

South Africa

South Africa: Pension system in 2016

The public pension is flat rate based on a residency test. There is also a large number of occupational schemes, though coverage is not high at lower-income levels.

Key indicators: South Africa

| | | South Africa | OECD |
|------------------------------|------------------------------|--------------|---------|
| Average worker earnings (AW) | ZAR | 112 488 | 503 086 |
| | USD | 8 189 | 36 622 |
| Public pension spending | % of GDP | | 8.2 |
| Life expectancy | at birth | 63.7 | 80.9 |
| | at age 65 | 13.6 | 19.7 |
| Population over age 65 | % of working- age population | 9.0 | 27.9 |

StatLink  <http://dx.doi.org/10.1787/888933636206>

Qualifying conditions

The pension age is 60 for both men and women.

Benefit calculation

Old-age pension

The pension is means-tested with individuals having an income of under ZAR 73 800 for singles and ZAR 147 600 for couples and no more than ZAR 1 056 000 in assets for a single person and ZAR 2 112 000 for a couple. The benefit amount is up to ZAR 1 600 per month for singles and ZAR 3 200 for couples. The benefit is increased to ZAR 1 620 for those aged over 75.

Voluntary private pension

The average contribution rate for occupational schemes is around 15% of earnings, divided between employers and employees.

Variant careers

Early retirement

It is not possible to claim the public pension before the normal eligibility age of 60.

Late retirement

Receipt of the old-age pension is not dependent on retirement. It is therefore possible to combine pension and employment as long as the recipient's income does not exceed the means test threshold.

While people are not obliged to claim the public pension on reaching the qualifying age, there is no advantage in deferring a claim.

Childcare

Eventual public pension entitlement is not affected by periods out of paid work for caring purposes.

Unemployment

Eventual public pension entitlement is not affected by periods of unemployment.

Personal income tax and social security contributions

Taxation of pensioners

South Africa provides a higher tax rebate for those over the age of 65 than for the working age population. Workers are entitled to a tax rebate of ZAR 13 257 with an additional ZAR 7 407 for pensioners.

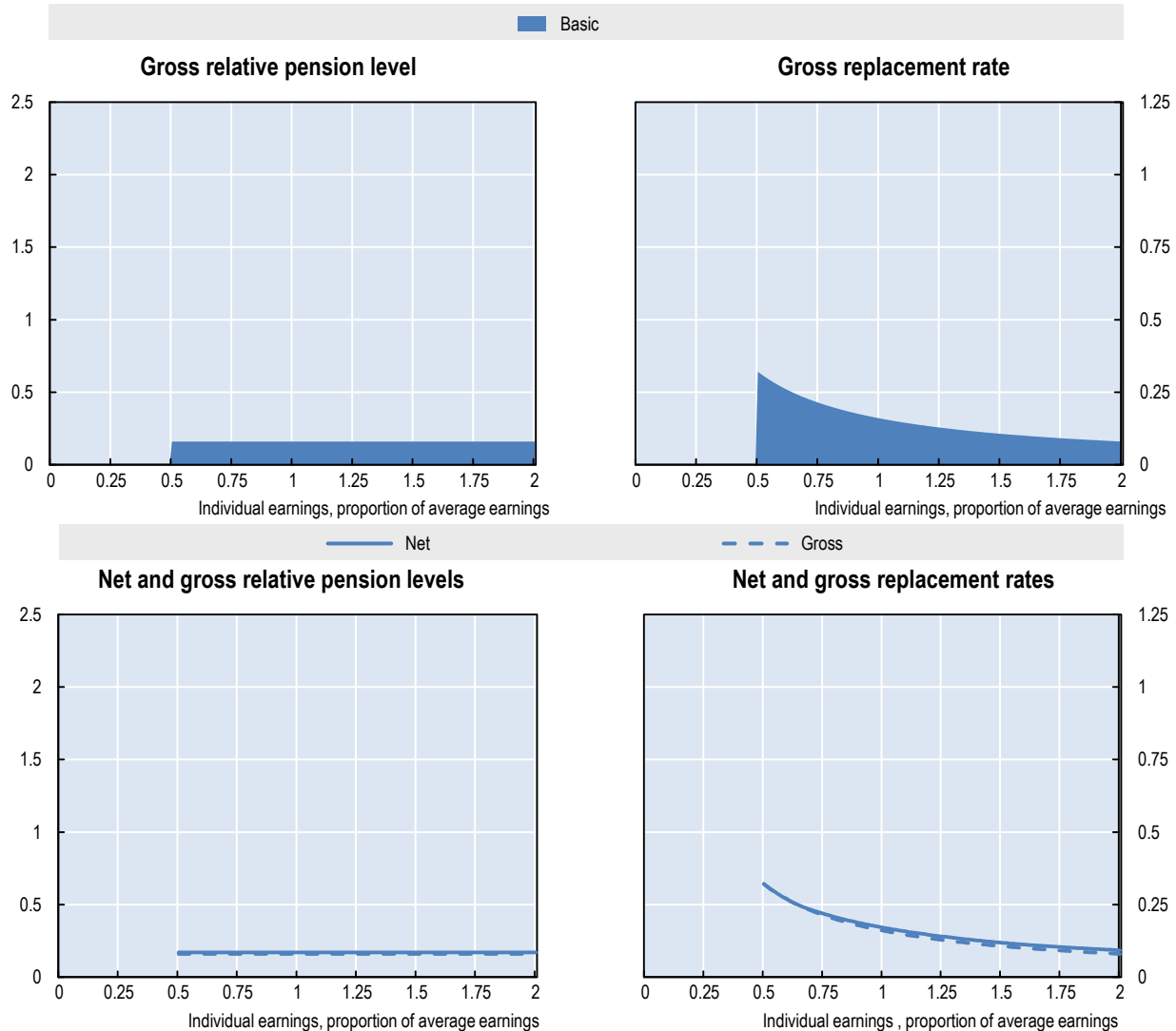
Taxation of pension income

The old age grant is not taxed, as its recipients earn below the tax threshold.

Social security contributions paid by pensioners

The South African system is funded through general taxation and there are no specific social security contributions.

Pension modelling results: South Africa in 2056 retirement at age 60



| Men Women (where different) | Individual earnings, multiple of average | | | | | |
|---|--|------|------|------|------|------|
| | 0.5 | 0.75 | 1 | 1.5 | 2 | 3 |
| Gross relative pension level (% average gross earnings) | 16.0 | 16.0 | 16.0 | 16.0 | 16.0 | 16.0 |
| Net relative pension level (% net average earnings) | 17.1 | 17.1 | 17.1 | 17.1 | 17.1 | 17.1 |
| Gross replacement rate (% individual gross earnings) | 32.1 | 21.4 | 16.0 | 10.7 | 8.0 | 5.3 |
| Net replacement rate (% individual net earnings) | 32.1 | 21.9 | 17.1 | 11.9 | 9.3 | 6.5 |
| Gross pension wealth (multiple of individual gross earnings) | 9.3 | 6.2 | 4.7 | 3.1 | 2.3 | 1.6 |
| Net pension wealth (multiple of individual net earnings) | 11.6 | 7.7 | 5.8 | 3.9 | 2.9 | 1.9 |
| Net pension wealth (multiple of individual net earnings) | 9.3 | 6.4 | 5.0 | 3.5 | 2.7 | 1.9 |
| Net pension wealth (multiple of individual net earnings) | 11.6 | 7.9 | 6.2 | 4.3 | 3.3 | 2.4 |

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

StatLink  <http://dx.doi.org/10.1787/888933636225>