

[The issues revisited – Barriers to employee benefit success](#)

Low-income earners and incentives

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FROM THE EMPLOYEE BENEFITS SYSTEM

In examining benefits for low-income earners, we analysed the South African system and found that:

- > Because of the means test for the older person's grant (OPG), saving for retirement does not make sense for many low-income earners.
- > Low-cost risk benefits through a group arrangement are important for workers who support a large number of dependants.
- > Joining a medical scheme doesn't make sense for workers earning under R72 000 because they lose access to free hospital treatment at government facilities.

We highlighted that costs are important for this group and that a fixed cost structure can be problematic at this level. So we need to completely rethink how best to design and price products for this area of the market.

In examining the incentive structure for savings, we argued that in an optimal benefit structure for low-income earners the government should also match contributions. Not only is this easier for workers to understand, but it also fosters partnership with the government.



New insights

As retirement fund reform proceeds, many issues in this area are shifting. The means test for the OPG, which we criticised in *Benefits Barometer 2013*: The employee benefits system, should be phased out by 2016. Reform is moving inexorably towards mandatory enrolment and preservation. The government is considering the following factors for low-income and vulnerable workers:

- > The cost structure
- > Their need to access retirement savings during unemployment or extreme financial need.

Although the incentives structure for both retirement and non-retirement savings is taxed, the National Treasury recognises that low-income earners may need alternative incentives.

Work by the World Bank on governments matching pension contributions suggests that it can increase participation. However, it has a negligible effect on increasing contributions. Applying behavioural finance aspects in public policy seems to show more promise among low-income earners. One potential downside of matching is that households see the match threshold as advice from the government on how much to save.



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