Temporary and informal workers: The group that benefits forgot

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According to Statistics South Africa, our employed labour force stands at around 13.6 million people of which 5.8 million do not have access to occupational retirement funds and 7.6 million have no access to medical schemes through their employers[1]. This represents a substantial gap in benefits coverage which may eventually result in a significant burden on the government. There is significant pressure from organised labour to reduce the number of contract workers, citing the lack of benefits among other reasons. This may lead to legislated amendments that could extend permanent employment rights to contract workers but it is unlikely to increase the number of contract workers with long-term savings. Those who are employed without access to benefits fall into a number of groups including the informally employed and temporary workers, each of which we discuss below.

The informally employed

About 2.3–2.7 million South Africans are informally employed, meaning that they are employed either in the informal sector or informally in the formal sector[2]. It's fairly difficult to define exactly what informal employment means. It includes factors such as whether a formal written contract of employment exists. About half of the informally employed people work in domestic service or agriculture but many work in the construction and personal services sectors. Hawkers and informal traders are included in the informally employed category. Apart from the UIF contributions of employers of domestic workers and gardeners, very little is known about the informally employed and this category would be the most difficult to include in any long-term savings initiative.

Temporary workers

According to Statistics South Africa, 3 to 4 million South Africans are working but are not permanently employed[3] and according to the National Association of Bargaining Councils, almost 1 million of these are employed by labour brokers. Temporary workers include:

- Casual workers who work for no more than 24 hours in a month
- Fixed-term contractors
- Project contractors.

Included in this category are skilled workers who offer services on a temporary basis due to the nature of their work (such as fixed-term contractors who do project management) or due to the nature of the service (such as being a chef or a waiter for events). This group may include article clerks in the accounting and legal professions. Temporary workers may often have multiple employers.

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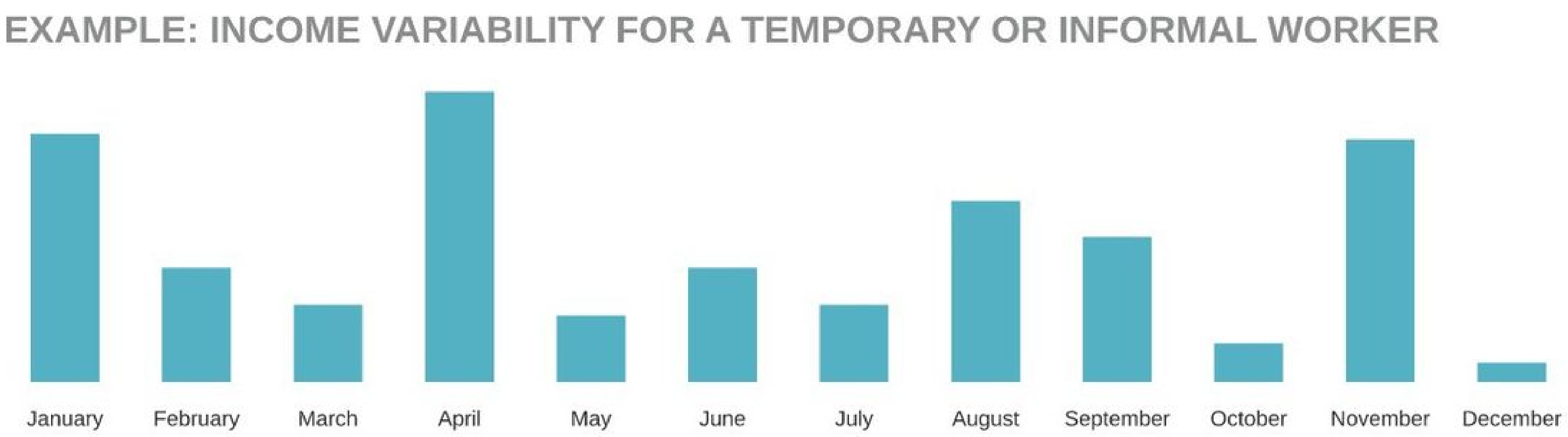
The challenges

Temporary and informal workers pose benefit design challenges for a number of reasons, including high staff turnover, volatile pay, low levels of pay, varying employment periods and the temporary or informal nature of the employment relationship. One of the significant challenges in bringing temporary and informal workers into the long-term savings process is the high cost of administration of variable income, which is even higher in percentage terms for low levels of income. The nature of temporary and informal employment also means that wages may not be predictable and there may be periods where there is no income at all. As insurers do not allow employees to take out insurance cover only when they need it, it may be difficult or impossible to obtain affordable insured benefits on a group basis for those with very low and fluctuating incomes.

