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The income of the Aged in South Africa: from private pensions to government grants

Are private pensions enough?

This month, our special BankservAfrica report takes a closer look at our private pension data to glean insights into the lives and pension income of South Africa's older folk, one of the fastest-growing segments of our population.

While private pensions help to ensure a better life in the golden years, what happens to those who find themselves in the middle-of-the-road? The private pensioners who receive a monthly income but not enough to cover necessities such as food, and to cover utility bills as well as medical insurance and the like?

The income of +60-year-olds
The South African pension system has about one million people who receive private pensions out of the estimated 5.3 million over the age of 60. The South African government's old age grants cover 3.655 million people. Private pensioners receiving less than R6 510 pm (in this government financial year) are eligible to apply for the state's old age grant.

In January 2020, BankservAfrica had about 649 000 banked private pensions on record. Of these, about 341 000 received less than the old age grant threshold, which means that more than half of individual pensioners could apply for the state's grants pay-out of R1 780 pm (this will soon be increased to R1 860 pm, as announced in February's Budget Speech). We estimate that there are just over half a million other private pensioners (not on our records) who are also eligible for old age grants.

We know of the 5.3 million people over the age of 60, nearly 3.7 million receive old age grants. We also know that one million are private pensioners. Moreover, we found in 2017, about 414 000 were still employed and approximately 206 000 people have their own business. So, with no double counting, this would mean that all pensioners receive an income of some sort.

But assuming that a quarter of a million private pensioners also get an old age grant and, say 100 000 of those self-employed, then about 350 000 people over the age of 60 get no income directly either from government, work or pension. Some could be members of other private pensions or have access to other financial means from their partner or a spouse. An estimated 70 000 people over the age of 60 would love to be employed – an indication of the need for extra income. So we believe that at least 200 000 older people probably do not get any income even if from a partner or a spouse.

Old age grants can provide relief even to private pensioners
The state's old-age grants have the potential to provide massive relief for the typical private pensioner who gets paid just R5 531 in their bank account. Receiving another R1 780 pm on top of that means that the typical individual pensioner should then have a combined R7 311 a month available.

In reality, for an older citizen to receive the R1 780 state grant, they cannot have assets of over R1 115 million, including their pension and home. In many metros, the average house price is well over a million and the typical house price is just under that. Even in the older townships in South Africa, it is not unusual to have a home valued at over R700 000.

So, even assuming that the pension drawn down is about 10% a year or so, the R5 531 means that the value of the pension is over R660 000. Even with a small house or a flat in the suburbs, the R1.1 million limit is reached pretty quickly.

As far as we can ascertain, homeownership for those over 60 is about 62%. This means that as many as half of the lower-paid private pensioners will not be able to claim old age grants.

Many argue that it is time for government to allow pensioners with a primary residence to claim old age grant benefits, regardless of their pension and retirement funds. Implementing this will provide relief for senior citizens who, in all likelihood, have paid income tax over many years. This will allow most private pensioners to pay their expenses that range from food to water and lights. Municipalities would also benefit from water and light collection. The average water and lights account was estimated to be R1 444 in September 2019. Add rates and taxes and the ordinary municipal account increases to over R2 000 pm (R2 104 estimate). Even in a small property, this amount will easily be well over R1 300 pm.

So, for the typical private pensioner, just the monthly bill takes over a quarter of their income. Some local governments have reduced this but it is still a challenge to get that bill to under 20% of the typical pension.

Older people also need more medical treatment and a medical insurance scheme is something they would want and probably need. If they were to also go to government hospitals, visits there would be disproportionally pushed up as older folk visit healthcare centres often. More reasonable would be medical insurance with limits on which hospitals to use, and that amounts to R1 900 per adult member. But this is more than a third of the typical pension.

Water, lights, rates and taxes, as well as medical insurance, would take up at least 60% of a pensioner’s income. That leaves very little for other essentials, such as food and clothes. At the combined R7 311 pm of the typical pension and old age grant, the 60% plus would drop to around 48% or so.

A useful tool for helping SA’s policy decisions for the Aged
The BankservAfrica Private Pension Index (BPPI) helps the country understand the situation that pensioners find themselves in and offers insights on the decisions that much older folk living in privately owned homes have to make. Our index is also the only monthly private pension tracker in the world today.

