africa had an overall index value of 53.6 among the countries analysed, and for the sub-indices scoring 44.3 for adequacy, 46.5 for sustainability and 78.5 for integrity. In comparison to 2020 the sub-indices were 43.0, 46.7 and 78.3 respectively.

“The improved score for adequacy is mainly due to recent reforms which came into effect on 1 March 2021.

"Members of provident funds, who were younger than 55 on 1 March 2021, must purchase an income stream with at least 2/3rds of their savings at retirement, unless their savings is less than R247 500.

"However, this excludes savings until 1 March 2021 with growth, which can still be taken as a cash lump sum,” says Vickie Lange, CFA, head of best practice at Alexander Forbes, Mercer’s strategic partner in Africa.

In South Africa, the report suggests:

- Increasing the minimum level of support for the poorest aged individuals.
- Increasing the coverage of employees in occupational pension schemes thereby increasing the level of contributions and assets.
- Introducing a minimum level of mandatory contributions into a retirement savings fund.
- Introducing preservation requirements when members withdraw from occupational pension funds.

Lange says that South Africans have generally need to take responsibility for their own retirement income, as their private pension system is largely on a defined contribution basis.

“Several reforms have been implemented over the last few years, and there’s likely to be an even stronger focus on governance, with further reforms expected in the near future,” says Lange.

Overall rankings

Iceland had the highest overall index value (84.2), closely followed by the Netherlands (83.5). Thailand had the lowest index value (40.6). For each sub-index, the systems with the highest values were Iceland for adequacy (82.7), Iceland for sustainability (84.6) and Finland for integrity (93.1).

The systems with the lowest values across the sub-indices were India for adequacy (33.5), Italy for sustainability (21.3) and the Philippines for integrity (35.0).

In comparison to 2020, China and the UK showed the most improvement as a result of significant pension reform, which improved outcomes for individuals and pension regulation.

“Governments the world over have responded to Covid-19 with significant levels of economic stimulus, which has added to government debt, reducing the future opportunity for governments to support their aged population,” comments Dr David Knox, senior partner at Mercer and lead author of the study.

“Retirement schemes globally are tipping further towards accumulation-style plans, away from traditional defined benefit plans.

“Despite the challenges, now is not the time to put the brakes on pension reform – in fact, it’s time to accelerate it.
“Individuals are having to take more and more responsibility for their own retirement income, and they need strong

regulation and governance to be supported and protected," says Knox.

Read the report here