Workable solutions

A study[4] of retirement savings products for low-income earners suggested that the reduction in yield due to administration, commission and investment fees on retail savings products for this market segment is approximately 1.8%–6.1% per year[5]. This is significantly higher than for those in the occupational retirement fund space, where fees are in the range of 0.7%–1.4% per year on a consistent basis. Occupational retirement savings vehicles may, therefore, offer a substantially cheaper way of saving for retirement. However, a major challenge to putting informal and temporary workers in any occupational retirement funding arrangement is the required flexibility of contributions. Workers don’t necessarily need full flexibility: The Finmark Trust[6] found that even workers with volatile incomes valued discipline in savings products. That’s why it may be acceptable to these workers to pay a fixed percentage of their earnings to retirement savings every time they earn a wage or salary. For more informal employment arrangements, contributions may need to be entirely flexible.



This can be dealt with by defining the pensionable salary as basic earnings, which can be zero. However, provision will need to be made for periods where no income is earned at all or too little income is earned to cover the cost of collecting the contribution. This would require either direct subsidisation from the administrator or the government, or cross-subsidisation between fund members. To prevent repeated withdrawal and re-entry into funds, it is possible to establish funds so that withdrawal benefits accrue after a waiting period. This waiting period can be three, six or even twelve months. If the worker experiences a period of unemployment but later finds work and is still eligible, he can simply continue contributing to the fund as opposed to exiting and rejoining. This prevents the member from regularly having to make preservation arrangements for small fund credits. A variety of different sponsors, including the government, the financial services industry and labour brokers, could offer this sort of flexible fund.

To encourage disciplined saving, the contribution must be made compulsory for the employer. Finding an appropriate mechanism to do so may require a link to another deduction, like administering the deduction in a similar manner to the UIF contribution. For example, the Department of Labour is in the process of designing and launching a retirement fund for domestic workers and farm labourers, both of whom are typically informally employed, geographically dispersed and not highly unionised. In fact, the government may be the only appropriate sponsor for a fund to cater for the informally employed. Project contractors, on the other hand, maybe unionised if the project is relatively long in duration and there are facilities for organised labour. In this case, the most logical sponsor of the retirement fund might be the union. However, auto-enrolment into an employer's fund could change this dynamic, as it may compel employers to enrol project workers directly and not through labour brokers. Temporary workers are more likely to be employed by labour brokers or directly by a company which has a payroll already equipped to make statutory deductions. It would therefore be easier to target this category for long-term savings than those employed informally.

Where the worker is employed directly by the company to whom they render services, there may be scope for the employer to launch a temporary employees fund to run alongside the fund for permanent employees. There is a precedent for such an arrangement: the government launched the Temporary Employees Pension Fund in 1979 to provide benefits for its own temporary workers. However, it's important to be careful that employees don't view having two distinct funds as being discriminatory. The National Treasury, for example, has recently suggested that the Temporary Employees Pension Fund be incorporated into the Government Employees Pension Fund to avoid allegations of unfair discrimination. An alternative may be for the employer to participate in an umbrella fund arrangement for temporary workers. An example of such a fund is the Capes National Provident Fund, which allows for flexible contributions.

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Implications

As the government contemplates the harmonisation of retirement fund legislation as part of retirement reform, it might be time for the private sector to reconsider its options to expand benefit coverage to temporary workers. Participation in an umbrella fund specially designed for temporary workers may provide a suitable private sector solution. This would require government intervention to compel employer participation. For the informally employed, the government may need to provide a suitable low-cost vehicle.

References

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