The BankservAfrica private pensions data for January shows an increase of 3.1% for the average pension in real terms. Private pensions averaged R8 239 in nominal terms. But the typical pensioner receives only R5 531. There is the concern that if the decision on prescribed assets on pension funds goes ahead, the impact will be felt most amongst poorer and typical private pensioners. Many are of the view that investment returns for private pension funds will not be as anticipated, and pension pay-outs will lower.

The data shows that pensioners could use a little more help. For example, the tax threshold for over 65 can be used as one indicator to determine the state grant amounts. This is currently R122 300 per year and moving to R128 650 a year or R10 721 pm.

The normal tax threshold, which now moves to R83 100 (R6 925), could be the first level at which the full old-age grant is paid. The 65-year-old tax threshold could be a level for which two-thirds of the old age grants get paid. The next tax threshold is for those over the age of 75, which is at R143 850 per year and close to R12 000 pm. Between the 65 and 75-year-old thresholds, there can still be an allowance for one-third of the old age grant to be paid. After this, the tax threshold for 75-year-olds and older should no longer apply, and all individuals in this category should be able to receive old age grant money.

The assets, including primary residence, pension and retirement fund, which are used to determine a senior citizen's eligibility for an old age grant could be reconsidered. This will allow pensioners in the middle-of-the-road to live with dignity and a far more normal life.

Technical notes about the BankservAfrica Take-home Pay Index
Every month BankservAfrica measures wages that are transferred to employee bank accounts. Take-home pay does not include UIF payments in all cases. By law this is subtracted before payments are made into the bank account of an employee.

Moreover, these take-home payments exclude personal income tax and employee pension payments in most cases. By law, all who are required to pay personal income tax– commonly referred to as PAYE - is subtracted before payments into a bank account are made. Often these exclude part of the medical insurance payments that employees make. In an estimated 12% of employee payment cases, we believe debt repayments are subtracted before earnings are paid into the bank account.

The BankservAfrica Take-home Pay Index accounts for weekly payments. We track the weekly payments by estimating them on the national payment system (NPS) and via the South African Quarterly Labour Force Survey. We believe the part of the formal sector that goes via the NPS is about 9% to 11%. We have estimated it at 9.5%. There are a few daily payments in the NPS but it is difficult to account for them.

We see most weekly payments on Friday and then Monday and then Thursdays. Every month we count the number of Fridays and Thursday and Mondays there are and work from the normal month that is from the 1st to the 30th or 31st.
We take the weekly payments and make it one payment per month. This will normally take say 4.8 million payments to 3.1 million monthly payments (we do not account for daily payments which we believe will be less than 1% on a monthly estimate basis).
We believe we cover around 3.1 million monthly payments which is about 30% of all non-farm employees.

We measure salary payments that are loaded onto the NPS for salaries. We have also investigated EFT salary payments (where the word salary or wage is mentioned in an EFT). We believe this would increase our universe to well over 4 million employees and we see the same trend. However, this data is a little more speculative and we follow this trend to check our data rather than incorporate this data.

We exclude all payments of over R100 000 as these seem to be very few in some months but high in March and December and January. The reason for the exclusion of the over R100k is due to bonus payments and retirement or retrenchment payments we believe. Some months this extends to 3000 people, and other months it can be 16 000 people. It also skews the numbers as the average goes from R150 000 to R480K.

We then calculate the average and a median from our data. We use a three-month moving average as this allows us to present figures to South Africa that do not fluctuate too much.

We also seasonally adjust all our data to take out the December year-end bonus payments and the additional people employed from October to December on a part-time basis.

We show all the estimated data as monthly payments.

About BankservAfrica
BankservAfrica is the trusted payments partner and Financial Markets Infrastructure (FMI) to the financial services industry. As the largest automated payments clearing house in Africa we clear and process billions of low value card, ATM and EFT transactions annually. Our role in the South African National Payments System (NPS) is to facilitate interoperability between

the banks and ensure regulatory compliance with our regulators against international banking security best practice and standards and reduces risk and complexity in the industry.

We continue to strive to be a world class and pre-eminent payments operator, innovator and payments partner of choice in Africa, by simplifying our worlds through combining trusted transactions with sensitive information.

BankservAfrica's national responsibility is to provide safe financial payment services for 56.7 million South Africans, irrespective of their location in partnership with our shareholders and partners.

With a 47-year history in South Africa, BankservAfrica operates 24/7, 365 days a year and delivers on very strong SLAs.