Summary of Report 4: Impact of NSSF on Savings & Investment

- The level of NSSF contributions therefore impacts on the level of savings and investments attributed to the retirement system over the period considered.
- It is noted that the underlying investment strategy will influence the underlying asset allocation will differ dependent on the investment strategy of the NSSF. Investments under the NSSF may favour debt markets and public sector funding (conservative investment strategy) resulting in reduced level of investment for other asset classes even where the overall level of savings after implementation is expected to increase. This may increase the cost of capital for the private sector or increase the cost of equity compared to debt. Increases to the cost of capital for private sector will reduce the demand for investment or change the relative attractiveness of equity versus debt.

Findings on Changes in Consumption, Saving and Investment Behaviour of Households and Firms

- Under the Full Crowding Out Scenario, full displacement of contributions due to the NSSF will result in no change in consumption for those covered individuals where current effective contributions rates are higher than the NSSF contribution rate.
- It is noted that in respect of these individuals, it has been assumed that any increases in the absolute value of contributions payable will be met by the individual and not their employer.
- Approximately half of formally employed individuals are not covered in respect of retirement savings.
- Given the low coverage rates in respect of retirement savings based on formal employment for low-income earners, the impact of consumption will be most significantly felt by these individuals, given their ability to borrow is limited compared to high-income earners.
- It is noted that the average earnings of these individuals is R 45 000 in 2021 terms. Half of the contributions due to the NSSF will be met by employers, therefore firms will face increased employment expenditure.
- This will impact low-income earners more significantly and employment levels.

Findings on Changes in the Financing of Business Investment and in Capital Market Flows

- The extent to which the NSSF can support the State's ability to fund new business and infrastructure development will depend on the investment strategy that the Board of Trustees decides on.
- Given reduced sentiment towards South Africa, any reduced demand for South Africa government bonds can be mitigated to some extent by the increased funds available through implementation of the NSSF over the period to 2025, particularly in relation to a conservative investment strategy for the NSSF.
- Considering the long-term projections presented in Section **3.6.2**, the overall level of savings and investments attributed to retirement savings under Implementation of the NSSF is expected to surpass the overall level of savings and investments attributed to retirement savings under Applying the Status Quo over at least the next 30 years, with the exception of a NSSF contribution rate of 6% towards retirement benefits only.

Findings on Impact on Existing Retirement Funds

- Over the short-term, the impact on accumulated retirement savings as at 31 December 2025, is highest under the Full Crowding Out Scenario (15% NSSF contribution rate) given this scenario results in the most significant reduction in contributions to retirement savings.

- As noted above, reducing the NSSF earnings ceiling to the current UIF limit reduces the extent to which contributions to retirement savings are crowded out under the various crowding out scenarios hence increases projected retirement savings for all scenarios relative to an NSSF earnings ceiling of R 276 000 in 2018 terms.
- Over the long term, the implementation of the NSSF will reduce the accumulation of retirement savings compared to under Applying the Status Quo.

Recommendations of the study:

- Consultation with the workers operating in the informal economy regarding the recommendations set out in this paper is critical. This consultation must be thorough, open-minded and systematic
- It is therefore proposed that wage subsidies could be implemented to minimise disruptions to the demand of supply of labour associated with the introduction of mandatory contributions.
- Allowing for the implementation of the NSSF with an investment strategy in line with Regulation 28, investment in government bonds is projected to reach R 1 943 billion and investment in South African Equities R 3 575 billion under the Full Crowding Out Scenario allowing for NSSF contributions of 15%. Allowing for the implementation of the NSSF with a conservative investment strategy, investment in government bonds is projected to reach R 2 421 billion and investment in South African Equities R 3 275 billion under the Full Crowding Out Scenario allowing for NSSF contributions of 15%.
- Formally employed individuals are expected to be covered in terms of retirement savings over the period 2020 to 2025 allowing for Implementation of the NSSF and the various crowding out scenarios.
- The NSSF will be a defined-benefit social security fund in the form of a centrally managed public fund that aims to provide adequate retirement and risk benefit provision for the working population of South Africa.